Annual Report 2012

TÜRKİYE CUMHURİYET MERKEZ BANKASI

CBRT 2012 - Monetary Policy Committee Meeting Decisions

24 January 2012
MPC meeting was held. The one-week repo rate (policy rate) was kept unchanged at 5.75%, and the overnight borrowing and lending rates at 5% and 12.5%, respectively.

24 January 2012
The amount of OMO funding to be provided via quantity auctions to be held on normal trading days until 21 February 2012 was decided to be kept between TL 3 billion and 7 billion. Regarding one month repo auctions to be held between 27 January - 23 February 2012, the upper limit for the total funding amount to be provided was set as TL 20 billion and the upper limit for each auction to be held was set as TL 5 billion.

24 January 2012
Regular foreign exchange selling auctions were suspended. The maximum daily amount that could be sold via intraday auctions was set as USD 500 million.

21 February 2012
MPC meeting was held. The one-week repo rate (policy rate) and overnight borrowing rate were kept unchanged at 5.75% and 5%, respectively. The overnight lending rate was reduced from 12.5% to 11.5%.

21 February 2012
The amount of OMO funding to be provided via quantity auctions to be held on normal trading days until 27 March 2012 was decided to be kept between TL 3 billion and 7 billion. Regarding one-month repo auctions, the upper limit for each auction to be held between 24 February and 29 March 2012 was increased from TL 5 billion to TL 6 billion.

27 March 2012
MPC meeting was held. The one-week repo rate (policy rate) was kept unchanged at 5.75%, and the overnight borrowing and lending rates at 5% and 11.5%, respectively.

27 March 2012
The amount of OMO funding to be provided via quantity auctions to be held on normal trading days until 18 April 2012 was set between TL 1 billion and 6 billion. Regarding one-month repo auctions, the upper limit for each auction to be held between 30 March - 19 April 2012 was decreased from TL 6 billion to TL 5 billion.

27 March 2012
The upper limit for standard gold reserves that may be held to meet TL required reserves was raised from 10% to 20%. The limit for standard gold reserves that may be held for FX liabilities excluding precious metal deposit accounts was reduced from 10% to 0%.

18 April 2012
MPC meeting was held. The one-week repo rate (policy rate) was kept unchanged at 5.75%, and the overnight borrowing and lending rates at 5% and 11.5%, respectively.

18 April 2012
The amount of OMO funding to be provided via quantity auctions to be held on normal trading days until 29 May 2012 was set between TL 1 billion and 6 billion. Regarding one-month repo auctions, the upper limit for each auction to be held between 20 April - 31 May 2012 was set as TL 5 billion.

29 May 2012
MPC meeting was held. The one-week repo rate (policy rate) was kept unchanged at 5.75%, and the overnight borrowing and lending rates at 5% and 11.5%, respectively.

29 May 2012
The upper limit for FX required reserves that might be held to meet TL required reserves was increased to 45%. For the additional tranche corresponding to 5% of TL reserve requirements, the ROC was set as "1.4".

29 May 2012
The amount of OMO funding to be provided via quantity auctions to be held until 21 June 2012 was set between TL 1 and 5 billion. Regarding one-month repo auctions, the upper limit for each auction to be held between 1-21 June 2012 was set as TL 5 billion.

21 June 2012
MPC meeting was held. The one-week repo rate (policy rate) was kept unchanged at 5.75%, and the overnight borrowing and lending rates at 5% and 11.5%, respectively.

21 June 2012
The amount of OMO funding to be provided via quantity auctions to be held until 19 July 2012 was set between TL 1 billion and 5 billion. Regarding one-month repo auctions, the upper limit for each auction to be held between 22 June - 19 July 2012 was set as TL 5 billion.

21 June 2012
The upper limit of the FX required reserves to be held to meet TL liabilities was increased to 50%. The ROC for the third tranche of this facility corresponding to the additional 5% was set as "1.7". The upper limit for gold reserves that might be held for TL required reserves was raised to 25%, while the ROC for the second tranche corresponding to 5% of TL reserve requirements was set as "1.5".

19 July 2012
MPC meeting was held. The one-week repo rate (policy rate) was kept unchanged at 5.75%, and the overnight borrowing and lending rates at 5% and 11.5%, respectively.

19 July 2012
The upper limit for FX reserves that might be held to maintain TL required reserves was raised to 55% and the ROC for the additional 5 percent tranche was set as "1.9".

19 July 2012
The amount of OMO funding to be provided via one-week quantity auctions to be held until 16 August 2012 was set between TL 0.5 billion and 6.5 billion. Regarding one-month repo auctions, the upper limit for each auction to be held between 20 July - 16 August 2012 was set as TL 5 billion.

16 August 2012
MPC meeting was held. The one-week repo rate (policy rate) was kept unchanged at 5.75%, and the overnight borrowing and lending rates at 5% and 11.5%, respectively.

16 August 2012
The upper limit for FX reserves that might be held to maintain TL required reserves was raised to 60%. The ROC for the additional 5% tranche was set as "2". The ROC for the first tranche corresponding to 40 percent of TL reserve requirements was raised to "1.1". The upper limit for gold reserves that might be held for TL required reserves was increased to 30%, while the ROC for the additional 5% tranche was set as "2".

16 August 2012
The amount of OMO funding to be provided via one-week quantity auctions to be held until 18 September 2012 was set between TL 0.5 billion and TL 7.5 billion. Regarding one-month repo auctions, the upper limit for each auction to be held between 17 August - 18 September 2012 was set as TL 5 billion.

18 September 2012
MPC meeting was held. The one-week repo rate (policy rate) and overnight borrowing rate were kept unchanged at 5.75% and 5%, respectively. The overnight lending rate was reduced from 11.5% to 10%.

18 September 2012
The ROCs for all tranches of FX reserves that might be held to maintain TL required reserves were increased by "0.2" points.

18 September 2012
The amount of OMO funding to be provided via one-week quantity auctions to be held until 18 October 2012 was set between TL 0.5 billion and TL 7.5 billion. Regarding one-month repo auctions, the upper limit for each auction to be held between 19 September - 18 October 2012 was set as TL 3 billion.

18 October 2012
MPC meeting was held. The one-week repo rate (policy rate) and overnight borrowing rate were kept unchanged at 5.75% and 5%, respectively. The overnight lending rate was reduced from 10% to 9.5%.

18 October 2012
The ROCs were increased by "0.1"points for all tranches.

18 October 2012
The amount of OMO funding to be provided via one-week quantity auctions to be held until 20 November 2012 was set between TL 0.5 billion and TL 6.5 billion. Regarding one-month repo auctions, the upper limit for each auction to be held between 19 October-20 November 2012 was set as TL 4 billion.

20 November 2012
MPC meeting was held. The one-week repo rate (policy rate) and overnight borrowing rate were kept unchanged at 5.75% and 5%, respectively. The overnight lending rate was reduced from 9.5% to 9%.

20 November 2012
The ROCs for all tranches of FX reserves (except for the first tranche of 40%) and gold reserves were raised by "0.1" and "0.2" points, respectively.

20 November 2012
The amount of OMO funding to be provided via one-week quantity auctions to be held until 18 December 2012 was set between TL 0.5 billion and TL 6.5 billion. Regarding one-month repo auctions, the upper limit for each auction to be held between 21 November - 18 December 2012 was set as TL 4 billion.

18 December 2012
MPC meeting was held. The one-week repo rate (policy rate) was reduced from 5.75% to 5.50%. The overnight borrowing and lending rates were kept unchanged at 5% and 9%, respectively.

18 December 2012
FX reserve requirement ratios for all liabilities excluding those with maturities of 1 year and longer and with maturities longer than 3 years were increased by 0.5 points.

18 December 2012
The amount of OMO funding to be provided via one-week quantity auctions to be held until 22 January 2013 was set between TL 0.2 billion and TL 6.5 billion.

CBRT Activities - 2012

Monetary and Exchange Rate Policy | Cultural Activities | Institutional | Training-Conference

2 January 2012
Press Release on "Monetary Policy to be Implemented during Exceptional Days" was published.

6 January 2012
The CBRT started to hold intraday FX selling auctions. It was decided that at each intraday auction, USD 50 million would be sold and the full amount of offers received will be processed up to the auction amount.

6 January 2012
Governor Başçı gave a presentation on "Monetary Policies" in Bursa.

12 January 2012
The exhibition "Shadow and Truth" featuring a selection of works from the art collection of the CBRT was inaugurated at CaixaForum Barcelona.

24 January 2012
MPC meeting was held.

31 January 2012
The Inflation Report-I of 2012 was made public at a press conference.

31 January 2012
An Open Letter was sent to the Government pursuant to Article 42 of the CBRT Law.

31 January 2012
The amount for which the drawee bank is responsible to pay per bad cheque was determined.

7 February 2012
"The Instructions on Export Rediscount Credits" was updated and took effect.

21 February 2012
A bilateral Currency Swap Agreement was signed between the CBRT and the People's Bank of China.

21 February 2012
MPC meeting was held.

1 March 2012
Results of the "Competition for the Turkish Lira Sign" were announced and the Turkish lira sign was made public at a press conference.

9 March 2012
The House Price Index for Turkey and the New Housing Price Index for Turkey started to be published.

16 March 2012
Governor Başçı gave a presentation on "Monetary Policies" in Adana.

27 March 2012
MPC meeting was held.

3 April 2012
"The Instructions on Export Rediscount Credits" was amended.

6-7 April 2012
The conference on "Policy Responses to Commodity Price Movements" was organized jointly with the IMF in İstanbul.

16 April 2012
The 80th Ordinary Meeting of the General Assembly was held. Memberships of Prof. Dr. Sabri Orman and Dr. Ahmet Faruk Aysan to the Board were approved. Prof. Dr. Necdet Şensoy was re-elected and Abdullah Yalçın was elected as members of the Board. Prof. Dr. Hasan Türedi was re-elected as member of the Auditing Committee.

18 April 2012
MPC meeting was held.

19 April 2012
The exhibition "Different Impressions - Changing Traditions" featuring a selection of works from the art collection of the CBRT, was inaugurated at Bonnefantenmuseum, Maastricht, Netherlands.

26 April 2012
The Inflation Report-II of 2012 was made public at a press conference.

2 May 2012
Governor Başçı gave a presentation before the Council of Ministers.

3 May 2012
"The Instructions on Export Rediscount Credits" was amended. The credit limit of USD 4.5 billion was raised to USD 5.5 billion and the limits for Foreign Trade Capital Companies and for other firms were raised to USD 90 million and USD 50 million, respectively.

11 May 2012
Ahmet Fethi Toptaş was elected as member of the Auditing Committee, to remain in office until the first General Assembly meeting.

14-15 May 2012
The Meeting of the Central Banks and Monetary Authorities of the OIC Member Countries, under the theme "Promoting Strong and Stable Capital Flows Among OIC Countries: Roles of the Financial Sector and Central Banks" was organized in İstanbul.

16 May 2012
A Memorandum of Understanding was signed with Bank Negara Malaysia.

16-17 May 2012
The Summit "Global Financial Reforms: The Changing Regulatory Model and Islamic Finance" was organized jointly with the Islamic Financial Services Board (IFSB) in İstanbul.

21 May 2012
International Investment Position Statistics started to be published on a quarterly basis.

29 May 2012
MPC meeting was held.

31 May 2012
The first issue of the Financial Stability Report for 2012 was published.

1 June 2012
The CBRT, jointly with the Undersecretariat of Treasury, hosted the meeting of G-20 International Financial Architecture Working Group meeting in İstanbul.

4-5 June 2012
The CBRT, jointly with the Central Bank of Brazil, the Bank of Finland and the Journal of Financial Stability, organized a conference on "Financial and Macroeconomic Stability: Challenges Ahead" in İstanbul.

11-15 June 2012
The "Advanced Credit Risk Measurement and Management Seminar" was organized jointly by the CBRT, the Federal Reserve Bank and the Central Bank of Lebanon in Ankara.

14 June 2012
Governor Başçı gave a presentation before the Planning and Budget Commission of the Grand National Assembly of Turkey.

19 June 2012
The CBRT announced that it would contribute to the IMF resources up to USD 5 billion, to be counted as part of its international reserves.

19 June 2012
Rediscount and advance rates were revised as 16% and 16.5%, respectively, and became effective upon publication in the Official Gazette.

21 June 2012
MPC meeting was held.

4 July 2012
A Memorandum of Understanding was signed with the European Central Bank.

6 July 2012
Governor Başçı gave a presentation on "Monetary Policies" Elazığ.

11 July 2012
IMF Turkey Group Agreement was signed by the Undersecretary of Treasury İbrahim Çanakçı and CBRT Deputy Governor Turalay Kenç in Vienna.

14 -15 July 2012
The CBRT- Reinventing Bretton Woods Committee joint international conference on "Fragmentation in the International Financial System: Can The Global Economy Become One Again?" was held in Cappadocia.

19 July 2012
MPC meeting was held.

26 July 2012
The Inflation Report-III of 2012 was made public at a press conference.

16 August 2012
MPC meeting was held.

23 August 2012
CBRT Circular on Repo was amended.

13-14 September 2012
The 17th International Conference of Banking Supervisors, organized in cooperation with the Basel Committee on Banking Supervision and hosted jointly by the BRSA, was held in İstanbul.

18 September 2012
MPC meeting was held.

21 September 2012
Governor Başçı gave a presentation on "Monetary Policies" in Kocaeli.

27-28 September 2012
Jointly with G20 Presidency of Mexico, the "G20 Conference on Financial Systemic Risk" was held in İstanbul.

28 September 2012
It was decided that required reserves for USD liabilities would be held only in US dollars.

28 September 2012
Within the framework of CBRT Payment Systems Auction System, amendments to the Instructions on Open Market Operations (OMO) and the Instructions on Termination of the Obligation to Declare Securities at OMO Repo Auctions were announced.

1 October 2012
Interests rates applied to FX Deposit Accounts with Letters of Credit and Super FX Deposit Accounts were cut.

4 October 2012
Lease Certificates issued by the Undersecretariat of Treasury Asset Leasing Company became acceptable as collateral at the Foreign Exchange and Banknotes Markets.

4 October 2012
A safekeeping contract was signed between the CBRT and İstanbul Gold Exchange, allowing maintenance of required reserves in gold at İstanbul Gold Exchange besides the Bank of England.

5-6 October 2012
The national workshop on the "Draft Law on Payment Systems" was organized in Abant.

8-9 October 2012
The international conference on "Reserve Requirements & Other Macroprudential Policies: Experiences in Emerging Economies" was held in İstanbul.

17 October 2012
The Instructions on the Acceptance of Lease Certificates Issued by the Undersecretariat of Treasury Asset Leasing Company as Collateral at the Interbank Money Market was published.

18 October 2012
MPC meeting was held.

22 October 2012
Governor Başçı gave a presentation before the Council of Ministers.

24 October 2012
The Inflation Report-IV of 2012 was made public at a press conference.

1-2 November 2012
The International Economic Association roundtable on "Currency Flows and Capital Account Management" was organized in Çeşme.

8-10 November 2012
The international seminar on "Legal Issues in Central Banking" was organized in Ankara.

20 November 2012
MPC meeting was held.

20 November 2012
The Regulation on Liquidity Support Credit was revised and the Instructions on Acceptance of Lease Certificates Issued by the Undersecretariat of Treasury Asset Leasing Company as Collateral at the CBRT's Liquidity Support Credit Transactions was published.

27 November 2012
The "Instructions on Export Rediscount Credits" was amended. The export rediscount credit limit was increased from USD 5.5 billion to USD 6.0 billion.

29 November 2012
The second issue of the Financial Stability Report for 2012 was published.

3 December 2012
The banks were allowed to keep their gold reserves, which they bring into the country as required reserves, at the CBRT account with İstanbul Gold Exchange besides the Bank of England.

7 December 2012
Retail Payment System (RPS) became operational.

7 December 2012
Governor Başçı gave a presentation before the Planning and Budget Commission of the Grand National Assembly of Turkey.

7 December 2012
The exhibition "Changing Perceptions and New Directions: Contemporary Turkish Painting" from the CBRT art collection was inaugurated in Bulgaria.

11 December 2012
Governor Başçı gave a presentation on "Monetary Policies" in Antalya.

17 December 2012
CBRT Cashier's Office on the European side of İstanbul started to function.

18 December 2012
MPC meeting was held.

18 December 2012
A Memorandum of Understanding was signed with the National Bank of Tajikistan.

20 December 2012
The data set "Non-Residents' Holdings of Securities" started to be published under the name "Weekly Securities Statistics" with a wider coverage.

20 December 2012
Rediscount and Advance Interest Rates were revised as 13.5% and 13.75%, respectively, and became effective upon publication in the Official Gazette.

21 December 2012
The Communique on IBAN was amended.

24 December 2012
E-9 Emission Group 2nd series TL 100, TL 20 and TL 10 banknotes were put into circulation.

24 December 2012
The maximum contractual and default interest rates to be applied to credit card transactions were set down.

25 December 2012
The "Monetary and Exchange Rate Policy for 2013" was made public at a press conference.

25 December 2012
The maturity of FX deposits, which the banks can borrow from the CBRT through the Foreign Exchange Deposit Market within the predetermined limits, was reduced from 1 month to 1 week. FX deposit rates were increased to 10% for USD and euro deposits.

25 December 2012
FX deposit rates (4.5% for USD and 5.5% for euro) for transactions which the CBRT is a party were increased to 10% for both currencies.

26 December 2012
The Cashier's Office of CBRT İstanbul Branch on the European side became functional in Kuyumcukent.

28 December 2012
Financial Accounts for monetary financial institutions, financial intermediaries, financial auxiliaries, insurance companies, central government and local government started to be published.

Central Bank of the Republic of Turkey

Trade Registry Number: 269

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THE EIGHTY-FIRST ACCOUNTING YEAR

Submitted to

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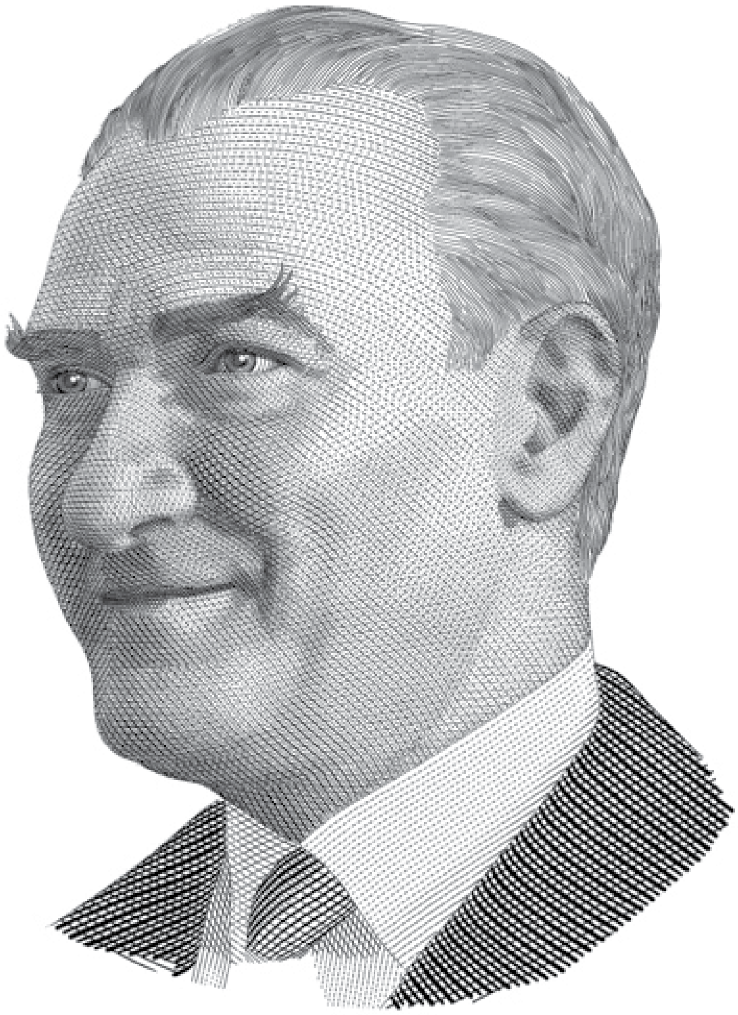

Portrait, E-9 Emission Group

Depicted on the front of TL 20 and TL 50 denominations in Series 1

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ABBREVIATIONS

ADUP	Emergency Application Package
AMT	Additional Monetary Tightening
BAT	Banks Association of Turkey
BIMER	Communication Center of the Prime Ministry
BIS	Bank for International Settlements
BRSA	Banking Regulation and Supervision Agency
CBRT	Central Bank of the Republic of Turkey
CPI	Consumer Price Index
CPSS	Committee on Payment and Settlement Systems
EFT	Electronic Fund Transfer
EST	Electronic Securities Transfer
EU	European Union
FXRIC	Foreign Exchange Risk and Investment Committee
FSR	Financial Stability Report
FX	Exchange Rate
GDP	Gross Domestic Product
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBAN	International Bank Account Number
ICH	Interbank Clearing Houses Center
IFRS	International Financial Reporting Standards
İhS	Auction System
IILM	International Islamic Liquidity Management Corporation
IMF	International Monetary Fund
IRTC	International Research and Training Center
ISE	İstanbul Stock Exchange[1]
KAS	Participant Interface System
MKK	Central Securities Depository Institution
MPC	Monetary Policy Committee
OMO	Open Market Operations
RCM	Risk Center Management
RPS	Retail Payment System
ROC	Reserve Option Coefficient
ROM	Reserve Option Mechanism
ROR	Reserve Option Ratio
SCA-H	Special CPI Aggregates H Index
SCA-I	Special CPI Aggregates I Index
SDIF	Savings Deposit Insurance Fund
SDR	Special Drawing Right
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TL	Turkish Lira
TURKSTAT	Turkish Statistical Institute
USA	United States of America

[1] On 3 April 2013, the name of the ISE was changed to Borsa İstanbul (BIST).

Foreword

Dr. Erdem Başçı
Governor

The CBRT has significantly bolstered the financial and macroeconomic stability by contributing to the economic rebalancing in Turkey with the policies it has implemented over the past two years.

The global economic developments suggest that the effects of the 2008-2009 financial crisis still persist. Even though it has been four years since the onset of the crisis and despite the expansionary monetary policies adopted by the central banks of advanced economies in the wake of the crisis, the deleveraging process in both firms and households still continues in advanced economies, and the recovery in economic activity has not yet reached the desired level. Meanwhile, expansionary monetary policies have had notable effects on emerging economies, including Turkey. In this period, increased volatility in risk appetite and short-term capital flows accompanied by the growing awareness regarding financial stability have urged central banks to seek alternative policies. In this context, CBRT has put well-designed macroprudential policy instruments into use, and adopted policies that support the idea of achieving stability in capital flows without resorting to capital controls. With the amendment to the Central Bank Law in 2011, the CBRT was assigned the task of taking the required measures to bolster financial stability, in addition to its primary objective of price stability. In this framework, the CBRT has redesigned the inflation targeting regime that it had been implementing since 2006 so as to contribute to financial stability without precluding the priority of achieving price stability, and has gradually introduced a new monetary policy framework as of late 2010.

In the CBRT's new monetary policy approach, instruments such as the policy rate, the interest rate corridor, liquidity management and reserve requirement ratios are used simultaneously. The aim of these policies, along with the primary objective of price stability, is to gradually decrease the imbalances in the economy and thus, achieve a more sound growth composition.

In the period from the adoption of the new policy framework in November 2010 to the period with heightened uncertainties in the European economy in August 2011, the core aim was to channel short-term capital flows to longer term maturities and ensure a course for the Turkish lira that was more stable and aligned with the economic fundamentals. In this period, the interest rate corridor was widened downwards due to the strong risk appetite and the surge in short-term capital flows. Thus, it became possible to deter very short-term capital inflows by occasionally letting the overnight interest rates materialize lower than the policy rate. Moreover, the reserve requirement ratios were significantly raised to avert excessive credit growth and contain domestic demand. In this period, the course of the Turkish lira against the US dollar was notably distinct from those of other developing countries' currencies. All these measures made a significant contribution to the efforts towards eliminating the excessive appreciation pressure on the Turkish lira. Moreover, the share of long-term investments in capital inflows started to increase.

In the period between August 2011 and June 2012, intensified concerns over sovereign debt problems in some European countries led to a global increase in risk-aversion and an acceleration in capital outflows from emerging economies. Therefore, the policy instruments the Bank adopted in accordance with the new policy framework were used in the opposite direction of how they were used in times of accelerated capital inflows. At first, the interest rate corridor was narrowed by increasing the overnight borrowing rate, and Turkish lira reserve requirements were rearranged so as to reduce the liquidity needs of the banking system. Then, in October 2011, the CBRT widened the interest rate corridor upwards by delivering a sizeable hike in lending rates.

The macroeconomic indicators suggest that the policies implemented have proved to be effective in attaining the desired outcomes.

Through the liquidity management policy framework, which is one of the pillars of the new policy mix, overnight interest rates can be adjusted in response to economic and financial developments without changing the policy rate, namely the one-week repo rate. Thus, overnight interest rates in the money market were allowed to materialize higher than the policy rate with adjustments made to market funding. In this context, in order to prevent temporary price movements from deteriorating the inflation outlook via expectations, the CBRT implemented Additional Monetary Tightening (AMT) when deemed necessary. On days when AMT was implemented, the amount of money injected into the market over the policy rate via the quantity auction method was reduced and thus, interest rates moved closer to the upper bound of the interest rate corridor.

In response to the stability measures taken in the Euro area, the global risk appetite started to rise and the capital flows towards Turkey as well as other emerging economies have gained pace since June 2012. Moreover, data related to the current account balance and the growth composition, which points to a strengthening in the economic rebalancing process, has positively affected risk perceptions regarding Turkey. Meanwhile, the downward pressure of the domestic demand on inflation has become more apparent in this period and inflation has started trending down. Against this background, the CBRT, from early June on, has started to increase the liquidity injected into the market and has gradually decreased the average funding cost, thereby leading to a significant decline in overnight interest rates in the money market. With a view to contributing to financial stability, since September 2012, the CBRT, supported by the favorable inflation outlook, has narrowed the interest rate corridor by reducing the upper bound.

The Reserve Options Mechanism (ROM), which is another policy instrument recently developed by the CBRT, mainly aims to alleviate the adverse effects of the excessive volatility in capital movements on the macroeconomic and financial stability. By allowing the banks to hold a certain portion of the TL required reserves in foreign exchange (FX) and gold, this mechanism ensures them to hold additional foreign exchange and gold reserves voluntarily. Providing the banks with the flexibility to adjust their foreign exchange reserves held at the CBRT depending on the changes in external financing conditions is expected to alleviate the volatility caused by capital flows in the exchange rate. Furthermore, implementation of the ROM also helps under the mattress savings (gold) to circulate in the economy.

The macroeconomic indicators suggest that the policies implemented have proved to be effective in attaining the desired outcomes. Thanks to the new policy mix, the rebalancing between the domestic and foreign demand became more evident, the share of long-term investments in capital flows increased, the credit growth rates decreased to desired levels, the volatility of the Turkish lira diminished and inflation expectations started to converge towards the target set at 5 percent.

In the upcoming years, the CBRT will continue to reinforce the sustainable growth of the country by ensuring price stability and contributing to financial stability.

In 2012, in addition to the financial support that it lent to academic studies on various platforms, the CBRT continued to exchange views with international institutions, other central banks and academicians by organizing seminars and conferences at national and international levels. Within this scope, the CBRT organized a joint conference with the International Monetary Fund (IMF) on "Policy Responses to Commodity Price Movements" on 6-7 April 2012 in İstanbul. In partnership with the Central Bank of Brazil, the Bank of Finland and the Journal of Financial Stability, the CBRT organized a conference on "Financial and Macroeconomic Stability: Challenges Ahead" on 4-5 June 2012, and held a conference on "Financial Systemic Risk" on 27-28 September 2012 jointly with Mexico, which held the G20 Presidency in 2012. Another international event organized by the CBRT in 2012 was the conference on "Reserve Requirements and Other Macroprudential Policies: Experiences in Emerging Economies" held in İstanbul on 8-9 October 2012.

In order to enhance the CBRT's communication policy, which has a vital role in conveying the monetary policy, in 2013, Inflation Reports will continue to be promoted through press conferences held four times a year, twice in Ankara and twice in İstanbul. The bi-annual "Financial Stability Report", press releases regarding the monetary and exchange rate policy, bi-annual informational presentations on CBRT policies made before the Council of Ministers and the Planning and Budget Commission of the Grand National Assembly of Turkey, meetings with bank economists and analysts along with presentations and speeches made at national and international meetings, as well as other press releases will also play a key role in informing the public in 2013 as well.

The CBRT has significantly bolstered the financial and macroeconomic stability by contributing to the economic rebalancing in Turkey with the policies it has implemented over the past two years. While 2011 proved to be the year for the design and implementation of the new policies, 2012 reaped what had been sown in 2011. This period was marked by a more evident rebalancing process in addition to a stable disinflation trend. What is more, the rebalancing process was accompanied by growth in the economic activity. In the upcoming years, the CBRT will continue to reinforce the sustainable growth of the country by ensuring price stability and contributing to financial stability.

Part 1
General Information

The CBRT, which was vested with the exclusive privilege of issuing banknotes in Turkey, was founded on 30 June 1930 as a joint stock company in order to manifest its difference from other public institutions and its independence. The Bank started its operations on 3 October 1931.

The CBRT has a capital of 25,000 Turkish liras. The Bank shares were divided into (A), (B), (C) and (D) classes. The Class (A) shares belong solely to the Treasury and cannot constitute less than fifty one percent of the capital. Class (B) shares are allocated to national banks operating in Turkey. Class (C) shares belong to banks other than the national banks and privileged companies. Class (D) shares are allocated to Turkish commercial institutions and to legal and real persons of Turkish nationality. As of the end of 2012 the shares belonging to (A), (B), (C) and (D) classes were 55.12 percent, 25.74 percent, 0.02 percent and 19.12 percent, respectively.

With an amendment to the CBRT Law No: 1211 on 25 April 2001, the primary objective of the CBRT was explicitly described as achieving price stability. Moreover, the amendment stipulated that the Bank would determine at its own discretion the monetary policy that it would implement and the monetary policy instruments that it was going to use; thus, the Bank was vested with instrument independence. Besides, the Bank takes precautions for enhancing the stability in the financial system and regulatory measures with respect to money and foreign exchange markets. Finally, the Law also stipulated that the Bank would support the growth and employment policies of the government without conflicting with the objective of achieving and maintaining price stability.

As of the end of 2012, the CBRT has pursued its policy implementations in line with the powers and duties granted by its Law. With its 4,584 employees working in 15 General Directorates, 21 Branches and four representative offices abroad, the Bank closely monitors the developments in both domestic and international sphere and functions in a constantly changing dynamic environment.

1.1. Governing Bodies

1.1.1. Board

Dr. Erdem Başçı
Chairman

Mehmet Vehbi Çıtak
Member

Dr. Lokman Gündüz
Member

Prof. Dr. Necdet Şensoy
Member

Prof. Dr. Sabri Orman
Member

Dr. Ahmet Faruk Aysan
Member

Abdullah Yalçın
Member

The Board is composed of the Governor and six members elected by the General Assembly. Board members serve a three-year term of office and one third of the members are replaced every year. The Governor also acts as a Chairman of the Board. Board meetings are held at least once a month at the request of the Governor. The Board convenes with the participation of at least two thirds of its members and renders decisions by the majority of members present.

Duties and powers of the Board include: making decisions concerning the monetary policy to be implemented and monetary policy instruments to be utilized in compliance with the inflation target; setting forth regulations regarding banknotes in circulation; drawing up regulations regarding open market operations and foreign exchange and foreign currency transactions, interest rates related to rediscount and advance operations, reserve requirements and 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 Assembly of the Bank; approving the personnel cadre and regulations on the administration, organization, services and personnel of the Bank. In 2012, the Board held 22 meetings and made 184 decisions.

At the CBRT Shareholders' Ordinary General Meeting held on 16 April 2012, the Board called an election to fill two seats to be vacated by Prof. Dr. Mustafa İlker Parasız and Prof. Dr. Necdet Şensoy, whose terms of office were to expire on 30 April 2012. Accordingly, Prof. Dr. Necdet Şensoy was re-elected and Abdullah Yalçın, then a member of the CBRT Auditing Committee, was elected as members of the Board for a term of 3 years from 1 May 2012 to 30 April 2015.

Due to his appointment to the Board, Mr. Abdullah Yalçın's duty as a member of the Auditing Committee ended.

By 31 December 2012, the Chairman of the Board was Governor Dr. Erdem Başçı. Board members were Mehmet Vehbi Çıtak, Dr. Lokman Gündüz, Prof. Dr. Necdet Şensoy, Prof. Dr. Sabri Orman, Dr. Ahmet Faruk Aysan and Abdullah Yalçın.

1.1.2. Monetary Policy Committee

Dr. Erdem Başçı
Chairman

Dr. Mehmet Yörükoğlu
Member

Prof. Dr. Turalay Kenç
Member

Necati Şahin
Member

Murat Çetinkaya
Member

Dr. Ahmet Faruk Aysan
Member

Prof. Dr. Abdullah Yavaş
Member

The Monetary Policy Committee (the MPC) is composed of the Governor as its chairman, the Deputy Governors, a member to be elected by and from Board members and a member to be appointed by a joint decree on the recommendation of the Governor. The Undersecretary of the Treasury or the Deputy Undersecretary to be designated by him/her may participate in meetings without voting rights.

The MPC's duties and powers are to determine the principles and the strategy of monetary policy to achieve price stability, to determine the inflation target jointly with the Government within the framework of the monetary policy strategy, to provide information to the public in line with the principles set forth and to provide information to the Government within specified periods by preparing reports regarding monetary policy targets and implementations, to take necessary measures to protect the domestic and international value of the Turkish lira and to set the exchange rate regime to be employed in determining the value of the Turkish lira against gold and foreign currencies jointly with the Government.

The MPC held 12 meetings in 2012.

By 31 December 2012, members of the MPC chaired by Governor Dr. Erdem Başçı were Deputy Governors Dr. Mehmet Yörükoğlu, Prof. Dr. Turalay Kenç, Necati Şahin, Murat Çetinkaya, Board member Dr. Ahmet Faruk Aysan and Prof. Dr. Abdullah Yavaş.

1.1.3. Auditing Committee

Mustafa Saim Uysal
Member

Prof. Dr. Hasan Türedi
Member

Yasin Aydın
Member

Ahmet Fethi Toptaş
Member

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 two-year term of office. 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 presents a copy to the Prime Ministry thereof. At the end of each year, the Committee prepares a report on the operations and accounts of the Bank and submits it to the General Assembly.

At the regular General Assembly meeting of the CBRT held on 16 April 2012, Prof. Dr. Hasan Türedi, whose term of office was to expire on 30 April 2012, was re-elected as an Auditing Committee member by the shareholders of classes (B) and (C) for a term of office from 1 May 2012 until 30 April 2014.

Mr. Ahmet Fethi Toptaş was elected as an Auditing Committee member by the Auditing Committee to represent the shareholders of classes (B) and (C) to fill the seat vacated by Mr. Abdullah Yalçın due to his election as a Board member. Mr. Ahmet Fethi Toptaş will serve as an Auditing Committee member from 10 May 2012 till the next General Assembly meeting.

By 31 December 2012, the members of the Auditing Committee were: Mustafa Saim Uysal, Prof. Dr. Hasan Türedi, Yasin Aydın and Ahmet Fethi Toptaş.

1.1.4. Executive Committee

Dr. Erdem Başçı
Chairman

Dr. Mehmet Yörükoğlu
Member

Prof. Dr. Turalay Kenç
Member

Necati Şahin
Member

Murat Çetinkaya
Member

The Executive Committee is composed of the Governor and Deputy Governors. The Governor is appointed by the Council of Ministers to serve a five-year term. Deputy Governors are appointed for five years by a joint decree upon the recommendation of the Governor. Decisions of the Executive Committee are taken by a majority of all members.

The Executive Committee draws up regulations on the administration, organization and services of the Bank, and when the Governor deems necessary, it examines issues subject to Board decision in advance and prepares proposals to be submitted to the Board. The Committee is also responsible for ensuring the coordination of the Bank's operations and performing duties related to the appointment, remuneration, dismissal and retirement of personnel other than those appointed by the Board.

On 30 June 2012, Mr. Murat Çetinkaya was appointed as Deputy Governor for the seat vacated by the then Deputy Governor Dr. Mustafa İbrahim Turhan upon his appointment as the Chairman of the Istanbul Stock Exchange (ISE) on 1 January 2012.

By 31 December 2012, members of the Executive Committee chaired by Governor Dr. Erdem Başçı were Deputy Governors Dr. Mehmet Yörükoğlu, Prof. Dr. Turalay Kenç, Necati Şahin and Murat Çetinkaya.

1.1.5. Head Office Departments

As of 31 December 2012;

Accounting	Executive Director	İrfan Yanar
Audit	Executive Director	Mehmet Düzgün
Banking and Financial Institutions	Executive Director	Dr. Çiğdem Koğar
Banknote Printing Plant	Executive Director	Cem Zerey
Communications and Foreign Relations	Executive Director	Dr. Tuğrul Gürgür
Human Resources	Executive Director	Cem Eyerci
Informatics Technology	Executive Director	Ömer Öztürk
International Research and Training Center	Acting Executive Director	Dr. Necati Tekatlı
Issue	Executive Director	Selahattin Akkaş
Legal	Chief Legal Counsel and Executive Director	Dr. Osman Remzi Günver
Logistic Support Services	Executive Director	Emin Keskin
Markets	Executive Director	Günay Yeşildoruk
Research and Monetary Policy	Executive Director	Gülbin Şahinbeyoğlu
Statistics	Executive Director	Hüseyin Zafer
Workers' Remittances	Executive Director	Ali Çufadar

1.1.6. Branches

As of 31 December 2012;

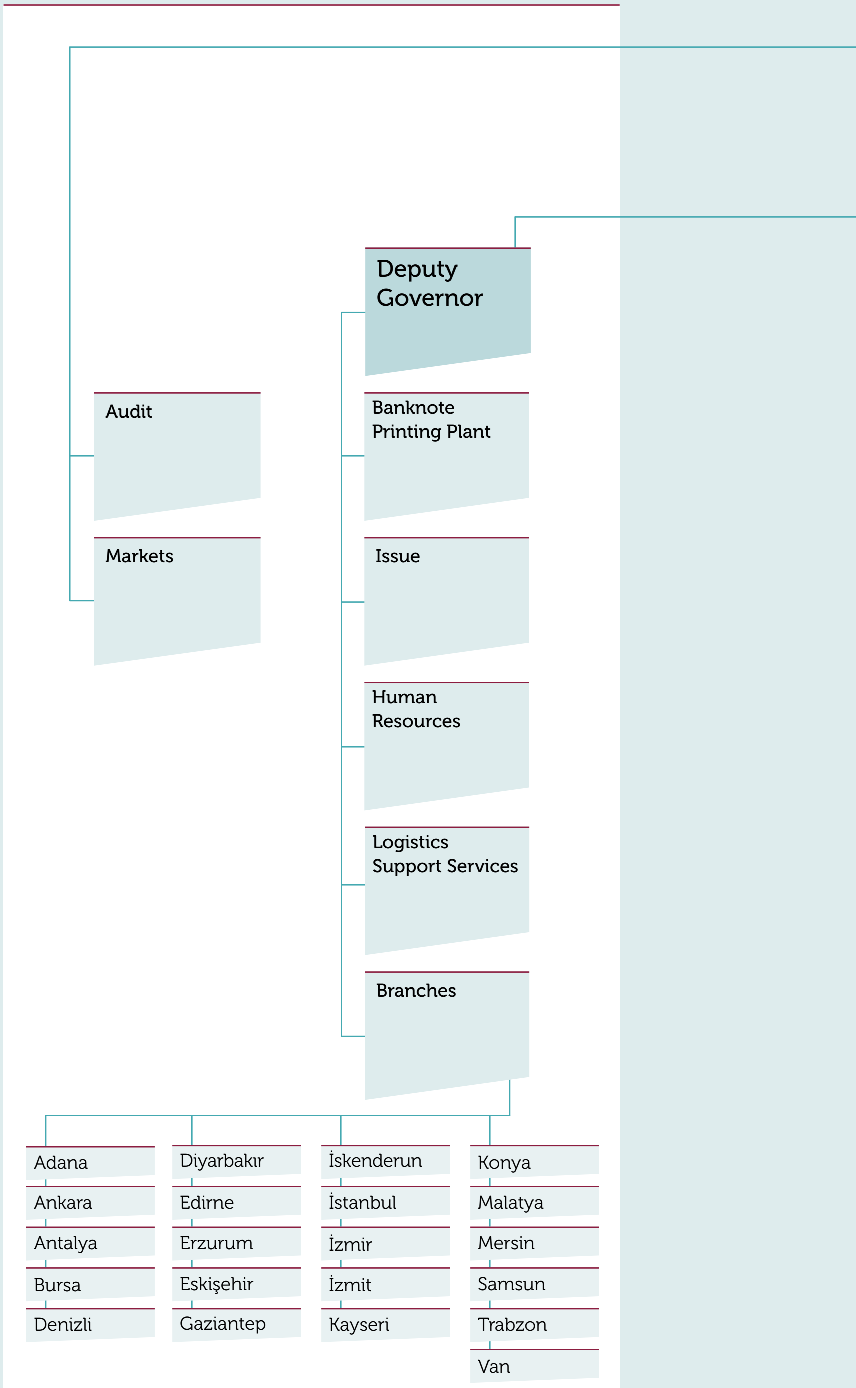
Adana	Director	İskender Büyüktaş
Ankara	Director	Mehmet Ali Koca
Antalya	Director	Eyüp Kütük
Bursa	Director	Ahmet İnci
Denizli	Director	Osman Tanrıkulu
Diyarbakır	Director	Ramazan Karaman
Edirne	Director	Hatice Oya Amaç
Erzurum	Director	İshak Uzuntaş
Eskişehir	Director	Tevfik Hayati Boyalı
Gaziantep	Director	Kemal Ketenci
İskenderun	Director	Süleyman Miçooğulları
İstanbul	Director	Haluk Ersoy
İzmir	Director	Mehmet Reşit Ketene
İzmit	Director	Mehmet Faik Demir
Kayseri	Director	Osman Kandıra
Konya	Director	Cemal Şahiner
Malatya	Director	Mehmet Sarı
Mersin	Director	Muharrem Zengin
Samsun	Director	Halil Yeşilbursa
Trabzon	Director	Mehmet Ünal Kekevi
Van	Director	Mehmet İkizoğlu

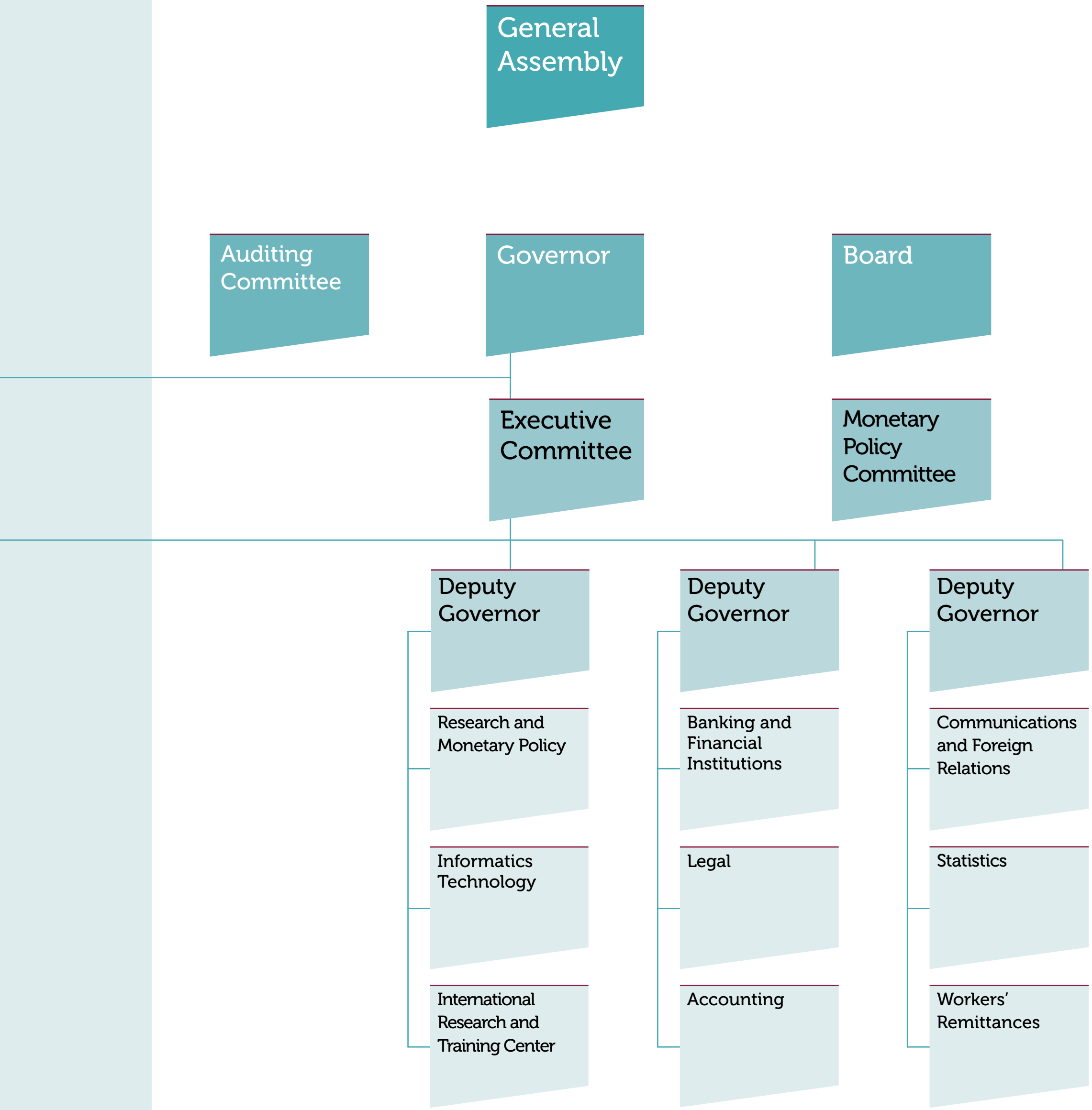
1.1.7. Financial Benefits for Senior Managers

In line with articles 19, 22/A, 24 and 33 of the CBRT Law, the salaries and the representation allowances of the Governor and Vice Governors, salaries and remuneration of the Board members and MPC members and salaries of the Auditing Committee members are determined by the Council of Ministers.

Accordingly, in 2012, the amount of gross salaries paid to members of the Board, the Executive Committee, MPC and Auditing Committee of the Bank was TL 3,954,883. This amount accounts for 1 percent of total salaries and fringe benefits paid to the bank staff in 2012.

1.1.8. Organization Chart




General Assembly
Auditing Committee
Governor
Board
Executive Committee
Monetary Policy Committee
Deputy Governor
Research and Monetary Policy
Informatics Technology
International Research and Training Center
Deputy Governor
Banking and Financial Institutions
Legal
Accounting
Deputy Governor
Communications and Foreign Relations
Statistics
Workers' Remittances

1.2. CBRT 2011-2015 Strategic Plan

Vision

To be one of the world's leading central banks, possessing - while maintaining its independence - an effective organizational structure, highly qualified employees, an outstanding technological structure and the ability to achieve effective results.

Mission

- To create and implement policies that will contribute to financial stability and will achieve price stability which promotes the money, credit and capital markets along with other markets,
- To manage foreign exchange and gold reserves,
- To issue the country's banknotes,
- To ensure the reliable circulation of banknotes, to establish and operate payment systems,
- To increase the effectiveness of the CBRT on a regional and global scale by developing international relations, to add value to our employees, stakeholders and to the community by maintaining our corporate governance structure, transparency and accountability.

Values

1. Independence
2. Transparency and accountability
3. Credibility
4. Public benefit
5. Effectiveness and efficiency

Strategic Areas and Strategic Themes

Tasks that are assigned to the bank by law and corporate internal logistics activities are grouped into three strategic areas as the Public, Global, and Institutional areas; each area has strategic sub themes.

Public Area

1. Price stability
2. Financial stability
3. Payment systems
4. Reserve management
5. Acting as the financial and economic advisory body, the fiscal agent and the treasurer of the government
6. Banknote emission policy
7. On-site supervision of banks and financial institutions
8. Compilation and publication of statistical data
9. Communication, transparency and accountability

Global Area

1. The roles within the central banks' network
2. Effectiveness and leadership in the international sphere
3. Effectiveness in the immediate surroundings
4. Roles in the European Union accession process
5. Adopting international norms
6. Obligations arising from international agreements

Institutional Area

1. Leadership, governance and strategic planning
2. Quality management system
3. Organizational structure
4. Human resources and training processes
5. Technological infrastructure and information technology systems
6. Corporate internal communications and activities for employees of the Bank
7. Construction, logistics and external support services
8. Public relations, publicity and external activities
9. Internal control system
10. Auditing activity
11. Legal structure
12. Information- document production and management
13. Corporate continuity and security
14. Accounting and budgeting
15. Services in branches

1.3. Staff

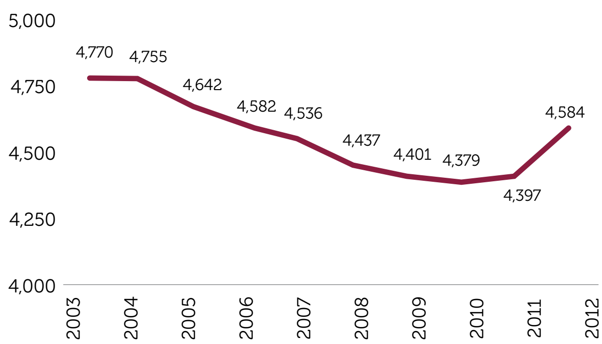
In line with its strategic role in the economy, and the various tasks that it undertakes, the CBRT has qualified human resources comprised of different professions. As of end-2012, the total number of CBRT staff positions stood at 4,960. The number of staff employed was 4,584 and the occupancy rate was 92.42 percent.

A total of 102 staff members have ceased employment due to retirement, resignation, military service, transfer or death, while due to the excess workload of some departments, 284 employees have been recruited as either deputy executive director, deputy director, economist, assistant auditor, assistant informatics auditor, assistant computer specialist, bank officer, specialist doctor, engineer, technician, computer operator, security personnel, currency operator, secretary or atelier worker. Additionally, 5 staff members, who had left the Bank to complete their military services, have returned. Consequently, the actual number of staff members by the end of the year increased by 187 to 4,584 compared to 2011 (Graph 1).

The distribution of CBRT staff is as follows: 76.20 percent are represented by general administrative services, 11.43 percent by technical services, 0.46 percent by medical services, 0.28 percent by legal services, 11.63 percent by assistance services, and 16.62 percent by contract personnel.

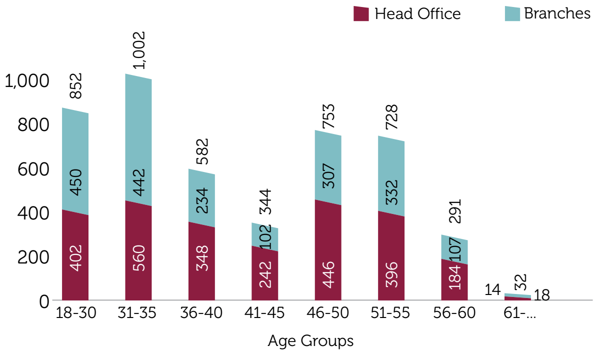
Approximately 56.61 percent of the CBRT staff work at the head office, while 43.39 percent work at the branches. Based on age distribution of the staff, 40.45 percent of our personnel fall in the range of 18-35 years (Graph 2). Moreover, 68.89 percent of the Bank's employees have associate, bachelors, masters and doctorate degree. (Graph 3).

Graph 1. Number of Employees Between 2003-2012



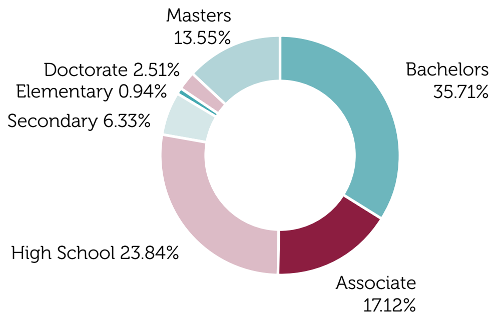
Source: CBRT.

Graph 2. Age Distribution of Employees



Source: CBRT

Graph 3. Educational Distribution of Employees



Source: CBRT.

Part 2
Activities and Major Developments

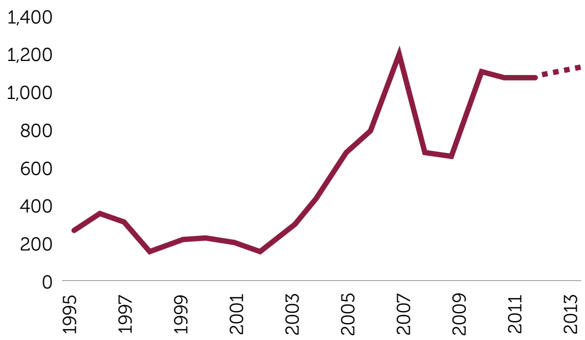
2.1. Price Stability, Financial Stability and Monetary Policy

2.1.1. Global Financial Crisis and New Monetary Policy Requirements

The monetary policy pursued by CBRT in 2012 relied on the new policy approach introduced gradually since late 2010, which was shaped by the circumstances in the aftermath of the global crisis. Advanced economies implemented accommodative monetary and fiscal policies simultaneously in the post-crisis period, which led to an increase in liquidity on a global scale. This ample liquidity had a bolstering effect on the risk appetite and capital movements in global financial markets at first. On the other hand, global economic activity is yet to recover although it has been more than 4 years since the outbreak of the crisis. Prolonged periods of deleveraging both in the USA and the Euro areas, limited capacity of fiscal policies to bolster growth coupled with ongoing uncertainty weighed on the growth outlook. Therefore, although risk appetite improved in line with ample liquidity following the crisis, it was negatively affected by the fluctuating course of the recovery, and capital movements proved highly volatile (Graphs 4 and 5). Against these developments that may challenge their macro-financial stability, emerging economies needed a flexible monetary policy approach that can respond faster to shocks.

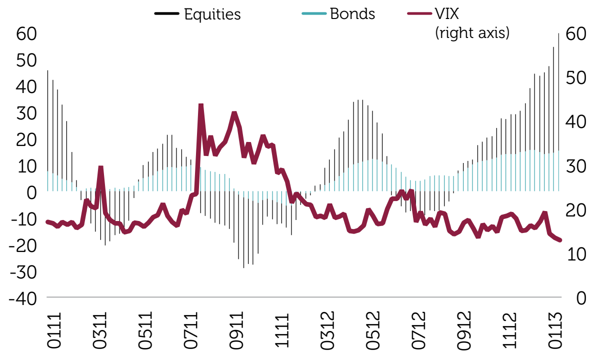
Global liquidity has boosted due to the excessively accommodative monetary policies in advanced economies, and quantitative easing has led to the accumulation of risks in the financial systems of emerging economies. In other words, increase in the volatility of capital flows on a global scale affects those economies, which are the receivers of these flows through fluctuations in credits and exchange rates. Firms' balance sheets are positively affected by the exchange rates, which settled on an appreciation track rate due to the increased capital inflows. This feeds into the risk appetite of the financial intermediation sector causing a surge in credits and more pronounced systemic risks. An excessive rise in credits may have a distortive effect on financial stability due to an increased possibility of a fall in credit quality and a faster growth in domestic demand compared to total revenue. Thus, the economic literature emphasizes that excessive credit growth entails significant information on financial crises. Similarly, excessively appreciated exchange rates in an open economy can deteriorate macro-financial stability by increasing the systemic risk and distorting resource allocation through many channels, the leading one being the balance sheet channel. Against this backdrop, the new monetary policy patterns of emerging economies underline the significance of decreasing the volatility of capital flows. In this context, credit growth and exchange rate developments are closely monitored.

Graph 4. Net Private Capital Flows to EEs
(USD Billion)



Source: IIF.

Graph 5. Capital Flows to EEs
(13-Week Cumulative Sum, USD Billion)



Source: EFPR, Bloomberg.

2.1.2. The CBRT and the New Monetary Policy Strategy

The economic environment that has emerged after the global crisis shows that central banks should attach importance to financial stability as well as price stability as summarized in Section 2.1.1. Therefore, the CBRT designed a new monetary policy strategy that highlights financial stability without prejudice to the price stability of the inflation targeting regime adopted in 2006.

Table 1 presents a comparison of the CBRT's former and new policy strategies with respect to their objectives and instruments used. The existing framework has been largely improved in terms of objectives and instruments compared to the standard inflation targeting regime implemented since 2006. The new regime preserves the primary objective of price stability, while risks to financial stability are monitored more closely while conducting the monetary policy. In other words, observing financial stability as an objective calls for the use of multiple instruments in monetary policy both in structural and cyclical terms. Accordingly, monetary policy instruments like the interest rate corridor, effective liquidity management, required reserves, and the ROM policy were effectively employed in 2012.

Table 1. Monetary Policy Framework

	Former Approach	New Approach
Objectives	Price Stability	Price Stability Financial Stability
Instruments	Policy Rate	Structural Instruments Cyclical Instruments (Policy Rate, Liquidity Management, Interest Rate Corridor)

Interest Rate Corridor

The interest rate corridor has been one of the foremost monetary policy instruments that the CBRT has frequently employed to influence market rates and liquidity in the recent years. Fund-needing banks in the market can be provided with short term (in daily, weekly or monthly maturities) liquidity by the CBRT, while the banks with excess funds can lend funds at an overnight maturity. In technical terms, the interest rate corridor is the margin between the lending and borrowing rates of the CBRT. As required by the operational structure, market rates are formed within the interest rate corridor. Under the current structure, as the CBRT provides funding mainly through weekly repo transactions, the "policy rate" is set as the one-week repo funding rate. Both the policy rate and the interest rate corridor are revised in the monthly MPC Meetings and announced to the public.

In the traditional sense, the interest rate corridor is usually employed by central banks implementing inflation targeting to prevent market rates from significantly deviating from the policy rate. Accordingly, the interest rate corridor, which is defined as a symmetrical (generally constant) and narrow band around the policy rate, assumes an inactive role. On the other hand, the CBRT's current system considers the interest rate corridor as an active instrument: The CBRT can adjust the width of the interest rate corridor when necessary, and at the same time adjust the corridor around the policy rate in an asymmetrical way. Under this structure, the interest rate corridor not only facilitates a faster and more flexible reaction to the volatility in short term capital movements, but also can be used as an effective instrument against credit growth.

Reserve Options Mechanism

The CBRT has recently developed the Reserve Option Mechanism (ROM) that mainly aims at reducing the adverse impact of the excessive volatility in capital movements on the macro-financial stability. This instrument allows the banks to hold a certain portion of the Turkish lira (TL) required reserves in FX and gold. The extent to which this facility can be used is defined as the reserve option ratio (ROR). The coefficients showing the amount of FX or gold to be held per unit of TL reserve requirements are defined as the Reserve Option Coefficients (ROC).

The ROM was mainly designed as an "automatic stabilizer" (in a way that banks can internally adjust the utilization rates of reserve option against external shocks). As this concept enables each bank to make its own optimization given its own constraints, the ROM is considered to be more efficient in the economic sense compared to other instruments used in FX liquidity management. Moreover, parameters of the system can also be used as a cyclical instrument to adapt to the permanent changes in domestic and external environment when necessary. Facilities offered through the ROM also have a positive effect on the CBRT's foreign exchange and gold reserves.

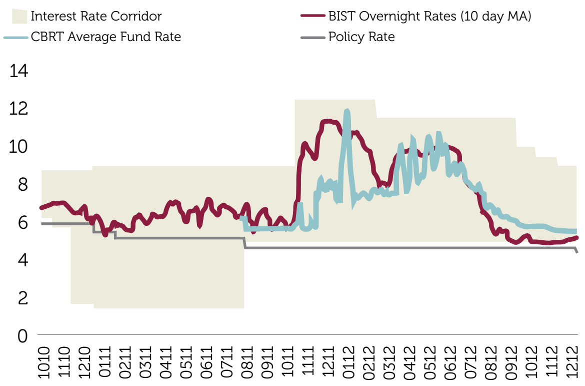
2.1.3. Implementation and Outcomes of the New Policy Mix

Notwithstanding the favorable course of global risk perceptions in the first quarter of 2012, the CBRT has pursued a cautious monetary policy in view of the still-brisk upward risks on cost factors. Considering the accommodative policies on a global scale, the upper limit of the interest rate corridor was reduced by 100 basis points in February (Graph 6). On the other hand, an additional monetary tightening was implemented between 23 and 29 March 2012 to prevent the hikes in oil prices and other cost factors from distorting inflation expectations. In this period, the weighted average rate of the liquidity offered to the market was raised by reducing the one-week repo funding amount quoted at the policy rate (Graph 7). At the MPC Meeting of March 2012, the ratio of TL required reserves that can be held in gold was raised from 10 percent to 20 percent.

The CBRT pointed out that additional monetary tightening might be implemented more often so as to prevent the temporary rises in inflation in the second quarter from distorting the inflation outlook. Accordingly, additional monetary tightening was conducted between 11 and 17 April, 4 and 11 May and 21 and 25 May 2012. In spite of an expected fall in inflation, inflation will overshoot the target remarkably until the last quarter of the year, which may pose risks to the pricing behaviors. With a view to containing these risks, the existing tight stance was preserved in the May MPC Meeting, and an additional monetary tightening was implemented between 31 May and 4 June. In fact, in the second quarter, alternative funding instruments excluding one-week quantity repo funding were used more frequently compared to the first quarter (Graph 6).

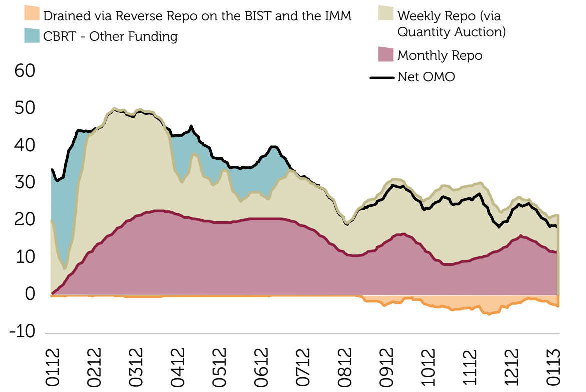
In the succeeding period, a cautious monetary policy stance was maintained. However, parallel to the rise in the risk appetite, it was made sure that both the average funding rate and the overnight rate in the market remained low in July. At the May MPC meeting, foreign exchange reserve option facility was increased from 40 percent to 45 percent to bolster financial stability. Meanwhile, to reduce the cost differential between holding the required reserves in TL or foreign exchange, the ROC was put into practice for additional facilities. This allowed holding of TL required reserves in USD and/or euro with a multiplier of 1 for the first tranche of 40 percent (as in the past) and 1.4 for the second tranche of 5 percent. The facility was increased to 55 percent with increments of 5 percentage points in June and July, and coefficients for the sum corresponding to the second and third tranches of 5 percent were set as "1.7" and "1.9". In addition, the upper limit for TL required reserves that can be held in gold was raised to 25 percent in June, while it was decided that the amount corresponding to the first tranche of 20 percent of the facility would be multiplied by 1 (as in the past), and 1.5 for the second tranche of 5 percent.

Graph 6. Short-Run Interest Rates
(Percent)



Source: BIST, CBRT.

Graph 7. CBRT Funding
(2-Week Moving Average, TL Billion)

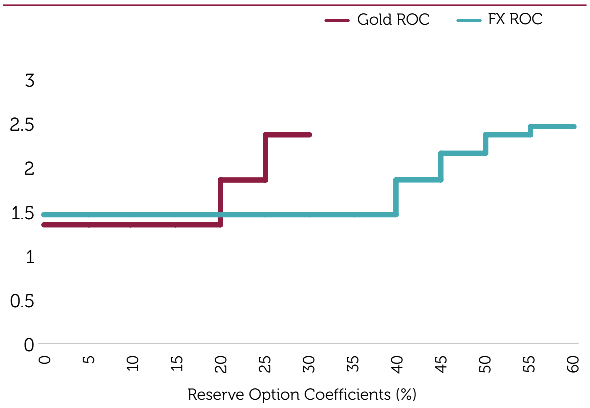


Source: CBRT.

Considering that the central banks of advanced economies opted for an additional monetary tightening in the third quarter of the year, which bears the potential to accelerate capital flows, the CBRT narrowed the interest rate corridor by lowering the overnight lending rate by 150 and 50 basis points in September and October, respectively. However, due to the persisting uncertainties regarding the global economy, monetary policy remained flexible (Graph 6). In this period, the mild recovery in the final domestic demand and favorable data regarding other macroeconomic variables paved the way for the formation of an average interest rate at low levels. Accordingly, the CBRT funded the market mostly through one-week quantity repo auctions and traditional monthly repo auctions. On the other hand, at the August MPC meeting, the foreign exchange reserve option was raised from 55 percent to 60 percent, and the ROC for this tranche was set as "2". Additionally, to bolster financial stability, the ROC corresponding to the first 40 percent tranche of the TL required reserves was raised to "1.1". Moreover, to the same end, the upper limit to establish TL required reserves in gold, which was 25 percent, was increased to 30 percent, and the ROC corresponding to the additional tranche of 5 percent was set as "2". In order to bolster financial stability, reserve option coefficients for all tranches were raised by "0.2" and "0.1" percentage points in the September and October MPC meetings, respectively.

In spite of the rise in the global risk appetite in the last quarter, the recovery in the inflation outlook and the more pronounced stabilization process in the economy, uncertainties regarding the global economy have persisted. Thus, the CBRT continued with flexible monetary policy practices taking macro financial risks into account. Improvement in risk perceptions regarding Turkey, the active use of the ROM and the mild course of commercial loans facilitated a moderate reduction in the upper limit of the interest rate corridor; and the overnight lending rate and the policy rate were reduced by 50 and 25 basis points, respectively (Graph 6). Moreover, in order to enhance financial stability, FX reserve option coefficients were raised by "0.1" percentage points for the tranches succeeding the first tranche of 40 percent, and gold reserve option coefficients were raised by "0.2" percentage points for all tranches in November. Graph 8 exhibits the reserve option coefficients for the FX and gold for end-2012. Furthermore, FX required reserve ratios were increased by 0.5 percentage points for deposits with 1-year and longer maturities in addition to those maturities excluding other liabilities with longer than 3 year-maturities in December. On the other hand, in this period, the CBRT continued to fund the market mostly through one-week quantity repo auctions, and one-month traditional repo auctions, thereby ensuring the weighted average cost of the CBRT funding rate to hover around the policy rate.

Graph 8. FX and Gold Reserve Option Coefficients (ROC) (As of Year End-2012)

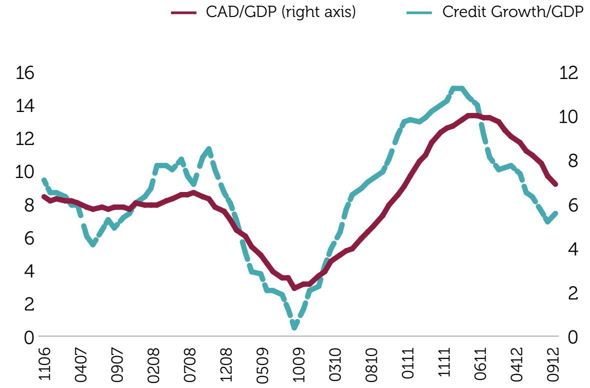


Source: CBRT.

Credits

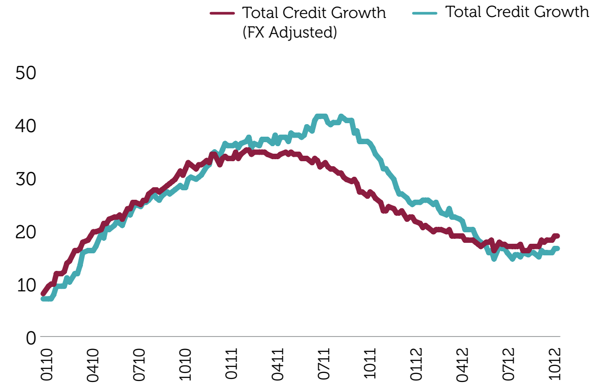
The CBRT closely monitored the developments in credits and the exchange rates with a view to averting the risks stemming from increased capital inflows in the macroeconomic and financial system in 2012 Containing the excessive growth of credits, which is closely related to the current account deficit, is of great importance with regard to containing the negative effects of the volatility in capital flows. The net credit utilization ratio (i.e., the change in the credit stock/GDP), which is an indicator that summarizes economic effects of credit growth most accurately, went down to plausible levels in terms of financial stability as of mid 2011. In parallel, Graph 9 shows that the current account balance displayed a gradual recovery. In order to prevent the surge in credits, policy instruments such as required reserve ratios, liquidity policy, capital adequacy risk weights, general provisions and loan to value ratio were actively used in 2012 through the coordinated functioning of the CBRT and relevant authorities. As a result of these measures, the credit growth rate, adjusted for the FX rate effect, which hovered at highly risky levels above 30 percent in 2010, fell to 25 percent in 2011, and 15 percent in October 2012. In the last quarter of 2012, the credit growth rate, which increased because of the rebound in economic activity and accommodative liquidity conditions, realized 18.4 percent at the year-end (Graph 10).

Graph 9. Credit Growth and the Current Account Deficit (Ratio to GDP, Percent)



Source: BRSA, CBRT.

Graph 10. Total Credit Growth (Annual Percentage Change)



Source: BRSA, CBRT.

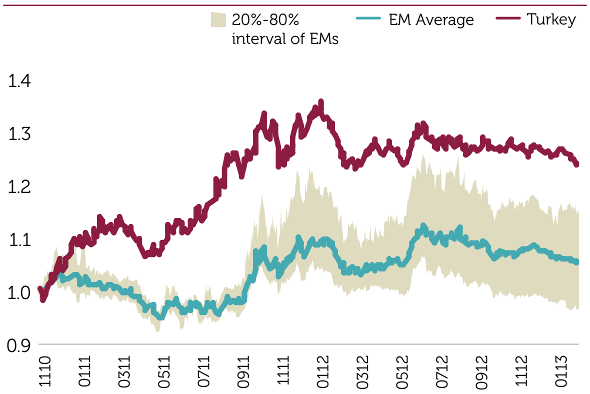
Credit growth hovers around reasonable levels with regard to financial stability thanks to the flexible monetary policy that also considers macro-financial risks and the measures taken by the authorities to elevate credit costs. Preventing the sector's annual credit growth rate from climbing to high levels in the forthcoming period will bolster price stability and financial stability. Under a baseline scenario that entails plausible levels of credit growth rate, the current account balance is also expected to follow a sustainable course.

Foreign Exchange Rates

Another channel considered significant and closely monitored by the CBRT to alleviate the adverse effects of capital flows is the exchange rates. Through the policies that have been conducted since 2010, the CBRT aimed at containing the resulting higher volatility from increased capital flows. In this context, with the goal of eliminating the excessive appreciation in the TL, policy rates were reduced and the interest rate corridor was widened downwards; thus, short term market rates were allowed to follow a volatile course (Graph 6). Accordingly, the TL, which followed a course parallel to the currencies of similar markets until end-2010, exhibited an evident divergence from that time onwards (Graph 11).

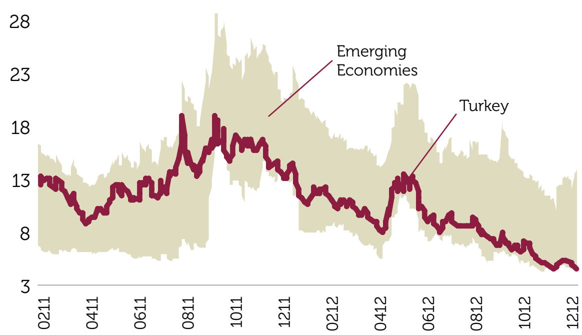
The interest rate corridor system and the ROM practiced by the CBRT enabled the exchange rates to display lower volatility than other emerging markets. In this context, even though the TL notably depreciated both in 2011 and in 2012 compared to other emerging markets, the exchange rates proved less volatile than that in countries of the same group (Graph 12).

Graph 11. Exchange Rates in Emerging Economies
(Vis-a-vis USD, 01.11.2010=1)



Source: CBRT, Bloomberg.

Graph 12. Implied FX Volatility in Emerging Economies
(1-Month Maturity)

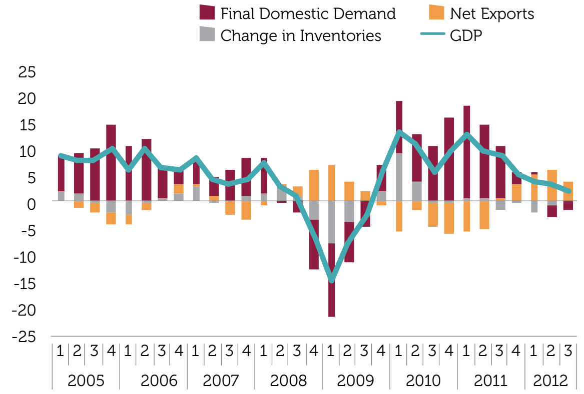


Source: Bloomberg.

Stabilization

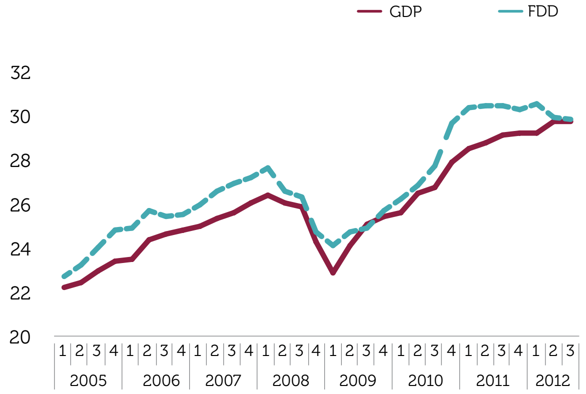
The global risk appetite has assumed a process of gradual recovery since early 2012, and the economy has become more stabilized. Monetary policy and macroprudential measures taken in this period decelerated credit growth, and the excessive appreciation in the TL was eliminated, leading the growth composition to change in favor of net exports. Final domestic demand has followed a flat course since the second half of 2011, while GDP has continued with a trend of growth amid the notable rise in the contribution of net exports (Graphs 13 and 14). Thus, the economy settled on a stabilization track and macro financial risks were contained.

Graph 13. Contributions to Annual Growth by Expenditures (Percentage Points)



Source: TURKSTAT, CBRT.

Graph 14. GDP and Final Domestic Demand (FDD) (1998 Fixed Prices, TL Billion)

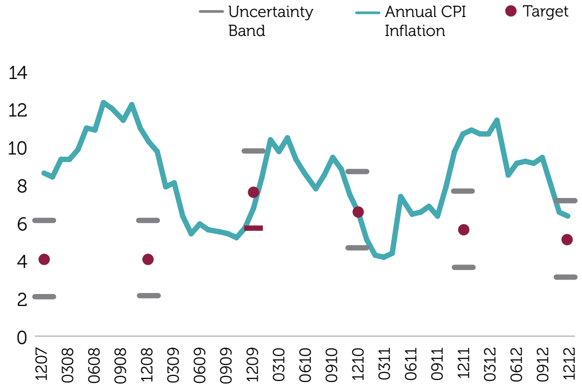


Source: TURKSTAT, CBRT.

Inflation

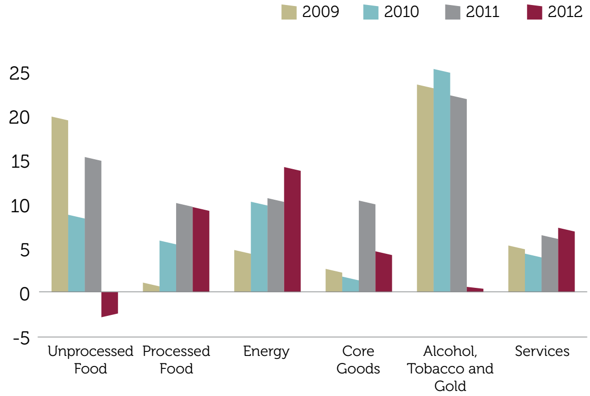
Inflation, which was 10.45 percent at end-2011, went down by 4.3 percentage points to 6.16 percent in 2012, hitting the lowest level of consumer inflation of the last 44 years. Effects of the depreciation in the TL across 2011 on inflation were almost completed in this period, which were mostly seen in durable consumption goods. The quite positive course of unprocessed food prices throughout the year compared to the past played a key role in the disinflation. The mild course of non-agricultural international commodity prices throughout the year, the stable trend in exchange rates and the decelerating economic activity had favorable contributions in the inflation outlook. Thus, core inflation indicators displayed a downward trend all over the year amid the alleviation of cost and demand pressures. On the other hand, price and tax adjustments by the state especially in energy stood as a factor that deteriorated inflation. As a result, consumer inflation overshot the target of 5 percent by 1.2 percentage points in 2012, yet remained within the uncertainty band (Graph 15).

Graph 15. Annual CPI Inflation, Target and Uncertainty Band (Percentage Point)



Source: TURKSTAT, CBRT.

Graph 16. Consumer Prices (Annual Percentage Change)



Source: TURKSTAT, CBRT.

Analysis of the developments in 2012 by subgroups suggests that the most noteworthy development was the decline in unprocessed food prices compared to 2011. Moreover, the deceleration in core goods inflation besides the unchanged price level in tobacco products were also the main factors to support the fall in annual inflation (Graph 16). The high course of energy prices in 2012 was mainly driven by the effect of the decisions of the public sector. The Special Consumption Tax rate imposed on fuel oil was raised, and electricity and natural gas prices were increased. The adjustments by the state affected the consumer inflation by around 1 percentage point.

Both the annual growth rates and the underlying trend of core inflation indicators trended downwards across the year. In this period of flat course in services inflation, the deceleration in core goods prices proved influential (Graph 17).

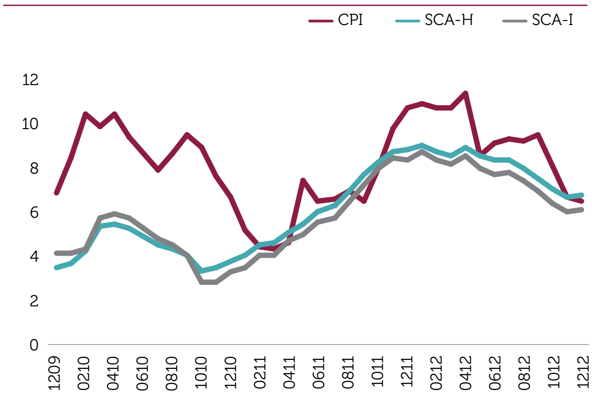
Medium-term inflation expectations, which remained flat during 2012, trended downwards at the year-end. Although consumer inflation hovered above 10 percent at the start of the year, inflation expectations did not deteriorate, which was attributed to the efficiency of the monetary policy (Graph 18).

2.1.4. Conclusion

In short, accommodative monetary and fiscal policies of advanced economies following the global crisis had adverse effects on emerging economies at end-2010. Accordingly, the CBRT contemplated a new monetary policy approach, which was shaped to a great extent in 2011 and enriched by new policy instruments in 2012. This approach, which relies on a more flexible structure against possible shocks, reduced macro-financial risks by facilitating the balancing of internal and external demand. In this context, 2012 proved to be a year marked by a more evident economic stabilization and a steady decline in inflation, which were accompanied by growth in economic activity.

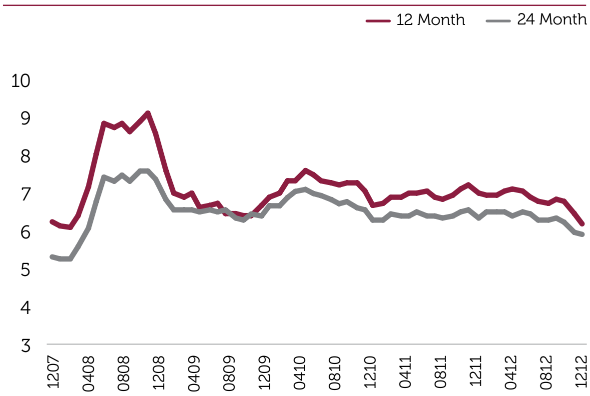
The CBRT will endeavor to preserve and further what was acquired so far through the policies to be implemented in 2013. Under the assumptions that import prices and the exchange rate volatility are low, no further deterioration occurs in the global economy and the fiscal discipline is maintained, inflation is expected to converge the target at end-2013. On the economic activity front, driven by both the accommodative monetary policy decisions taken as of mid-2012, and the improvement in foreign financing conditions, domestic demand is expected to follow a stable course of increase in the forthcoming period.

Graph 17. CPI, SCA-H and SCA-I
(Annual Percentage Change)



Source: TURKSTAT, CBRT

Graph 18. 12 and 24-Month Forward CPI Expectations* (Annual Percentage Change)



* CBRT Expectations Survey, second term results   Source: CBRT.

2.2. Operational Framework of the Monetary Policy

2.2.1. Turkish Lira Liquidity Management

In the last quarter of 2011, with the intention of containing medium-term inflation expectations, the CBRT widened the interest rate corridor upwards by raising the overnight lending rate by 350 basis points in October. Accordingly, the funding amount provided via quantity auctions at the one-week repo rate was reduced and the banks were enabled to meet their funding needs through sources of higher costs within the widened band.

In order to prevent this from leading to an undesirable additional tightening in liquidity conditions, TL reserve requirement ratios were decreased and the TL liquidity needs of the banking system were permanently reduced. To provide banks with enhanced flexibility in liquidity management, one-month repo auctions, which were launched on 27 December 2011, continued in 2012.

In order to enhance predictability regarding the liquidity management, the CBRT regularly announced to the public the upper and lower limits of the amounts to be ensured via one-week repo auctions to apply between the MPC meetings (Table 2).

Table 2. Decisions on Open Market Operations

	Funding Amount for Normal Days of Quantity Auctions (TL Billion)	One-month Repo Auctions (Upper Limit for Each Auction Amount, TL Billion)
24 January 2012	3-7	5
21 February 2012	3-7	6
27 March 2012	1-6	5
18 April 2012	1-6	5
29 May 2012	1-5	5
21 June 2012	1-5	5
19 July 2012	0.5-6.5	5
16 August 2012	0.5-7.5	5
18 September 2012	0.5-7.5	3
18 October 2012	0.5-6.5	4
20 November 2012	0.5-6.5	4
18 December 2012	0.2-6.5	4

Following the measures taken in October, the CBRT opted for additional monetary tightening operations occasionally in 2012 to avert tail risks of inflation. Accordingly, the funding provided through the policy rate was suspended for a while, and one-week repo funding was provided by intraday repo auctions conducted via the traditional auction method. On the days of additional monetary tightening, transactions at the ISE and Interbank Money Markets made at the CBRT lending rate and the primary dealer repo interest rate within the CBRT led the money market interest rate to be close to the upper band of the CBRT's interest rate corridor.

In the context of macroprudential measures, to strengthen foreign exchange and gold reserves and ensure that banks manage their foreign exchange liquidities in a flexible way against external shocks, the portions of TL required reserves that can be kept as FX and gold as per the ROM were gradually raised in 2012. At the beginning of 2012, the portion of TL required reserves held by banks in FX and gold was TL 24 billion, while this amount reached TL 48 billion at end-2012. The TL liquidity need of the banking system decreased to a large extent owing to the increase in these facilities and the vigorous use of these facilities by banks.

Due to the partial recovery in global risk perceptions and the more pronounced rebalancing process in the economy, monetary policy has gradually become more accommodative since mid 2012. The CBRT started to lower the average cost of funding gradually as of early June by increasing the liquidity injected to the market. Considering the decline in risks against the global financial system as of September and in an effort to support credit markets, the MPC reduced the overnight lending rate by 150 basis points to 10 percent in September to 9.5 percent in October and to 9 percent in November. Furthermore, to contribute to financial stability, the Committee conducted a moderate policy-rate reduction by 25 basis points in December and set the policy rate as 5.50 percent (Table 4).

2.2.2. Exchange Rate Policy

In 2012, the CBRT continued with the floating exchange rate regime alongside inflation targeting. In floating exchange rate regime, exchange rates are not used as a policy instrument, and the CBRT does not have a nominal or real exchange rate target. However, the CBRT may directly intervene in the FX market in case of unhealthy price formations due to loss in the market depth.

In fact, as per the strategies adopted based on the decisions made at the MPC meetings in response to the changing economic circumstances in international markets in the second half of 2011, FX selling auctions were launched on 5 August 2011. Accordingly, the maximum amount to be sold started to be announced as of 12 September 2011. The maximum amount to be sold within two working days started to be announced as of 29 November 2011. Starting from 27 December 2011, the maximum auction amount for two days was limited to USD 1.700 million, the maximum daily amount being USD 1.350 million. Furthermore, it was announced that starting from 30 December 2011, regular auctions would be held even if the market is intervened prior to the regular auction.

Through the auctions, which were suspended on 25 January 2012, USD 11.210 million and USD 1.200 million were sold in 2011 and 2012, respectively.

Moreover, due to the unhealthy price formations in exchange rates, direct selling interventions were made in foreign exchange markets on 30 December 2011, which continued through the first week of 2012. The market was provided with a total liquidity of USD 1.006 million through the interventions made on the 2nd, 3rd and 4th of January. No FX selling intervention was conducted after this date.

In the context of the strategies defined by the MPC, in addition to the regular FX selling auctions, which started on 5 August 2011, intraday FX selling auctions were launched on 6 January 2012. The amount to be sold in each auction was set as USD 50 million and the full amount of bids received were met up to the auction amount. On 6 January 2012 and 9 January 2012, three and two FX selling auctions were held, respectively. A total of USD 250 million was sold through these auctions. No other intraday FX selling auctions were held until the end of 2012. On 24 January 2012, the maximum total amount to be sold via intraday auctions on a daily basis was decided to be limited to USD 500 million until the next MPC meeting.

Meanwhile, within the borrowing limits introduced for banks in foreign exchange deposit markets in the Foreign Exchange and Banknotes Markets, which the Central Bank is a party to, the CBRT reduced the lending rate for transactions, from 5.5 percent to 4.5 percent for the USD and from 6.5 percent to 5.5 percent for the euro to be effective as of 9 August 2011. The CBRT resumed its activities as an intermediary in the market on 10 November 2011, and the maturity of FX deposits were raised from one week to one month on 2 January 2012.

On 25 December 2012, the CBRT lowered the maturities of FX deposits from one month to one week within the borrowing limits introduced for the banks in foreign exchange deposit markets in Foreign Exchange and Banknotes Markets in response to favorable developments in international liquidity conditions and the liquidity in FX markets. Moreover, the lending rate for transactions, which the Central Bank is a party to, was raised to 10 percent, which was previously set as 4.5 percent for the USD and 5.5 percent for the euro, on the same day. The CBRT's activities as an intermediary in the Foreign Exchange Deposit Markets in Foreign Exchange and Banknotes Markets were terminated on 2 January 2013.

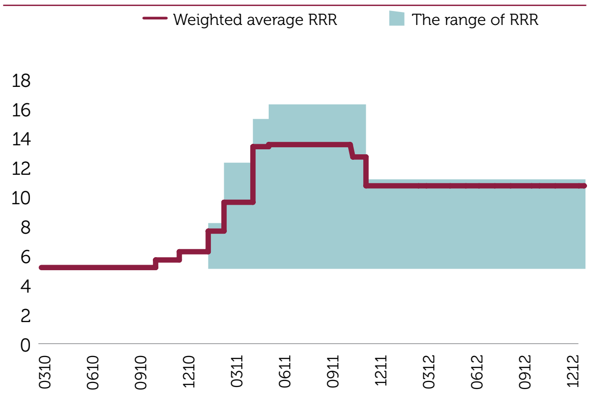
Table 3. Decisions Regarding the Transactions in the Foreign Exchange Markets

	Foreign Exchange Auctions and Interventions	**Foreign Exchange Deposit Markets in Foreign Exchange and Banknotes Markets**
January 2012	Direct FX selling interventions were made on 2, 3 and 4 January. Intraday FX selling auctions were launched, in which the selling amount was set as USD 50 million for each auction and full amount of the bids received were met up to the auction amount as of 6 January. The maximum amount that can be sold in intraday auctions was limited to USD 500 million as of 25 January 2012. Regular FX selling auctions, which started on 5 August 2011, were terminated on 25 January 2012.	The maturity of FX deposits that the banks can borrow from the CBRT within the borrowing limits introduced for them in the Foreign Exchange Deposit Markets in Foreign Exchange and Banknotes Markets was extended from one week to one month as of 2 January 2012.
December 2012		The maturity of FX deposits that the banks can borrow from the CBRT within the borrowing limits introduced for them in the Foreign Exchange Deposit Markets in Foreign Exchange and Banknotes Markets was reduced from one month to one week. FX deposit rates, to which the CBRT is a party, were 4.5 percent for USD and 5.5 percent for euro previously. They were raised to 10 percent for both currencies.

2.2.3. Reserve Requirement Ratios

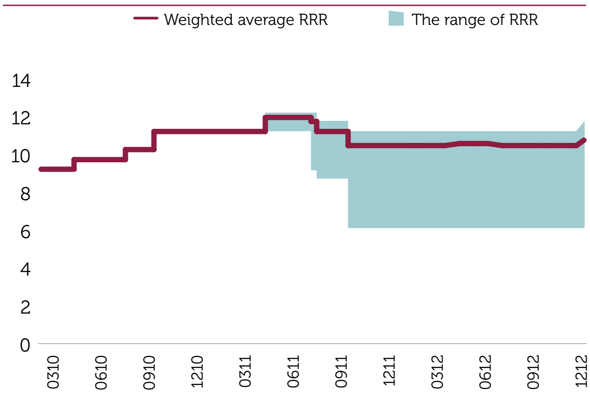
The CBRT continues to use reserve requirements to achieve an effective liquidity management and bolster reserves. There has been no change in the TL reserve requirement ratios since October 2011, and the weighted average of the TL reserve requirement ratios realized as 10.5 in this period. Meanwhile, to be effective from the calculation period of 21 December 2012, FX reserve requirement ratios were raised by 0.5 percentage points for other liabilities excluding deposits with maturities of one year or longer and longer than three years in order to support the extension of the maturity of FX liabilities of the Turkish banking system. The arrangement elevated the weighted average FX reserve requirement ratio to 10.6 (Graphs 19 and 20).

Graph 19. TL Reserve Requirement Ratios
(%)



Source: CBRT.

Graph 20. FX Reserve Requirement Ratios
(%)



Source: CBRT.

Reserve Options Mechanism (ROM)

To enhance financial stability, the CBRT completed much of the work regarding the establishment and enforcement of the ROM in 2012. The ratio of TL reserve requirements that can be held in FX was raised gradually from 40 percent to 60 percent with increments of 5 percentage points as of June 2012. The ROC for the first tranche of 40 percent and the subsequent tranches of 5 percent ranged from 1.4 to 2.4 (Graph 21).

To be effective from the calculation period of 30 March 2012, the upper limit for standard gold reserves that may be held to meet TL reserve requirements was raised from 10 percent to 20 percent, while the limit for standard gold reserves that may be held to meet FX reserve requirements excluding precious metal deposit accounts was reduced from 10 percent to 0 percent. Then, as of July 2012, the upper limit for standard gold reserves that may be held to meet TL reserve requirements was raised from 20 percent to 30 percent with increments of 5 percentage points; ROCs for the first tranche of 20 percent and the subsequent tranches of 5 percent gradually increased from 1.3 to 2.3 (Graph 22).

Banks use the facility of holding TL required reserves in FX and gold widely and consistently. By the maintenance period of 21 December 2012, the utilization ratio of the FX facility became 85 percent, and that of the gold facility reached 88 percent across the sector. Banks can also maintain standard gold for precious metal deposit accounts, the utilization ratio of which is around 72 percent.

2.2.4. Export Rediscount Credits

Export rediscount credits are extended in Turkish lira through the Export Credit Bank of Turkey, Inc. (Türk Eximbank) by the acceptance of foreign exchange bills with a maturity of 120 days for rediscount and repaid to the CBRT in foreign exchange.

In view of the contribution of export rediscount credits in reducing the current account deficit and bolstering the CBRT's foreign exchange reserves, credit limits were raised by

i) USD 1.5 billion to reach USD 4.5 billion on 2 January 2012,
ii) USD 1 billion to reach USD 5.5 billion on 9 May 2012,
iii) USD 500 million to reach USD 6 billion on 4 December 2012.

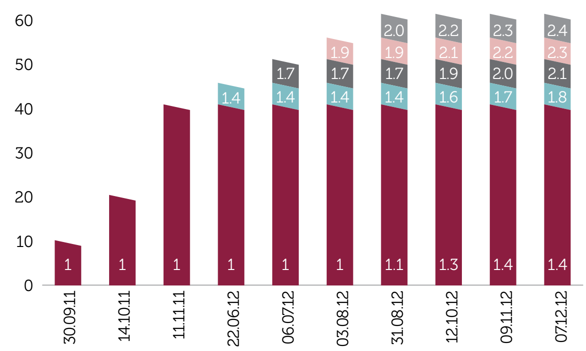
Furthermore, conditions for the use of credits were partly eased in 2012.

The annual amount of export rediscount credits, which was USD 3.1 billion in 2011, climbed to USD 10.5 billion as of 31 December 2012 with an outstanding debt of USD 3.8 billion.

As a result, export rediscount credits added USD 8.3 billion to the net FX reserves of the CBRT in 2012.

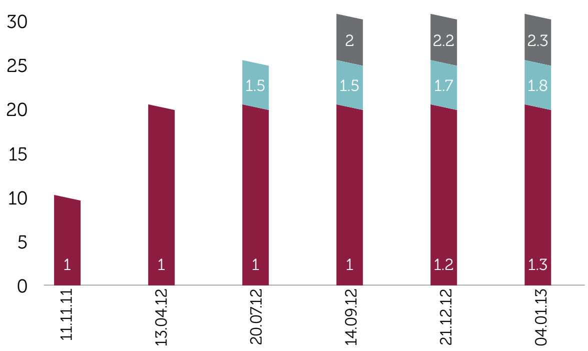
The CBRT will continue to extend export rediscount credits in 2013. Given the supportive role of export rediscount credits to FX reserves, if the monthly utilization level of export rediscount credits, which is achieved due to the raised limits and eased conditions, is sustained, rediscount credits are expected to contribute around USD 12 billion to FX reserves in 2013.

Graph 21. ROCs for Reserve Requirements to be Held as FX[1]



Source: CBRT. [1] Dates indicate maintenance period.

Graph 22. ROCs for Reserve Requirements to be Held as Gold1[1]



Source: CBRT. [1] Dates indicate maintenance period.

2.3. Financial Stability Developments and Activities

2.3.1. Developments in Financial Stability

Global integration, growth and development process in the pre-crisis period was replaced by regional fragmentation, fragilities and spillover effects the global crisis loomed. While the restructuring of the financial system at national and international levels and new arrangements and protectionism in foreign trade occupied the agenda on the one hand; enhanced international coordination and cooperation were tried to be attained on the other. However, the recovery process is basically related to the policies implemented as well as the political will of the countries. Despite some signs of recovery in the international financial system, confidence is yet to be established. During this process, reforms regarding the financial system need to be implemented at the right time in the right sequence, and also need to be underpinned by effective and innovative policies.

In this context, the atmosphere of uncertainty, which affected the world as a whole following the global crisis, remained on the agenda throughout 2012 as well. Recovery in advanced economies lagged behind expectations spilling over into the growth outlook of emerging economies, which performed well in the preceding period. On the other hand, the recent fiscal measures taken by authorities to solve global economic problems were appreciated, supporting the relatively positive change of the outlook in global markets. Accordingly, the upward pressure on the Euro area bond returns was partially contained and the risk of deepening fiscal problems in the countries in the area alleviated in this period. In addition, monetary easing policies implemented by advanced economies to bolster their economies led to ample liquidity on a global scale limiting loss of value in stock and commodity prices. Increased liquidity also ensured the rise in risk appetite in the markets, thereby supporting capital flows towards emerging economies, the financial structures and growth potentials of which are relatively fine.

The atmosphere of global uncertainty emanating from advanced economies urges emerging economies to pursue flexible and efficient policies. Many emerging economies were engaged in structural changes to manage macro financial risks, and opted for unconventional policy practices in 2012. Accordingly, the CBRT adopted a new policy mix improving the inflation targeting regime by including financial stability (See Section 2.1.2). In this context, policy implementations regarding financial stability are conducted in coordination with relevant authorities, particularly the Financial Stability Committee.

Indicators pertaining to the banking sector show that the sector remained in sound condition throughout 2012. Basel II was put into practice in July 2012, the capital adequacy ratios of banks remained high, and the banking sector maintained its robust performance in profitability. Scenario analyses testing the resilience of the banking sector against the shocks emanating from credit and market movements show that the sector's regulatory capital is able to absorb shocks.

In this framework, the financial stability from a macro perspective suggests that global economic developments in 2012 proved worse than they were in 2011; whereas developments regarding global markets in 2012 exhibited a more favorable outlook compared to 2011 (Graph 23). While this difference points that the problems especially in advanced economies persist, it also suggests that the measures primarily affect markets through the expectations channel, and their manifestation in the overall economy takes time as indicators are issued with a time lag.

In Turkey, indicators pertaining to both the overall economy and the markets point to a more favorable outlook compared to 2011. This favorable outlook is not only observed in the domestic economy and domestic markets, but also in developments in the banking sector and the balance of payments. Meanwhile, the unfavorable outlook, albeit limited, regarding households, firms and the public sector compared to end-2011 should be monitored carefully.

2.3.2. Activities Regarding Financial Stability

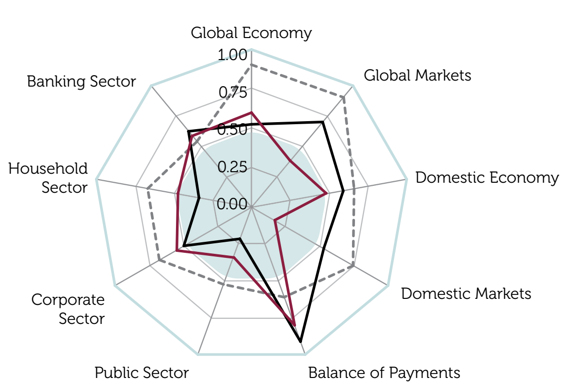
Issues that may pose risk to financial stability in Turkey are meticulously monitored at various platforms, the leading one being the Financial Stability Committee, and due actions are promptly taken by relevant authorities. In this context, the CBRT conducts cooperative and coordinated work with the relevant authorities.

In 2012, the CBRT continued to share views and assessments about financial stability on various platforms, mainly through the biannual Financial Stability Report (FSR) (published in May and November). Alongside the FSR, the CBRT contributed to the economic literature on financial stability by publishing working papers, research notes in economics and articles.

Moreover, national and international conferences held by the CBRT facilitated the exchange of information among various parties on major topics of financial stability like supervision in banking, macroprudential instruments and payment systems.

The third meeting of the Turkish-Russian Working Group on Banking and Financial Cooperation, which was established in accordance with Article 2.2 of the Memorandum of Understanding signed on 4 March 2011 by the Turkish-Russian 11th Term Intergovernmental Joint Economic Commission (JEC) with an aim to encourage trade in local currencies, was held in Ankara on 14-15 June 2012. Moreover, the Markets Department and the Communications and Foreign Relations Department of the CBRT organized meetings with the participation of relevant public institutions, banks and representatives from the private sector to encourage trade in local currencies and the use of the Turkish lira in international trade and discuss the steps that could be taken to achieve this objective.

Graph 23. Financial Stability Map [1,2]



Source: CBRT

(1) The closer to the center, the more stable the sector is. Analysis allows time series comparisons within each sector. Among sectors, the comparison can be made in terms of the directional change in position with respect to the center.
(2) For the methodology used in the financial stability map, see Topic IV.10 in the Financial Stability Report of 13 November 2011.

2.4 Financial Infrastructure

2.4.1 Restructuring of Payment Systems

Efforts towards restructuring of the payment systems that started in 2011 are conducted in the scope of "The CBRT Restructuring of Payment Systems Project". The project is carried out by the internal resources of CBRT. When this project is completed, the infrastructure will have been totally renewed and technically improved. The restructuring is expected to contribute to the system's continuity, to decrease the attention and solution time, to lower the cost of meeting the needs and demands, to develop quickly and to design the systems more functionally and more productively.

The studies related to the Participant Interface System (KAS), the Auction System (İhS) and the Retail Payment System (RPS) were achieved in 2012 within the scope of Restructuring of Payment Systems. KAS and İhS started functioning on 1 October 2012 and RPS started functioning on 7 December 2012. Meanwhile, the Electronic Fund Transfer (EFT)-Electronic Securities Transfer System (ESTS) Private Network was also enhanced and participants' connections were improved and security devices were renewed.

Studies related to the design and the development of the newer versions of EFT and ESTS have started. These studies are projected to be completed in 2013.

Lastly, the Emergency Case Software Package (ADUP) was adapted to KAS, İhS and RPS as ADUP 2.0 and started functioning.

2.4.2 EFT- ESTS System Issues

2.4.2.1 Studies for Disaster Recovery Guidelines

The new version of the Disaster Recovery Guidelines for the participants has been prepared and published. The Guidelines describe the emergency cases in EFT-ESTS, the measures that should be taken to minimize the cases and the methods to employ to ensure continuity in case of emergency.

This document redefines and classifies the disaster cases, updates the roles, redescribes the measures and adds the routines for using ADUP.

Information on the disaster recovery practices held in all components of the system and contact information of the persons to be contacted in case of an emergency have been updated and the roles have been redefined

Moreover, all the documents and procedures as well as the contact information needed in case of an emergency have been shared with participants on the Internet. Thus, all necessary improvements have been made to make all the necessary information easily accessible. Disaster Recovery Guidelines will be updated and published in the scope of Restructuring of Payment Systems in 2013.

2.4.2.2 Utilization Statistics of the EFT-ESTS

The total amount of transactions conducted via the EFT-ESTS system in 2012 became TL 32.7 trillion. The highest daily amount, which was TL 216.92 billion, was recorded on 31 October 2011. This value was not surpassed in 2012. The average daily amount of transactions was TL 129.3 billion in 2012 (Graph 24).

In 2012, the number of transactions conducted in the system was 183 million and the average daily number of messages was 724,350. The highest number of daily transactions was recorded as 1,703,564 on 17 September 2012 (Graph 25).

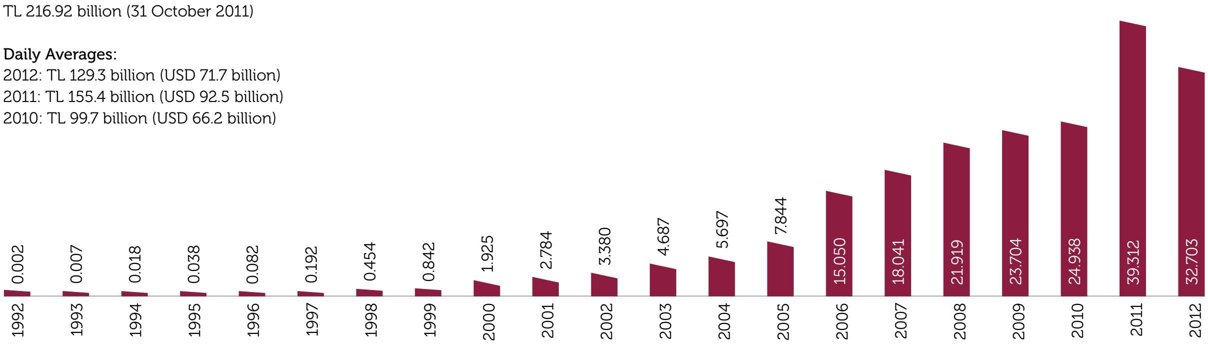
RPS has been operating since 7 December 2012. The total value of the transaction messages has reached TL 574 billion. While the highest daily transaction amount was TL 55 billion, the average daily transaction amount was TL 33 billion.

Since the day it was first introduced, the number of transactions handled in the RPS system has reached 14,934,481 and the average daily number of messages has been 878,498. The highest transaction value was recorded on 17 December 2012 with 1,930,377 transactions. The number of participants in EFT-ESTS was 49 as of end-2012.

Graph 24. Value of Transactions in EFT
(TL Trillion)

Daily Record:
TL 216.92 billion (31 October 2011)

Daily Averages:
2012: TL 129.3 billion (USD 71.7 billion)
2011: TL 155.4 billion (USD 92.5 billion)
2010: TL 99.7 billion (USD 66.2 billion)

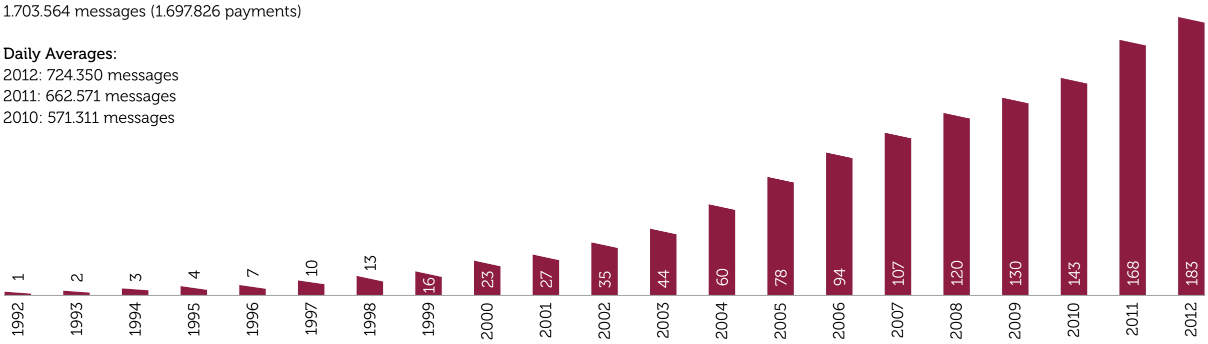


Source: CBRT.

Graph 25. Volume of Transactions in EFT
(Million Message)

Daily Record: (17 September 2012)
1.703.564 messages (1.697.826 payments)

Daily Averages:
2012: 724.350 messages
2011: 662.571 messages
2010: 571.311 messages



Source: CBRT.

2.4.2.3 Efforts to Include the Central Securities Depository Institution in the ESTS

Necessary activities to include the Central Securities Depository Institution (MKK) in the ESTS as a direct member have been carried out. The MKK was accepted as a special member of the ESTS on 26 June 2012. Within the framework of the activities towards making the MKK a member of the ESTS, the EFT-ESTS System Operating Guidelines and the Membership Contract were modified and necessary technical work was carried out to connect MKK to the system.

As the MKK started to operate as a member of the ESTS, the government bonds started to be dematerialized at the ESTS and registered on behalf of the customer. All the members of the EFT-ESTS can conduct the necessary dematerialization process by using the facilities provided for MKK at the ESTS.

2.4.3. Regional Payment Systems Workshop

The Regional Payment Systems Workshop, which has been jointly organized by the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS) since 2001, was held on 30 May-2 June 2012 in Ankara.

The workshop was attended by 50 central bankers from 19 countries. The speeches and presentations made at the workshop dwelled on topics such as: principles for financial market infrastructures, innovations in retail payments, derivatives markets infrastructure.

2.4.4. Cheque Clearing System

Relying on the power entrusted by the Law on Cheques, the Interbank Clearing House (ICH) conducts its activities under the supervision of the CBRT.

As cheque clearing transactions constitute a large share in payment systems, the uninterrupted and smooth functioning of them is of great importance. Accordingly, so as to improve the quality and efficiency of this system, technological developments and needs are closely monitored and necessary upgrading is carried out promptly.

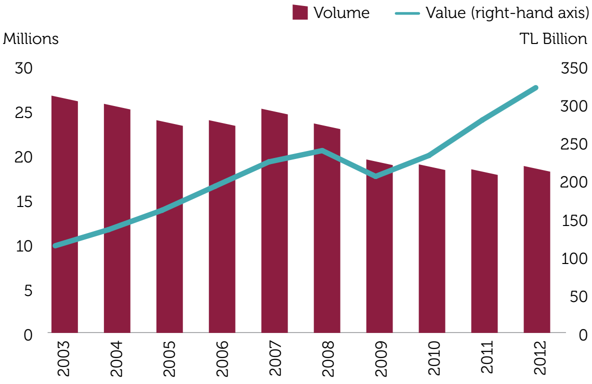
The number of cheques subject to settlement in the interbank clearing house became 18.2 million while the amount became TL 275.4 billion in 2011. In 2012, the number of the said cheques climbed to 18.5 million and the amount became 316.8 billion in 2012 (Graph 26).

2.4.5. Legislative Developments Regarding the Payment Systems

In 2008 National Program for Turkey, the CBRT was charged with preparing the Draft Law on Payment Systems and Services and Electronic Money Institutions with an aim to contribute to the harmonization of the legislative infrastructure of the payment systems and services in Turkey with international standards and the Acquis Communitaire. To achieve this purpose, a workshop on "Draft Law on Payment Systems" was organized by the CBRT on 5-6 October 2012 in Abant-Bolu, in which representatives from the public and private sector participated.

Some changes were introduced for implementing "the Communique on the International Bank Account Number (IBAN)" issued by the CBRT in December 2012. The utilization ratio of the IBAN in money transfers via the Electronic Fund Transfer (EFT) became approximately 99 percent in sender accounts and 79 percent in receiver accounts by the end of 2012.

Graph 26. Cheques Cleared at the Interbank Clearing House



Source: ICH.

2.5. Transfer of the Activities of the Risk Center to the Banks Association of Turkey and Novelties Introduced by the Credit Reference System

2.5.1. Arrangements Regarding the Establishment of the Risk Center at the Banks Association of Turkey

Taking into account the fact that the activities of the Risk Center established within the CBRT were not covered by the key functions of the CBRT, and that the banking sector constitutes 87 percent of the financial sector, Law No.6111 of 13 February 2011 adjudicated the transfer of the activities of the Risk Center to the Banks Association of Turkey (BAT) to allow the activities of the Center to be improved according to the needs of the financial sector.

Article 150 of the Law stipulated that the procedures and principles regarding the functioning of the BAT Risk Center and methods of dissemination of information shall be determined by the BAT within 1 year following the publication of the Law and published in the Official Gazette as per Law No. 149.

Accordingly, upon the assent of the Banking Regulation and Supervision Agency (BRSA) and the CBRT, the "Regulation on the Risk Center" and "the Regulation on the Procedures and Principles regarding the Dissemination of Information at the Risk Center about the Clients of the Members of the Risk Center to themselves or to Legal Persons Determined upon their Consent" were published in the Official Gazette No. 28260 dated 10 April 2012 and took effect.

Moreover, Article 150 of the Law stipulated that until the Risk Center established at the BAT starts operating, the activities of the Risk Center shall be temporarily conducted by the CBRT as per the provisions of the CBRT Law abolished by the above-mentioned Law.

2.5.2. Transfer of the Activities of the Risk Center

Tasks of the Risk Center Management (RCM) were determined by Law No.6111 and the "Regulation on the Risk Center". The RCM, which held its first meeting on 4 June 2012, is composed of one member determined by the CBRT, one member determined by the BRSA, seven members selected by the Board of Directors of the BAT. In this first meeting, decisions to constitute the fundamentals of the Risk Center were made.

With the proposal of the RCM and the assent of the BRSA, the BAT decided to cooperate with the Kredi Kayıt Bürosu A.Ş. (KKB) as an information-sharing platform so as to conduct the activities of the Risk Center. The technical specifications about the technical infrastructure and the contract on the services to be provided were signed by and between the BAT and KKB on 19 December 2012.

Accordingly, the timetable regarding the functioning of the KKB as the Risk Center, which was proposed by the RCM of the BAT, was approved by the BAT Board of Directors and the process is progressing according to this timetable. The KKB system was inspected before the transfer of the CBRT data. A protocol was signed on the transfer of the data and the testing process between the BAT and the CBRT. Finally, the CBRT data was transferred to the BAT (KKB) on 24 January 2013.

According to the timetable:

- The data received by the KKB and the reports produced during the 3-month testing period will be subject to a cross-check by the CBRT and the KKB, and the differences will be eliminated,
- Activities of the CBRT Risk Center will be terminated and KKB will start functioning as the Risk Center as of 1 June 2013,

thereby the transfer process will be completed.

During the testing period in February, March and April 2013, the KKB and the CBRT will be simultaneously collecting data from the banks and financial institutions, compiling them and producing the respective feedback data. At the end of this process, the data and the reports produced by the KKB are expected to be consistent with those of the CBRT. At the end of the 3-month testing period, the consistency level of the said reports and data will be measured. Once the targeted consistency is achieved, the KKB is expected to start functioning as the Risk Center as of 1 June 2013.

2.5.3. Novelties Introduced by the New Credit Reference System

Once the BAT Risk Center becomes fully operational and the respective laws and regulations take effect, an efficient risk management will have been achieved that will be beneficial for the banks and other financial institutions as well as service providing organizations, large retail organizations with activities of commercial claims and households.

When all the information to be included in the system start to be collected and shared, real and legal persons' all transactions that qualify as debt will be consolidated at the BAT Risk Center (KKB), and this information will be directly accessible to the member organizations of the Risk Center. Meanwhile, non-members that have signed contracts to exchange information will be able to have access to the information at the BAT Risk Center (KKB) upon their clients' approval. The information will entail not only the positive, but also the negative information about the clients.

Thus, the BAT Risk Center (KKB) will assume a significant role in helping credit institutions and other organizations detect and accurately estimate client risks and make sound decisions regarding their economic activities.

The new credit reference system will provide the following:

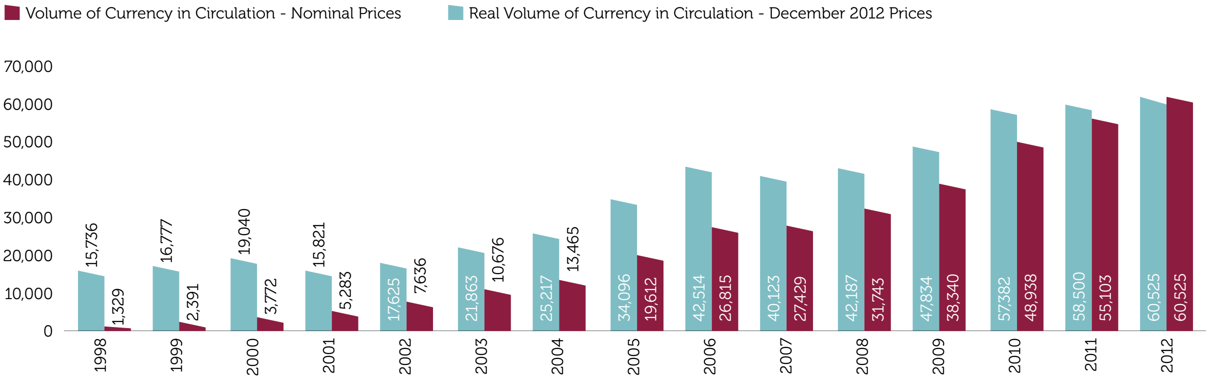
- A more detailed monitoring of the loan history of real and legal persons will be facilitated by including also the "positive information" such as the loans extended, paid in the due date and closed since early-2007 alongside the information on cheques paid on due date.
- One year after the date that the BAT Risk Center becomes operational and starts obtaining retrospective positive information, the practice of monitoring the negative personal loans and credit card debtors will be terminated. Thus, those persons with records of trivial amounts of debts like TL 1 or TL 5 will not be recorded negatively. Loans completely repaid on due date by these persons will be taken into account so that erroneous risk assessments will be eliminated.
- Based on the notification periods, the information on the number of defaults in credit re-payments besides the number and sum of the extended and closed loans will be disclosed to help credit institutions to assess the payment habits and credit requirements of the firms in detail.
- Based on the notification periods, information on protested bills as well as on the bills collected in due time by the banks will also be disclosed.
- Commercial claims of the firms and invoiced debts to service providing institutions can be received by the Risk Center and shared with credit institutions as per the contracts to be signed with these institutions. This will allow a better estimation of the credibility of households and firms as their debts to institutions other than banks and other financial institutions will have been taken into account.
- In the forward sales of goods and services that they provide, the non-members of the Risk Center will have access to their clients' information as per the contracts that they can sign with the Risk Center at the Risk Center and upon the consent of their clients. This will help spread the concept of risk perception in the market and facilitate a more effective risk management.
- Real persons will have access to their own information at the Risk Center free of charge, once each year. Thus, persons will be able to monitor their risks and the risk perception will be improved.
- In addition to traditional mailing, applications for access to and sharing of the information at the Risk Center can be made through alternative channels like e-mail, ATM, call centers and the internet. This will save time in accessing information.

2.6. Currency in Circulation

By the end of 2012, the volume of currency in circulation increased by 9.8 percent annually and reached TL 60.5 billion while the real volume of currency in circulation increased by 3.5 percent (Graph 27).

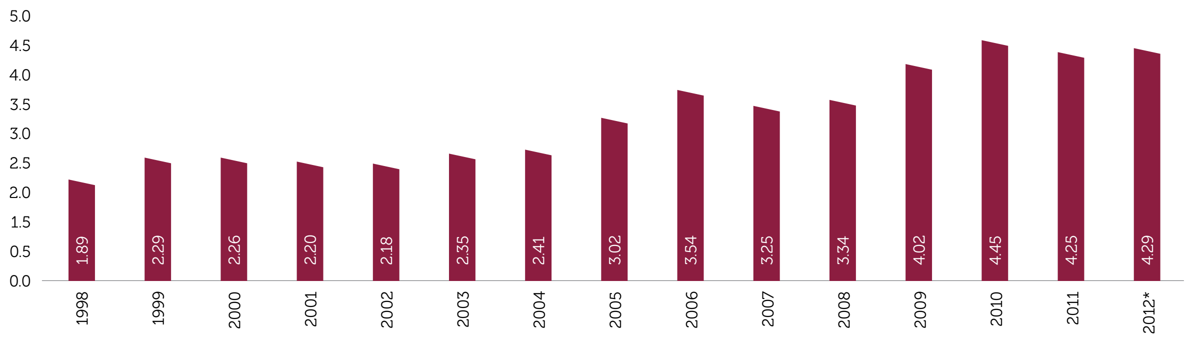
The ratio of currency in circulation to GDP was realized as 2.2 percent between the years 1998-2004. After the currency reform in 2005, this ratio averaged to 3.8 percent between the years 2005-2012 (Graph 28).

Graph 27. Volume of Currency in Circulation
(TL Million - Real and Nominal, 1998-2012)



Source: CBRT.

Graph 28. Currency in Circulation / GDP
(%)



Source: CBRT, TURKSTAT.
(*) 2012 GDP data are annualized by using the nine months data.

Excluding TL banknotes, which are still in the redemption period, 1,034.7 million banknotes were in circulation as of 31 December 2012. By the end of 2012, TL 100 and TL 50 had the largest shares in number of banknotes and TL 100 and TL 200 had the largest shares in value. The largest share of two denominations (TL 100 and TL 50) in the total reached to 45.2 percent in the number of banknotes (Table 4).

In 2012, a total transaction of TL 486 billion (TL 240.3 billion deposits vs. TL 245.7 billion payments) was realized through 21 branches, 16 banknote depots and 2 cash centers.

Moreover, in 2012, TL 26.6 billion deposits and TL 25.6 billion payment transactions were made in banknote depots, which have been established in 16 cities where the CBRT does not have branches, to improve banknote quality and meet various cash demands of the market on time. In other words, 10.7 percent of the Bank's total transaction volume in 2012 was made through the banknote depots.

The European Side Cash Center that was established as a sub-division of the Istanbul Branch started its operations on 17 December 2012 and officially opened on 26 December 2012. The new cash center is expected to significantly reduce the workload of the Istanbul Branch and to ease cash operations of the financial sector. While the European Side Cash Center received an almost 27.2 percent share in total volume of cash operations of Istanbul between 17-31 December 2012 period, The Anatolian Side Cash Center's share was almost 33.5 percent. In this period, the Anatolian and the European Side Cash Centers had shares of 10.4 and 8.5 percent in total transaction volume and performed as the third and the fourth largest branch among all branches, respectively.

In addition, within the framework of the authorization given to the Central Bank of the Republic of Turkey by Law No.1211, E-9 Emission Group II. Series TL 100, TL 20 and TL 10 banknotes were put into circulation as of 24 December 2012. These banknotes, apart from the signatures, are identical to the I. Series banknotes with regard to their dimensions, obverse and reverse compositions, general features and appearances. The I. and II. Series banknotes are concurrently in circulation. II. Series TL 200, TL 50 and TL 5 banknotes will be put into circulation in 2013.

Table 4. Banknotes in Circulation as of 31 December 2012

Denomination	Amount	Share (Percent)	Pieces	Share (Percent)
TL 200	14,279,015,000.00	23.59	71,395,075.0	6.27
TL 100	29,440,997,400.00	48.64	294,409,974.0	25.84
TL 50	11,028,728,250.00	18.22	220,574,565.0	19.36
TL 20	3,231,988,240.00	5.34	161,599,412.0	14.18
TL 10	1,467,051,865.00	2.42	146,705,186.5	12.88
TL 5	700,141,982.50	1.16	140,028,396.5	12.29
Sub Total	**60,147,922,737.50**	**99.38**	**1,034,712,609.0**	**90.81**
Others*	377,559,410.75	0.62	104,676,299.0	9.19
General Total	**60,525,482,148.25**	**100.00**	**1,139,388,908.0**	**100.00**

Source: CBRT.
(*) Banknotes that are still in the 10-year redemption period.

2.7. Foreign Exchange Reserve and Risk Management

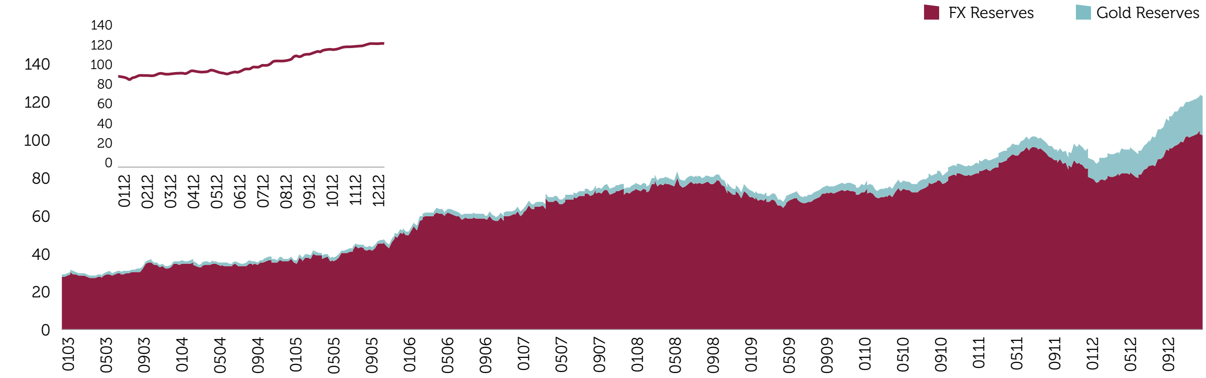
The CBRT holds foreign exchange reserves in support of a range of objectives which include assisting the Turkish Government in meeting its foreign exchange denominated domestic and foreign debt obligations, maintaining foreign exchange liquidity against external shocks, supporting the monetary and exchange rate policies and providing confidence to the markets. The legal basis for the CBRT's reserve management practices derives from the CBRT Law No. 1211. Additionally, guidelines and decisions made by the Board based on the authority granted by the Law constitute 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 that are prepared in accordance with the reserve management priorities set by the Law as security, liquidity and return and authorizes the Executive Committee and the Foreign Exchange Risk and Investment Committee (FXRIC) to make decisions regarding implementation. The decisions made by the Executive Committee and FXRIC in accordance with the Guidelines for the Foreign Exchange Reserve Management approved by the Board constitute the second-tier of the institutional decision making process. At this stage, the benchmark portfolio, 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 benchmark portfolio is determined by the FXRIC at each year-end to be implemented in the following year and becomes effective with the approval of the Executive Committee. The last tier of the institutional decision making process is the implementation of reserve management practices within the limits specified by the Guidelines and the benchmark portfolio. 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 the 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 benchmark portfolio, reserve management operations are carried out through spot and forward purchases and sales of foreign exchange in international markets, other derivative instruments, time deposit transactions, purchase and sale of securities, repo and reverse repo transactions, securities lending transactions, export and import of foreign exchange banknotes and transportation of foreign exchange banknotes in the country among local branches.

Gold reserves of the CBRT, 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 CBRT may conduct outright purchase and sale transactions, gold deposit transactions and gold swap transactions. According to the new regulation effected from October 2011, Turkish commercial banks have an option to fulfill a certain portion of their reserve requirements with standard gold. Accordingly, gold holdings have risen from 195.3 tons to 362.8 tons and our gold reserves constituted 16.6 percent of our total reserves as of end-2012 (Graph 29).

Graph 29. Foreign Exchange Reserves of CBRT
(USD Billion)



Source: CBRT.

The control of risks that the CBRT is exposed to during reserve management operations starts with the strategic assets allocation process; in other words, when defining the benchmark portfolio. Once the currencies and instruments to be used in reserve management and the duration target for the investments are set, to a great extent, the expected return and financial risks involved in reserve management are also determined.

Reflecting the Bank's preferences regarding strategic asset allocation, the benchmark portfolio consists of the target currency composition, duration targets and related deviation limits from these targets, the number and size of sub-portfolios to be held in major reserve currencies, overall credit risk limits and the investment universe representing eligible transaction types, countries and instruments to invest in. While determining the benchmark portfolio, 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 CBRT's risk tolerance through the benchmark portfolio, the existing risks are measured, recorded and monitored regularly.

The deepening of the sovereign debt crisis in the European Union and the continuing impacts of the global financial crisis played an important role in determining the CBRT's reserve management strategies in 2012. As the financial risks remained elevated in 2012, the conservative approach continued and all necessary measures have been taken to preserve the value of reserve assets.

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

2.8. European Union Harmonization Activities

The screening process comprising the first phase of accession negotiations with the European Union (EU) started on 3 October 2005 and was completed on 13 October 2006. Upon the completion of the screening process, preparations for harmonization with the EU acquis have continued.

The table below shows developments on the relevant chapters in the screening process in which the Bank participated, as well as in the accession negotiations.

Among the chapters that are directly related to the Bank, "Chapter 18. Statistics" and "Chapter 32. Financial Control" were opened to negotiations on 26 June 2007 and "Chapter 4. Free Movement of Capital" was opened to negotiations on 18 December 2008. "Chapter 9. Financial Services" is one of the eight chapters which have been blocked with the decision "negotiations will be blocked until Turkey fully implements its obligations on Cyprus" at the EU summit on 14-15 December 2006. Nonetheless, preparations of the Payment Systems Law are continuing for the sake of harmonization with the relevant EU legislation in this chapter. The Law will also provide alignment with the relevant EU legislation in "Chapter 4. Free Movement of Capital". Of the chapters that are directly related to the Bank, "Chapter 17. Economic and Monetary Policy" was not opened to negotiations. "Chapter 33. Financial and Budgetary Provisions" is still under review by the Council.

Moreover, after the discussions with the European Commission, the new procedure called positive agenda, which is intended to accelerate the accession process of Turkey, was launched on 17 May 2012. Within the framework of the Positive Agenda, working groups have been formed for 8 chapters and the Bank has provided its contribution to the studies of these groups related with "Chapter 18. Statistics" and "Chapter 32. Financial Control". After the technical negotiations with the European Commission, two of six closing benchmarks for "Chapter 32. Financial Control" have been fulfilled. Among these two, "The legislative and administrative alignment with the Council Regulation (EC) No: 1338/2001, arranging the protection of euro from counterfeiting" is the one that is contributed by the Bank.

Among chapters which are indirectly related to the Bank, "Chapter 28. Consumer and Health Protection" was opened to negotiations on 19 December 2007, "Chapter 6. Company Law" on 17 June 2008 and "Chapter 16. Taxation" on 30 June 2009. Opening benchmarks have been established for "Chapter 19. Social Policy and Employment". "Chapter 2. Free Movement of Workers" is still under review by the Council.

In order to monitor the progress achieved in the alignment with the EU acquis and to report them to the Commission, the Bank is continuing to provide information on the developments in the related chapters to the "National Data Base", compiled at the Ministry for EU Affairs.

The Bank made a contribution to the "2012 Progress Report prepared by Turkey" which was prepared for the first time this year by the Ministry for EU Affairs.

Table 5. The Status of the Chapters in which the Bank Participated in the Screening Process and Accession Negotiations

Directly Related Chapters	Final Status in Negotiations	Indirectly Related Chapters	Final status in Negotiations
4. Free Movement of Capital	Opened to negotiations. (18 December 2008)	**2. Free Movement of Workers**	In process at the Council.
9. Financial Services	Opening of the chapter was blocked (14-15 December 2006).	**6. Company Law**	Opened to negotiations. (17 June 2008)
17. Economic and Monetary Policy	Position Paper was presented. (9 March 2007)	**16. Taxation**	Opened to negotiations. (30 June 2009)
18. Statistics	Opened to negotiations. (26 June 2007) Within the context of Positive Agenda	**19. Social Policy and Employment**	Opening benchmarks have been defined.
32. Financial Control	Opened to negotiations. (26 June 2007) Within the context of Positive Agenda	**28. Consumer and Health Protection**	Opened to negotiations. (19 December 2007)
33. Financial and Budgetary Provisions	In process at the Council.		

2.9. Communications Policy and Activities

Effective communication of monetary policies is important for the public's understanding of the CBRT's implementations concerning price stability and financial stability as well as for fulfilling the responsibility of accountability which is brought about by the Bank's instrumental independence. Accordingly, in 2012, the CBRT further improved its approach to communications and transparency with a view to enhancing the public's confidence and the effectiveness of policies within its new monetary policy framework.

In accordance with Article 42 of the CBRT Law concerning the regulations on the responsibility of accountability, Governor Erdem Başçı delivered presentations on the economic outlook and monetary and exchange rate policy implementations before the Council of Ministers on 2 May and 22 October 2012, and before the Planning and Budget Commission of the Great National Assembly of Turkey on 14 June and 6 December 2012. In 2012, the CBRT also continued to publish its analytical balance sheet daily on its website in the framework of its responsibility of accountability and via a report, it disclosed to the public the results of the audits of its balance sheet and income statements, which were conducted by independent auditors.

MPC decisions and Inflation Reports are the main communication tools of the CBRT within the framework of the current monetary policy. Accordingly, Inflation Reports were announced at press conferences by Governor Erdem Başçı on 31 January 2012 in İstanbul, on 26 April and 26 July 2012 in Ankara and on 24 October 2012 in İstanbul. Via these Inflation Reports, the Bank informed the public about its general evaluations on international economic developments, financial markets and public finance as well as the developments on inflation, supply and demand fronts and its medium-term projections.

In 2012, the Bank also continued to post the decisions of the MPC on short-term interest rates and other instruments in the monetary policy instruments kit as well as the summaries of the MPC meetings on its website. The CBRT shared the Monetary and Exchange Rate Policy to be implemented in 2013 with the public on 25 December 2012, and announced that the "Monetary and Exchange Rate Policy for 2014" would be released on 24 December 2013. The CBRT also informed the public about the changes in implementations and the activities that are closely related to the public via various press releases in 2012.

In order to promote better understanding of monthly inflation developments by the public in the interval between the release of official price statistics and the MPC meeting, the Bank continued to publish the "Monthly Price Developments Report" the day following the release of inflation figures.

The CBRT, which also acts diligently to communicate financial stability as an auxiliary objective along with its main objective of price stability, released the Financial Stability Reports on its website on 31 May and 29 November 2012, in accordance with its pre-announced calendar of data release and shared its perspective about the overall financial sector with the public.

In 2012, to improve publicity of the Bank and its policy implementations for segments of the public that are relatively less informed about the Bank, the CBRT published several booklets and released these publications in both print and electronic formats. For example, the booklet "The Central Bank of the Republic of Turkey from Past to Present" was issued in 2012. Booklets entitled "Independence of the Central Bank - The Central Bank of the Republic of Turkey and Independence" and "History of Banknote Printing in Turkey - Banknote Production Process and Issue Policies", which had been prepared in 2012, were printed in 2013. These booklets were disseminated to banks, economics education faculties, libraries, non-governmental organizations and various other institutions in Turkey. The CBRT also continued to publish the quarterly "Bulletin", which informs the public about its policy implementations as well as its institutional structure, activities and publications. The Bulletin, which is distributed to a wide readership in Turkey and abroad, is also accessible on the CBRT's website. In addition, to introduce its policies and implementations to a wider audience, the CBRT published a brochure in Turkish and English on its website and delivered it to various segments of the public.

In the framework of the direct communications policy of the Bank, Governor Erdem Başçı delivered various speeches and presentations in Turkey and abroad, introducing the policies and implementations of the Bank and analyzing current economic developments. Within this scope, Governor Başçı made presentations about the economic outlook and monetary and exchange rate policies at conferences open to the press held by chambers of commerce and industry in Bursa, Adana, Elazığ, Kocaeli and Antalya. Moreover, the Governor also related the CBRT's policies to the public via visual media by attending TV programs on various national channels. Speeches and presentations delivered by the Governor, MPC members and senior Bank management and videos of some of the Governor's speeches are available on the CBRT's website.

As part of its communications policies, the Bank has been holding meetings closed to the press since May 2011 in response to requests from bank economists for meetings on a technical level. These meetings, held in the presence of the MPC members as well as the heads and deputy heads of the related departments, start with a presentation by the Bank's chief economist on the latest macroeconomic developments. This presentation is then followed by a question-answer session, where members of the MPC answer economists' questions. A total of twenty meetings were held in Ankara in 2012, attended by 596 Turkish and foreign economists and analysts. The presentations delivered in these meeting are posted on the Bank's website under the "Remarks/ Technical Presentations" menu.

The CBRT continued to use its website efficiently and effectively in 2012 and had around 109,000 hits per day on average on weekdays. Visitors accessed approximately 9 million pages in 2012, Inflation Reports and MPC Meeting Decisions being the most frequently viewed.

Responding to the demand from universities as well as public agencies and institutions, the Bank organized informative programs both within the Head Office of the Bank and outside Ankara in 2012. As a result of these programs, 19 groups of third and forth year university students were informed about the history of the Bank, monetary and exchange rate policies and career opportunities.

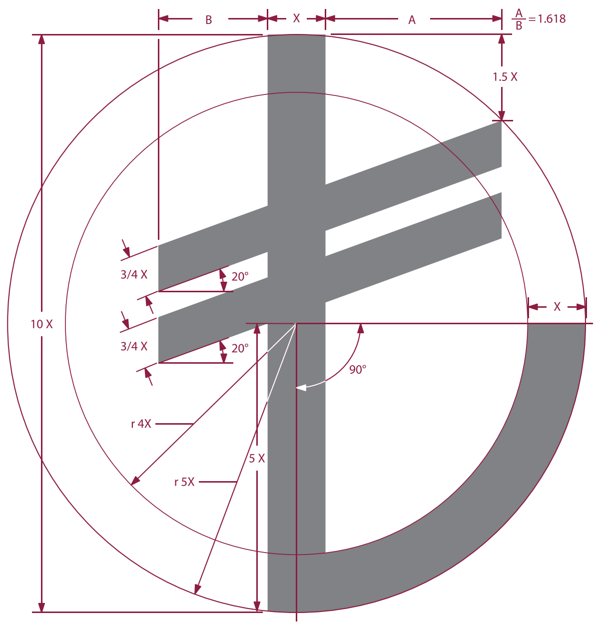
In 2012, the CBRT continued to respond to requests for information via its electronic mail address, iletisimbilgi@tcmb.gov.tr, which was introduced specifically to ensure communication with individuals, institutions and establishments outside the Bank, as well as through the 'Unit on Right to Information' and also 'BIMER' (the Communication Center of the Prime Ministry), both established pursuant to the Law on the Right to Information. Throughout 2012, a total of 11,129 applications were responded to via the Right to Information System and 1,376 applications were answered via BIMER.

To promote Turkey on international economic platforms and foster mutual relations and cooperation with fellow central banks and international institutions, the CBRT organized various meetings and conferences to discuss topics on the agenda both at home and abroad. The "Policy Responses to Commodity Price Movements" conference was held jointly with the IMF and the IMF Economic Review on 6-7 April 2012. In addition, the CBRT hosted the "Financial and Macroeconomic Stability: Challenges Ahead" conference and the "G20 Conference on Financial Systemic Risk" conference in İstanbul on 4-5 June and 27-28 September 2012, respectively, as well as the "Fragmentation in the International Financial System: Can the Global Economy Become One Again?" conference on 14-15 July 2012 in Nevşehir. These conferences brought together distinguished economists and central bankers from around the world.

Moreover, the CBRT and BRSA co-hosted the 145th Meeting of the Basel Committee on Banking Supervision and the 17th International Conference of Banking Supervisors on 11-14 September 2012. The Bank also hosted the "Reserve Requirements & Other Macroprudential Policies: Experiences in Emerging Economies" conference on 8-9 October 2012, which provided a platform to share empirical and theoretical studies on reserve requirements and other macroprudential policies and an insight into the experience of emerging economies regarding the use of such policies as well as the challenges faced by central banks in the aftermath of the global financial crisis. Participants from international institutions and fellow central banks attended the conference.

In 2012, the CBRT took important steps toward enhancing communication and technical cooperation with other central banks. First, a bilateral currency swap agreement was signed with the People's Bank of China on 21 February 2012, to facilitate bilateral trade in respective local currencies of the two countries. Then, on 16 May 2012, a memorandum of understanding was signed with Bank Negara Malaysia and the Central Bank of Mauritania to promote bilateral investment and liquidity arrangements and to enhance economic and financial linkages between Turkey and these countries. Later, another Memorandum of Understanding was signed between the CBRT and the European Central Bank on 4 July 2012, which laid the foundation for continued cooperation between the two central banks in the field of central banking through regular dialogue on technical and policy levels. Finally, a memorandum of understanding was signed with the National Bank of Tajikistan on 18 December 2012, to provide a platform to enhance cooperation in the field of central banking between the two central banks.

In consonance with the strategic aim to "introduce a sign for Turkish lira to promote it both at home and abroad", the CBRT launched a "Turkish Lira Sign Competition" in 2011 to select a unique symbol for the Turkish currency that would be easily recognizable, aesthetically pleasing, eye-catching and at the same time easy to reproduce by hand, hence raising worldwide recognition. The result of the competition and the Turkish lira sign were unveiled at a press conference held on 1 March 2012 in the presence of Prime Minister Recep Tayyip Erdoğan and the Deputy Prime Mister Ali Babacan. To promote the use of the Turkish lira sign by the public and to ensure its use in the electronic environment, a "Turkish Lira Sign" page was created on the CBRT's website; the "Frequently Asked Questions" link was inserted on this page and the use of the Turkish lira sign was emphasized in meetings/conferences held with public institutions and establishments, representatives of the financial sector, economists and press members. To make the Turkish lira sign known to all segments of the society and provide a maximum level of information about the sign, the Bank got in touch with several public institutions and establishments; studies were conducted to integrate the sign to some processing systems and international character encoding standards and finally, meetings with software and hardware producers were held.



2.10 Research and Development Activities

In 2012, the Working Papers and CBRT Research Notes on Economics prepared by the Central Bank staff were posted on the CBRT Website as a reflection of the importance that the CBRT attaches to academic studies. Accordingly, 33 new publications were added to the Working Papers series that are composed of refereed research papers on studies conducted by the Research and Monetary Policy Department. In addition, 36 new notes were added to the CBRT Research Notes on Economics prepared by the CBRT to disseminate results from research on the Turkish economy with a particular emphasis on macroeconomic developments and issues relevant to monetary policy, and thereby contributing to discussions on economic issues in a timely fashion.

The CBRT's bi-annual refereed journal, the "Central Bank Review" covering topics such as macroeconomic stability, financial stability, liquidity management, payment, clearing and settlement systems and reserve management was issued in 2012 as well.

Concurrently, 28 of the articles prepared by the contributions of the Research and Monetary Policy Department staff were published in journals listed in the Social Sciences Citation Index. In 2012, 27 seminars were organized by the Research and Monetary Policy Department for participants from within the Bank. In these seminars, presentations were given by lecturers from domestic and international universities, international organizations and fellow central banks.

In accordance with the CBRT's Strategic Plan for 2011-2015, the CBRT has taken the first steps towards the establishment of International Research and Training Center (IRTC[2]) in 2011. The Center is established to enhance research and training activities with the aim of contributing to the accumulation of knowledge in our region, to provide training and technical support on the regional level, to become a regional brand in the short run and a global brand in the long run, and eventually to become a reputable research and training center. The organizational structure and terms of reference of the Center were completed in the first half of 2012.

The IRTC aspires to become a reputable, internationally-recognized, and innovative center for research, training, and technical cooperation and contribute to the CBRT's vision of "becoming one of the leading central banks of the World".

The IRTC completed physical infrastructure and human resources organization to function in Istanbul within 2012. The IRTC has also started planning its research and training activities and carried out the very first examples of these activities with central banks toward its goal of mutual cooperation.

To attain its objectives, the IRTC will conduct innovative research on central banking, economics, finance and public policy; cooperate with experts and institutions/agencies; collaborate with peer central banks and international institutions to organize training programs primarily in those fields that are of interest to central banks; facilitate effective functioning of technical support projects; provide technical assistance to the countries that demand such assistance and send experts/ trainers abroad within the same scope; organize and conduct conferences, workshops, panels, seminars and similar programs in collaboration with peer central banks and international institutions.

In addition to the research and development activities toward academic studies, the CBRT has established a Research-Development Laboratory within the Banknote Printing Plant to attain technological superiority in banknote printing processes. The necessary equipment to be used in the laboratory has been procured, staff to work at the laboratory has been employed and some universities, national research centers and technology companies have been consulted during the process. Moreover, research on new technologies about banknote printing systems and high-quality raw material to be used in banknote printing continued throughout 2012.

[2] The name has been changed to İstanbul International School of Central Banking (İMB) after the publication of the Turkish version of this report.

2.11. Training Activities

In 2012, 5,141 people participated in the training activities organized by the CBRT, 711 CBRT employees benefited from training activities organized by other institutions while 85 CBRT employees took part as speakers/lecturers in training activities organized by other institutions in Turkey and abroad.

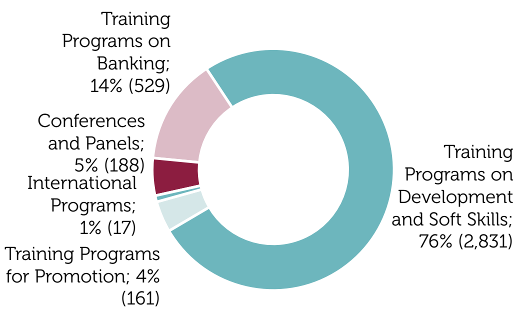
2.11.1. Training Activities Organized by the CBRT

In 2012, 3,726 CBRT employees attended the programs organized by the CBRT. These programs are categorized as "Training Programs on Banking", "Training Programs on Development and Soft Skills", "Training Programs for Promotion", "Conferences and Panels" and "International Seminars Organized by the CBRT" (Graph 30).

In addition, 31 international participants attended the international training events organized by the CBRT (Graph 31).

For the "CBRT Introductory Program", 1,334 university students were enrolled in the internship program and given presentations about the CBRT. Moreover, 50 international students from Kazakhstan Ahmet Yesevi, Kazakhstan Süleyman Demirel, Kyrgyzstan-Türkiye Manas, Kyrgyzstan International Atatürk Alatoo and Macedonia International Balkan Universities attended a one-month internship program at the CBRT (Graph 31).

Graph 30. Training Activities
(CBRT Employee)



Source: CBRT.

Graph 31. Training Activities
(Other Participants)

Source: CBRT.

2.11.2. Training Activities Organized by Other Institutions

A total of 166 CBRT employees attended short-term training programs organized by other institutions in Turkey and 244 CBRT employees attended international short-term training programs of foreign institutions (Graph 32).

Furthermore, in accordance with the "Financial Support Program for Academic Studies", 156 CBRT employees participated in the training programs organized by other institutions.

During 2012, 85 CBRT employees, 29 of whom were recently enrolled, continued their Master's/PhD degree programs in Turkey, while 60 employees, including 22 recently enrolled, studied for Master's/PhD degree programs abroad (Graph 33).

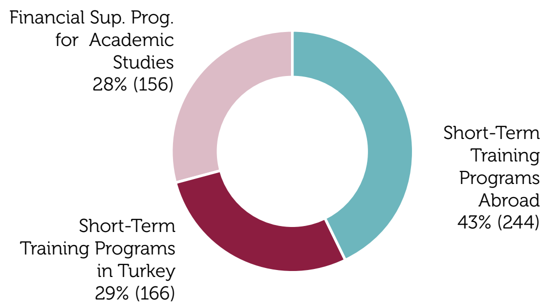
2.11.3. Other Activities

In the area of "assignment of speakers/lecturers from the CBRT", 33 employees gave lectures in various training events organized by other institutions, 31 of them in Turkey and 2 of them abroad.

Moreover, 52 employees made academic presentations, 12 of them in Turkey and 40 of them abroad.

In addition, theses of 14 assistant specialists were examined and evaluated by the committee. All of these 14 assistant specialists were promoted as specialists in 2012.

Graph 32. Short-Term Training Programs



Source: CBRT.

Graph 33. CBRT Employee Attending Graduate Programs

Source: CBRT.

2.12. Culture, Art and Sports

The exhibition "Shadow and Truth-A Selection from the Art Collection of the Central Bank of the Republic of Turkey" was held at CaixaForum Barcelona, Spain from 13 January to 4 March 2012. The exhibition focused on the truth and history of modern art in another culture which has been left in the shadows and located in geographies for which history is non-existent, geographies held outside time and where custom and tradition perpetuate without change. As a memento for the exhibition, a special catalogue was published in Turkish, English and Spanish.

On the occasion marking the 400th anniversary of the diplomatic ties between the Netherlands and Turkey, the exhibition entitled "Different Impressions, Changing Traditions-The Art Collection of the Central Bank of the Republic of Turkey" was held at Bonnefantenmuseum Maastricht, the Netherlands from 19 April to 26 August 2012. The Exhibition was opened by President Abdullah Gül and Hayrünnisa Gül, Her Majesty Queen Beatrix of the Netherlands, Uğur Doğan, Turkish Ambassador to the Netherlands in the Hague, Governor Erdem Başçı and officials of the Bonnefantenmuseum. The exhibition introduced and shared with visitors the transformations in Turkish art since the end of the 18th century, and the contributions to art from contemporary art practices, events, and especially from galleries, art institutions such as cultural centers and museums that have greatly increased in number since the 1980s as a result of the accelerating policies of globalization, as well as the contributions of the İstanbul Biennials organized since 1987. The expository panels and a video of interviews with officials and experts such as art historians, sociologists, and curators supported the goals of the exhibition. As a memento for the exhibition, a special catalogue was published in Turkish, English and Dutch.

The exhibition "Changing Perceptions and New Directions: Contemporary Turkish Painting" was held at the National Museum for Bulgarian Visual Arts from 10 December 2012 to 31 January 2013. The exhibition presented traces in the arts of the forms of production that emerged primarily as part of the process of Westernization. It was structured to emphasize the visual history which Turkey, being at the cross-section of Eastern and Western cultures, naturally synthesized, and the unique formations of identity presented together by two different mental frameworks and perceptions. The selection from the Bank's Art Collection also offered a visual unity that holds together the traditional connections of Turkish Art and its references to the present and the future. As a memento for the exhibition, a special catalogue was published in Turkish, English and Bulgarian.

Periodic exhibitions were held at the Art Gallery of the Central Bank of the Republic of Turkey.

In connection with UNESCO's announcement of 2012 as the year of the musician "Buhurizade Mustafa Itri", the Bank published a prestigious booklet and a music album of four CDs to show the extent of cultural activities in which the Bank is involved.

In addition to cultural activities, the Bank is also involved with sporting activities. The Central Bank of the Republic of Turkey hosted the "Euro Hiking 2012" in Antalya and the "Interbank Chess Tournament" with participations from local banks in İstanbul. The Bank teams attended "Euro Basketball" in Romania, "Euro Table Tennis" in Belgium, "Euro Tennis" in Italy and the "8th Central Banks' Sports Tournament" hosted by the Hungarian National Bank in mini football, volleyball (women) and swimming events.

To support the cause of promoting afforestation, trees were planted in the "Central Bank of the Republic of Turkey Memorial Forestation" at the Çakırlar Farm Site in the Atatürk Forest Farm in cooperation with the Ministry of Forest and Water Affairs.

2.13. Social Responsibility Activities, Donations and Financial Support

In addition to performing the duties and responsibilities entrusted to it by the Central Bank Law, the CBRT also engages in social responsibility activities and contributes to academic studies and various fields of interest through providing donations and financial support. In 2012, the Bank continued to provide support for academic and/or policy-making conferences held at home and abroad in the fields of economics and finance as well as for other academic and policy-making studies via the "Financial Support Program for the Academic Studies" that it has been following since 2006. The Bank provided support for 37 universities and non-governmental organizations that asked for financial support.

Furthermore, the CBRT organized "The 3rd Contest for Academic Studies" in 2012, to support academic studies in the field of the Turkish economy or central banking and make these studies accessible to a larger audience. At the end of the evaluation process, three applicants were granted an academic encouragement award.

The CBRT also lent support for papers by university students. The CBRT copyrighted two successful papers from the "15th International Students' Conference on Economics" held on 25-27 April 2012 in İzmir by the Faculty of Economics and Administrative Sciences of Ege University, and published these papers on its website.

In accordance with the related circular of the Republic of Turkey Prime Ministry Disaster and Emergency Management Presidency and the official letter of the Disaster and Emergency Presidency of the Governorship of İzmir, the Bank provided support to earthquake victims. After earthquakes hit Van on 18 October and 9 November 2011, the CBRT hosted 287 victims in its Özdere Naim Talu Training, Seminar and Recreation Facility between 18 November 2011 and 31 July 2012. During this period, the Facility was reserved exclusively for the victims, and the CBRT provided them with accommodation, food and other needs.

Furthermore, the CBRT donated printers, computers and peripherals to the Directorate of Computing (Computer Center) of Dumlupınar University and the Directorate of Computing (Computer Center) of Sinop University. In a similar fashion, to update the information source collection of the CBRT's Library, 83 pieces of information source from the collection were set aside for donation. These pieces were sent to the libraries of Koç University and Arel University upon their requests.

In May 2012, at the 11th graduation ceremony of the Central Bank Derince Anatolian High School, which was founded by the contributions of the CBRT in collaboration with the Bank of Greece in Derince, İzmit and started education in 2001-2002, the first three students graduating with the highest degree were awarded with plaques, money prize and various presents. Moreover, new books and publications were bought in order to enrich the sources in the school library so as to support the educational program. The number of students, who, based on certain criteria, have received scholarship from the CBRT for their university education upon graduating from Derince Anatolian High School since the 2002-2003 educational year, reached 32 in 2012.

To support the cause of promoting afforestation, trees were planted in the "CBRT Memorial Forestation" site in the "Atatürk Forest Farm (AOÇ)-Çakırlar Farm Site", Ankara, in cooperation with the Ministry of Forestry and Water Works of the Republic of Turkey. Additionally, to support institutions and establishments that carry out social activities, the CBRT made donations to the Foundation for the Training and Protection of Mentally Handicapped Children for its projects on money recognition, monthly budget preparation and the rules of spending intended for mentally handicapped individuals.

Part 3
Financial Statements

3.1. Comparative Financial Statements of the CBRT

3.1.1. Comparative Balance Sheets

ASSETS	31.12.2012 (TL)	31.12.2011 (TL)	Change (TL)
I. Gold	34,600,876,956	18,981,411,828	15,619,465,128
A. International Standard	34,297,820,041	18,677,555,276	15,620,264,765
B. Non-International Standard	303,056,915	303,856,552	(799,637)
II. Foreign Exchange	178,121,948,259	148,199,668,804	29,922,279,455
A. Convertible	178,121,948,259	148,199,668,804	29,922,279,455
a) Foreign Banknotes	700,396,358	455,132,055	245,264,303
b) Correspondent Accounts	177,111,014,661	147,415,008,199	29,696,006,462
c) Reserve Tranche Position	310,537,240	329,528,550	(18,991,310)
B. Non-convertible	-	-	-
a) Foreign Banknotes	-	-	-
b) Correspondent Accounts	-	-	-
III. Coins	89,823,837	79,451,046	10,372,791
IV. Domestic Correspondents	19,608,600	1,617,672,000	(1,598,063,400)
V. Securities Portfolio	29,198,720,650	47,379,033,839	(18,180,313,189)
A. Government Securities	29,198,720,650	47,379,033,839	(18,180,313,189)
a) Bonds	27,738,158,645	38,796,098,543	(11,057,939,898)
b) Treasury Bills	1,460,562,005	8,582,935,296	(7,122,373,291)
B. Other	-	-	-
VI. Domestic Credit	6,800,716,530	3,023,162,975	3,777,553,555
A. Banking Sector	6,800,716,530	3,023,162,975	3,777,553,555
a) Rediscount	6,800,716,530	3,023,162,975	3,777,553,555
b) As per Art 40/1-c of Law No.1211	-	-	-
c) Other	-	-	-
B. Credit to SDIF	-	-	-
VII. Open Market Operations	25,321,266,441	39,644,656,708	(14,323,390,267)
A. Repurchase Agreements	25,321,266,441	39,644,656,708	(14,323,390,267)
a) Cash	23,060,266,441	39,644,656,708	(16,584,390,267)
i. Foreign Exchange	-	-	-
ii. Securities	23,060,266,441	39,644,656,708	(16,584,390,267)
b) Securities	2,261,000,000	-	2,261,000,000
B. Other	-	-	-
VIII. Foreign Credit	21,930,226	29,535,242	(7,605,016)
IX. Share Participations	45,423,897	48,173,516	(2,749,619)
X. Fixed Assets	300,510,986	270,609,984	29,901,002
A. Buildings and Buildings Sites	337,161,552	320,143,861	17,017,691
Depreciation Allowance for Real Estate (-)	(78,016,404)	(72,132,180)	(5,884,224)
B. Furniture and Fixtures	144,340,284	111,535,867	32,804,417
Depreciation Allowance for Furniture and Fixtures (-)	(102,974,446)	(88,937,564)	(14,036,882)
XI. Claims under Legal Proceedings (Net)	-	-	-
A. Claims under Legal Proceedings	2,720,438,971	2,876,336,725	(155,897,754)
B. Provision for Past-Due Receivables (-)	(2,720,438,971)	(2,876,336,725)	155,897,754
XII. Treasury Liabilities Due to SDR Allocation	2,950,013,542	3,130,425,468	(180,411,926)
XIII. Revaluation Account	-	-	-
XIV. Accrued Interest and Income	51,472,691	75,437,974	(23,965,283)
XV. Miscellaneous Receivables	734,203,163	820,317,676	(86,114,513)
XVI. Other Assets	45,217,291	43,918,202	1,299,089
TOTAL	278,301,733,069	263,343,475,262	14,958,257,807
REGULATING ACCOUNTS	825,201,624,917	806,431,268,904	18,770,356,013

LIABILITIES	31.12.2012 (TL)	31.12.2011 (TL)	Change (TL)
I. Currency Issued	60,525,482,148	55,103,173,646	5,422,308,502
II. Liabilities to Treasury	398,844,893	405,121,721	(6,276,828)
A. Gold	32,956,408	33,043,366	(86,958)
B. Reserve Tranche Means	310,537,240	329,528,550	(18,991,310)
C. Other (Net)	55,351,245	42,549,805	12,801,440
III. Foreign Correspondents	673,671	1,388,473	(714,802)
A. Convertible	669,362	1,383,908	(714,546)
B. Non-Convertible	4,309	4,565	(256)
IV. Deposits	159,473,131,247	128,093,770,204	31,379,361,043
A. Public Sector	16,425,169,430	18,334,748,927	(1,909,579,497)
a) Treasury, General and Special Budget Administrations	16,357,370,798	18,247,522,810	(1,890,152,012)
b) Public Economic Institutions	9,654	10,138	(484)
c) State Economic Enterprises	24,869,303	45,289,537	(20,420,234)
d) Other	42,919,675	41,926,442	993,233
B. Banking Sector	128,628,657,006	91,294,777,568	37,333,879,438
a) Free Deposits of Domestic Banks	28,432,903,794	40,663,143,777	(12,230,239,983)
b) Foreign Banks	5,755,891	7,644,667	(1,888,776)
c) Required Reserves (Central Bank's Law. Art 40)	100,189,811,043	50,623,764,916	49,566,046,127
i. Cash	76,964,454,680	43,047,888,791	33,916,565,889
ii. Gold (Net Grams)	23,225,356,363	7,575,876,124	15,649,480,239
d) Other	186,278	224,209	(37,931)
C. Miscellaneous	12,612,522,892	17,424,599,988	(4,812,077,096)
a) Foreign Exchange Deposits by Citizens Abroad	12,542,010,517	17,366,530,075	(4,824,519,558)
b) Other	70,512,375	58,069,913	12,442,462
D. International Institutions	9,928,575	8,934,811	993,764
E. Extrabudgetary Funds	1,796,853,344	1,030,708,910	766,144,434
a) Saving Deposit Insurance Fund	16,088	4,590	11,498
b) Other	1,796,837,256	1,030,704,320	766,132,936
V. Liquidity Bills	-	-	-
VI. Open Market Operations	26,660,131,452	40,078,501,996	(13,418,370,544)
A. Repurchase Agreements	25,261,631,452	39,562,501,996	(14,300,870,544)
a) Cash	2,261,619,452	-	2,261,619,452
i. Foreign Exchange	-	-	-
ii. Securities	2,261,619,452	-	2,261,619,452
b) Securities	23,000,012,000	39,562,501,996	(16,562,489,996)
B. Other	1,398,500,000	516,000,000	882,500,000
VII. Foreign Credit	-	16,826,390	(16,826,390)
A. Short-Term	-	-	-
B. Medium and Long-Term	-	16,826,390	(16,826,390)
VIII. Advances, Collateral and Deposits Collected Against Letters of Credit and Import	776,882,944	945,855,253	(168,972,309)
A. For Letters of Credit	776,882,944	945,851,567	(168,968,623)
B. For Imports	-	3,686	(3,686)
IX. Notes and Remittances Payable	5,565,999	1,086,544	4,479,455
X. SDR Allocation	2,950,013,542	3,130,425,468	(180,411,926)
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	7,819,982,200	5,016,153,686	2,803,828,514
A. Ordinary and Extraordinary Reserves	7,459,337,024	4,655,508,510	2,803,828,514
B. Special Reserves (CBT's Law, Art. 59)	7,272,699	7,272,699	-
C. Inflation Adjustments for Reserves	353,372,477	353,372,477	-
XIII. Provisions	946,749,365	1,612,922,875	(666,173,510)
A. Provisions for Pension Commitments	126,040,166	111,206,859	14,833,307
B. Provision for Taxes	743,352,862	1,448,473,616	(705,120,754)
C. Other Provisions	77,356,337	53,242,400	24,113,937
XIV. Revaluation Account	13,655,426,528	19,489,212,873	(5,833,786,345)
XV. Accrued Interest and Expenses	281,283,840	567,746,690	(286,462,850)
XVI. Miscellaneous Payables	49,487,201	42,973,229	6,513,972
XVII. Other Liabilities	365,471,102	226,882,506	138,588,596
XVIII. Profit of the Period	4,346,373,413	8,565,200,184	(4,218,826,771)
TOTAL	278,301,733,069	263,343,475,262	14,958,257,807
REGULATING ACCOUNTS	825,201,624,917	806,431,268,904	18,770,356,013

3.1.2. Comparative Profit and Loss Statements

	01.01.2012-31.12.2012 (TL)	01.01.2011-31.12.2011 (TL)	CHANGE (TL)
Interest Income	5,484,239,970	5,092,633,573	391,606,397
Interest Expense	(1,010,499,338)	(962,562,623)	(47,936,715)
I- Net Interest Income (Expense)	**4,473,740,632**	**4,130,070,950**	**343,669,682**
Fee and Commission Income	265,576,370	129,388,375	136,187,995
Fee and Commission Expense	(13,675,494)	(13,346,971)	(328,523)
II- Net Fee and Commission Income (Expense)	**251,900,876**	**116,041,404**	**135,859,472**
Non-Interest Income	2,402,760,799	7,685,123,779	(5,282,362,980)
Non-Interest Expense	(2,038,676,032)	(1,917,562,333)	(121,113,699)
III- Net Non-Interest Income (Expense)	**364,084,767**	**5,767,561,446**	**(5,403,476,679)**
IV- Net Profit (Loss) Before Tax (I+II+III)	**5,089,726,275**	**10,013,673,800**	**(4,923,947,525)**
V- Tax Provision	**(743,352,862)**	**(1,448,473,616)**	**705,120,754**
VI- Net Profit (Loss)	**4,346,373,413**	**8,565,200,184**	**(4,218,826,771)**

3.2. Explanations Related to the Balance Sheet Dated 31.12.2012, and the Profit and Loss Statement for the 01.01.2012-31.12.2012 Period

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

3.2.1. a. Fundamental Principles for Accounting Practices

Social responsibility, economic entity, continuity, 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 CBRT.

3.2.1. b. Accounting Policies

The Basis for Recognition

The Bank prepares its statutory financial statements in accordance with the Turkish Commercial Code and the 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 31 December 2003 and as of 31 December 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 2005-2012.

Gold and Foreign Currency Transactions

Gold reserves are revalued monthly 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 unrealized gains and losses in the "Revaluation Account" as per Article 61 of the Bank's Law.

The gain or loss arising from the purchase and sale of foreign exchange is calculated according to the "average cost" method and reflected in financial statements.

Securities

The securities portfolio consists of government securities purchased directly and under repurchase agreements 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 recognized initially at their acquisition cost. Securities owned by the bank are revalued to their fair values at the end of each month. Fair value is calculated based on the weighted average price in the ISE for the transactions with same value date. 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 their 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. Clean prices are used for coupon bonds.

Liquidity Bills

The item "Liquidity Bills" consists of issues of the Bank's liquidity bills whose maturity does 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 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 the end of each month. Differences between the fair value and the issued amount are reflected in the income statement at the end of each month.

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 and the price of gold in international markets are monitored in an account named "Revaluation Account". Realized exchange differences are reflected in the income statement on the date of occurrence.

Repurchase and Reverse Repurchase Transactions of the Securities

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 reverse 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 on the due date are shown in the liabilities item under "VI. Open Market Operations / A. Repurchase Agreements / a) Cash / ii. Securities". The difference between the cost and sale price is reflected in the income statement on the value date. At the maturity date, the securities subject to reverse repurchase transactions are recorded to the securities portfolio account at the repurchase price.

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 the repurchase agreement are included in the securities portfolio. Cash receivables resulting from the purchase of the securities are shown in the assets item under "VII. Open Market Operations / A. Repurchase Agreements / a) Cash / ii. Securities" and securities payable are shown in the liabilities item under "VI. Open Market Operations / A. Repurchase Agreements / b) Securities". On the maturity date, the difference between the resale price and purchase price of securities is reflected in the income statement.

Interest income to be received from banks due to repurchase agreements and interest expenses to be paid to banks are recognized on an accrual basis at the interest rate stated in transaction contracts at the end of each month.

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 in order to meet contingent risks, which may occur in the following years due to the operations exclusive 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 coming years. For the obligations of the current year, provisions are maintained in respect of the services of employees, which are used as the basis for retirement pay and employee termination benefits.

Retirement pay and employee termination benefits are paid on the retirement of employees or in the case of layoffs. The amount payable is calculated according to the title and tenure of the personnel in accordance with related laws.

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 the Banking and Insurance Transactions Tax but not of the 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.

Revaluation gains from assets and liabilities that are subject to Article 61 of the Bank's Law are not considered as a profit item for the year in which the revaluation is applied and also not taken as an income item in the computation of the corporate tax base. Revaluation losses from assets and liabilities that are subject to Article 61 of the Bank's Law are not considered as an expense for the year in which the revaluation is applied and also not taken as a loss item in the computation of the corporate tax base. Article 280 of Tax Procedure Law No. 213 is not executed in the case of revaluation made according to Article 61 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), the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and the International Islamic Liquidity Management Corporation (IILM). The values of these participations are converted into Turkish Lira using year-end buying exchange rates. As dividends and changes in values of shares are reflected directly in 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.

3.2.2. Detailed Balance Sheet Dated 31.12.2012

ASSETS	AMOUNT IN TURKISH CURRENCY ACCOUNTS TL	AMOUNT IN FOREIGN CURRENCY ACCOUNTS TL	TOTAL IN TURKISH CURRENCY ACCOUNTS TL	TOTAL IN FOREIGN CURRENCY ACCOUNTS TL	TOTAL TL
I. Gold					
A. International Standard (Net Gram)....359,640,468.73				34,297,820,041	
B. Non-International Standard (Net Gram) 3,177,797.62			303,056,915		34,600,876,956
II. Foreign Exchange					
A. Convertible					
a) Foreign Banknotes		700,396,358			
b) Correspondent Accounts		177,111,014,661			
c) Reserve Tranche Position		310,537,240		178,121,948,259	
B. Non-Convertible					
a) Foreign Banknotes		-			
b) Correspondent Accounts		-		-	178,121,948,259
III. Coins			89,823,837		89,823,837
IV. Domestic Correspondents			-	19,608,600	19,608,600
V. Securities Portfolio					
A. Government Securities					
a) Bonds	27,738,158,645				
b) Treasury Bills	1,460,562,005		29,198,720,650		
B. Other			-		29,198,720,650
VI. Domestic Credit					
A. Banking Sector					
a) Rediscount		6,800,716,530			
b) As per Art 40/c of Law No.1211					
c) Other				6,800,716,530	
B. Credit of SDIF			-		6,800,716,530
VII. Open Market Operations					
A. Repurchase Agreements					
a) Cash					
i. Foreign Exchange		-			
ii. Securities	23,060,266,441				
b) Securities	2,261,000,000		25,321,266,441	-	
B. Other			-		25,321,266,441
VIII. Foreign Credits				21,930,226	21,930,226
IX. Share Participations				45,423,897	45,423,897
X. Fixed Assets					
A. Buildings and Building Sites	337,161,552				
Depreciation Allowance for Real Estate (-)	(78,016,404)		259,145,148		
B. Furniture and Fixtures	144,340,284				
Depreciation Allowance for Furniture and Fixtures (-)	(102,974,446)		41,365,838		300,510,986
XI. Claims under Legal Proceedings (Net)					
A. Claims under Legal Proceedings				2,720,438,971	
B. Provision for Past-Due Receivables (-)			(2,720,438,971)		-
XII. Treasury Liabilities Due to SDR Allocation				2,950,013,542	2,950,013,542
XIII. Revaluation Account			-		-
XIV- Accrued Interest and Income			51,472,691		51,472,691
XV- Miscellaneous Receivables			731,489,475	2,713,688	734,203,163
XVI- Other Assets			45,200,035	17,255	45,217,291
TOTAL			53,321,102,060	224,980,631,009	278,301,733,069
REGULATING ACCOUNTS					825,201,624,917

Buildings Insured for TL 287,493,384
Furnitures and Fixtures Insured for TL 113,490,388

Prevailing rediscount and advance rates:
Against bills to mature in maximum 3 months:
-Rediscount rate...................... 13.50%
-Advance rate.......................... 13.75%

LIABILITIES	AMOUNT IN TURKISH CURRENCY ACCOUNTS TL	AMOUNT IN FOREIGN CURRENCY ACCOUNTS TL	TOTAL IN TURKISH CURRENCY ACCOUNTS TL	TOTAL IN FOREIGN CURRENCY ACCOUNTS TL	TOTAL TL
I. Currency Issued			60,525,482,148		60,525,482,148
II. Liabilities to Treasury					
A. Gold (Net Gram) ……… 345,574.68			32,956,408		
B. Reserve Tranche Means				310,537,240	
C. Other (Net)			55,317,960	33,285	398,844,893
III. Foreign Correspondents					
A. Convertible				669,362	
B. Non-Convertible				4,309	673,671
IV. Deposits					
A. Public Sector					
a) Treasury, General and Special Budget Administrations	6,224,736,403	10,132,634,395			
b) Public Economic Institutions	9,654	-			
c) State Economic Enterprises	929,285	23,940,018			
d) Other	42,919,675	-	6,268,595,017	10,156,574,413	
B. Banking Sector					
a) Free Deposits of Domestic Banks	16,649,551,470	11,783,352,324			
b) Foreign Banks	5,755,891	-			
c) Required Reserves					
(Central Bank Law art. 40)					
i. Cash	-	76,964,454,680			
ii. Gold (Net Grams)...243,536,704.06		23,225,356,363			
d) Other	186,278	-	16,655,493,639	111,973,163,367	
C. Miscellaneous					
a) Foreign Exchange Deposits by Citizens Abroad		12,542,010,517			
b) Other	4,929,004	65,583,371	4,929,004	12,607,593,888	
D. International Institutions			9,928,575		
E. Extrabudgetary Funds					
a) Savings Deposit Insurance Fund	6,603	9,485			
b) Other	333,642,769	1,463,194,487	333,649,372	1,463,203,972	159,473,131,247
V. Liquidity Bills			-		-
VI. Open Market Operations					
A. Repurchase Agreements					
a) Cash					
i. Foreign Exchange		-			
ii. Securities	2,261,619,452				
b) Securities	23,000,012,000		25,261,631,452	-	
B. Other			1,398,500,000		26,660,131,452
VII. Foreign Credit					
A. Short-Term				-	
B. Medium and Long-Term				-	-
VIII. Advances, Collateral and Deposit Collected Against Letters of Credit and Imports					
A. For Letters of Credit				776,882,944	
B. For Imports			-	-	776,882,944
IX. Notes and Remittances Payable			-	5,565,999	5,565,999
X. SDR Allocation				2,950,013,542	2,950,013,542
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			7,459,337,024		
B. Special Reserves (CBRT Law Art. 59)			7,272,699		
C. Inflation Adjustment for Reserves			353,372,477		7,819,982,200
XIII. Provisions					
A. Provisions for Pension Commitments			126,040,166		
B. Provisions for Taxes			743,352,862		
C. Other Provisions			77,356,337		946,749,365
XIV. Revaluation Account			13,655,426,528		13,655,426,528
XV. Accrued Interest and Expenses			281,283,840		281,283,840
XVI. Miscellaneous Payables			8,906,445	40,580,756	49,487,201
XVII. Other Liabilities			70,961,798	294,509,304	365,471,102
XVII. Profit of the Period			4,346,373,413		4,346,373,413
TOTAL			137,722,400,688	140,579,332,381	278,301,733,069
REGULATING ACCOUNTS					825,201,624,917

3.2.3. Notes to the Balance sheet dated 31.12.2012

ASSETS:

1. Gold

Gold holdings are composed of international standards and non-international standards of gold, the year-end balance of which is TL 34,600,876,956 in total, equivalent to 362,818,266.35 net grams. Gold holdings on the balance sheet are valued using 1 net gram of gold = TL 95.36696513 calculated as 1 ounce of gold = USD 1,664 based on prices quoted on the London stock exchange as of 31 December 2012.

	Net Grams	(TL)
International Standard	359,640,468.73	34,297,820,041
Non-International Standard	3,177,797.62	303,056,915
Total	**362,818,266.35**	**34,600,876,956**

The value of gold holdings of international standards, which was TL 11,101,679,152 equivalent to 116,103,764.67 net grams as of the end of the year 2011, shows a decrease of TL 660,273,134 due to the depreciation of the USD against the Turkish Lira during the year and an increase of TL 631,057,659 due to the increase in the price of 1 ounce of gold from USD 1,574.50 in 2011 to USD 1,664 in 2012. This amounts to TL 11,072,463,678 equivalent to 116,103,764.67 net grams as of the end of the year 2012.

The required reserves provided in terms of gold were TL 23,225,356,363 equivalent to 243,536,704.06 net grams as of the end of the year 2012. Also at the end of the year 2012, total gold holdings of international standards were TL 34,297,820,041 equivalent to 359,640,468.73 net grams.

The net grams of gold holdings of international standards held with foreign correspondents was 82,433,119.61, whereas 33,670,645.06 net grams of gold holdings of international standards was stored in the vaults of the Head Office. Along with foreign correspondents, starting from this year, required reserves provided in terms of gold will also be held with the Istanbul Gold Exchange.

Gold holdings of non-international standards, which were equal to TL 303,856,552 and 3,177,797.62 net grams as of the end of the year 2011, decreased to TL 303,056,915 at the end of 2012. Although gold holdings of non-international standards increased by TL 17,272,252 due to the increase in the price of 1 ounce of gold, the holdings decreased by TL 18,071,889 due to the depreciation of the USD against the TL.

2. Foreign Exchange

This item consists of the current and time deposit accounts opened by the Bank with foreign correspondents against convertible and non-convertible foreign exchange, securities denominated in foreign currency, held for the purpose of reserve management, and 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 TL 178,121,948,259 all of which are convertible currencies.

a- Convertible

This item includes the convertible foreign exchange accounts with the Foreign Correspondents, amounting to TL 177,111,014,661, the Reserve Tranche Position, amounting to TL 310,537,240, and the foreign banknotes in the vaults of the Bank's branches, amounting to TL 700,396,358, as of the end of the year.

b- Non-Convertible

Both the Foreign Correspondent Accounts that were opened in accordance with bilateral agreements and the non-convertible foreign banknotes available in the vaults of the Bank's branches have no balances as of the year-end.

3. Coins

This item consists of the coins available in the Bank's vaults, amounting to TL 89,823,837 at the end of the year.

4. Domestic Correspondents

This item consists of both the Correspondent Accounts that were opened in accordance with the domestic correspondence agreement and the foreign exchange deposit operations held in the Foreign Exchange Market. The item had a balance of TL 1,617,672,000 at the end of 2011, because of the Bank's resumption of its activities as an intermediary in the Foreign Exchange and Banknotes Markets Foreign Exchange Deposit Market as of 10 November 2011. As a result, the item had a balance of TL 19,608,600 at the end of 2012.

TOTAL	FOREIGN EXCHANGE	TL
Deposits Intermediated by CBRT	USD 11,000,000	19,608,600
TOTAL		19,608,600

5. Securities Portfolio

Government Debt Securities, which equaled to TL 47,379,033,839 as of the end of 2011, included outright purchases from the secondary market as well as securities purchased in the secondary market under repurchase agreements. While the securities item increased by TL 4,446,932,893 due to outright purchases from secondary market, by TL 183,029,768 due to the increase in the cost of securities from repurchases under reverse repurchase agreements and by TL 153,856,764 due to the fair value adjustment, it decreased by TL 16,652,489,996 due to the reselling of securities under repurchase agreements, by TL 4,140,642,618 due to principal redemptions, and by TL 2,261,000,000 due to the selling of securities under reverse repurchase agreements. The year-end balance of this item is TL 29,198,720,650.

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 rediscount credits extended against FX securities is TL 6,800,716,530 - equivalent to USD 3,146,435,274, EUR 506,686,842 and GBP 106,438.

Since the total advance extended to the Savings Deposit Insurance Fund, collateralized by Treasury-issued securities in 2004 was redeemed early on 9 May 2005, this item had no balance as of the end of 2012.

	TL
A) Banking Sector	6,800,716,530
a) Rediscount Credit	6,800,716,530
b) As per Art, 40/c of Law No 1211	-
c) Other	-
B) Credit to Savings Deposit Insurance Fund	-
TOTAL	6,800,716,530

7. Open Market Operations

This item, which represents the cash claims of the Bank from repurchase agreements and money market operations and the security claims of the Bank from reverse repurchase agreements, had a balance of TL 25,321,266,441 at the end of the year. TL 23,060,266,441 of this balance represents cash claims of the Bank from repurchase agreements and TL 2,261,000,000 represents security claims of the Bank from reverse repurchase agreements.

8. Foreign Credit

This item consists of credit extended in accordance with the Banking Agreement between the Bank and the Central Bank of Sudan and 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 31 December 1990. The balance of this item decreased to TL 21,930,226 equivalent to USD 12,302,382 in 2012, from TL 29,535,242 equivalent to USD 15,636,213 in 2011, as principal installments of

USD 2,821,113 and USD 512,718 were received from the Central Bank of Sudan and Central Bank of Albania respectively.

9. Share Participations

The balance of this item was TL 45,423,897 at the end of the year. In accordance with Article 3 of the Bank's Law, this item consists of the Bank's participations of SDR 10,000,000 equivalent to 8,000 shares in the Bank for International Settlements in Basel, EUR 26,320 equivalent to 8 shares held with the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and USD 10,000,000 equivalent to 10 shares held with the International Islamic Liquidity Management Corporation (IILM). These participations are revalued using the year-end buying exchange rates.

10. Fixed Assets

This item, which had a balance of TL 300,510,986 as of the year's end, consists of the net values of buildings, furniture and fixtures owned by the Bank, less their allowance for depreciation and the cost of lands.

The value of real estate, which was TL 320,143,861 in the previous year, increased to TL 337,161,552 due to the purchase of real estate with a value of TL 17,017,691 this year. The net value of real estate is TL 259,145,148 after deducting the accumulated depreciation of buildings totaling TL 78,016,404.

The net value of furniture and fixtures is TL 41,365,838, after deducting the accumulated depreciation totaling TL 102,974,446 from the value of furniture and fixtures, totaling TL 144,340,284. The value of furniture and fixtures increased by TL 18,767,535 compared to the previous year.

11. Claims under Legal Proceedings

This account shows the claims on the Central Bank of Iraq, which was TL 2,555,415,711 (equivalent to USD 1,433,532,880) as well as the claims arising from credit amounting to TL 165,023,260 (equivalent to USD 92,574,475), 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 TL 2,720,438,971 was set for these claims as an offsetting item, this account had no balance as of the end of the year.

12. Treasury Liabilities Due to SDR Allocation

This item consists of the allocation of SDR 1,071,329,729 equivalent to TL 2,950,013,542, which was allocated to Turkey by the IMF and used by the Treasury. It is recorded reciprocally with the "X-SDR Allocation" on the liability side.

13. Revaluation Account

This item consists of unrealized losses arising from the valuation of foreign exchange and banknotes, other assets and obligations in terms of foreign currency, and gold in the assets and liabilities of the Bank due to changes in the value of the Turkish currency against foreign currencies and changes in the price of gold in international markets. This account has had no balance since 2008.

14. Accrued Interest and Income

The accrued interest and income as of the end of the year 2012 was TL 51,472,691, which mostly consisted of accrued interest income due to Repurchase Agreements and accrued commission charges received from the Treasury.

15. Miscellaneous Receivables

This item, which showed a balance amounting to TL 734,203,163 at the end of the year, consisted of TL 731,489,475 in Turkish currency and TL 2,713,688 in foreign currencies. The breakdown is as follows:

	TL
- Provisional Tax to be Deducted from the Corporate Tax Payable	673,939,500
- BITT Receivable from Treasury and General Budget Administrations	549,835
- Income Tax to be Deducted from the Corporate Tax Payable	54,820,497
- Foreign Exchange Differences Receivable from General and Special Budget Administrations	1,222,909
- Letters of Credit of the Banknote Printing Plant	471,280
- Advances and Deposits	482,416
- Other	3,038
Total	731,489,475

16. Other Assets

This item shows various claims of the Bank, amounting to TL 45,217,291 at the year-end, and consisted of TL 45,200,035 in Turkish currency and TL 17,255 in foreign currencies.

LIABILITIES:

1. Currency Issued

The year-end balance of currency in circulation, issued in accordance with Article 36 of the Bank's Law, amounted to TL 60,525,482,148 showing an increase of TL 5,422,308,502 compared to the previous year, the balance of which amounted to TL 55,103,173,646.

2. Liabilities to the Treasury

The year-end balance of liabilities to the Treasury amounted to TL 398,844,893, a decrease of TL 6,276,828 compared to the previous year.

a- Gold

The value of the gold claims of the Treasury, which amounts to TL 32,956,408 and 345,574.68 net grams, decreased by TL 86,958 over the previous year, due to the depreciation of the USD against the TL despite 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 1,455.8 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 was TL 310,537,240.

c- Other

This item, which shows the net liabilities to the Treasury resulting from various transactions, amounted to TL 55,351,245 at the end of 2012.

3. Foreign Correspondents

This account shows the Bank's debt in convertible and non-convertible foreign exchange to correspondents abroad and had a balance of TL 673,671 in convertible and non-convertible foreign exchange.

a- Convertible

Convertible foreign exchange liabilities consist of foreign correspondent accounts and accounts of foreign central banks with the Bank. The year-end balance of this item was TL 669,362, which indicates a decrease of TL 714,546 compared to the previous year.

b- Non-Convertible

Consisting of the accounts opened in accordance with bilateral agreements, this item had a balance of TL 4,309 (equivalent to agreement USD 2,417) at the year's end.

4. Deposits

The year-end balance of this account was TL 159,473,131,247. The breakdown is as follows:

	Turkish Currency (TL)	Foreign Currency (TL)
A) Public Sector	6,268,595,017	10,156,574,413
a) Treasury, General and Special Budget Administrations	6,224,736,403	10,132,634,395
i) Treasury	6,128,185,272	9,586,367,088
ii) General Budget Administrations	95,281,951	546,267,307
iii) Special Budget Administrations	1,269,180	-
b) Public Economic Institutions	9,654	-
c) State Economic Enterprises	929,285	23,940,018
d) Other	42,919,675	-
B) Banking Sector	16,655,493,639	111,973,163,367
a) Free Deposits of Domestic Banks	16,649,551,470	11,783,352,324
b) Foreign Banks	5,755,891	-
c) Required Reserves (Article 40 of the Central Bank Law)	-	100,189,811,043
i) Cash	-	76,964,454,679
ii) Gold (Net grams)	-	23,225,356,364
d) Other	186,278	-
C) Miscellaneous	4,929,004	12,607,593,888
a) Foreign Exchange Deposits by Citizens Abroad	-	12,542,010,517
b) Other	4,929,004	65,583,371
D) International Institutions	9,928,575	-
E) Extra-budgetary Funds	333,649,372	1,463,203,972
a) Savings Deposit Insurance Fund	6,603	9,485
b) Other	333,642,769	1,463,194,487
Total	**23,272,595,607**	**136,200,535,640**

5. Liquidity Bills

Liquidity bills, issued for the first time in 2007 in accordance with Article 52 of the Bank's Law, had no balance as of the year-end.

6. Open Market Operations

This item, which shows the cash debts of the Bank from reverse repurchase agreements and money market operations, as well as the security debts of the Bank from repurchase agreements, had a balance of TL 26,660,131,452 at the end of the year. TL 23,000,012,000 of this balance represents the security debts of the Bank from repurchase agreements. TL 2,261,619,452 of this balance represents cash debts of the Bank from reverse repurchase agreements and TL 1,398,500,000 of this balance represents the cash debts of the Bank from interbank money market operations.

7. Foreign Credit

This item showing the non-guaranteed trade arrears, which was transferred to the Treasury, had no balance as of the end of 2012.

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

The balance of this item was TL 776,882,944 at the end of 2012. This balance represents letters of credit of foreign exchange sales.

9. Notes and Remittances Payable

The year-end balance of this item, amounting to TL 5,565,999 consisted of payment orders to be made to beneficiaries.

10. SDR Allocation

This item, presented reciprocally with the "Treasury's Liabilities due to SDR Allocation" in the assets side, shows the liability to the IMF amounting to TL 2,950,013,542, equivalent to SDR 1,071,329,729, allocated to Turkey by the IMF and used by the Treasury.

11. Capital

Capital is composed of paid-in capital of TL 25,000 which consists of 250,000 shares, each with a nominal value of TL 0.10, pursuant to Article 5 of the Bank's Law and inflation adjustment differences of paid-in capital of TL 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	TL
A	137,800	55.12	13,780
B	64,340	25.74	6,434
C	54	0.02	5
D (*)	47,806	19.12	4,781
Paid-in capital	**250,000**	**100.00**	**25,000**
Inflation adjustment for paid-in capital			46,208,524
TOTAL			**46,233,524**

(*) 7 shares, belonging to the Treasury, are in category D.

The entire category A shares belong to the Treasury. The share of the Treasury in total capital, including the Treasury's shares in Category D, amount to 55.12%. The Category B shares are completely assigned to the national banks operating in Turkey.

Category B	Number of Shares	Percent of Total	(TL)
T.C. Ziraat Bankası A.Ş.	48,057	19.23	4,806
T. Garanti Bankası A.Ş.	6,208	2.48	621
T. İş Bankası A.Ş.	5,818	2.33	582
T. Halk Bankası A.Ş.	2,774	1.11	277
Yapı ve Kredi Bankası A.Ş.	1,386	0.55	138
Akbank T.A.Ş.	75	0.03	8
Türk Ekonomi Bankası A.Ş.	22	0.01	2
TOTAL	**64,340**	**25.74**	**6,434**

Banks, other than national banks, and privileged companies can hold Category C shares, which are limited to 15,000 shares. There are 54 shares for Category C, all of which belong to ING Bank and these shares composed 0.02 percent of the total shares as of the year-end.

12. Reserves

This item includes both reserve funds retained in accordance with Articles 59 and 60 of the Bank's Law, and Article 469 of former Turkish Commercial Code, and inflation adjustment differences as per Law No. 5024, which came into effect after being published in Official Gazette No. 25332 on 30 December 2003. The year-end balance of this item was TL 7,819,982,200.

	TL
A. Ordinary and Extraordinary Reserves	7,459,337,024
B. Special Reserves (Article 59 of Law No. 1211)	7,272,699
C. Inflation Adjustment Difference for Reserves	353,372,477
TOTAL	**7,819,982,200**

The balance of Ordinary Reserves, which amounted to TL 2,378,921,616 in 2011, increased by TL 2,002,734,760 amounting to TL 4,381,656,376 at the end of 2012 due to the allocation of the 20 percent of the net profit of 2011, which was TL 10,013,673,800, to ordinary reserves.

Extraordinary reserves, which had a balance of TL 2,276,586,894 at the end of 2011, amounted to TL 3,077,680,649 at the end of 2012 due to the allocation of TL 801,093,754, which was 10 percent of the remaining amount of the net profit of 2011 after deductions specified in Article 60 of the Bank's Law.

13. Provisions

This item, with a balance of TL 946,749,365 at year-end, consists of provisions retained from 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.

	TL
A. Provisions for Pension Commitments	126,040,166
B. Tax Provisions	743,352,862
C. Other Provisions	77,356,337
TOTAL	946,749,365

14. Revaluation Account

This item consists of unrealized gains arising from the valuation of foreign exchange and banknotes, other assets and obligations in terms of foreign currency, and gold in the assets and liabilities of the Bank due to changes in the value of Turkish currency against foreign currencies and changes in the price of gold in international markets. The balance of this item was TL 13,655,426,528 at year-end.

15. Interest and Expense Accruals

The year-end balance of this item, which was TL 281,283,840, mainly comprises interest accruals due to Foreign Exchange Deposits by Citizens Abroad.

16. Miscellaneous Payables

This account amounted to TL 49,487,201 at the end of the year consisting the Bank's debts of TL 8,906,445 in Turkish currency and TL 40,580,756 in foreign currencies.

17. Other Liabilities

This item, amounting to TL 365,471,102 at the end of the year, consisted of the Bank's debts of TL 70,961,798 in Turkish currency and TL 294,509,304 in foreign currencies.

3.2.4. Detailed Profit and Loss Account for 01.01.2012- 31.12.2012 Period

PROFIT AND LOSS ACCOUNT OF THE CBRT 01.01.2012-31.12.2012	(TL)
I- NET PROFIT / (LOSS) FROM TL TRANSACTIONS	**2,897,340,037**
1- Net Profit / (Loss) from TL Securities Portfolio	850,620,419
2- Net Profit / (Loss) from Open Market Operations, Liquidity Bills and Money Market Operations	2,673,701,871
a- Net Profit / (Loss) from Open Market Operations	2,695,401,572
b- Net Profit / (Loss) from Money Market Operations	(21,699,701)
3- Interest Paid to TL Required Reserves	-
4- Other	(626,982,253)
a- Provision Expense for Past-Due Receivables	155,897,753
b- Operating Expenses	(715,605,187)
c- Other	(67,274,819)
II- NET PROFIT / (LOSS) FROM FX TRANSACTIONS	**2,192,386,238**
1- Net Profit / (Loss) from FX Reserves	2,195,204,308
a- FX Portfolio and Deposit Revenues	423,942,699
b- Interest Paid to FX Deposits by Citizens Abroad	(190,821,331)
c- Interest Received on FX Deposits	194,987
d- FX Net Profit	1,961,887,953
2- IMF GRA and Charges	(2,818,070)
III- NET PROFIT / (LOSS) (I + II)	**5,089,726,275**

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

	TL
Net Profit of 2012	5,089,726,275
1. Reserves	(1,425,123,207)
Ordinary Reserves (Article 60 of Bank's Law)	1,017,945,255
Extraordinary Reserves (Article 60 of Bank's Law)	407,177,952
2. Shareholders	(3,000)
First Dividends	1,500
Second Dividends	1,500
3. Bonus to Personnel	(9,952,742)
4. Tax Provisions	(743,352,862)
Corporate Tax	743,352,862
Remainder	**2,911,294,464**

3.2.5. Explanations on Profit and Loss Account for the Period 01.01.2012-31.12.2012

The net profit of the Bank from TL transactions was TL 2,897,340,037. As of the end of 2012, the Bank had an interest income of TL 850,620,419 from its Turkish lira government securities portfolio. The net income from open market operations was TL 2,695,401,572 and the net loss from money market operations was TL 21,699,701.

The Bank had a net profit of TL 2,192,386,238 from foreign currency operations. As of the end of 2012, TL 423,942,699 was gained from foreign currency portfolio and deposit accounts. Interest of TL 190,821,331 was incurred for foreign exchange deposits by citizens abroad, TL 194,987 for foreign exchange deposits and TL 2,818,070 for the resources from the IMF. The net gain of foreign exchange operations was TL 1,961,887,953.

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 the expenditure items at 2003 prices:

At 2003 prices, TL	2011 (TL)	2012 (TL)	% Change
I- Personnel Expenses	262,208,572	272,877,527	4
II- Other Expenses	39,612,259	43,786,891	11
III-Banknote Printing Expenses	28,152,207	29,314,352	4
Total	**329,973,038**	**345,978,770**	**5**

In 2012, there was an increase in personnel expenses, other expenses and banknote printing expenses compared to 2011.

- **Personnel expenses:** These expenses cover salaries, fringe benefits, social security, health and education expenses and travel allowances.

  Within the framework of the policy of decreasing 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 33 percent from 6,880 in 1997 to 4,601 in 2012.

  As compared to the previous year, there was a 4-percent increase in personnel expenses. There was also a 3-percent increase in salaries and fringe benefits, which constituted a significant portion of personnel expenses, compared to 2011. In 2012, the amount of gross salaries paid to the members of the Board, the Executive Committee, the Monetary Policy and the Auditing Committee of the Bank was TL 4,442,162. This amount accounts for 1 percent of total salaries and fringe benefits paid to personnel in 2012.

- **Other expenses:** There was an 11-percent increase in 2012 compared to the previous year. This increase resulted from the increase in insurance expenses, movable property rentals, expenses related to maintenance and repair with respect to the year 2011.

- **Banknote printing expenses:** There was also a 4-percent increase in 2012, as compared to the previous year.

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 keeping pace with improvements in technology.

3.3. Financial Statements in Accordance with IFRS

CONTENTS PAGE

The Central Bank of the Republic of Turkey

Balance Sheet as of 31 December 2012

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

	Notes	31 December 2012 Thousand TL	31 December 2011 Thousand TL	31 December 2012 Million US$(*)	31 December 2011 Million US$(*)
ASSETS					
Cash and gold reserves	6	35.391.097	19.515.995	19.854	10.332
Due from banks	7	31.169.704	63.974.262	17.486	33.869
Financial assets at fair value through profit or loss	8	177.158.701	132.421.605	99.382	70.105
Loans and advances to customers	9	6.810.250	3.039.303	3.820	1.609
Available-for-sale financial assets	10	539.850	534.382	303	283
Property and equipment	11	266.322	234.747	149	124
Intangible assets	12	8.018	8.174	4	4
Other assets	13	63.348	82.227	36	43
Total assets		**251.407.290**	**219.810.695**	**141.034**	**116.369**
LIABILITIES					
Currency in circulation	14	60.525.482	55.103.174	33.954	29.172
Due to banks	15	130.889.978	91.295.269	73.426	48.333
Other deposits	16	31.146.053	37.383.785	17.472	19.791
Due to International Monetary Fund ("IMF")	17	10.277	10.127	6	5
Other borrowed funds	18	1.398.694	516.143	785	273
Other liabilities	19	894.837	1.051.678	502	557
Taxes liabilities	20	14.593	723.002	8	383
Deferred tax liability	20	2.724.309	3.895.923	1.528	2.063
Retirement benefit obligations	21	119.290	91.477	67	48
Total liabilities		**227.723.513**	**190.070.578**	**127.748**	**100.625**
EQUITY					
Paid-in share capital	28	47.464	47.464	27	25
Retained earnings		23.151.282	29.212.680	12.987	15.465
Other reserves		485.031	479.973	272	254
Total equity		**23.683.777**	**29.740.117**	**13.286**	**15.744**
TOTAL LIABILITIES AND EQUITY		**251.407.290**	**219.810.695**	**141.034**	**116.369**

(*) US dollar ("US$") amounts presented above are converted from TL for convenience purposes only, at the official foreign currency bid rate announced by the Bank at 31 December 2012 and 2011, and therefore do not form part of these financial statements (Note 2.d.).

The notes on pages 89 to 134 are an integral part of these financial statements.

The Central Bank of the Republic of Turkey

Statement of Income for the Year Ended 31 December 2012

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

	Notes	2012 Thousand TL	2011 Thousand TL	2012 Million US$(*)	2011 Million US$(*)
Interest income	22	5.484.239	5.092.633	3.060	3.047
Interest expense	22	(1.014.834)	(638.399)	(566)	(382)
Net interest income	22	**4.469.405**	**4.454.234**	**2.494**	**2.665**
Fee and commission income	23	265.576	129.388	148	77
Fee and commission expense	23	(13.675)	(13.347)	(8)	(8)
Net fee and commission income	23	**251.901**	**116.041**	**140**	**69**
Dividend income	24	1.583	1.446	1	1
Net income/(expense) from financial assets at fair value through profit or loss		(1.020.559)	(493.674)	(570)	(295)
Foreign exchange gains, net	25	(3.869.149)	19.314.179	(2.159)	11.556
Other operating income		168.878	71.834	94	43
Impairment losses on loans and advances		(5.472)	(529.216)	(3)	(317)
Other operating expenses	26	(725.283)	(651.824)	(405)	(390)
Profit/(loss) before income tax		**(728.696)**	**22.283.020**	**(408)**	**13.332**
Income tax expense/(income)	20	428.671	(3.901.065)	239	(2.334)
Net profit/(loss) for the year		**(300.025)**	**18.381.955**	**(169)**	**10.998**

(*) US dollar ("US$") amounts presented above are converted from TL for convenience purposes only, at the average of daily official foreign currency bid rates announced by the Bank for the years ended 31 December 2012 and 2011, and therefore do not form part of these financial statements (Note 2.d.).

The notes on pages 89 to 134 are an integral part of these financial statements.

The Central Bank of the Republic of Turkey

Statement of Comprehensive Income for the Year Ended 31 December 2012

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

	Notes	2012 Thousand TL	2011 Thousand TL
Net profit/(loss) for the year		**(300.025)**	**18.381.955**
Other comprehensive income			
Changes in fair values of available-for-sale securities	10	5.468	116.330
Deferred tax on changes in fair values of available-for-sale securities	20	(410)	(5.380)
Gains on demonetized banknotes	14	-	4.893
Total comprehensive income/(expense) for the year		**(294.967)**	**18.497.798**

The notes on pages 89 to 134 are an integral part of these financial statements.

The Central Bank of the Republic of Turkey

Statement of Changes in Equity for the Year Ended 31 December 2012

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

	Paid-in share capital					
	Share capital	Adjustment to share capital	Total paid-in share capital	Other reserves	Retained earnings	Total
Balance at 1 January 2011	**25**	**47.439**	**47.464**	**364.130**	**11.695.995**	**12.107.589**
Cash dividends paid	-	-	-	-	(865.270)	(865.270)
Other	-	-	-	4.893	-	4.893
Total comprehensive income for the year ended 31 December 2011	-	-	-	110.950	18.381.955	18.492.905
Balance at 31 December 2011	**25**	**47.439**	**47.464**	**479.973**	**29.212.680**	**29.740.117**
Balance at 1 January 2012	**25**	**47.439**	**47.464**	**479.973**	**29.212.680**	**29.740.117**
Cash dividends paid	-	-	-	-	(5.761.373)	(5.761.373)
Total comprehensive income/(expense) for the year ended 31 December 2012	-	-	-	5.058	(300.025)	(294.967)
Balance at 31 December 2012	**25**	**47.439**	**47.464**	**485.031**	**23.151.282**	**23.683.777**

The notes on pages 89 to 134 are an integral part of these financial statements.

The Central Bank of the Republic of Turkey

Statement of Cash Flows for the Year Ended 31 December 2012

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

	Notes	2012 Thousand TL	2011 Thousand TL
Cash flows (used in)/from operating activities			
Net profit/(loss) for the year		**(300.025)**	**18.381.955**
Adjustment for:			
Depreciation of property and equipment	11	16.875	14.841
Amortization of intangible assets	12	1.302	960
Retirement benefit obligations	21	31.745	11.851
Interest income, net	22	(4.469.405)	(4.454.234)
Interest received		5.445.190	5.080.220
Interest paid		(1.297.864)	(698.164)
Dividend income	24	(1.583)	(1.446)
Commission income, net	23	(251.901)	(116.041)
Commissions received, net		283.386	98.420
Commissions paid		(13.675)	(13.347)
Income tax expense/(income)	20	(428.671)	3.901.065
Unrealized foreign exchange gains, net		5.833.789	(11.720.089)
(Increase)/decrease in value of financial assets, net		456.050	(364.620)
(Gain)/loss on sale of property and equipment		789	(59.362)
Other		951	1.004
Cash flows from operating profits before changes in operating assets and liabilities		**5.306.953**	**10.063.013**
Changes in operating assets and liabilities:			
Net change in financial assets at fair value through profit or loss		(60.084.202)	776.116
Net change in loans and advances to customers		(4.323.911)	(2.054.445)
Net change in other assets		(4.038)	60.525
Net change in currency in circulation		5.422.308	6.170.507
Net change in due to banks		48.582.526	29.621.673
Net change in other deposits		(3.850.620)	1.134.792
Net change in other liabilities		(59.298)	(5.860)
Taxes paid		(1.451.762)	(725.472)
Retirement benefits paid	21	(3.932)	(2.458)
Net cash (used in)/from operating activities		**(10.465.976)**	**45.038.391**
Cash flows (used in)/from investing activities			
Purchase of property, equipment and intangible assets	11-12	(50.981)	(26.166)
Cash proceeds from disposals of property, equipment and intangible assets		596	71.830
Dividends received		6.666	5.772
Net cash (used in)/from investing activities		**(43.719)**	**51.436**
Cash flows (used in)/from financing activities			
Borrowed/(paid) bank loans, net		882.701	(583.991)
Dividends paid		(5.761.373)	(865.270)
Net cash used in financing activities		**(4.878.672)**	**(1.449.261)**
Effects of exchange-rate changes on cash and cash equivalents		**(1.540.073)**	**4.967.610**
Change in cash and cash equivalents		**(16.928.440)**	**48.608.176**
Cash and cash equivalents at the beginning of the period	30	**83.457.154**	**34.848.978**
Cash and cash equivalents at the end of the period	30	**66.528.714**	**83.457.154**

The notes on pages 89 to 134 are an integral part of these financial statements.

The Central Bank of the Republic of Turkey

Notes to the Financial Statements as of 31 December 2012

(Amounts expressed in thousands of Turkish Lira ("TL") 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 and 4 foreign representatives. As of 31 December 2012, the Bank employed 4.585 people (31 December 2011: 4.398).

The primary objective of the Bank is 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 Turkish Lira ("TL") and to establish the exchange rate policy in determining the parity of TL against gold and foreign currencies jointly with the Government of the Republic of Turkey ("Turkish Government"); to execute transactions such as spot and forward purchases and sales of foreign currency and banknotes, foreign currency swaps and other derivatives transactions in order to determine the value of TL 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 currency reserves of the country,

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

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

h) to monitor the financial markets, and

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

The Central Bank of the Republic of Turkey

Notes to the Financial Statements as of 31 December 2012

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

NOTE 2 - BASIS OF PRESENTATION

(a) 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 TL which is the national currency of the Republic of Turkey.

These financial statements will be submitted to General Assembly of the Bank on 9 April 2013 after the approval of Board of the Bank on 14 March 2013.

(b) Application of New and Revised Standards

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported and disclosures in these financial statements. Details of other standards and interpretations adopted in these financial statements but that have had no material impact on the financial statements are set out in the following sections.

New and Revised IFRSs affecting presentation and disclosure only

None.

New and Revised IFRSs, valid from the year 2012, applied with no material effect on the financial statements

Amendments to IFRS 7 Disclosures - Transfers of Financial Assets

The Bank has applied the amendments to IFRS 7 Disclosures - Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

These amendments to IFRS 7 did not have a significant effect on the Bank's disclosures. However, if the Bank enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

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Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets

The Bank has applied the amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes unless the presumption is rebutted.

The amendment is effective for annual periods beginning on or after 1 January 2012. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, through sale. The amendment did not have any effect on the financial statements as the Bank does not have any investment property.

New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to IAS 1	Clarification of the Requirements for Comparative Information[2]
IFRS 9	Financial Instruments[5]
IFRS 10	Consolidated Financial Statements[3]
IFRS 11	Joint Arrangements[3]
IFRS 12	Disclosure of Interests in Other Entities[3]
IFRS 13	Fair Value Measurement[3]
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities[3]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[5]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guide[3]
IAS 19 (as revised in 2011)	Employee Benefits[3]
IAS 27 (as revised in 2011)	Separate Financial Statements[3]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[3]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1[3]

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013 as part of the Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012.
[3] Effective for annual periods beginning on or after 1 January 2013.
[4] Effective for annual periods beginning on or after 1 January 2014.
[5] Effective for annual periods beginning on or after 1 January 2015.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 Presentation of Items of Other Comprehensive Income is effective for the annual periods beginning on or after 1 July 2012. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments can be applied retrospectively. Other

The Central Bank of the Republic of Turkey
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than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012)

The amendments to IAS 1 as part of the Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012 are effective for the annual periods beginning on or after 1 January 2013. IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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The Bank management anticipates that the application of IFRS 9 in the future may have significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation - Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Venturers will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided all of these standards are applied at the same time. The Bank management anticipates that the application of these five standards don't have a significant impact on amounts reported in the financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The Central Bank of the Republic of Turkey

Notes to the Financial Statements as of 31 December 2012

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

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Bank management anticipates that IFRS 13 will be adopted in the Bank's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Bank management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

IAS 19 Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to IAS 19 require retrospective application.

Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012

The Annual Improvements to IFRSs 2009-2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- Amendments to IAS 16 Property, Plant and Equipment; and
- Amendments to IAS 32 Financial Instruments: Presentation.

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Amendments to IAS 16

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Bank management does not anticipate that the amendments to IAS 16 will have a significant effect on the Bank's financial statements.

Amendments to IAS 32

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. The Bank management does not anticipate that the amendments to IAS 32 will have a significant effect on the Bank's financial statements.

(c) 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 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.

(d) US$ conversion

US$ amounts shown in the balance sheets are converted from TL for convenience purposes only, at the official bid rates announced by the Bank on 31 December 2012 of TL 1,7826 = US$ 1 (31 December 2011: TL 1,8889 = US$ 1) and US$ amounts shown in the income statements are converted from TL for convenience purposes only, at the average US$ bid rates calculated from the daily official bid rates announced by the Bank for the year ended 31 December 2012 of TL 1,79249 = US$ 1 (2011: TL 1,67135 = US$ 1) and therefore, do not form part of these 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

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("TL").

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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Exchange rates

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

	31 December 2012	31 December 2011
US Dollar ("US$")	1,7826	1,8889
Euro ("EUR")	2,3517	2,4438
Swiss Franc ("CHF")	1,9430	2,0062
Great Britain Pound ("GBP")	2,8708	2,9170
Japanese Yen ("JPY")	0,0206	0,0243
Special Drawing Rights ("SDR") (*)	2,7536	2,9220

(*) The SDR 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) Interest income and expense

Interest income and expenses are recognized on an accrual basis taking into account the internal rate of return 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.

(c) Fee and commission income

Fee and commission income and expenses and fees and commissions paid to the other financial institutions are recognized over the period of the related transaction or in the period they are paid or collected depending on their nature.

(d) Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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Deferred tax liabilities are recognized for taxable temporary differences, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination.

(e) Gold reserves

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 currency reserves and represents 15,76% (31 December 2011: 11,04%) of aggregate foreign currency 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 currency 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$, converted to TL at the spot TL/US$ 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 TL as of 31 December 2012 was TL 2.966 per troy ounce (31 December 2011: TL 2.974 per troy ounce).

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.

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(f) Financial assets

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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. The Bank's financial assets at fair value through profit or loss are held for trading financial assets. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Trading securities are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, trading securities are measured at fair value and gains and losses arising from a change in the fair value are recognized in the income statement. Differences between the fair value and cost of trading securities are also recorded in "financial assets held for trading" line on the balance sheet.

Interest earned whilst holding trading securities is reported as interest income.

Investment securities held-to-maturity

Held-to-maturity securities are financial assets with fixed maturities and pre-determined payment schedules that the Bank has the intent and ability to hold until maturity, excluding loans and receivables. Investment securities held-to-maturity are initially recognized at cost, and subsequently carried at "amortized cost" using the "internal rate of return method"; and provision is made for impairment if any. The Bank has no investment securities held-to-maturity.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Investment securities available-for-sale

Available-for-sale assets are financial assets that are not loans and receivables, held to maturity investments and financial assets at fair value through profit or loss. The Bank's investments in equity instruments, which are not traded in an active market and stock exchange, are classified as available for sale financial assets. 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 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.

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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 under equity in the case of equity securities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

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

Loans originated by the Bank by providing money directly to the borrower 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.

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

(h) Financial liabilities

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

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in 'other gains/losses' line in the statement of comprehensive income. The Bank has no financial liabilities at fair value through profit or loss.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

(i) Sale and repurchase agreements

Securities sold under agreements to repurchase 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 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 securities purchased under agreements to resell 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.

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Sale and repurchase agreements of TL denominated securities are undertaken within the scope of the open market operations of the Bank.

(j) Money issuance

The Bank has the exclusive privilege of issuing banknotes. Stocks of banknotes in issuance which are in process at 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 banknotes depot of the Bank. Costs of printed banknotes and banknotes in issuance include direct costs, depreciation, staff costs, costs for transportation of banknotes and other issuance costs. The unit cost of raw materials is determined on the moving weighted average basis.

When banknotes are returned to the Bank by the commercial banks via collection transactions, they are deducted from notes in circulation and depending on their condition or legal tender status, are either sent for destruction or included in the reserve banknotes depot of the Bank.

(k) Property and equipment

Land and buildings comprise mainly branches of the Bank and offices.

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The useful lives of the property and equipment are as follows;

Buildings	50 years
Equipment and motor vehicles	5 years

(l) Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives.
The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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Trademarks and licenses

Acquired trademarks and licenses are shown at historical cost. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives.

Computer software

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 over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognized as assets are amortized over their estimated useful lives.

(m) Banknotes in circulation

Currency in Circulation - 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.

Demonetized Currency - Turkish Lira and New 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 close of business at 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.

With the Council of Ministers' decision issued in Official Gazette on 5 May 2007, it was decided that the phrase "New" on the New Turkish Lira and New Kuruş that were put into circulation on 1 January 2005, are removed as of 1 January 2009, and Turkish Lira banknotes have been put into circulation as of the same date. Accordingly, the legal circulation period of New Turkish Lira banknotes that were in circulation between 1 January 2009 and 31 December 2009 along with Turkish Lira banknotes are expired as of 31 December 2009. New Turkish Lira banknotes will be redeemed for a period of 10 years starting from 1 January 2010 to 31 December 2019 in the branches of the Bank and T.C. Ziraat Bankası A.Ş.

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

As of 31 December 2011, the Bank has recorded gain of TL 4.893 thousand under the capital reserves due to banknotes those have been take out of circulation and have expired but still outstanding (Note 14).

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(n) Provisions

Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(o) Retirement benefit obligations

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Bank. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation. All the actuarial gains and losses have been recognized in the income statement.

(p) Related parties

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

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value

(s) Profit distribution

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

i) 20% to the reserve fund,

ii) 6% over the nominal value of the equity shares to the shareholders as an initial dividend,

iii) After deducting the above-stated percentages a maximum of 5% of the remaining amount; so as not to exceed two months salaries; to the Bank personnel and 10% percent to the extraordinary reserves,

iv) Subject to the decision of the General Assembly a maximum of 6% over the nominal value of the equity shares to the shareholders as the secondary dividend.

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The remaining balance shall be transferred to T.C. Başbakanlık Hazine Müsteşarlığı ("Turkish Treasury") after this distribution.

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 the profit distribution, in accordance with the Central Bank Law.

(t) Comparatives

In order to allow the determination of the financial position and performance trends, the financial statements of the Bank are prepared comparatively with the prior period. Certain classifications are made in the previous year financial statements and the significant differences are disclosed in order to maintain comparability with the current year cash flow statement. Currently, the Bank hasn't made such classification in the previous year financial statement.

(u) 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 or income of the Bank. Fiduciary capacity at 31 December 2012 and 2011 is as follows:

	31 December 2012	31 December 2011
Securities held in custody	355.852.272	314.880.654
Total	**355.852.272**	**314.880.654**

NOTE 4 - FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

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

Foreign currency deposits placed with the Bank and foreign currency acquired by the Bank through regular auctions and direct purchases constitute the sources of foreign currency reserves of the Bank. The Bank holds foreign currency reserves both for meeting its own foreign currency liabilities and for the purposes of rendering foreign debt service with the capacity of the financial agent of the Turkish Government, 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 directs its foreign currency reserves to investments in international markets with a prudent approach.

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 currency reserves and rendering certain banking services to the banking sector and the Turkish Government. 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 currency reserves are the outcome of an investment choice. Nevertheless, the Bank endeavors to minimize such risks by managing them with a conservative approach. Foreign currency reserves are managed by observing the investment criteria defined in the Foreign Currency Reserve Management Guidelines ("the Guideline") approved by the Board of the Bank 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 Currency Risk and Investment Committee and put into force the following year upon the approval of the Executive Committee.

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(b) Credit risk

During its financial operations, the Bank is exposed to credit risk, defined as the probability of 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 Limit Facility in order to ensure the proper functioning of payment systems, and the investments made during foreign currency 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 currency 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 currency reserve management is based on the principle of minimizing the 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 currency reserve management operations. In the first stage, the Bank confines its investments to the 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 for International Settlements ("BIS") 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 overall credit risk including settlement risk arising from transactions with financial institutions. By setting this overall credit risk limit within the scope of the SBP set each year, 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 criteria set in the Guideline, using the fundamental and the financial analysis methods 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 exposures 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.

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Total assets of the Bank exposed to the credit risk as of 31 December 2012 and 2011 are presented in the table below according to different asset classes (classification according to external credit ratings is done based on the credit ratings published by Moody's):

	31 December 2012		31 December 2011	
	TL	Share (%)	TL	Share (%)
Due from banks	**31.169.704**	**14**	**63.974.262**	**32**
- Demand Deposits	**3.248.881**	**2**	**6.908.815**	**3**
Central Banks	244.759	1	3.523.477	2
Supranational Institutions	2.895.733	1	3.121.675	2
Foreign Commercial Banks	108.389	<1	263.663	<1
- Time Deposits	**4.889.268**	**2**	**17.471.893**	**9**
Central Banks	4.422.803	1	5.325.220	3
Supranational Institutions	315	<1	9.983.960	5
Foreign Commercial Banks	446.531	<1	544.166	<1
Aaa	-	-	544.166	<1
Aa1	-	-	-	-
Aa2	446.531	-	-	-
Domestic Commercial Banks	19.619	-	1.618.547	1
- Securities purchased under agreements to resell	**23.031.555**	**11**	**39.593.554**	**20**
Domestic Commercial Banks	23.031.555	11	39.593.554	20
Financial assets at fair value through profit or loss	**177.158.701**	**82**	**132.421.605**	**66**
Foreign Country Treasuries	161.650.682	75	117.081.357	59
Aaa	161.650.682	75	117.081.357	59
Aa1	-	-	-	-
Supranational Institutions	7.048.310	3	7.523.716	4
Turkish Treasury	8.459.709	4	7.816.532	4
Loans and advances to customers	**6.810.250**	**3**	**3.039.303**	**2**
Available-for-sale financial assets	**539.850**	**<1**	**534.382**	**<1**
Supranational Institutions	539.850	<1	534.382	<1
Other assets	**8.357**	**<1**	**11.621**	**<1**
Total	**215.686.862**	**100**	**199.981.173**	**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 receivables from 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 2012, the Bank has receivables amounting to TL 23.031.555 thousand (31 December 2011: TL 39.593.554 thousand) placed with domestic commercial banks as part of securities purchased under agreements to resell. As of 31 December 2012, the Bank has foreign exchange market operations amounting to TL 19.619 thousand classified under "Due from banks" (31 December 2011: TL 1.618.547 thousand). The fair value of the security collaterals obtained for the deposits placed under securities purchased under agreements to resell as of 31 December 2012 is TL 23.080.611 thousand (31 December 2011: TL 39.628.648 thousand). In addition, as of 31 December 2012, the Bank has security collaterals amounting to TL 5.661.311 thousand (31 December 2011: TL 8.629.041 thousand) obtained for all foreign exchange markets operations including the placed deposits under foreign currency deposit market operations amounting to TL 19.619 thousand. As of 31 December 2012 and 2011, the security collaterals are the Turkish Government bonds issued by the Turkish Treasury.

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The sectoral classifications of the Bank's credit exposure as of 31 December 2012 and 2011 are as follows:

	31 December 2012						
	Foreign Country Treasury	Foreign Central Banks	Supranational Financial Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Turkish Treasury	Total
Due from banks	-	4.667.562	2.896.048	23.051.174	554.920	-	31.169.704
Financial assets at fair value through profit or loss	161.650.682	-	7.048.310	-	-	8.459.709	177.158.701
Loans and advances to customer	-	13.539	-	6.796.711	-	-	6.810.250
Available-for-sale financial assets	-	-	539.850	-	-	-	539.850
Other assets	-	-	-	8.317	40	-	8.357
Total	**161.650.682**	**4.681.101**	**10.484.208**	**29.856.202**	**554.960**	**8.459.709**	**215.686.862**

	31 December 2011						
	Foreign Country Treasury	Foreign Central Banks	Supranational Financial Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Turkish Treasury	Total
Due from banks	-	9.092.442	13.105.592	41.212.101	564.127	-	63.974.262
Financial assets at fair value through profit or loss	117.081.357	-	7.523.716	-	-	7.816.532	132.421.605
Loans and advances to customer	-	20.646	-	3.018.657	-	-	3.039.303
Available-for-sale financial assets	-	-	534.382	-	-	-	534.382
Other assets	-	-	4.729	6.851	41	-	11.621
Total	**117.081.357**	**9.113.088**	**21.168.419**	**44.237.609**	**564.168**	**7.816.532**	**199.981.173**

As indicated above, the credit risk is mainly concentrated on foreign country treasury and central banks, supranational financial institutions, domestic financial institutions and Turkish Treasury as of 31 December 2012 and 2011.

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Geographical concentrations of assets, liabilities and off-balance sheet items of the Bank as of 31 December 2012 and 2011 are as follows:

	31 December 2012					
	Turkey	Other European Countries	Canada and US	South - East Asia	Other Countries	Total
Cash and gold reserves	3.656.168	28.801.042	2.929.327	214	4.346	35.391.097
Due from banks	23.051.174	5.193.089	2.662.907	252.424	10.110	31.169.704
Financial assets at fair value through profit or loss	8.459.709	66.158.499	102.540.493	-	-	177.158.701
Loans and advances to customers	6.796.711	3.208	-		10.331	6.810.250
Available-for-sale financial assets	-	522.024	-	17.826	-	539.850
Property and equipment	266.322	-	-	-	-	266.322
Intangible assets	8.018	-	-	-	-	8.018
Other assets	63.309	-	39	-	-	63.348
Total assets	**42.301.411**	**100.677.862**	**108.132.766**	**270.464**	**24.787**	**251.407.290**
Currency in circulation	60.525.482	-	-	-	-	60.525.482
Due to banks	130.884.222	1	5.445	310		130.889.978
Other deposits	19.936.369	11.179.928	24.984	3.548	1.224	31.146.053
Due to IMF	-	-	10.277	-	-	10.277
Other borrowed funds	1.398.694	-	-	-	-	1.398.694
Other liabilities	93.225	165.638	650.567	-	-	909.430
Deferred income tax liability	2.724.309	-	-	-	-	2.724.309
Retirement benefit obligations	119.290	-	-	-	-	119.290
Equity	23.683.777	-	-	-	-	23.683.777
Total liabilities and equity	**239.365.368**	**11.345.567**	**691.273**	**3.858**	**1.224**	**251.407.290**
Net balance sheet position	**(197.063.957)**	**89.332.295**	**107.441.493**	**266.606**	**23.563**	**-**
Off-balance sheet commitments	**24.386.573**	**82.608**	**-**	**-**	**-**	**24.469.181**

	31 December 2011					
	Turkey	Other European Countries	Canada and US	South - East Asia	Other Countries	Total
Cash and gold reserves	3.602.848	12.968.798	2.941.450	58	2.841	19.515.995
Due from banks	41.212.102	16.723.830	4.507.443	1.519.216	11.671	63.974.262
Financial assets at fair value through profit or loss	7.816.532	65.218.945	59.386.128	-	-	132.421.605
Loans and advances to customers	3.018.657	4.370	-	-	16.276	3.039.303
Available-for-sale financial assets	-	515.493	-	18.889	-	534.382
Property and equipment	234.747	-	-	-	-	234.747
Intangible assets	8.174	-	-	-	-	8.174
Other assets	77.456	4.729	42	-	-	82.227
Total assets	**55.970.516**	**95.436.165**	**66.835.063**	**1.538.163**	**30.788**	**219.810.695**
Currency in circulation	55.103.174	-	-	-	-	55.103.174
Due to banks	91.287.625	2	7.313	329		91.295.269
Other deposits	21.774.546	15.560.136	41.658	5.733	1.712	37.383.785
Due to IMF	-	-	10.127	-	-	10.127
Other borrowed funds	516.143	-	-	-	-	516.143
Other liabilities	780.921	159.874	833.885	-	-	1.774.680
Deferred income tax liability	3.895.923	-	-	-	-	3.895.923
Retirement benefit obligations	91.477	-	-	-	-	91.477
Equity	29.740.117	-	-	-	-	29.740.117
Total liabilities and equity	**203.189.926**	**15.720.012**	**892.983**	**6.062**	**1.712**	**219.810.695**
Net balance sheet position	**(147.219.410)**	**79.716.153**	**65.942.080**	**1.532.101**	**29.076**	**-**
Off-balance sheet commitments	**35.520.705**	**87.660**	**-**	**-**	**-**	**35.608.365**

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The Bank provides specific allowances for possible loan losses on a case by case basis that are approved by the Board of the Bank 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 and/or rescheduled payment arrangements or arrangement of terms of loans such as modification and deferral of payments. Restructuring arrangements signed between the Bank and the counterparties are regulated by the Board of the Bank.

There are no financial assets that are past due but not impaired at 31 December 2012 and 2011; therefore, there are no collaterals held against such past due financial assets.

As of 31 December 2012 and 2011, 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 the market risk, from the Central Bank's perspective are interest rates pertaining to TL and reserve currencies, foreign exchange rates and gold prices. The Bank, in its capacity as the monetary authority of Turkey, does not actively manage TL interest rate risk stemming from government domestic borrowing securities, which the Bank utilizes mainly for open market operations. Putting aside this TL interest rate risk, it is possible to say that the remaining market risk faced by the Bank arises essentially from the foreign currency assets and liabilities 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 the foreign currency 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 currency position for the purpose of implementing exchange rate policy and achieving other policy targets. Exchange rate risk, which arises from the volatility of exchange rates between TL 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 the volatilities in currency parties.

Within this framework, the Bank controls currency risk through foreign currency composition targets and limits of deviation from these targets set for foreign currency reserves within the scope of the SBP.

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The net foreign currency position of the Bank as of 31 December 2012 and 2011 is summarized below. The table presented below provides the Bank's assets, liabilities, and equity at carrying amounts, categorized by currency:

	31 December 2012									
	Foreign currency									
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	TOTAL
Cash and gold reserves	34.793.696	482.718	214	10.874	7.227	-	6.544	35.301.273	89.824	35.391.097
Due from banks	4.213.847	590.643	252.963	230.399	157.660	2.667.989	24.177	8.137.678	23.032.026	31.169.704
Financial assets at fair value through profit or loss	109.588.803	56.728.356	-	-	2.381.833	-	-	168.698.992	8.459.709	177.158.701
Loans and advances to customers	5.618.837	1.191.107	-	-	306	-	-	6.810.250	-	6.810.250
Available-for-sale financial assets	17.826	62	-	-	-	521.962	-	539.850	-	539.850
Property and equipment	-	-	-	-	-	-	-	-	266.322	266.322
Intangible assets	-	-	-	-	-	-	-	-	8.018	8.018
Other assets	114	159	757	1	127	40	12	1.210	62.138	63.348
Total assets	**154.233.123**	**58.993.045**	**253.934**	**241.274**	**2.547.153**	**3.189.991**	**30.733**	**219.489.253**	**31.918.037**	**251.407.290**
Currency in circulation	-	-	-	-	-	-	-	-	60.525.482	60.525.482
Due to banks	75.396.160	36.557.373	-	-	19.642	-	-	111.973.175	18.916.803	130.889.978
Other deposits	7.930.143	13.873.886	4.777	82.252	6.209	2.640.765	14	24.538.046	6.608.007	31.146.053
Due to IMF	-	-	-	-	-	10.277	-	10.277	-	10.277
Other borrowed funds	-	-	-	-	-	-	-	-	1.398.694	1.398.694
Other liabilities	650.567	138.443	-	768	12.512		13.915	816.205	93.225	909.430
Deferred income tax liability	-	-	-	-	-	-	-	-	2.724.309	2.724.309
Retirement benefit obligations	-	-	-	-	-	-	-	-	119.290	119.290
Equity	-	-	-	-	-	-	-	-	23.683.777	23.683.777
Total liabilities and equity	**83.976.870**	**50.569.702**	**4.777**	**83.020**	**38.363**	**2.651.042**	**13.929**	**137.337.703**	**114.069.587**	**251.407.290**
Net balance sheet position	**70.256.253**	**8.423.343**	**249.157**	**158.254**	**2.508.790**	**538.949**	**16.804**	**82.151.550**	**(82.151.550)**	**-**

	31 December 2011									
	Foreign currency									
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	TOTAL
Cash and gold reserves	19.179.124	235.146	58	10.373	7.408	-	4.435	19.436.544	79.451	19.515.995
Due from banks	7.084.055	12.304.662	1.519.852	267.548	243.032	2.837.502	34.939	24.291.590	39.682.672	63.974.262
Financial assets at fair value through profit or loss	66.783.374	54.856.706	-	-	2.964.993	-	-	124.605.073	7.816.532	132.421.605
Loans and advances to customers	2.552.167	487.136	-	-	-	-	-	3.039.303	-	3.039.303
Available-for-sale financial assets	18.889	64	-	-	-	515.429	-	534.382	-	534.382
Property and equipment	-	-	-	-	-	-	-	-	234.747	234.747
Intangible assets	-	-	-	-	-	-	-	-	8.174	8.174
Other assets	87	390	934	-	115	4.771	518	6.815	75.412	82.227
Total assets	**95.617.696**	**67.884.104**	**1.520.844**	**277.921**	**3.215.548**	**3.357.702**	**39.892**	**171.913.707**	**47.896.988**	**219.810.695**
Currency in circulation	-	-	-	-	-	-	-	-	55.103.174	55.103.174
Due to banks	29.327.207	33.167.970	-	-	18.033	-	-	62.513.210	28.782.059	91.295.269
Other deposits	3.366.192	22.666.381	9.587	91.762	56.036	2.802.264	270	28.992.492	8.391.293	37.383.785
Due to IMF	-	-	-	-	-	10.127	-	10.127	-	10.127
Other borrowed funds	-	-	-	-	-	-	-	-	516.143	516.143
Other liabilities	833.885	136.877	-	2.178	6.950	-	13.867	993.757	780.923	1.774.680
Deferred income tax liability	-	-	-	-	-	-	-	-	3.895.923	3.895.923
Retirement benefit obligations	-	-	-	-	-	-	-	-	91.477	91.477
Equity	-	-	-	-	-	-	-	-	29.740.117	29.740.117
Total liabilities and equity	**33.527.284**	**55.971.228**	**9.587**	**93.940**	**81.019**	**2.812.391**	**14.137**	**92.509.586**	**127.301.109**	**219.810.695**
Net balance sheet position	**62.090.412**	**11.912.876**	**1.511.257**	**183.981**	**3.134.529**	**545.311**	**25.755**	**79.404.121**	**(79.404.121)**	**-**

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 of the appreciation of the TL by 10% against all foreign currencies. The hypothetic loss that would occur in the total market value of the net foreign currency positions of the Bank as of 31 December 2012 and 2011 under such an assumption is presented in the tables below:

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Sensitivity of the net foreign currency position:

	31 December 2012									
	Foreign currency									
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	TOTAL
Total assets	154.233.123	58.993.045	253.934	241.274	2.547.153	3.189.991	30.733	219.489.253	31.918.037	251.407.290
Total liabilities	83.976.870	50.569.702	4.777	83.020	38.363	2.651.042	13.929	137.337.703	114.069.587	251.407.290
Net balance sheet position	70.256.253	8.423.343	249.157	158.254	2.508.790	538.949	16.804	82.151.550	(82.151.550)	-
Scenario of 10% appreciation of TL	(7.025.625)	(842.334)	(24.916)	(15.825)	(250.879)	(53.895)	(1.681)	(8.215.155)	-	(8.215.155)

	31 December 2011									
	Foreign currency									
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	TOTAL
Total assets	95.617.696	67.884.104	1.520.844	277.921	3.215.548	3.357.702	39.892	171.913.707	47.896.988	219.810.695
Total liabilities	33.527.284	55.971.228	9.587	93.940	81.019	2.812.391	14.137	92.509.586	127.301.109	219.810.695
Net balance sheet position	62.090.412	11.912.876	1.511.257	183.981	3.134.529	545.311	25.755	79.404.121	(79.404.121)	-
Scenario of 10% appreciation of TL	(6.209.041)	(1.191.288)	(151.126)	(18.398)	(313.453)	(54.531)	(2.576)	(7.940.412)	-	(7.940.412)

(e) Interest rate risk

Bank is exposed to the interest rate risk which is the probability of incurring losses due to the fluctuations in the interest rates in the market. 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 yield curves may also create interest rate risk.

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The tables below summarize the Bank's exposure to interest rate risk at 31 December 2012 and 2011, for TL and foreign currency denominated assets and liabilities. Presented in the tables are the Bank's assets and liabilities in carrying amounts classified in terms of time remaining to contractual re-pricing dates or maturity.

31 December 2012						
	Foreign currency					
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing
Cash and gold reserves	-	-	-	-	-	35.301.273
Due from banks	4.889.268	-	-	-	-	3.248.410
Financial assets at fair value through profit or loss	13.219.586	43.398.833	112.080.573	-	-	-
Loans and advances to customers	1.861.808	3.447.325	1.494.050	7.067	-	-
Available-for-sale financial assets	-	-	-	-	-	539.850
Property and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Other assets	17	-	-	-	-	1.193
Total assets	**19.970.679**	**46.846.158**	**113.574.623**	**7.067**	**-**	**39.090.726**
Currency in circulation	-	-	-	-	-	-
Due to banks	106.313	-		-	-	111.866.862
Other deposits	10.680.143	826.727	5.495.626	5.919.603	-	1.615.947
Due to IMF	-	348	-	-	-	9.929
Other borrowed funds	-	-	-	-	-	-
Other liabilities	5.566	-	-	-	-	810.639
Deferred income tax liability	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Total liabilities and equity	**10.792.022**	**827.075**	**5.495.626**	**5.919.603**	**-**	**114.303.377**
Net repricing gap	**9.178.657**	**46.019.083**	**108.078.997**	**(5.912.536)**	**-**	**(75.212.651)**

31 December 2011						
	Foreign currency					
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing
Cash and gold reserves	-	-	-	-	-	19.436.544
Due from banks	20.766.026	-	-	-	-	3.525.564
Financial assets at fair value	12.174.425	22.676.475	89.754.173	-	-	-
Loans and advances to customers	359.073	1.684.609	979.690	14.315	1.616	-
Available-for-sale financial assets	-	-	-	-	-	534.382
Property and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Other assets	745	-	4.729	-	-	1.341
Total assets	**33.300.269**	**24.361.084**	**90.738.592**	**14.315**	**1.616**	**23.497.831**
Currency in circulation	-	-	-	-	-	-
Due to banks	928.715	-		-	-	61.584.495
Other deposits	8.497.632	1.060.772	7.799.746	8.338.788	-	3.295.554
Due to IMF	-	1.192	-	-	-	8.935
Other borrowed funds	-	-	-	-	-	-
Other liabilities	1.086	-	-	-	-	992.671
Deferred income tax liability	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Total liabilities and equity	**9.427.433**	**1.061.964**	**7.799.746**	**8.338.788**	**-**	**65.881.655**
Net repricing gap	**23.872.836**	**23.299.120**	**82.938.846**	**(8.324.473)**	**1.616**	**(42.383.824)**

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	TL							
FC Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	TL Total	Total
35.301.273	-	-	-	-	-	89.824	89.824	35.391.097
8.137.678	23.031.555	-	-	-	-	471	23.032.026	31.169.704
168.698.992	3.033.769	1.845.261	3.580.679	-	-	-	8.459.709	177.158.701
6.810.250					-	-	-	6.810.250
539.850	-	-	-	-	-	-	-	539.850
-	-	-	-	-	-	266.322	266.322	266.322
-	-	-	-	-	-	8.018	8.018	8.018
1.210	8.333	-	-	-	-	53.805	62.138	63.348
219.489.253	26.073.657	1.845.261	3.580.679	-	-	418.440	31.918.037	251.407.290
-	-	-	-	-	-	60.525.482	60.525.482	60.525.482
111.973.175	2.264.052	-	-	-	-	16.652.751	18.916.803	130.889.978
24.538.046	6.225.569	-	-	-	-	382.438	6.608.007	31.146.053
10.277	-	-	-	-	-	-	-	10.277
-	1.398.694	-	-	-	-	-	1.398.694	1.398.694
816.205	-	-	-	-	-	93.225	93.225	909.430
-	-	-	-	-	-	2.724.309	2.724.309	2.724.309
-	-	-	-	-	-	119.290	119.290	119.290
-	-	-	-	-	-	23.683.777	23.683.777	23.683.777
137.337.703	9.888.315	-	-	-	-	104.181.272	114.069.587	251.407.290
82.151.550	16.185.342	1.845.261	3.580.679	-	-	(103.762.832)	(82.151.550)	-

	TL							
FC Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	TL Total	Total
19.436.544	-	-	-	-	-	79.451	79.451	19.515.995
24.291.590	39.593.554	-	-	-	-	89.118	39.682.672	63.974.262
124.605.073	3.294.055	1.271.148	2.286.559	964.770	-	-	7.816.532	132.421.605
3.039.303	-	-	-	-	-	-	-	3.039.303
534.382	-	-	-	-	-	-	-	534.382
-	-	-	-	-	-	234.747	234.747	234.747
-	-	-	-	-	-	8.174	8.174	8.174
6.815	6.926	-	-	-	-	68.486	75.412	82.227
171.913.707	42.894.535	1.271.148	2.286.559	964.770	-	479.976	47.896.988	219.810.695
-	-	-	-	-	-	55.103.174	55.103.174	55.103.174
62.513.210	-	-	-	-	-	28.782.059	28.782.059	91.295.269
28.992.492	8.195.538	-	-	-	-	195.755	8.391.293	37.383.785
10.127	-	-	-	-	-	-	-	10.127
-	516.143	-	-	-	-	-	516.143	516.143
993.757	-	-	-	-	-	780.923	780.923	1.774.680
-	-	-	-	-	-	3.895.923	3.895.923	3.895.923
-	-	-	-	-	-	91.477	91.477	91.477
-	-	-	-	-	-	29.740.117	29.740.117	29.740.117
92.509.586	8.711.681	-	-	-	-	118.589.428	127.301.109	219.810.695
79.404.121	34.182.854	1.271.148	2.286.559	964.770	-	(118.109.452)	(79.404.121)	-

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As the Bank is the monetary authority in Turkey, the interest rate sensitive balance sheet positions in the tables should be interpreted carefully. Required reserves are calculated over total domestic liabilities of banks according to the banking legislation effective in Turkey, after deductions determined in the Communiqué, No. 2005/1 on Required Reserves and deposit/participation funds accepted by banks in Turkey on behalf of foreign branches and loan amounts provided by banks and followed up in foreign branches and are deposited to the Bank. The Bank stopped paying interest over foreign currency reserve requirements as of 11 December 2008 with the announcement, dated 5 December 2008. On 23 September 2010 a major policy change has been submitted in Turkish Lira reserve requirements. To provide more active usage of reserve requirements in order to reduce the future macroeconomic and financial risk, interest payment for Turkish Lira reserve requirements has been abolished by the Bank. However, it should be noted that similar to any other central bank, the Bank, which uses short-term interest rates as its main monetary policy tool, does not actively manage the interest rate risk stemming from TL assets and liabilities considering that it might contradict the monetary policy implementations of the Bank. Nevertheless, the tables are prepared using all assets and liabilities including asset and liabilities denominated in TL to show the overall interest rate risk that the Bank is exposed to regardless of whether such risk is actively managed or not.

The Bank controls interest the 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 Bank's overall tolerance level 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 currency 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 durations of assets denominated in major foreign reserve currencies (US$ and EUR).

Within this framework, based on the average modified durations of foreign currency assets as of 31 December 2012 and 2011, 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 to interest rates;

	31 December 2012			31 December 2011		
	US$	EUR	TOTAL	US$	EUR	TOTAL
Market value of the foreign currency assets	109.588.803	56.728.356	166.317.159	66.783.374	54.856.706	121.640.080
Effect of the scenario of 1% increase in interest rates	(608.242)	(670.062)	(1.278.304)	(617.815)	(532.525)	(1.150.340)

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The tables below set out the average effective interest rates by major currencies for monetary financial instruments at 31 December 2012 and 2011:

	31 December 2012		
	US$ (%)	EUR (%)	TL (%)
Assets			
Due from banks	0,21	0,01	5,55
Financial assets at fair value through profit or loss	0,11	0,31	6,20
Loans and advances to customers	0,41	0,27	-
Liabilities			
Due to banks	-	-	5,00
Other deposits	1,04	1,29	5,50

	31 December 2011		
	US$ (%)	EUR (%)	TL (%)
Assets			
Due from banks	0,06	0,02	9,04
Financial assets at fair value through profit or loss	0,21	0,28	10,99
Loans and advances to customers	0,54	1,56	-
Liabilities			
Due to banks	3,91	3,59	-
Other deposits	1,52	1,97	5,75
Other borrowed funds	-	-	5,00

(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 prices 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 TL liquidity risk. In order to manage the liquidity risk arising 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.

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

31 December 2012							
					Foreign currency		
	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No Maturity
Cash and gold reserves	35.301.273	-	-	-	-	-	-
Due from banks	3.248.410	4.889.268	-	-	-	-	-
Financial assets at fair value through profit or loss	-	5.993.536	35.045.368	89.870.025	37.790.063	-	-
Loans and advances to customers	-	1.861.808	3.447.325	1.494.050	7.067	-	-
Available-for-sale financial assets	-	-	-	-	-	-	539.850
Property and equipment	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-
Other assets	1.193	17	-	-	-	-	-
Total assets	**38.550.876**	**12.744.629**	**38.492.693**	**91.364.075**	**37.797.130**	**-**	**539.850**
Currency in circulation	-	-	-	-	-	-	-
Due to banks	-	111.973.175	-	-	-	-	-
Other deposits	11.748.585	547.505	826.727	5.495.626	5.919.603	-	-
Due to IMF	9.929	-	348	-	-	-	-
Other borrowed funds	-	-	-	-	-	-	-
Other liabilities	674	5.566	-	-	-	-	809.965
Deferred income tax liability	-	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Total liabilities and equity	**11.759.188**	**112.526.246**	**827.075**	**5.495.626**	**5.919.603**	**-**	**809.965**
Net liquidity gap	**26.791.688**	**(99.781.617)**	**37.665.618**	**85.868.449**	**31.877.527**	**-**	**(270.115)**

31 December 2011							
					Foreign currency		
	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No Maturity
Cash and gold reserves	19.436.544	-	-	-	-	-	-
Due from banks	6.819.697	17.471.893	-	-	-	-	-
Financial assets at fair value through profit or loss	-	5.119.402	13.254.201	69.627.506	36.409.017	194.947	-
Loans and advances to customers	-	359.073	1.684.609	979.690	14.315	1.616	-
Available-for-sale financial assets	-	-	-	-	-	-	534.382
Property and equipment	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-
Other assets	1.341	745	-	4.729	-	-	-
Total assets	**26.257.582**	**22.951.113**	**14.938.810**	**70.611.925**	**36.423.332**	**196.563**	**534.382**
Currency in circulation	-	-	-	-	-	-	-
Due to banks	-	62.513.210	-	-	-	-	-
Other deposits	11.101.365	691.821	1.060.772	7.799.746	8.338.788	-	-
Due to IMF	8.935	-	1.192	-	-	-	-
Other borrowed funds	-	-	-	-	-	-	-
Other liabilities	10.326	1.086	-	-	-	-	982.345
Deferred income tax liability	-	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Total liabilities and equity	**11.120.626**	**63.206.117**	**1.061.964**	**7.799.746**	**8.338.788**	**-**	**982.345**
Net liquidity gap	**15.136.956**	**(40.255.004)**	**13.876.846**	**62.812.179**	**28.084.544**	**196.563**	**(447.963)**

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				TL					
FC Total	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No Maturity	TL Total	Total
35.301.273	89.824	-	-	-	-	-	-	89.824	35.391.097
8.137.678	471	23.031.555	-	-	-	-	-	23.032.026	31.169.704
168.698.992	-	1.228.212	792.688	3.405.522	3.033.287	-	-	8.459.709	177.158.701
6.810.250	-	-	-	-	-	-	-	-	6.810.250
539.850	-	-	-	-	-	-	-	-	539.850
-	-	-	-	-	-	-	266.322	266.322	266.322
-	-	-	-	-	-	-	8.018	8.018	8.018
1.210	2.732	8.333	11.044	-	-	-	40.029	62.138	63.348
219.489.253	**93.027**	**24.268.100**	**803.732**	**3.405.522**	**3.033.287**	**-**	**314.369**	**31.918.037**	**251.407.290**
-	-	-	-	-	-	-	60.525.482	60.525.482	60.525.482
111.973.175	32.914	18.883.889	-	-	-	-	-	18.916.803	130.889.978
24.538.046	6.608.007	-	-	-	-	-	-	6.608.007	31.146.053
10.277	-	-	-	-	-	-	-	-	10.277
-	-	1.398.694	-	-	-	-	-	1.398.694	1.398.694
816.205	-	56.379	14.593	-	-	-	22.253	93.225	909.430
-	-	-	-	-	-	-	2.724.309	2.724.309	2.724.309
-	-	-	-	-	-	-	119.290	119.290	119.290
-	-	-	-	-	-	-	23.683.777	23.683.777	23.683.777
137.337.703	**6.640.921**	**20.338.962**	**14.593**	**-**	**-**	**-**	**87.075.111**	**114.069.587**	**251.407.290**
82.151.550	**(6.547.894)**	**3.929.138**	**789.139**	**3.405.522**	**3.033.287**	**-**	**(86.760.742)**	**(82.151.550)**	**-**

				TL					
FC Total	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No Maturity	TL Total	Total
19.436.544	79.451	-	-	-	-	-	-	79.451	19.515.995
24.291.590	89.118	39.593.554	-	-	-	-	-	39.682.672	63.974.262
124.605.073	-	1.191.469	1.271.148	1.790.324	3.563.591	-	-	7.816.532	132.421.605
3.039.303	-	-	-	-	-	-	-	-	3.039.303
534.382	-	-	-	-	-	-	-	-	534.382
-	-	-	-	-	-	-	234.747	234.747	234.747
-	-	-	-	-	-	-	8.174	8.174	8.174
6.815	8.742	6.926	30.321	-	-	-	29.423	75.412	82.227
171.913.707	**177.311**	**40.791.949**	**1.301.469**	**1.790.324**	**3.563.591**	**-**	**272.344**	**47.896.988**	**219.810.695**
-	-	-	-	-	-	-	55.103.174	55.103.174	55.103.174
62.513.210	16.834	28.765.225	-	-	-	-	-	28.782.059	91.295.269
28.992.492	8.391.293	-	-	-	-	-	-	8.391.293	37.383.785
10.127	-	-	-	-	-	-	-	-	10.127
-	-	516.143	-	-	-	-	-	516.143	516.143
993.757	-	43.363	723.002	-	-	-	14.558	780.923	1.774.680
-	-	-	-	-	-	-	3.895.923	3.895.923	3.895.923
-	-	-	-	-	-	-	91.477	91.477	91.477
-	-	-	-	-	-	-	29.740.117	29.740.117	29.740.117
92.509.586	**8.408.127**	**29.324.731**	**723.002**	**-**	**-**	**-**	**88.845.249**	**127.301.109**	**219.810.695**
79.404.121	**(8.230.816)**	**11.467.218**	**578.467**	**1.790.324**	**3.563.591**	**-**	**(88.572.905)**	**(79.404.121)**	**-**

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The gross contractual cash flows of non-derivative financial liabilities are presented 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 2012	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No maturity	Total
Currency in circulation	-	-	-	-	-	-	60.525.482	60.525.482
Due to banks	32.914	130.857.064	-	-	-	-	-	130.889.978
Other deposits	18.356.592	547.880	829.306	5.547.065	6.010.759	-	-	31.291.602
Due to IMF	9.929	-	348	-	-	-	-	10.277
Other borrowed funds	-	1.398.868	-	-	-	-	-	1.398.868
Total financial liabilities	**18.399.435**	**132.803.812**	**829.654**	**5.547.065**	**6.010.759**	**-**	**60.525.482**	**224.116.033**

31 December 2011	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No maturity	Total
Currency in circulation	-	-	-	-	-	-	55.103.174	55.103.174
Due to banks	16.834	91.278.435	-	-	-	-	-	91.295.269
Other deposits	19.492.658	692.394	1.064.589	7.906.735	8.559.438	-	-	37.715.814
Due to IMF	8.935	-	1.192	-	-	-	-	10.127
Other borrowed funds	-	516.212	-	-	-	-	-	516.212
Total financial liabilities	**19.518.427**	**92.487.041**	**1.065.781**	**7.906.735**	**8.559.438**	**-**	**55.103.174**	**184.640.596**

(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 losses through failure of people or processes in such a way that losses are avoided or reduced to the minimum extent possible.

The Bank has assigned the responsibility for managing the operational risk to the managements of the departments. According to the decrees of the Board of the Bank, financial losses occurring as a result of operational risk 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 of the Bank 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 of the Bank.

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

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AD performs risk assessment in two phases. The first phase is to prepare the Annual Audit Plan. AD reviews the fundamental business processes throughout the Bank at the end of each year. Business processes to be audited are ranked on a risk-basis. Each business process is evaluated in terms of financial risk, operational risk, legal risk and reputation risk. 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 risk 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 risk and reputation risk 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 reported every three months 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, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank could 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	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Financial assets				
Cash and gold reserves	35.391.097	19.515.995	35.391.097	19.515.995
Due from banks	31.169.704	63.974.262	31.218.039	63.927.337
Loans and advances to customers	6.810.250	3.039.303	6.811.684	3.039.015
Financial liabilities				
Currency in circulation	60.525.482	55.103.174	60.525.482	55.103.174
Due to banks	130.889.978	91.295.269	130.889.978	91.295.269
Other deposits	31.146.053	37.383.785	30.920.581	36.957.435
Other borrowed funds	1.398.694	516.143	1.398.694	516.143

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.

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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.

(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 maturity.

The following table summarizes the fair values of those financial assets presented on the Bank's balance sheet based on the hierarchy of valuation technique as of 31 December 2012 and 2011.

31 December 2012	Level 1 (*)	Level 2 (**)	Level 3 (***)	Total
Financial assets at fair value				
Financial assets held for trading				
- Debt securities	177.158.701	-	-	177.158.701
Available-for-sale financial assets				
- Equity securities	-	-	539.850	539.850
Total assets	177.158.701	-	539.850	177.698.551

(*) Financial assets and liabilities are carried at quoted prices in an active market which are used for similar financial assets and liabilities.
(**) Other than quoted prices specified in Level I, financial assets and liabilities are carried at inputs used to determine direct or indirect observable market prices.
(***) Financial assets and liabilities are carried at inputs which are used in determining fair value of financial assets and liabilities but not based on any observable market data.

31 December 2011	Level 1 (*)	Level 2 (**)	Level 3 (***)	Total
Financial assets at fair value				
Financial assets held for trading				
- Debt securities	132.421.605	-	-	132.421.605
Available-for-sale financial assets				
- Equity securities	-	-	534.382	534.382
Total assets	132.421.605	-	534.382	132.955.987

(*) Financial assets and liabilities are carried at quoted prices in an active market which are used for similar financial assets and liabilities.
(**) Other than quoted prices specified in Level I, financial assets and liabilities are carried at inputs used to determine direct or indirect observable market prices.
(***) Financial assets and liabilities are carried at inputs which are used in determining fair value of financial assets and liabilities but not based on any observable market data.

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(i) Capital management

The Bank's shareholders' equity as at 31 December 2012 and 2011 comprises:

	31 December 2012	31 December 2011
Paid-in capital	47.464	47.464
Retained earnings	23.151.282	29.212.680
Other reserves	485.031	479.973
Total equity	**23.683.777**	**29.740.117**

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

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

Being a non-profit organization, the Bank does not seek profit maximization. Instead it seeks to make a profit commensurate with normal market returns in areas where it conducts normal commercial operations.

The Bank's primary capital management objective is to maintain sufficient capital to absorb unexpected losses arising from the fulfillment of the responsibilities assigned to the Bank by the Central Bank Law. The most significant unexpected losses are likely to arise out of support operations and the Bank's role as the lender of last resort or from losses on the foreign currency reserves should the TL appreciate significantly against other foreign currencies.

In order to maintain sufficient capital and to obtain the necessary liquidity the Bank focuses on low risk investments prudently to earn an appropriate return taking into consideration the credit risk of the counterparty. Additionally, the Bank, in the employment of strategic assets, takes into consideration the risk tolerance of the Bank and gives importance to the protection of the capital and national reserves.

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

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

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolio to assess impairment on a continuous basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Bank 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.

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(b) Fair value of equity investments that are available for sale

The equity investment classified for accounting purposes as available for sale, which is held by the Bank for the long term as part of its central banking activities is valued at fair value, which is calculated as being 70% of the Bank's interest in the net asset value of the equity investment. This valuation method has previously been used to establish the appropriate price for purchase and repurchase transactions in the equity investment (Note 10).

NOTE 6 - CASH AND GOLD RESERVES

	31 December 2012	31 December 2011
Gold bullion - International standards	34.297.820	18.677.555
Cash in hand	790.220	534.583
Gold bullion and coins - Non-international standards	303.057	303.857
Total	**35.391.097**	**19.515.995**

Gold coins and bullion in the amount of TL 32.957 thousand (31 December 2011: TL 33.043 thousand) are kept in the Bank's vaults on behalf of the Turkish Treasury. Additionally, Gold bullion - International standards include TL 23.225.356 thousand (31 December 2011: TL 7.575.877 thousand) worth of gold kept by the Bank which belongs to the banks those deposited gold in order to meet their reserve requirement.

NOTE 7 - DUE FROM BANKS

	31 December 2012	31 December 2011
Funds lent under securities purchased under agreements to resell	23.031.555	39.593.554
Time deposits	4.889.268	17.471.893
Demand deposits	3.248.881	6.908.815
Total	**31.169.704**	**63.974.262**

Securities purchased under agreements to resell transactions are performed as part of the open market operations of the Bank.

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

	31 December 2012		31 December 2011	
	Cost	Carrying Value	Cost	Carrying Value
Turkish government bonds and treasury bills	8.220.041	8.459.709	7.730.721	7.816.532
Foreign government bonds and treasury bills	161.350.844	161.650.682	116.350.547	117.081.357
Corporate bonds of supranational institutions (*)	6.911.101	7.048.310	7.450.722	7.523.716
Total	**176.481.986**	**177.158.701**	**131.531.990**	**132.421.605**

(*) Corporate bonds of supranational institutions are coupon and discount securities mainly issued by the European Investment Bank and International Bank of Reconstruction and Development (World Bank Group).

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

	31 December 2012	31 December 2011
Loans to corporate entities:		
Foreign country loans	13.539	20.646
Domestic loans	6.796.711	3.018.657
Total performing loans	**6.810.250**	**3.039.303**
Impaired loans and advances	2.728.840	2.885.238
Gross loans and advances to customers	**9.539.090**	**5.924.541**
Less: Allowance for loan losses	(2.728.840)	(2.885.238)
Net loans and advances to customers	**6.810.250**	**3.039.303**

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Movement in the allowance for loan losses is as follows:

	31 December 2012	31 December 2011
Balance at 1 January	2.885.238	2.356.022
Charge/(releases) for the year (*)	(156.398)	529.216
Balance at 31 December	**2.728.840**	**2.885.238**

(*) Represents the foreign exchange valuation on the impaired loans and advances.

As of 31 December 2012, the restructured loans and advances of the Bank amounted to TL 10.332 thousand (31 December 2011: TL 16.276 thousand). In accordance with the restructuring agreement of the Bank regarding the above mentioned restructured loans, the Bank forwent TL 8.401 thousand (US$ 4.712.512) (31 December 2011: TL 8.901 thousand (US$ 4.712.512)) 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 2012 and 2011, the Bank provided allowance for such contingent interest receivable.

NOTE 10 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

The details of available-for-sale-securities as of 31 December 2012 and 2011 are as follows:

		Ownership (%)		Amount	
Name	**Nature of business**	**31 December 2012**	**31 December 2011**	**31 December 2012**	**31 December 2011**
BIS	Banking Supervision	1,43	1,43	521.962	515.428
International Islamic Liquidity Management Corporation	Liquidity Management	13,33	13,33	17.826	18.889
SWIFT	Electronic Fund Transfer Services	0,007	0,007	62	65
Total				**539.850**	**534.382**

The shares of BIS 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 the total amount of commitment is disclosed under contingencies and commitments as of 31 December 2012 and 2011 (Note 27).

As of 31 December 2012 and 2011, 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 2012 and 2011, converted to TL at the year-end TL/SDR exchange rate. This valuation method has previously been used to establish the appropriate price for purchase and repurchase transactions in BIS share.

The movement of available-for-sale financial assets is as follows:

	31 December 2012	31 December 2011
Opening balance	**534.382**	**418.052**
Purchases	-	-
Fair value changes	5.468	116.330
Closing balance	**539.850**	**534.382**

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NOTE 11 - PROPERTY AND EQUIPMENT

	Land and buildings	Equipment and vehicles	Construction in progress	Total
At 31 December 2010				
Cost	340.299	68.564	9.289	418.152
Accumulated depreciation	(136.735)	(41.923)	-	(178.658)
Net book value	**203.564**	**26.641**	**9.289**	**239.494**
Year ended as of 31 December 2011				
Opening net book value	203.564	26.641	9.289	239.494
Additions	4.930	10.150	7.453	22.533
Transfers	9.193	-	(9.193)	-
Disposals (net)	(12.292)	(147)	-	(12.439)
Depreciation charge (Note 26)	(6.078)	(8.763)	-	(14.841)
Closing net book value	**199.317**	**27.881**	**7.549**	**234.747**
At 31 December 2011				
Cost	328.412	66.927	7.549	402.888
Accumulated depreciation	(129.095)	(39.046)	-	(168.141)
Net book value	**199.317**	**27.881**	**7.549**	**234.747**
Year ended as of 31 December 2012				
Opening net book value	199.317	27.881	7.549	234.747
Additions	16.087	33.746	-	49.833
Transfers	3.738	-	(3.738)	-
Disposals (net) (*)	(1.331)	(52)	-	(1.383)
Depreciation charge (Note 26)	(6.526)	(10.349)	-	(16.875)
Closing net book value	**211.285**	**51.226**	**3.811**	**266.322**
At 31 December 2012				
Cost	345.429	98.667	3.811	447.907
Accumulated depreciation	(134.144)	(47.441)	-	(181.585)
Net book value	**211.285**	**51.226**	**3.811**	**266.322**

(*) In the year 2012 the Bank granted property and equipment with net book value of TL 1.300 thousand and disposed of property and equipment with net book value of TL 83 for cash proceeds of TL 596 thousand.

NOTE 12 - INTANGIBLE ASSETS

	Cost	Accumulated amortisation	Net book value
Opening balance at 1 January 2011	13.191	(7.661)	5.530
Additions/(amortization charge for the period)	3.633	(960)	2.673
Disposals	(2.835)	2.806	(29)
Balance at 31 December 2011	**13.989**	**(5.815)**	**8.174**
Opening balance at 1 January 2012	13.988	(5.814)	8.174
Additions/(amortization charge for the period)	1.148	(1.302)	(154)
Disposals	(81)	79	(2)
Balance at 31 December 2012	**15.055**	**(7.037)**	**8.018**

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NOTE 13 - OTHER ASSETS

	31 December 2012	31 December 2011
Raw material and work-in-progress	26.511	30.321
Charges and commissions due from Treasury (*)	11.044	22.011
Electronic Fund Transfer ("EFT") commission income accrual	8.317	6.851
Prepaid expenses	849	799
Dividend income accrual	-	4.729
Other	16.627	17.516
Total	**63.348**	**82.227**

(*) With the decision of the Board of the Bank numbered 9525/19124 and dated 4 October 2011, Regulation of Tariffs was amended. According to these amendments, starting from 12 October 2011, commissions, charges and fees were started to be collected from the Prime Ministry Undersecretariat of Treasury ("Treasury") due to the transactions with the public administrations within the scope of overall budget.

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

NOTE 14 - CURRENCY IN CIRCULATION

	2012	2011
Balance at 1 January	**55.103.174**	**48.937.560**
Banknotes issued into circulation	30.700.615	26.769.916
Banknotes withdrawn from circulation and destroyed	(25.278.307)	(20.599.409)
Demonetized banknotes	-	(4.893)
Balance at 31 December	**60.525.482**	**55.103.174**

NOTE 15 - DUE TO BANKS

	31 December 2012	31 December 2011
Deposits for reserve requirement obligations	119.100.684	79.398.446
Current accounts of banks	9.508.365	10.968.110
Funds borrowed under securities sold under repurchase agreements	2.261.310	-
Deposits of banks for foreign currency deposit market	19.619	928.713
Total	**130.889.978**	**91.295.269**

Required reserves are calculated over total domestic liabilities of banks according to the banking legislation effective in Turkey, after deductions determined in the Communiqué, No. 2005/1 on Required Reserves and deposit/participation funds accepted by banks in Turkey on behalf of foreign branches and loan amounts provided by banks and followed up in foreign branches and are deposited to the Bank. The Bank stopped paying interest over foreign currency reserve requirements as of 11 December 2008 with the announcement, dated 5 December 2008. The Bank stopped paying interest over Turkish Lira reserve requirements as of 14 October 2010 with the announcement, dated 23 September 2010.

NOTE 16 - OTHER DEPOSITS

	31 December 2012	31 December 2011
Deposits by citizens abroad	12.819.726	17.923.515
Deposits of Turkish Treasury	16.391.165	18.284.265
Deposits of state owned funds	1.867.363	1.088.779
Deposits of state owned entities	67.799	87.226
Total	**31.146.053**	**37.383.785**

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Deposits by citizens abroad are time deposits with maturities varying from one to three years; other deposits; including deposit of Turkish Treasury; held by government related institutions are interest-free deposits except for the demand deposits amounting to TL 13.501.393 thousand (31 December 2011: TL 10.430.619 thousand).

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

	31 December 2012		31 December 2011	
	Interest rate (%)	TL	Interest rate (%)	TL
EUR	0,25-1,00	12.213.081	0,25-3,25	17.031.890
US$	0,25-1,00	519.436	0,25-2,75	794.374
CHF	0,25-1,00	82.188	0,25-0,50	91.695
GBP	0,25-1,00	5.021	0,25-1,00	5.556
Total		**12.819.726**		**17.923.515**

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 2012 and 2011. As of 31 December 2012 and 2011, 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 Turkish Government.

As of 8 June 2011, the country quota of Turkey increased by SDR 264.500.000 reaching SDR 1.455.800.000.

NOTE 18 - OTHER BORROWED FUNDS

	31 December 2012	31 December 2011
Funds borrowed from interbank money market	1.398.694	516.143
Total	**1.398.694**	**516.143**

NOTE 19 - OTHER LIABILITIES

	31 December 2012	31 December 2011
Import transfer orders	776.883	945.855
Taxes and withholdings payable	59.921	43.636
Expense accruals	7.705	7.083
Blocked accounts for pending court cases	3.453	4.246
Non-guaranteed commercial debts	-	16.826
Other	46.875	34.032
Total	**894.837**	**1.051.678**

NOTE 20 - TAXATION

	31 December 2012	31 December 2011
Corporate taxes payable	743.353	1.448.474
Prepaid taxes	(728.760)	(725.472)
Income tax liability- net	**14.593**	**723.002**

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Corporate Tax

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

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

The effective tax rate in 2012 is 20% (2011: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2012 is 20%. (2011: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

As of 31 December 2012 and 2011, income taxes are summarized as follows;

	31 December 2012	31 December 2011
- Corporate tax	743.353	1.448.474
- Deferred tax	(1.172.024)	2.452.591
Taxation charge/(benefit)	**(428.671)**	**3.901.065**

Deferred taxes

The Bank recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for IFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes and they are given below.

For calculation of deferred tax asset and liabilities, the rate of 20% (2011: 20%) is used.

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The breakdown of such cumulative temporary differences and the resulting deferred income tax assets/(liabilities) at 31 December using enacted tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Retirement benefit obligations	119.290	91.477	23.858	18.295
Net differences between carrying value and tax base of property and equipment	29.982	35.237	5.996	7.047
Other	9.923	10.483	1.985	2.097
Total Assets	**159.195**	**137.197**	**31.839**	**27.439**
Transfer of valuation account to income statement (*)	(13.655.427)	(19.489.213)	(2.731.085)	(3.897.843)
Fair value differences of financial assets	(494.426)	(486.208)	(24.721)	(24.310)
Difference in the calculated interest accrual of deposits using effective interest rate method	(1.710)	(6.044)	(342)	(1.209)
Total Liabilities	**(14.151.563)**	**(19.981.465)**	**(2.756.148)**	**(3.923.362)**
Net Liability	**(13.992.368)**	**(19.844.268)**	**(2.724.309)**	**(3.895.923)**

(*) In accordance with the 61st article of the Central Bank Law amended with the Law No:6009 on 23 July 2010, in the event of a change in the value of the Turkish currency against the foreign currencies and a change in the gold prices in the international markets, the unrealized gains and losses arising from the revaluation of gold, foreign currency and other assets and liabilities of the Bank those are originated in foreign currencies are classified into "Valuation Account" which is a transitory account on the balance sheet. The Valuation Account is not taken into account as income and expense in the determination of corporate tax base. Realized foreign exchange differences originated from foreign currency sales and purchase transactions are reflected to the income statement at the date of transaction.

Movement of deferred income tax liability during the year is as follows:

	31 December 2012	31 December 2011
Balance at 1 January	**3.895.923**	**1.437.952**
Deferred income tax charge to income statement, net	(1.172.024)	2.452.591
Deferred income tax charge to equity	410	5.380
Balance at 31 December	**2.724.309**	**3.895.923**

The reconciliation for taxation charge is stated below:

	2012	2011
Profit/(loss) before income taxes	**(728.696)**	**22.283.020**
Tax charge calculated at a tax rate of 20%	(145.739)	4.456.604
Income exempt from taxation	(295.638)	(566.173)
Non-deductible expenses	12.706	10.634
Income tax charge/(benefit)	**(428.671)**	**3.901.065**

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NOTE 21 - RETIREMENT BENEFIT OBLIGATIONS

Under Turkish Labor Law, the Bank is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated. In addition, according to the 60th Article and the laws numbered 4447, dated 25 August 1999 and numbered 2422, dated 6 March 1981 of the Social Security Law still in force, numbered 506, the employees who are entitled to leave the work by receiving termination benefits are required to pay statutory termination benefits. Some transitional provisions related to the pre-conditions of the retirement were removed from the law with the amendment on 23 May 2002.

The amount payable consists of one month's salary limited to a maximum of TL 3.033,98 (2011: TL 2.731,85) 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 ("Employee Benefits") states that, the Bank's obligations are developed within the framework of defined benefit plans by using the actuarial valuation method. The provisions at the respective balance sheet dates have been calculated based on the following actuarial assumptions:

	31 December 2012	31 December 2011
Discount rate (%)	2,37	4,66
Rate to estimate the probability of retirement (%)	99	99

Additionally, the principal actuarial assumption is that the maximum liability of TL 3.033,98 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 TL 3.129,24 effective from 1 January 2013 (1 January 2012: TL 2.805,04), has been taken into consideration in calculating the reserve for the retirement benefit obligation of the Bank.

Movement in the retirement benefit obligation recognized in the financial statements is as follows:

	2012	2011
At 1 January	**91.477**	**82.084**
Current year charge	31.745	11.851
Paid during the year	(3.932)	(2.458)
Balance at 31 December	**119.290**	**91.477**

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NOTE 22 - NET INTEREST INCOME

	2012	2011
Interest income:		
Interest income from financial assets at fair value through profit or loss	2.404.666	2.110.871
Interest income from securities purchased under agreements to resell	3.018.789	2.934.037
Interest income from loans and advances to customers	39.188	12.853
Interest income from due from banks	21.596	34.872
Total	**5.484.239**	**5.092.633**
Interest expense:		
Interest expense on due to Treasury (*)	346.550	116.883
Interest expense on securities sold under agreements to repurchase	323.387	23
Interest expense on other deposits	195.156	505.817
Amortization losses on financial assets at fair value through profit or loss	121.124	-
Interest expense on other borrowed funds	21.714	3.037
Interest expense on due to banks	4.085	1.035
Interest expense on due to IMF	2.818	11.604
Total	**1.014.834**	**638.399**
Net interest income	**4.469.405**	**4.454.234**

(*) With the amendment in article 41 of the Central Bank Law numbered 1211 and dated 13 February 2011, principles and procedures about charging interest on deposits of Treasury in custody of the Bank are decided to be determined jointly by the Bank and the Treasury. Within this scope, protocol between the Bank and the Treasury which is entitled as "Principles and Procedures about Charging Interest on Deposits of the Prime Ministry Undersecretariat of Treasury in Custody of the Central Bank of Republic of Turkey" is signed as of 12 October 2011 and the interest is started to be charged on the deposits of Treasury in custody of the Bank.

NOTE 23 - NET FEE AND COMMISSION INCOME

	2012	2011
Fee and commission income:		
EFT commission income	132.157	89.111
Commissions due from Treasury (*)	110.851	29.010
Open market operations	14.573	4.320
Other fund transfer fees	737	654
Other	7.258	6.293
Total	**265.576**	**129.388**
Fee and commission expense:		
Correspondent bank accounts	4.669	4.209
Other	9.006	9.138
Total	**13.675**	**13.347**
Net fee and commission income	**251.901**	**116.041**

(*) With the decision of the Board of the Bank numbered 9525/19124 and dated 4 October 2011, Tariffs Regulations has been amended. According to these amendments, starting from 12 October 2011, commissions, charges and fees have been started to be collected from the Prime Ministry Undersecretariat of Treasury due to the transactions with the public administrations within the scope of overall budget.

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NOTE 24 - DIVIDEND INCOME

	2012	2011
Available-for-sale securities	1.583	1.446
Total	1.583	1.446

NOTE 25 - FOREIGN EXCHANGE GAINS / (LOSSES), NET

	2012	2011
Foreign exchange gains/(losses), net		
- translation gains/(losses), net	(5.831.037)	12.234.636
- transaction gains, net	1.961.888	7.079.543
Total	(3.869.149)	19.314.179

As of 31 December 2012 and 2011, translation gains/(losses) include the unrealized foreign exchange gains/(losses) and the unrealized gains on gold reserves. In the statutory financial statements of the Bank, the unrealized foreign exchange gains/(losses) and unrealized gains on gold reserves are excluded from the statutory net profit and corporate tax base and monitored in a temporary account on the balance sheet, namely "Valuation Account", in accordance with the Central Bank Law in Turkey.

NOTE 26 - OTHER OPERATING EXPENSES

	2012	2011
Wages and salaries	514.388	455.220
Administrative expenses	127.085	125.704
Social security costs	62.998	39.855
Depreciation and amortization (Notes 11 and 12)	18.177	15.801
Other	2.635	15.244
Total	725.283	651.824

The average number of personnel employed by the Bank during the year 2012 was 4.502 (2011: 4.397).

NOTE 27 - COMMITMENTS AND CONTINGENT LIABILITIES

	31 December 2012	31 December 2011
Guarantees received	24.386.573	33.520.705
Uncalled BIS shares (Note 10)	82.608	87.660
Total	24.469.181	33.608.365

As of 31 December 2012, there are a number of legal proceedings outstanding against the Bank amounting to TL 4.010 thousand, US$ 64.741.281 and EUR 496.939 (31 December 2011: TL 57.230 thousand, US$ 64.214.366 and EUR 162.810). No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise in relation with above mentioned legal proceedings.

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NOTE 28 - SHARE CAPITAL

The shareholder structure of the Bank as at 31 December 2012 and 2011 is as follows:

	31 December 2012		31 December 2011	
	TL	Share %	TL	Share %
Turkish Treasury	14	55	14	55
T.C. Ziraat Bankası A.Ş.	5	19	5	19
T.C.M.B Mensupları Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı	1	5	1	5
Türkiye Garanti Bankası A.Ş.	1	3	1	3
Türkiye İş Bankası A.Ş.	1	2	1	2
Others	3	16	3	16
Paid-in capital	**25**	**100**	**25**	**100**
Inflation adjustment on paid-in 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 TL 25 thousand and is divided into 250.000 shares, with a value of TL 0,1 each. The capital may be increased with the approval of the Turkish 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 29 - 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% over the nominal value of the equity shares to the shareholders as an initial dividend,

iii) After deducting the above-stated percentages a maximum of 5% of the remaining amount; so as not to exceed two months salaries; to the Bank personnel and 10% percent to the extraordinary reserves,

iv) Subject to the decision of the General Assembly a maximum of 6% over the nominal value of the equity shares to the shareholders as the secondary dividend.

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

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NOTE 30 - CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Cash and gold reserves	35.391.097	19.515.995
Due from banks (excluding accrued interest)	31.137.617	63.941.159
Total	**66.528.714**	**83.457.154**

NOTE 31 - RELATED PARTY BALANCES AND TRANSACTIONS

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

(i) Balances with related parties

Balances with related parties represent balances with shareholders and state controlled entities.

	31 December 2012	31 December 2011
Assets:		
Financial assets at fair value through profit or loss [1]	8.459.709	7.816.532
Due from banks [2]	16.793.241	28.888.360
Liabilities:		
Due to banks [3]	74.801.268	54.353.054
Other deposits [4]	18.326.327	19.460.270

[1] Includes government bonds issued by Turkish Treasury.
[2] Includes receivables from shareholders as part of securities purchased under agreements to resell and interbank foreign currency transactions.
[3] Includes required reserve deposits of shareholders.
[4] Includes deposits of state controlled entities and Turkish Treasury.

The Central Bank of the Republic of Turkey

Notes to the Financial Statements as of 31 December 2012

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

(ii) Transactions with related parties

	2012	2011
Salaries and other short-term benefits to key management	4.424	3.935
Interest income (1)	818.197	633.387
Interest expense (2)	346.550	116.883
Fee and commission income (3)	168.922	78.569
Dividends paid to shareholders	5.752.588	857.143
Dividends paid to employees	8.785	8.127

(1) Includes interest income of government bonds issued by Turkish Treasury.
(2) Includes interest expense paid on deposits of shareholders.
(3) Includes Electronic Fund Transfer commissions from shareholders of the Bank and commission and charges due from Treasury and state controlled entities.

NOTE 32 - SUBSEQUENT EVENTS

None.

3.4. Audit at the CBRT and Audit Reports

3.4.1. Audit at the Bank

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 the Bank Law No. 1211.

Audits Conducted by the Internal Organs of the Bank

In accordance with Article 15 of the Bank Law, the General Assembly examines and resolves whether to approve 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. The General Assembly completes the monitoring of the Bank activities every year by clearing the Board of the Bank and the Auditing Committee.

In accordance with Article 24 of the Bank Law, the Auditing Committee supervises all the Bank operations and accounts and submits a report at the end of the year to the General Assembly that draws on the Bank's operations and accounts. Under the authority of the Bank's Law, the Auditing Committee has the responsibility to submit its written opinions to the Board and also to present a copy thereof to the Prime Ministry.

According to Articles 49 and 50 of the Regulation on the Organization and Duties of the Bank, the authority of and responsibility for auditing the Bank's transactions are entrusted with the Audit Department.

The Department has the duty and authority to conduct audits, examinations and research, carry out investigations and offer consulting services when needed in the units, branches and representative offices of the Bank and also at institutions and organizations other than the Bank that fall within the scope of authorities and duties granted by Law No. 1211 as well as other legislations.

The Audit Department is composed of 18 chief inspectors, 6 chief auditors, 10 inspectors, 2 auditors, 3 IT auditors, 9 authorized assistant auditors, 15 assistant auditors and 2 IT assistant auditors. Among those, one chief inspector and one chief auditor are assigned to assist the Head of the Department in the conduct of his duties.

The quality assurance review conducted by external auditors in 2011 certified that the internal audit activities of the Audit Department conform to the International Standards for the Professional Practice of Internal Auditing (Standards) and are parallel with global best practices.

The system of "Follow-up of Audit Results", which was established to monitor whether the necessary actions are taken regarding the issues in the audit reports, to inform and take opinions of the Executive Committee, the Board and the Auditing Committee, was held in May and December of this year.

Audits Conducted by External Auditors

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

In accordance with Article 42 of the Bank Law, the Governor submits a report to the Council of Ministers on the operations of the Bank and the monetary policy followed and to be followed, each year in April and October. The Bank furnishes information regarding its operations to the Planning and Budget Commission of the Grand National Assembly of Turkey twice a year.

In accordance with the second paragraph of the same Article, the Bank may assign external auditors to audit the Bank's balance sheet and profit and loss statement. An independent external review of the Bank's accounts has been deemed as vital to the corporate governance of the Bank, and was first initiated in 2000. As part of the transparency and accountability principles adopted, the reports prepared following the audit engagements each year are made public via the Bank's website.

In addition to the audits, the Undersecretariat of Treasury, the State Supervisory Commission, the Turkish Court of Accounts, some ministries and other authorized government agencies may, through their auditors, conduct audits at the Bank on subjects related to their duties, if needed.

3.4.2. The Report of the Auditing Committee

CENTRAL BANK OF THE REPUBLIC OF TURKEY
JOINT STOCK COMPANY
AUDITING COMMITTEE

AUDITING COMMITTEE REPORT
FOR THE EIGHTY-FIRST ACCOUNTING YEAR OF THE
CENTRAL BANK OF THE REPUBLIC OF TURKEY

The Auditing Committee has thoroughly examined the activities and resulting statements of the 2012 Accounting Year of the Central Bank of the Republic of Turkey within the framework of the provisions of the related legislation, and concluded that:

Cash, gold holdings, foreign exchange banknotes and securities in the service and reserve vaults of the Head Office and Branches, which were subject to inspection and stock-taking, are in conformity with the records as well as the legal books, and these values are kept and administered in accordance with the instructions,
The books related to the Bank's accounts that are subject to declaration are maintained properly and are in conformity with Central Bank Law and the Articles of Association; furthermore, domestic loans extended by the Bank are within the limits set forth,

The balance sheet compiled by 31 December 2012 and "the Profit and Loss Statement" created for the period between 01/01/2012 and 31/12/2012 are in compliance with the rules of "Assessment" and the systematic principles of accounting stipulated by the Turkish Commercial Code, the Central Bank Law and the Tax Laws,
The financial tables compiled to present the financial situation of the Central Bank of the Republic of Turkey by 31 December 2012, and the results of activities relating to the year that ended on the same date are presented in an accurate, correct and clear manner pursuant to the Legislation in force in Turkey and the Central Bank Law,
A lawsuit regarding legal liability, which was filed by the Bank, is in the appeal process.

In conclusion, we hereby submit the Balance Sheet of 31 December 2012 and the Profit and Loss Statement for approval of the General Assembly.

Ankara, 08.03.2013

Mustafa Saim UYSAL
Auditing Committee Member

Prof. Dr. Hasan TÜREDİ
Auditing Committee Member

Yasin AYDIN
Auditing Committee Member

Ahmet Fethi TOPTAŞ
Auditing Committee Member

3.4.3. Independent Audit Report Drawn up in Compliance with the Central Bank Law and Related Legislation

To the Board of the Central Bank of the Republic of Turkey

Ankara

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 2012 and the related statement of income, statement of cash flows and statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Bank Management's responsibility for the financial statements

The Bank Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Law of the Central Bank of the Republic of Turkey and related legislation. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with The International Standards on Auditing. These standards require compliance with ethical principles and that the audit is conducted as planned to provide reasonable assurance regarding the absence of error.

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 judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Independent Auditor's Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2012 and the results of its operations and its cash flows for the year then ended in accordance with the Law of the Central Bank of the Republic of Turkey and related legislation.

Additional Paragraph for English Translation

The effect of the differences between the accounting principles summarized in Section I - A - (2) and the 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 and reflected in the accompanying financial statements. The accounting principles used in the preparation of the accompanying financial statements differ materially from IFRS. Accordingly, the accompanying financial statements are not intended to present the Bank's financial position and results of its operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of DELOITTE TOUCHE TOHMATSU LIMITED

Müjde Şehsuvaroğlu
Partner
İstanbul, 25 February 2013

3.4.4. Independent Audit Report Drawn up in Compliance with IFRS

To the Board of the Central Bank of the Republic of Turkey

Ankara

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 2012 and the related statement of income and comprehensive income, statement of cash flows and statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

The Bank Management's Responsibility for the Financial Statements

The Bank Management is responsible for the preparation and fair presentation of the 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 the 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

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. These standards require compliance with ethical principles and that the audit is conducted as planned to provide reasonable assurance regarding the absence of error.

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 judgment, 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.

Independent Auditor's Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2012 and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

İstanbul, 5 March 2013

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.

Member of DELOITTE TOUCHE TOHMATSU LIMITED

3.5. Turkey-IMF Monetary Relations

The Bank's liability to the IMF has had no balance since 31 December 2005. While the direct use of credit by the Treasury from the IMF was SDR 1,874 million as of the end of 2011, it decreased to SDR 562 million due to the redemption of SDR 1,312 million as of 31 December 2012. All redemptions will be completed as of 14 May 2013.

As of 31 December 2012, the IMF's holdings of Turkish Lira amounted to TL 5,192 million, equivalent to SDR 1,905 million, converted at the rate of TL/SDR parity determined by the IMF on 30 April 2012.

	TL	SDR
Number 1 account	9,919,953	3,639,500
Number 2 account	9,120	3,346
Securities account	5,182,470,645	1,901,495,122
	5,192,399,118	**1,905,137,968**

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 accounts and includes non-negotiable, non-interest bearing securities issued by the Treasury in favor of the IMF, which are payable on demand.

Central Bank of the Republic of Turkey Contact Details

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[3] The name has been changed to İstanbul International School of Central Banking after the publication of Turkish version of this report.

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