

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

FINANCIAL STATEMENTS

AT 31 DECEMBER 2010

TOGETHER WITH AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

To the Central Bank of the Republic of Turkey

1. We have audited the accompanying financial statements of the Central Bank of the Republic of Turkey (the "Bank") which comprise the balance sheet as of 31 December 2010 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.



Opinion

4. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank of the Republic of Turkey as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

A handwritten signature in black ink, appearing to read "Zeynep Uras".

Zeynep Uras, SMMM

Istanbul, 7 March 2011

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEETS

AT 31 DECEMBER

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

| | Notes | 2010 Thousand TL | 2009 Thousand TL | 2010 Million US\$ (*) | 2009 Million US\$ (*) |
|--|-------|------------------------|------------------------|-----------------------------|-----------------------------|
| ASSETS | | | | | |
| Cash and gold reserves | 6 | 8,927,630 | 6,874,235 | 5,775 | 4,565 |
| Due from banks | 7 | 25,930,729 | 43,063,546 | 16,773 | 28,600 |
| Financial assets at fair value through profit or loss | 8 | 118,165,968 | 104,665,581 | 76,433 | 69,513 |
| Loans and advances to customers | 9 | 711,370 | 512,318 | 460 | 340 |
| Available-for-sale financial assets | 10 | 418,052 | 373,071 | 270 | 248 |
| Property and equipment | 11 | 239,494 | 240,567 | 155 | 160 |
| Intangible assets | 12 | 5,530 | 4,964 | 4 | 3 |
| Other assets | 13 | 110,087 | 59,566 | 71 | 40 |
| Total assets | | 154,508,860 | 155,793,848 | 99,941 | 103,469 |
| LIABILITIES | | | | | |
| Currency in circulation | 14 | 48,937,560 | 38,340,278 | 31,654 | 25,463 |
| Due to banks | 15 | 56,190,942 | 46,893,296 | 36,346 | 31,144 |
| Other deposits | 16 | 33,718,573 | 43,388,367 | 21,810 | 28,816 |
| Due to International Monetary Fund ("IMF") | 17 | 8,315 | 8,201 | 5 | 5 |
| Other borrowed funds | 18 | 1,101,946 | 14,333,082 | 713 | 9,519 |
| Other liabilities | 19 | 923,899 | 875,278 | 597 | 581 |
| Taxes on income | 20 | - | 72,064 | - | 48 |
| Deferred income tax liability | 20 | 1,437,952 | 986,043 | 930 | 655 |
| Retirement benefit obligations | 21 | 82,084 | 76,247 | 53 | 51 |
| Total liabilities | | 142,401,271 | 144,972,856 | 92,108 | 96,282 |
| EQUITY | | | | | |
| Paid-in share capital | 28 | 47,464 | 47,464 | 31 | 32 |
| Retained earnings | | 11,695,995 | 10,437,717 | 7,566 | 6,932 |
| Other reserves | | 364,130 | 335,811 | 236 | 223 |
| Total equity | | 12,107,589 | 10,820,992 | 7,833 | 7,187 |
| Total liabilities and equity | | 154,508,860 | 155,793,848 | 99,941 | 103,469 |

Commitments and contingent liabilities 27

(*) US dollar ("US\$") amounts presented above are translated from TL for convenience purposes only, at the official US\$ bid rate announced by the Bank at 31 December 2010 and 2009, and therefore do not form part of these financial statements (Note 2.c.).

The notes on pages 6 to 52 are an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER

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

| | Notes | 2010 Thousand TL | 2009 Thousand TL | 2010 Million US\$ (*) | 2009 Million US\$ (*) |
|--|-------|------------------------|------------------------|-----------------------------|-----------------------------|
| Interest income | 22 | 4,168,425 | 6,054,774 | 2,696 | 3,913 |
| Interest expense | 22 | (2,865,742) | (4,065,190) | (1,854) | (2,627) |
| Net interest income | | 1,302,683 | 1,989,584 | 842 | 1,286 |
| Fee and commission income | 23 | 83,416 | 63,862 | 54 | 41 |
| Fee and commission expense | 23 | (10,471) | (9,782) | (7) | (6) |
| Net fee and commission income | | 72,945 | 54,080 | 47 | 35 |
| Dividend income | 24 | 18,955 | 4,841 | 12 | 3 |
| Net income/(expense) from financial assets at fair value through profit or loss | | 65,662 | (1,182,053) | 42 | (764) |
| Foreign exchange gains, net | 25 | 2,957,969 | 1,549,988 | 1,913 | 1,002 |
| Other operating income | | 4,032 | 1,050 | 3 | 1 |
| Impairment losses on loans and advances | 9 | (67,222) | 2,498 | (43) | 2 |
| Other operating expenses | 26 | (583,085) | (593,861) | (377) | (384) |
| Profit before income tax | | 3,771,939 | 1,826,127 | 2,439 | 1,181 |
| Income tax expense | 20 | (672,536) | (189,466) | (435) | (122) |
| Profit for the year | | 3,099,403 | 1,636,661 | 2,004 | 1,059 |

(*) US dollar ("US\$") amounts presented above are translated from TL for convenience purposes only, at the average of daily official US\$ bid rates announced by the Bank for the years ended 31 December 2010 and 2009, and therefore do not form part of these financial statements (Note 2.c.).

The notes on pages 6 to 52 are an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS 31 DECEMBER**

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

| | Notes | 2010 | 2009 |
|---|--------------|------------------|------------------|
| Net profit for the year | | 3,099,403 | 1,636,661 |
| Other comprehensive income | | | |
| Available-for-sale securities' net fair value gains | 10 | 29,781 | 49,505 |
| Deferred tax effect of available for sale securities' net fair value gains | 20 | (1,462) | (2,469) |
| Gains on demonetized banknotes | 14 | - | 1,489 |
| Total comprehensive income for the year | | 3,127,722 | 1,685,186 |

The notes on pages 6 to 52 are an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER

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

| | Share capital | | | Total paid-in share capital | Other reserves | Retained earnings | Total |
|---|------------------|--------------------------------|--|-----------------------------------|-------------------|----------------------|-------------------|
| | Share capital | Adjustment to share capital | | | | | |
| Balance at 1 January 2009 | 25 | 47,439 | | 47,464 | 287,286 | 10,139,250 | 10,474,000 |
| Cash dividends paid | - | - | | - | - | (1,338,194) | (1,338,194) |
| Total comprehensive income for the year ended 31 December 2009 | - | - | | - | 48,525 | 1,636,661 | 1,685,186 |
| Balance at 31 December 2009 | 25 | 47,439 | | 47,464 | 335,811 | 10,437,717 | 10,820,992 |
| Balance at 1 January 2010 | 25 | 47,439 | | 47,464 | 335,811 | 10,437,717 | 10,820,992 |
| Cash dividends paid | - | - | | - | - | (1,841,125) | (1,841,125) |
| Total comprehensive income for the year ended 31 December 2010 | - | - | | - | 28,319 | 3,099,403 | 3,127,722 |
| Balance at 31 December 2010 | 25 | 47,439 | | 47,464 | 364,130 | 11,695,995 | 12,107,589 |

The notes on pages 6 to 52 are an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENTS OF CASH FLOW FOR THE YEARS ENDED 31 DECEMBER

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

| | Notes | 2010 | 2009 |
|---|-------|---------------------|-------------------|
| Cash flows (used in)/from operating activities | | | |
| Net profit for the year | | 3,099,403 | 1,636,661 |
| Adjustment for: | | | |
| Depreciation of property and equipment | 11 | 17,105 | 15,564 |
| Amortization of intangible assets | 12 | 539 | 710 |
| Impairment losses on loans and advances | 9 | 67,222 | (2,498) |
| Foreign exchange gains/(losses) on provision for loan losses | 9 | (61,211) | 10,270 |
| Retirement benefit obligations | 21 | 11,029 | 11,351 |
| Interest income, net | 22 | (1,302,683) | (1,989,584) |
| Interest received | | 4,284,364 | 5,952,011 |
| Interest paid | | (3,156,481) | (4,615,553) |
| Dividend income | 24 | (18,955) | (4,841) |
| Commission income, net | 23 | (72,945) | (54,080) |
| Commission received | | 81,690 | 62,792 |
| Commission paid | | (10,455) | (8,988) |
| Increase in reserves due to demonetized banknotes | 14 | - | 1,489 |
| Income tax expense | 20 | 672,536 | 189,466 |
| Other non-cash items | | (5,093,955) | (1,209,345) |
| Cash flows from operating profits before changes in operating assets and liabilities | | (1,482,797) | (4,575) |
| Changes in operating assets and liabilities: | | | |
| Net (increase)/decrease in financial assets at fair value through profit or loss | | (9,328,272) | 9,141,699 |
| Net increase in loans and advances to customers | | (199,242) | (480,847) |
| Net (increase)/decrease in other assets | | (35,432) | 84,005 |
| Net increase in currency in circulation | | 10,597,282 | 6,596,844 |
| Net increase/(decrease) in due to banks | | 8,809,630 | (5,815,019) |
| Net (decrease)/increase in other deposits | | (10,463,386) | 5,000,087 |
| Net decrease in other liabilities | | (250,740) | (636,476) |
| Net cash (used in)/from operating activities | | (2,352,957) | 13,885,718 |
| Cash flows (used in)/from investing activities | | | |
| Purchase of property, equipment and intangible assets, net | 11,12 | (17,138) | (12,905) |
| Redemption of securities | | - | 336,889 |
| Dividends received | | 12,731 | 4,997 |
| Purchase of available for sale financial assets | 10 | (15,200) | - |
| Net cash (used in)/from investing activities | | (19,607) | 328,981 |
| Cash flows (used in)/from financing activities | | | |
| Repayments of borrowed funds and due to IMF | | (13,231,022) | 4,395,049 |
| Dividends paid | | (1,841,125) | (1,338,194) |
| Net cash (used in)/from financing activities | | (15,072,147) | 3,056,855 |
| Effects of exchange-rate changes on cash and cash equivalents | | 2,487,242 | 1,238,854 |
| Net (decrease)/increase in cash and cash equivalents | | (14,957,469) | 18,510,408 |
| Cash and cash equivalents at the beginning of year | 30 | 49,806,447 | 31,296,039 |
| Cash and cash equivalents at the end of year | 30 | 34,848,978 | 49,806,447 |

The notes on pages 6 to 52 are an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2010

(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 four foreign representatives. As at 31 December 2010, the Bank employed 4,396 people (2009: 4,419).

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

The fundamental duties of the Bank are;

- a) to carry out open market operations,
- b) to take necessary measures in order to protect the domestic and international value of the 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 exchange and banknotes, foreign exchange 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 exchange 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 AT 31 DECEMBER 2010

(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 the national currency of the Republic of Turkey.

These financial statements will be submitted to General Assembly of the Bank on 12 April 2011 after the approval of Board on 18 March 2011.

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.

Amendments to published standards and interpretations to existing standards effective 1 January 2010

The following amendments to published standards and interpretations to existing standards effective from 1 January 2010 are not relevant to the Bank's operations.

IFRS 3 (revised), "Business Combinations", and consequential amendments to IAS 27, "Consolidated and Separate Financial Statements", IAS 28, "Investments in Associates", and IAS 31, "Interests in Joint Ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

IFRIC 17, "Distribution to Non-cash Assets to Owners" (Effective from 1 July 2009). The standard addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognised when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss. Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation.

IFRIC 18, "Transfers of Assets from Customers" (Effective from 1 July 2009). The standard clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 2 - BASIS OF PRESENTATION (Continued)

IFRIC 9, "Reassessment of Embedded Derivatives" and IAS 39, "Financial Instruments: Recognition and Measurement", (Effective from 1 July 2009). This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category.

IFRIC 16, "Hedges of a Net Investment in a Foreign Operation" (Effective from 1 July 2009). This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.

IAS 1 (amendment), "Presentation of Financial Statements" (Effective from 1 January 2010). The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least twelve months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

IAS 36 (amendment), "Impairment of Assets", (Effective from 1 January 2010). The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, "Operating Segments" (that is, before the aggregation of segments with similar economic characteristics).

IFRS 2 (amendments), "Group Cash-settled Share-based Payment Transactions", (Effective from 1 January 2010). In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 - Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

IFRS 5 (amendment), "Non-current Assets Held for Sale and Discontinued Operations" (Effective from 1 January 2010). The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

IAS 39, "Financial Instruments: Recognition and Measurement - Eligible Hedged Items" (Amendment) (Effective from 1 July 2009). The amendment provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 2 - BASIS OF PRESENTATION (Continued)

Standards, amendments and interpretations to existing standards that are not yet effective

Standards, amendments and interpretations to existing standards that are relevant to the Bank's operations and are not yet effective and have not been early adopted by the Bank

IFRS 9, "Financial Instruments Part 1: Classification and Measurement" (Effective from 1 January 2013). IFRS 9 was issued in November 2010 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

IAS 24 (revised), "Related Party Disclosures", issued in November 2009. It supersedes IAS 24, "Related Party Disclosures", issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011. Earlier application, in whole or in part, is permitted.

Interpretations and amendments to existing standards that are not yet effective and not relevant for the Bank's operations

IAS 32 (amendment) "Classification of Rights Issues", issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted.

IFRIC 14 (amendment), "Prepayments of a Minimum Funding Requirement" issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 2 - BASIS OF PRESENTATION (Continued)

IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments". This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.

(b) Accounting for the effect of hyperinflation

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

(c) US\$ translation

US\$ amounts shown in the balance sheets are translated from TL for convenience purposes only, at the official bid rates announced by the Bank on 31 December 2010 and 2009 of TL1.5460 = US\$1 (2009: TL1.5057 = US\$1) and US\$ amounts shown in the income statements are translated 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 years ended 31 December 2010 and 2009 of TL1.5001 = US\$1 (2009: TL1.5474 = 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

(i) Functional and presentation currency

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

(ii) Foreign currency transactions and balances

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) *Exchange rates*

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

| | 2010 | 2009 |
|------------------------------------|--------|--------|
| US Dollar ("US\$") | 1.5460 | 1.5057 |
| Euro ("EUR") | 2.0491 | 2.1603 |
| Swiss Franc ("CHF") | 1.6438 | 1.4492 |
| Great Britain Pound ("GBP") | 2.3886 | 2.3892 |
| Japanese Yen ("JPY") | 0.0189 | 0.0163 |
| Special Drawing Rights ("SDR") (*) | 2.3935 | 2.3650 |

- (*) 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 expense is recognized in the income statement for all interest bearing instruments measured at amortized cost using the effective interest rate method.

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

(c) *Fee and commission income*

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

(d) *Income taxes*

(i) *Income taxes currently payable*

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

Taxes other than on income are recorded within other operating expenses (Note 26).

(ii) *Deferred income taxes*

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

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred income tax assets resulting from temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilized (Note 20).

(e) Gold

(i) Gold bullion

Gold bullion consists of the stocks of gold bars of international standard and non-international standard held at the Bank and held with correspondents. Gold is held by the Bank as part of its foreign reserves and presently represents 6.3% (2009: 5.7%) of aggregate foreign reserves. The Bank has no present intention to dispose of any of its existing gold reserve stocks as the Bank maintains the gold reserve as a part of its foreign reserve management. Gold bullion is recorded in physical weight in troy ounces.

Gold is initially recorded at the prevailing rates at recognition date, excluding transaction costs. Subsequent to initial measurement, it is measured at fair value. Fair value is the amount which could be realized from the sale of an asset in an arm's length transaction between knowledgeable, willing parties and is calculated based on the fixing of the London Bullion Market in US\$, converted to 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 at 31 December 2010 was TL2,180 per troy ounce (2009: TL1,662 per troy ounce).

(ii) Gold coins

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

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

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

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the interest rate at inception.

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

(h) Investment securities

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

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

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

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

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

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AT 31 DECEMBER 2010

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

(i) Offsetting financial instruments

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

(j) Sale and repurchase agreements

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

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

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Money issuance

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

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

(l) Financial liabilities

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

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

(m) Property and equipment

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

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

Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Expenditure for the repair and renewal of property and equipment is charged against income.

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

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amount and these are included in other operating expenses in the income statement.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2010

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Intangible assets

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

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

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

(o) Banknotes and coins in circulation

(i) 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.

(ii) 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 the working hours 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.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2010

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank has no banknotes in circulation which ceased to be redeemable during the year 2010. As of 31 December 2009, the Bank has recorded gain under equity reserves in the amount of TL1,489 thousand since the legal redemption period of banknotes in the same amount has been expired as of 31 December 2009 (Note 14).

(p) Provisions

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

(q) Retirement benefit obligations

Retirement benefit obligations represent the present value of the estimated total reserve for the future probable obligation of the Bank arising from the retirement of the employees, calculated in accordance with the Turkish Labor Law and IFRS (Note 21).

(r) Related parties

For the purpose of these financial statements the shareholders of the Bank together with state-controlled entities in Turkey are considered and referred to as related parties (Note 31).

(s) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with an original maturity of less than three months including cash, gold reserves and current accounts with banks (Note 30).

(t) Appropriations

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2010

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Comparatives

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

(v) 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 2010 and 2009 is as follows:

| | 2010 | 2009 |
|----------------------------|--------------------|--------------------|
| Securities held in custody | 341,418,083 | 314,651,258 |
| | 341,418,083 | 314,651,258 |

NOTE 4 - FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

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

Foreign exchange deposits placed with the Bank and foreign exchange acquired by the Bank through regular auctions and direct purchases constitute the sources of foreign exchange reserves of the Bank. The Bank holds foreign exchange reserves both for its own foreign exchange 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 subjects its foreign exchange 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 exchange 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 exchange reserves are the outcome of an investment choice. Nevertheless, the Bank endeavors to minimize such risks by managing them with a conservative approach.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Foreign exchange reserves are managed by observing the investment criteria defined in the Foreign Exchange Reserve Management Guidelines ("the Guideline") approved by the Board and in compliance with the targets and limits stipulated in the Strategic Benchmark Portfolio ("SBP"), which is set at the end of each year by the Foreign Exchange Risk and Investment Committee and put into force the following year upon the approval of the Executive Committee.

(b) Credit risk

During its financial operations, the Bank is exposed to credit risk, defined as the probability of 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 exchange reserve management. Although the credit risk faced during the implementation of monetary policy and Intra-Day Limit transactions is an inevitable risk, such risks are managed by securing the entire transaction amount, also including a certain amount of margin, by assets that have high credit quality and are tradable in secondary markets (foreign exchange deposits, government securities and securities issued by the treasuries of developed countries), and through monitoring the existing risks regularly and requesting additional collateral, when necessary.

The management of the credit risk that the Bank is exposed to during the foreign exchange reserve management is based on the principle of minimizing 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 exchange 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, 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 and each institution is granted a certain credit risk limit in view of their capital size and credit quality. In all transactions executed with these institutions, credit risk 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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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Total assets of the Bank exposed to credit risk as of 31 December 2010 and 2009 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 2010 | | 31 December 2009 | |
|--|--------------------|--------------|--------------------|--------------|
| | TL | Share (%) | TL | Share (%) |
| Due from banks | 25,930,729 | 18 | 43,063,546 | 29 |
| - Demand Deposits | 5,142,868 | 4 | 5,622,665 | 4 |
| Central Banks | 2,419,222 | 2 | 3,182,430 | 2 |
| Supranational Institutions | 2,528,098 | 2 | 2,294,082 | 2 |
| Foreign Commercial Banks | 195,548 | <1 | 146,153 | <1 |
| - Time Deposits | 8,780,914 | 6 | 4,089,434 | 3 |
| Central Banks | 2,865,356 | 2 | 742,764 | <1 |
| Supranational Institutions | 4,597,768 | 3 | 2,520,323 | 2 |
| Foreign Commercial Banks | 1,317,790 | 1 | 826,347 | 1 |
| Aaa | 1,317,790 | 1 | 389,509 | <1 |
| Aa1 | - | - | - | - |
| Aa2 | - | - | 436,838 | <1 |
| - Funds lent under reverse repurchase transactions | 12,006,947 | 8 | 33,351,447 | 22 |
| Domestic Commercial Banks | 12,006,947 | 8 | 33,351,447 | 22 |
| Financial assets at fair value through profit or loss | 118,165,968 | 81 | 104,665,581 | 71 |
| Foreign Country | | | | |
| Treasury | 105,527,187 | 73 | 91,016,528 | 61 |
| Aaa | 100,011,927 | 69 | 89,829,169 | 60 |
| Aa1 | 5,515,260 | 4 | 1,187,359 | 1 |
| Supranational Institutions | 4,615,803 | 3 | 4,940,751 | 4 |
| Turkish Treasury | 8,022,978 | 5 | 8,708,302 | 6 |
| Loans and advances to customers | 711,370 | <1 | 512,318 | <1 |
| Available-for-sale financial assets | 418,052 | <1 | 373,071 | <1 |
| Supranational Institutions | 418,052 | <1 | 373,071 | <1 |
| Other assets | 16,947 | <1 | 8,346 | <1 |
| Total | 145,243,066 | 100 | 148,622,862 | 100 |

Although the Turkish Government bonds issued by the Turkish Treasury are included in the above table, the Bank does not consider its receivables from the Turkish Treasury as risky in terms of credit risk and therefore does not take these assets into account when calculating its credit risk exposures. Similarly, the deposits placed with domestic commercial banks for the purpose of monetary policy implementations are also excluded when calculating credit risk exposures because of the fully collateralized nature of these transactions as previously explained. As of 31 December 2010, the Bank has deposits amounting to TL12,006,947 thousand (2009: TL33,130,033 thousand) placed with domestic commercial banks as part of reverse repurchase agreements. As of 31 December 2009, the Bank has foreign exchange market operations amounting to TL221,414 thousand classified under "Due from banks". The fair value of the security collaterals obtained for the deposits placed under reverse repurchase agreement as of 31 December 2010 is TL11,641,002 thousand (2009: TL32,683,414 thousand). In addition, as of 31 December 2009, the Bank has security collaterals amounting to TL7,126,898 thousand obtained for all foreign exchange and banknotes markets operations including the placed deposits under foreign exchange deposit market operations amounting to TL221,414 thousand. As of 31 December 2010 and 2009, the security collaterals are the Turkish Government bonds issued by the Turkish Treasury.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The sectoral classifications of the Bank's credit exposure as of 31 December 2010 and 2009 are as follows:

| | 31 December 2010 | | | | | | |
|--|--------------------------------|-----------------------------|--|---------------------------------------|--------------------------------------|---------------------|--------------------|
| | Foreign Country Treasury | Foreign Central Banks | Supranational Financial Institutions | Domestic Financial Institutions | Foreign Financial Institutions | Turkish Treasury | Total |
| Due from banks | - | 5,284,578 | 7,125,866 | 12,006,947 | 1,513,338 | - | 25,930,729 |
| Financial assets at fair value through profit or loss | 105,527,187 | - | 4,615,803 | - | - | 8,022,978 | 118,165,968 |
| Loans and advances to customers | - | 22,025 | - | 689,345 | - | - | 711,370 |
| Available-for-sale financial assets | - | - | 418,052 | - | - | - | 418,052 |
| Other assets | - | - | 10,723 | 6,224 | - | - | 16,947 |
| Total | 105,527,187 | 5,306,603 | 12,170,444 | 12,702,516 | 1,513,338 | 8,022,978 | 145,243,066 |

| | 31 December 2009 | | | | | | |
|--|--------------------------------|-----------------------------|--|---------------------------------------|--------------------------------------|---------------------|--------------------|
| | Foreign Country Treasury | Foreign Central Banks | Supranational Financial Institutions | Domestic Financial Institutions | Foreign Financial Institutions | Turkish Treasury | Total |
| Due from banks | - | 3,925,194 | 4,814,405 | 33,351,447 | 972,500 | - | 43,063,546 |
| Financial assets at fair value through profit or loss | 91,016,528 | - | 4,940,751 | - | - | 8,708,302 | 104,665,581 |
| Loans and advances to customers | - | 26,482 | - | 485,836 | - | - | 512,318 |
| Available-for-sale financial assets | - | - | 373,071 | - | - | - | 373,071 |
| Other assets | - | - | 3,864 | 4,482 | - | - | 8,346 |
| Total | 91,016,528 | 3,951,676 | 10,132,091 | 33,841,765 | 972,500 | 8,708,302 | 148,622,862 |

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 2010 and 2009.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2010

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Geographical concentrations of assets, liabilities and off-balance sheet items of the Bank as of 31 December 2010 and 2009 are as follows:

| | 31 December 2010 | | | | | |
|--|----------------------|--------------------------------|-------------------|----------------------|--------------------|--------------------|
| | Turkey | Other European Countries | Canada and US | South - East Asia | Other Countries | Total |
| Cash and gold reserves | 2,687,893 | 3,990,573 | 2,246,968 | 126 | 2,070 | 8,927,630 |
| Due from banks | 12,006,947 | 11,906,264 | 1,010,384 | 1,001,684 | 5,450 | 25,930,729 |
| Financial assets at fair value through profit or loss | 8,022,978 | 61,492,008 | 48,650,982 | - | - | 118,165,968 |
| Loans and advances to customers | 689,345 | 4,370 | - | - | 17,655 | 711,370 |
| Available-for-sale financial assets | - | 402,592 | - | 15,460 | - | 418,052 |
| Property and equipment | 239,494 | - | - | - | - | 239,494 |
| Intangible assets | 5,530 | - | - | - | - | 5,530 |
| Other assets | 99,364 | 10,723 | - | - | - | 110,087 |
| Total assets | 23,751,551 | 77,806,530 | 51,908,334 | 1,017,270 | 25,175 | 154,508,860 |
| Currency in circulation | 48,937,560 | - | - | - | - | 48,937,560 |
| Due to banks | 56,182,967 | 1 | 7,381 | 593 | - | 56,190,942 |
| Other deposits | 15,597,411 | 18,121,162 | - | - | - | 33,718,573 |
| Due to IMF | - | - | 8,315 | - | - | 8,315 |
| Other borrowed funds | 1,101,946 | - | - | - | - | 1,101,946 |
| Other liabilities | 138,072 | 193,405 | 591,256 | - | 1,166 | 923,899 |
| Deferred income tax liability | 1,437,952 | - | - | - | - | 1,437,952 |
| Retirement benefit obligations | 82,084 | - | - | - | - | 82,084 |
| Equity | 12,107,589 | - | - | - | - | 12,107,589 |
| Total liabilities and equity | 135,585,581 | 18,314,568 | 606,952 | 593 | 1,166 | 154,508,860 |
| Net balance sheet position | (111,834,030) | 59,491,962 | 51,301,382 | 1,016,677 | 24,009 | - |
| Off-balance sheet commitments | 20,599,438 | 71,805 | - | - | - | 20,671,243 |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

| | 31 December 2009 | | | | | Total |
|---|---------------------|--------------------------|-------------------|-------------------|-----------------|--------------------|
| | Turkey | Other European Countries | Canada and US | South - East Asia | Other Countries | |
| Cash and gold reserves | 2,468,687 | 2,872,273 | 1,533,275 | - | - | 6,874,235 |
| Due from banks | 33,351,447 | 4,192,676 | 4,277,533 | 1,234,864 | 7,026 | 43,063,546 |
| Financial assets at fair value through profit or loss | 8,708,302 | 49,964,855 | 45,992,424 | - | - | 104,665,581 |
| Loans and advances to customers | 485,836 | 5,085 | - | - | 21,397 | 512,318 |
| Available-for-sale financial assets | - | 373,071 | - | - | - | 373,071 |
| Property and equipment | 240,567 | - | - | - | - | 240,567 |
| Intangible assets | 4,964 | - | - | - | - | 4,964 |
| Other assets | 55,702 | 3,864 | - | - | - | 59,566 |
| Total assets | 45,315,505 | 57,411,824 | 51,803,232 | 1,234,864 | 28,423 | 155,793,848 |
| Currency in circulation | 38,340,278 | - | - | - | - | 38,340,278 |
| Due to banks | 46,883,961 | 2 | - | 9,333 | - | 46,893,296 |
| Other deposits | 23,312,192 | 20,076,175 | - | - | - | 43,388,367 |
| Due to IMF | - | - | 8,201 | - | - | 8,201 |
| Other borrowed funds | 14,333,082 | - | - | - | - | 14,333,082 |
| Other liabilities | 98,899 | 155,908 | 619,186 | 445 | 840 | 875,278 |
| Taxes on income | 72,064 | - | - | - | - | 72,064 |
| Deferred income tax liability | 986,043 | - | - | - | - | 986,043 |
| Retirement benefit obligations | 76,247 | - | - | - | - | 76,247 |
| Equity | 10,820,992 | - | - | - | - | 10,820,992 |
| Total liabilities and equity | 134,923,758 | 20,232,085 | 627,387 | 9,778 | 840 | 155,793,848 |
| Net balance sheet position | (89,608,253) | 37,179,739 | 51,175,845 | 1,225,086 | 27,583 | - |
| Off-balance sheet commitments | 25,803,223 | 70,950 | - | - | - | 25,874,173 |

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

Restructuring activities mainly include extended 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.

There are no financial assets that are past due but not impaired at 31 December 2010 and 2009; therefore, there are no collaterals held against such past due financial assets.

As of 31 December 2010 and 2009, the Bank has no assets held for resale.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(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 exchange 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 exchange liabilities on the Bank's balance sheet. Within the framework of this approach, the SBP is set each year to reflect the Bank's risk tolerance. The Bank strives to minimize the market risk by setting targets for currency composition and duration which are the basic variables of the SBP and by setting limits to control deviations from these targets.

(d) Currency risk

The Bank is exposed to currency risk as it holds a foreign exchange position for the purpose of implementing exchange rate policy and achieving other policy targets. Exchange rate risk, which arises from 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 policies implemented. However, the distribution of net positions in terms of currencies also affects the foreign exchange rate risk exposure of the Bank as a result of the volatilities in cross rates.

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The net foreign currency position of the Bank as of 31 December 2010 and 2009 is summarized below. The table presented below provides the Bank's assets, liabilities, and equity at carrying amounts, categorized by currency:

| | 31 December 2010 | | | | | | | | TL | TOTAL |
|-------------------------------------|-------------------|-------------------|------------------|----------------|------------------|------------------|---------------|--------------------|---------------------|--------------------|
| | US\$ | EUR | JPY | CHF | GBP | SDR | Other | Total | | |
| Cash and gold reserves | 8,595,903 | 210,142 | 126 | 7,755 | 5,431 | - | 3,327 | 8,822,684 | 104,946 | 8,927,630 |
| Due from banks | 8,520,965 | 1,468,365 | 1,002,178 | 193,788 | 308,999 | 2,323,008 | 22,903 | 13,840,206 | 12,090,523 | 25,930,729 |
| Financial assets at fair value | | | | | | | | | | |
| through profit or loss | 48,650,982 | 60,132,142 | - | - | 1,359,866 | - | - | 110,142,990 | 8,022,978 | 118,165,968 |
| Loans and advances to customers | 507,105 | 204,265 | - | - | - | - | - | 711,370 | - | 711,370 |
| Available-for-sale | | | | | | | | | | |
| financial assets | 15,460 | 51 | - | - | - | 402,541 | - | 418,052 | - | 418,052 |
| Property and equipment | - | - | - | - | - | - | - | - | 239,494 | 239,494 |
| Intangible assets | - | - | - | - | - | - | - | - | 5,530 | 5,530 |
| Other assets | 74 | 137 | 726 | - | 75 | 10,723 | - | 11,735 | 98,352 | 110,087 |
| Total assets | 66,290,489 | 62,015,102 | 1,003,030 | 201,543 | 1,674,371 | 2,736,272 | 26,230 | 133,947,037 | 20,561,823 | 154,508,860 |
| Currency in circulation | - | - | - | - | - | - | - | - | 48,937,560 | 48,937,560 |
| Due to banks | 11,627,543 | 17,635,129 | - | - | 81,876 | - | - | 29,344,548 | 26,846,394 | 56,190,942 |
| Other deposits | 4,266,378 | 21,284,536 | 6,772 | 79,117 | 6,180 | 2,295,421 | 8 | 27,938,412 | 5,780,161 | 33,718,573 |
| Due to IMF | - | - | - | - | - | 8,315 | - | 8,315 | - | 8,315 |
| Other borrowed funds | - | - | - | - | - | - | - | - | 1,101,946 | 1,101,946 |
| Other liabilities | 619,958 | 167,102 | - | 4,734 | 19,830 | - | 58 | 811,682 | 112,217 | 923,899 |
| Deferred income tax liability | - | - | - | - | - | - | - | - | 1,437,952 | 1,437,952 |
| Retirement benefit obligations | - | - | - | - | - | - | - | - | 82,084 | 82,084 |
| Equity | - | - | - | - | - | - | - | - | 12,107,589 | 12,107,589 |
| Total liabilities and equity | 16,513,879 | 39,086,767 | 6,772 | 83,851 | 107,886 | 2,303,736 | 66 | 58,102,957 | 96,405,903 | 154,508,860 |
| Net balance sheet position | 49,776,610 | 22,928,335 | 996,258 | 117,692 | 1,566,485 | 432,536 | 26,164 | 75,844,080 | (75,844,080) | - |

| | 31 December 2009 | | | | | | | | TL | TOTAL |
|-------------------------------------|-------------------|-------------------|------------------|----------------|------------------|------------------|---------------|--------------------|---------------------|--------------------|
| | US\$ | EUR | JPY | CHF | GBP | SDR | Other | Total | | |
| Cash and gold reserves | 6,523,536 | 237,216 | 90 | 7,988 | 13,795 | - | 3,194 | 6,785,819 | 88,416 | 6,874,235 |
| Due from banks | 4,481,984 | 1,476,183 | 1,234,437 | 136,592 | 230,376 | 2,292,978 | 18,610 | 9,871,160 | 33,192,386 | 43,063,546 |
| Financial assets at fair value | | | | | | | | | | |
| through profit or loss | 45,992,424 | 48,431,385 | - | - | 1,533,470 | - | - | 95,957,279 | 8,708,302 | 104,665,581 |
| Loans and advances to customers | 410,547 | 101,771 | - | - | - | - | - | 512,318 | - | 512,318 |
| Available-for-sale | | | | | | | | | | |
| financial assets | - | 48 | - | - | - | 373,023 | - | 373,071 | - | 373,071 |
| Property and equipment | - | - | - | - | - | - | - | - | 240,567 | 240,567 |
| Intangible assets | - | - | - | - | - | - | - | - | 4,964 | 4,964 |
| Other assets | 87 | 145 | - | - | 223 | 3,864 | 632 | 4,951 | 54,615 | 59,566 |
| Total assets | 57,408,578 | 50,246,748 | 1,234,527 | 144,580 | 1,777,864 | 2,669,865 | 22,436 | 113,504,598 | 42,289,250 | 155,793,848 |
| Currency in circulation | - | - | - | - | - | - | - | - | 38,340,278 | 38,340,278 |
| Due to banks | 8,201,311 | 12,026,456 | - | - | 245,914 | - | - | 20,473,681 | 26,419,615 | 46,893,296 |
| Other deposits | 8,209,830 | 27,655,016 | 3,863 | 76,521 | 51,870 | 2,268,089 | 16 | 38,265,205 | 5,123,162 | 43,388,367 |
| Due to IMF | - | - | - | - | - | 8,201 | - | 8,201 | - | 8,201 |
| Other borrowed funds | - | - | - | - | - | - | - | - | 14,333,082 | 14,333,082 |
| Other liabilities | 595,804 | 171,978 | 29 | 2,427 | 5,774 | - | 970 | 776,982 | 98,296 | 875,278 |
| Taxes on income | - | - | - | - | - | - | - | - | 72,064 | 72,064 |
| Deferred income tax liability | - | - | - | - | - | - | - | - | 986,043 | 986,043 |
| Retirement benefit obligations | - | - | - | - | - | - | - | - | 76,247 | 76,247 |
| Equity | - | - | - | - | - | - | - | - | 10,820,992 | 10,820,992 |
| Total liabilities and equity | 17,006,945 | 39,853,450 | 3,892 | 78,948 | 303,558 | 2,276,290 | 986 | 59,524,069 | 96,269,779 | 155,793,848 |
| Net balance sheet position | 40,401,633 | 10,393,298 | 1,230,635 | 65,632 | 1,474,306 | 393,575 | 21,450 | 53,980,529 | (53,980,529) | - |

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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 hypothetical loss that would occur in the total market value of the net foreign exchange positions of the Bank as of 31 December 2010 and 2009 under such an assumption is presented in the tables below:

Sensitivity of the net foreign exchange position:

| | 31 December 2010 | | | | | | | | TL | TOTAL |
|---|--------------------|--------------------|-----------------|------------------|------------------|-----------------|----------------|--------------------|---------------------|--------------------|
| | US\$ | EUR | JPY | Foreign currency | | CHF | GBP | SDR | Other | Total |
| Total assets | 66,290,489 | 62,015,102 | 1,003,030 | 201,543 | 1,674,371 | 2,736,272 | 26,230 | 133,947,037 | 20,561,823 | 154,508,860 |
| Total liabilities | 16,513,879 | 39,086,767 | 6,772 | 83,851 | 107,886 | 2,303,736 | 66 | 58,102,957 | 96,405,903 | 154,508,860 |
| Net balance sheet position | 49,776,610 | 22,928,335 | 996,258 | 117,692 | 1,566,485 | 432,536 | 26,164 | 75,844,080 | (75,844,080) | - |
| Scenario of 10% appreciation of TL | (4,977,661) | (2,292,834) | (99,626) | (11,769) | (156,648) | (43,254) | (2,616) | (7,584,408) | - | (7,584,408) |

| | 31 December 2009 | | | | | | | | TL | TOTAL |
|---|--------------------|--------------------|------------------|------------------|------------------|-----------------|----------------|--------------------|---------------------|--------------------|
| | US\$ | EUR | JPY | Foreign currency | | CHF | GBP | SDR | Other | Total |
| Total assets | 57,408,578 | 50,246,748 | 1,234,527 | 144,580 | 1,777,864 | 2,669,865 | 22,436 | 113,504,598 | 42,289,250 | 155,793,848 |
| Total liabilities | 17,006,945 | 39,853,450 | 3,892 | 78,948 | 303,558 | 2,276,290 | 986 | 59,524,069 | 96,269,779 | 155,793,848 |
| Net balance sheet position | 40,401,633 | 10,393,298 | 1,230,635 | 65,632 | 1,474,306 | 393,575 | 21,450 | 53,980,529 | (53,980,529) | - |
| Scenario of 10% appreciation of TL | (4,040,163) | (1,039,330) | (123,063) | (6,563) | (147,431) | (39,358) | (2,145) | (5,398,053) | - | (5,398,053) |

(e) Interest rate risk

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

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NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The tables below summarize the Bank's exposure to interest rate risk at 31 December 2010 and 2009, for TL and foreign currency denominated assets and liabilities. Included in the tables are the Bank's assets and liabilities in carrying amounts classified in terms of time remaining to contractual re-pricing dates or maturity.

| | 31 December 2010 | | | | | | | | | | | | | |
|---|------------------|-------------------------|--------------------|--------------|-------------------|----------------------|-------------|---------------|-------------------------|--------------------|--------------|-------------------|----------------------|--------------|
| | Foreign currency | | | | | | | TL | | | | | | |
| | Up to 1 month | 1 to 3 months to 1 year | 3 months to 1 year | 1 to 5 years | More than 5 years | Non-interest bearing | Total | Up to 1 month | 1 to 3 months to 1 year | 3 months to 1 year | 1 to 5 years | More than 5 years | Non-interest bearing | Total |
| Cash and gold reserves | - | - | - | - | - | 8,822,684 | 8,822,684 | - | - | - | - | - | 104,946 | 104,946 |
| Due from banks | 4,990,276 | 3,790,637 | - | - | - | 5,059,293 | 13,840,206 | 12,006,947 | 9,283 | - | - | - | 74,293 | 12,090,523 |
| Financial assets at fair value through profit or loss | 10,759,935 | 24,107,312 | 49,640,544 | 25,260,325 | 374,874 | - | 110,142,990 | 7,348,884 | 674,094 | - | - | - | - | 8,022,978 |
| Loans and advances to customers | - | 608,990 | 85,538 | 9,425 | 7,417 | - | 711,370 | - | - | - | - | - | - | - |
| Available-for-sale financial assets | - | - | - | - | - | 418,052 | 418,052 | - | - | - | - | - | - | - |
| Property and equipment | - | - | - | - | - | - | - | - | - | - | - | - | 239,494 | 239,494 |
| Intangible assets | - | - | - | - | - | - | - | - | - | - | - | - | 5,530 | 5,530 |
| Other assets | - | - | 10,723 | - | - | 1,012 | 11,735 | 5,077 | 1,477 | 57,665 | 1,534 | - | 32,599 | 98,352 |
| Total assets | 15,750,211 | 28,506,939 | 49,736,805 | 25,269,750 | 382,291 | 14,301,041 | 133,947,037 | 19,360,908 | 684,854 | 57,665 | 1,534 | - | 456,862 | 20,561,823 |
| Currency in circulation | - | - | - | - | - | - | - | - | - | - | - | - | 48,937,560 | 48,937,560 |
| Due to banks | - | - | - | - | - | 29,344,548 | 29,344,548 | 26,838,175 | - | - | - | - | 8,219 | 26,846,394 |
| Other deposits | 632,487 | 980,361 | 6,710,653 | 9,797,662 | - | 9,817,249 | 27,938,412 | - | - | - | - | - | 5,780,161 | 5,780,161 |
| Due to IMF | - | 1,628 | - | - | - | 6,687 | 8,315 | - | - | - | - | - | - | 8,315 |
| Other borrowed funds | - | - | - | - | - | - | - | 1,101,946 | - | - | - | - | - | 1,101,946 |
| Other liabilities | 4,409 | - | 754,907 | - | - | 52,366 | 811,682 | 69,168 | - | 23,253 | - | - | 19,796 | 112,217 |
| Deferred income tax liability | - | - | - | - | - | - | - | - | - | - | - | - | 1,437,952 | 1,437,952 |
| Retirement benefit obligations | - | - | - | - | - | - | - | - | - | - | - | - | 82,084 | 82,084 |
| Equity | - | - | - | - | - | - | - | - | - | - | - | - | 12,107,589 | 12,107,589 |
| Total liabilities and equity | 636,896 | 981,989 | 7,465,560 | 9,797,662 | - | 39,220,850 | 58,102,957 | 28,009,289 | - | 23,253 | - | - | 68,373,361 | 96,405,903 |
| Net repricing gap | 15,113,315 | 27,524,950 | 42,271,245 | 15,472,088 | 382,291 | (24,919,809) | 75,844,080 | (8,648,381) | 684,854 | 34,412 | 1,534 | - | (67,916,499) | (75,844,080) |

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NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

| | 31 December 2009 | | | | | | | | | | | | |
|---|-------------------|-------------------------|-------------------|-------------------|----------------------|---------------------|--------------------|-------------------------|------------------|-------------------|----------------------|---------------------|--------------------|
| | Foreign currency | | | | | | TL | | | | | | |
| | Up to 1 month | 1 to 3 months to 1 year | 1 to 5 years | More than 5 years | Non-interest bearing | Total | Up to 1 month | 1 to 3 months to 1 year | 1 to 5 years | More than 5 years | Non-interest bearing | Total | |
| Cash and gold reserves | - | - | - | - | 6,785,819 | 6,785,819 | - | - | - | - | 88,416 | 88,416 | 6,874,235 |
| Due from banks | 4,310,848 | - | - | - | 5,560,312 | 9,871,160 | 25,074,750 | 8,055,283 | - | - | 62,353 | 33,192,386 | 43,063,546 |
| Financial assets at fair value through profit or loss | 7,186,613 | 12,297,324 | 42,172,105 | 34,301,237 | - | 95,957,279 | 8,708,302 | - | - | - | - | 8,708,302 | 104,665,581 |
| Loans and advances to customers | - | 415,844 | 75,041 | 13,823 | 7,610 | 512,318 | - | - | - | - | - | - | 512,318 |
| Available-for-sale financial assets | - | - | - | - | 373,071 | 373,071 | - | - | - | - | - | - | 373,071 |
| Property and equipment | - | - | - | - | - | - | - | - | - | - | 240,567 | 240,567 | 240,567 |
| Intangible assets | - | - | - | - | - | - | - | - | - | - | 4,964 | 4,964 | 4,964 |
| Other assets | - | 3,864 | - | - | 1,087 | 4,951 | 4,995 | 954 | 4,569 | - | 44,097 | 54,615 | 59,566 |
| Total assets | 11,497,461 | 12,713,168 | 42,251,010 | 34,315,060 | 7,610 | 12,720,289 | 33,788,047 | 8,056,237 | 4,569 | - | 440,397 | 42,289,250 | 155,793,848 |
| Currency in circulation | - | - | - | - | - | - | - | - | - | - | 38,340,278 | 38,340,278 | 38,340,278 |
| Due to banks | 221,414 | - | - | - | 20,252,267 | 20,473,681 | 26,410,235 | - | - | - | 9,380 | 26,419,615 | 46,893,296 |
| Other deposits | 778,333 | 1,426,132 | 7,786,806 | 10,084,906 | 18,189,028 | 38,265,205 | - | - | - | - | 5,123,162 | 5,123,162 | 43,388,367 |
| Due to IMF | - | 1,053 | - | - | 7,148 | 8,201 | - | - | - | - | - | - | 8,201 |
| Other borrowed funds | - | - | - | - | - | - | 14,333,082 | - | - | - | - | 14,333,082 | 14,333,082 |
| Other liabilities | 38,242 | - | 688,087 | - | 50,653 | 776,982 | 47,433 | 46,776 | - | - | 4,087 | 98,296 | 875,278 |
| Taxes on income | - | - | - | - | - | - | - | 72,064 | - | - | - | 72,064 | 72,064 |
| Deferred income tax liability | - | - | - | - | - | - | - | - | - | - | 986,043 | 986,043 | 986,043 |
| Retirement benefit obligations | - | - | - | - | - | - | - | - | - | - | 76,247 | 76,247 | 76,247 |
| Equity | - | - | - | - | - | - | - | - | - | - | 10,820,992 | 10,820,992 | 10,820,992 |
| Total liabilities and equity | 1,037,989 | 1,427,185 | 8,474,893 | 10,084,906 | - | 59,524,069 | 40,790,750 | - | 118,840 | - | 55,360,189 | 96,269,779 | 155,793,848 |
| Net repricing gap | 10,459,472 | 11,285,983 | 33,776,117 | 24,230,154 | 7,610 | (25,778,807) | (7,002,703) | 8,056,237 | (114,271) | - | (54,919,792) | (53,980,529) | - |

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NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

As the Bank is the monetary authority in Turkey, the interest rate sensitive balance sheet positions in the tables should be interpreted carefully. For example, as of 31 December 2010 the relatively high interest rate sensitive position of the Bank in the 0-1 month TL maturity group mostly emanates from the TL reserve requirements that are shown in this maturity bucket. However, as reserve requirements are one of the policy tools of the Bank, the required reserve ratios are determined by the Bank to attain the related policy targets, regardless of the self-induced interest rate risk. In fact, the Bank made an important policy decision regarding these accounts on 23 September 2010 and stopped paying interest on TL reserve requirements in order to allow a more active use of these accounts as a monetary and macro-prudential policy tool in the future. 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 exchange reserves to interest rate risk, it is possible to forecast the effect of changes in the related interest rates on the market value of assets by using the average modified 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 2010 and 2009, 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 2010 | | | 31 December 2009 | | |
|---|------------------|------------|-------------|------------------|------------|-------------|
| | US\$ | EUR | TOTAL | US\$ | EUR | TOTAL |
| Market value of the foreign currency assets | 57,171,947 | 61,600,507 | 118,772,454 | 50,474,408 | 49,907,568 | 100,381,976 |
| Effect of the scenario of 1% increase in interest rates | (350,242) | (455,882) | (806,124) | (347,620) | (491,618) | (839,238) |

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NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The tables below set out the average effective interest rates by major currencies for monetary financial instruments at 31 December 2010 and 2009:

| | 31 December 2010 | | |
|---|------------------|---------|--------|
| | US\$ (%) | EUR (%) | TL (%) |
| Assets | | | |
| Due from banks | 0.19 | 0.16 | 6.50 |
| Financial assets at fair value through profit or loss | 0.30 | 0.75 | 7.49 |
| Loans and advances to customers | 0.34 | 1.06 | - |
| Liabilities | | | |
| Other deposits | 2.64 | 2.75 | - |
| Other borrowed funds | - | - | 1.50 |

| | 31 December 2009 | | |
|---|------------------|---------|--------|
| | US\$ (%) | EUR (%) | TL (%) |
| Assets | | | |
| Due from banks | 0.14 | 0.16 | 7.24 |
| Financial assets at fair value through profit or loss | 0.44 | 0.97 | 5.61 |
| Loans and advances to customers | 0.37 | 0.82 | - |
| Liabilities | | | |
| Due to banks | 0.89 | - | 5.20 |
| Other deposits | 2.98 | 2.86 | - |
| Other borrowed funds | - | - | 6.50 |

(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 stemming from assets and liabilities denominated in foreign currencies, the Bank tries to match its cash flows in currencies and invests only in highly liquid assets in order to avoid any problems meeting unexpected payments.

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NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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 2010 | | | | | | | | | | | | | | | |
|---|-------------------|-------------------------|--------------------|-------------------|-------------------|-------------------|----------------|--------------------|--------------------|---------------------|-------------------------|--------------------|------------------|--------------|---------------------|
| | Foreign currency | | | | | | TL | | | | | | | | |
| | Up to 1 month | 1 to 3 months to 1 year | 3 months to 1 year | 5 years | 1 to 5 years | More than 5 years | No maturity | Total | Demand | Up to 1 month | 1 to 3 months to 1 year | 3 months to 1 year | 5 years | 1 to 5 years | More than 5 years |
| Cash and gold reserves | - | - | - | - | - | - | - | 8,822,684 | 104,946 | - | - | - | - | - | - |
| Due from banks | 4,990,276 | 3,790,637 | - | - | - | - | - | 13,840,206 | 74,293 | 12,006,947 | 9,283 | - | - | - | - |
| Financial assets at fair value through profit or loss | - | 24,107,312 | 49,640,544 | 25,260,325 | 374,874 | - | - | 110,142,990 | - | - | 674,094 | 1,727,694 | 5,621,190 | - | - |
| Loans and advances to customers | - | 608,990 | 85,538 | 9,425 | 7,417 | - | - | 711,370 | - | - | - | - | - | - | - |
| Available-for-sale financial assets | - | - | - | - | - | - | 418,052 | 418,052 | - | - | - | - | - | - | - |
| Property and equipment | - | - | - | - | - | - | - | - | - | - | - | - | - | 239,494 | 239,494 |
| Intangible assets | - | - | - | - | - | - | - | - | - | - | - | - | - | 5,530 | 5,530 |
| Other assets | - | - | 10,723 | - | - | - | 1,012 | 11,735 | 3,009 | 5,077 | 1,477 | 48,382 | 1,534 | 38,873 | 110,087 |
| Total assets | 13,881,977 | 15,750,211 | 28,506,939 | 49,736,805 | 25,269,750 | 382,291 | 419,064 | 133,947,037 | 182,248 | 12,012,024 | 684,854 | 1,776,076 | 5,622,724 | - | 283,897 |
| Currency in circulation | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Due to banks | - | 29,344,548 | - | - | - | - | - | 29,344,548 | 7,975 | 26,838,175 | - | - | - | - | 48,937,560 |
| Other deposits | 9,817,249 | 632,487 | 980,361 | 6,710,653 | 9,797,662 | - | - | 27,938,412 | 5,138,601 | - | - | - | - | - | 244 |
| Due to IMF | - | - | 1,628 | - | - | - | 6,687 | 8,315 | - | - | - | - | - | - | 641,560 |
| Other borrowed funds | - | - | - | - | - | - | - | - | - | 1,101,946 | - | - | - | - | 8,315 |
| Other liabilities | 22,955 | 4,409 | - | 754,907 | - | - | 29,411 | 811,682 | 6,657 | 69,168 | - | 23,253 | - | - | 1,101,946 |
| Deferred income tax liability | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 13,139 |
| Retirement benefit obligations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 923,899 |
| Equity | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,437,952 |
| | | | | | | | | | | | | | | | 82,084 |
| | | | | | | | | | | | | | | | 82,084 |
| | | | | | | | | | | | | | | | 12,107,589 |
| Total liabilities and equity | 9,840,204 | 29,981,444 | 981,989 | 7,465,560 | 9,797,662 | - | 36,098 | 58,102,957 | 5,153,233 | 28,009,289 | - | 23,253 | - | - | 63,220,128 |
| | | | | | | | | | | | | | | | 96,405,903 |
| Net liquidity gap | 4,041,773 | (14,231,233) | 27,524,950 | 42,271,245 | 15,472,088 | 382,291 | 382,966 | 75,844,080 | (4,970,985) | (15,997,265) | 684,854 | 1,752,823 | 5,622,724 | - | (62,936,231) |
| | | | | | | | | | | | | | | | (75,844,080) |

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

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NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

| 31 December 2009 | | | | | | | | | | | | | | |
|-------------------------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|------------------|--------------------|--------------------|---------------------|-------------------------|----------------|-------------------|---------------------|---------------------|
| | Foreign currency | | | | | | TL | | | | | | | |
| | Demand | Up to 1 month | 1 to 3 months to 1 year | 1 to 5 years | More than 5 years | No maturity | Total | Demand | Up to 1 month | 1 to 3 months to 1 year | 1 to 5 years | More than 5 years | No maturity | Total |
| Cash and gold reserves | 6,785,819 | - | - | - | - | - | 6,785,819 | 88,416 | - | - | - | - | - | 88,416 |
| Due from banks | 5,560,312 | 4,310,848 | - | - | - | - | 9,871,160 | 62,353 | 25,074,750 | 8,055,283 | - | - | - | 33,192,386 |
| Financial assets at fair value | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| through profit or loss | - | 7,186,613 | 12,297,324 | 42,172,105 | 34,301,237 | - | 95,957,279 | - | 2,018,245 | 6,423,888 | 266,169 | - | - | 8,708,302 |
| Loans and advances to customers | - | - | 415,844 | 75,041 | 13,823 | 7,610 | 512,318 | - | - | - | - | - | - | - |
| Available-for-sale | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| financial assets | - | - | - | - | - | 373,071 | 373,071 | - | - | - | - | - | - | 373,071 |
| Property and equipment | - | - | - | - | - | - | - | - | - | - | - | - | 240,567 | 240,567 |
| Intangible assets | - | - | - | - | - | - | - | - | 4,964 | - | - | - | 4,964 | 4,964 |
| Other assets | - | - | - | 3,864 | - | 1,087 | 4,951 | 724 | 4,995 | 954 | 4,569 | - | 43,373 | 54,615 |
| Total assets | 12,346,131 | 11,497,461 | 12,713,168 | 42,251,010 | 34,315,060 | 7,610 | 374,158 | 151,493 | 27,097,990 | 8,056,237 | 266,169 | - | 288,904 | 42,289,250 |
| Currency in circulation | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Due to banks | - | 20,473,681 | - | - | - | - | 20,473,681 | 9,335 | 26,410,235 | - | - | - | 38,340,278 | 38,340,278 |
| Other deposits | 15,567,345 | 778,333 | 1,426,132 | 7,786,806 | 10,084,906 | 2,621,683 | 38,265,205 | 4,987,509 | - | - | - | - | 45 | 26,419,615 |
| Due to IMF | - | - | 1,053 | - | - | 7,148 | 8,201 | - | - | - | - | - | 135,653 | 5,123,162 |
| Other borrowed funds | - | - | - | - | - | - | - | - | 14,333,082 | - | - | - | - | 8,201 |
| Other liabilities | 3,356 | 38,242 | - | 688,087 | - | 47,297 | 776,982 | - | - | 46,776 | - | - | 4,087 | 14,333,082 |
| Taxes on income | - | - | - | - | - | - | - | - | 47,433 | - | - | - | - | 98,296 |
| Deferred income tax liability | - | - | - | - | - | - | - | - | - | 72,064 | - | - | - | 72,064 |
| Retirement benefit obligations | - | - | - | - | - | - | - | - | - | - | - | - | 986,043 | 986,043 |
| Equity | - | - | - | - | - | - | - | - | - | - | - | - | 76,247 | 76,247 |
| | - | - | - | - | - | - | - | - | - | - | - | - | 10,820,992 | 10,820,992 |
| Total liabilities and equity | 15,570,701 | 21,290,256 | 1,427,185 | 8,474,893 | 10,084,906 | 2,676,128 | 59,524,069 | 4,996,844 | 40,790,750 | - | 118,840 | - | 50,363,345 | 96,269,779 |
| Net liquidity gap | (3,224,570) | (9,792,795) | 11,285,983 | 33,776,117 | 24,230,154 | 7,610 | (2,301,970) | (4,845,351) | (13,692,760) | 8,056,237 | 266,169 | - | (50,074,441) | (53,980,529) |

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NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

| 31 December 2010 | | | | | | | | |
|------------------------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|-------------------|--------------------|
| | Demand | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | No maturity | Total |
| Currency in circulation | - | - | - | - | - | - | 48,937,560 | 48,937,560 |
| Due to banks | 7,975 | 34,636,803 | 21,545,920 | - | - | - | 244 | 56,190,942 |
| Other deposits | 14,955,850 | 664,564 | 1,036,514 | 7,160,750 | 10,402,415 | - | 641,560 | 34,861,653 |
| Due to IMF | - | - | 1,628 | - | - | - | 6,687 | 8,315 |
| Other borrowed funds | - | 1,102,084 | - | - | - | - | - | 1,102,084 |
| Total financial liabilities | 14,963,825 | 36,403,451 | 22,584,062 | 7,160,750 | 10,402,415 | - | 49,586,051 | 141,100,554 |

| 31 December 2009 | | | | | | | | |
|------------------------------------|-------------------|-------------------|------------------|--------------------|-------------------|-------------------|-------------------|--------------------|
| | Demand | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | No maturity | Total |
| Currency in circulation | - | - | - | - | - | - | 38,340,278 | 38,340,278 |
| Due to banks | 9,335 | 46,883,916 | - | - | - | - | 45 | 46,893,296 |
| Other deposits | 20,554,854 | 819,482 | 1,508,028 | 8,223,795 | 10,904,910 | - | 2,757,336 | 44,768,405 |
| Due to IMF | - | - | 1,053 | - | - | - | 7,148 | 8,201 |
| Other borrowed funds | - | 14,340,830 | - | - | - | - | - | 14,340,830 |
| Total financial liabilities | 20,564,189 | 62,044,228 | 1,509,081 | 8,223,795 | 10,904,910 | - | 41,104,807 | 144,351,010 |

(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, 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 whenever deemed necessary. The financial loss is recorded under the non-deductible expenses account upon the approval of the authorized management level. The recorded losses are quarterly reported to the Board.

The assessment of risks in terms of their effects and probabilities (including operational 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.

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.

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NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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 regularly reported to the Executive Committee. Action plans that are taken to reduce the risks to acceptable levels are monitored.

(h) Fair value of financial instruments

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

The estimated fair values of financial instruments have been determined by the Bank using available market information and appropriate valuation methodologies. However, 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 | |
|---------------------------------|-----------------------|-------------|-------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Financial assets | | | | |
| Cash and gold reserves | 8,927,630 | 6,874,235 | 8,927,630 | 6,874,235 |
| Due from banks | 25,930,729 | 43,063,546 | 25,928,733 | 43,074,215 |
| Loans and advances to customers | 711,370 | 512,318 | 709,864 | 511,163 |
| Financial liabilities | | | | |
| Currency in circulation | 48,937,560 | 38,340,278 | 48,937,560 | 38,340,278 |
| Due to banks | 56,190,942 | 46,893,296 | 56,190,942 | 46,893,296 |
| Other deposits | 33,718,573 | 43,388,367 | 33,925,556 | 43,727,766 |
| Other borrowed funds | 1,101,946 | 14,333,082 | 1,101,946 | 14,333,082 |

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NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

(i) *Financial assets*

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

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

Since the available for sale financial assets are unlisted equity participations, investment securities include only held to maturity financial assets as interest-bearing. The fair value for held-to-maturity assets is based on market prices or interest rates at the balance sheet date.

(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 2010 and 2009.

| 31 December 2010 | Level 1 (*) | Level 2 (**) | Level 3 (***) | Total |
|---|--------------------|----------------|---------------|--------------------|
| Financial assets at fair value through profit and loss | | | | |
| Financial assets held for trading | | | | |
| - Debt securities | 118,165,968 | - | - | 118,165,968 |
| Available-for-sale financial assets | | | | |
| - Equity securities | - | 418,052 | - | 418,052 |
| Total assets | 118,165,968 | 418,052 | - | 118,584,020 |

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NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

| 31 December 2009 | Level 1 (*) | Level 2 (**) | Level 3 (***) | Total |
|---|-------------------|------------------|---------------|--------------------|
| Financial assets at fair value through profit and loss | | | | |
| Financial assets held for trading | | | | |
| - Debt securities | 98,241,693 | 6,423,888 | - | 104,665,581 |
| Available-for-sale financial assets | | | | |
| - Equity securities | - | 373,071 | - | 373,071 |
| Total assets | 98,241,693 | 6,796,959 | - | 105,038,652 |

(*) Fair values are calculated with quoted prices (unadjusted) in active markets for listed equity securities and debt instruments. This level includes listed debt instruments on exchanges.

(**) Fair values are calculated with observable input parameters (either directly as prices or data indirectly as derived from prices) for debt securities and equity instruments.

(***) Fair values are calculated with unobservable inputs.

(i) Capital management

The Bank's equity capital at 31 December 2010 and 2009 comprises:

| | 2010 | 2009 |
|-------------------|-------------------|-------------------|
| Share capital | 47,464 | 47,464 |
| Retained earnings | 11,695,995 | 10,437,717 |
| Other reserves | 364,130 | 335,811 |
| Equity | 12,107,589 | 10,820,992 |

Movements in equity capital 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 allocated. 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 exchange reserves should the TL appreciate significantly against other world 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 of the Bank.

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

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 portfolios 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. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of 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

| | 2010 | 2009 |
|--|------------------|------------------|
| Gold bullion - international standards | 8,138,467 | 6,205,039 |
| Cash in hand | 566,411 | 499,362 |
| Gold bullion - non-international standards | 217,212 | 165,609 |
| Gold coins | 5,540 | 4,225 |
| | 8,927,630 | 6,874,235 |

Gold coins and bullion in the amount of TL24,224 thousand (2009: TL18,469 thousand) are kept in the Bank's vaults on behalf of the Turkish Treasury.

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NOTE 7 - DUE FROM BANKS

| | 2010 | 2009 |
|--|-------------------|-------------------|
| Funds lent under reverse repurchase transactions | 12,006,947 | 33,351,447 |
| Time deposits | 8,780,914 | 4,089,434 |
| Demand deposits | 5,142,868 | 5,622,665 |
| | 25,930,729 | 43,063,546 |

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

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

| | 2010 | | 2009 | |
|---|--------------------|--------------------|--------------------|--------------------|
| | Cost | Carrying value | Cost | Carrying value |
| Turkish government bonds and treasury bills | 7,611,036 | 8,022,978 | 8,658,589 | 8,708,302 |
| Foreign government bonds and treasury bills | 105,301,315 | 105,527,187 | 90,268,379 | 91,016,528 |
| Corporate bonds of supranational institutions | 4,503,803 | 4,615,803 | 4,767,938 | 4,940,751 |
| | 117,416,154 | 118,165,968 | 103,694,906 | 104,665,581 |

Corporate bonds of supranational institutions are coupon and discount securities mainly issued by the European Investment Bank.

The breakdown of carrying values of foreign government bonds, corporate bonds and treasury bills by country is as follows at 31 December 2010:

| Country of origin | 2010 |
|-------------------|--------------------|
| United States | 48,650,982 |
| France | 29,812,906 |
| Germany | 17,787,784 |
| Belgium | 4,829,554 |
| The Netherlands | 4,576,315 |
| England | 1,359,866 |
| Other | 3,125,583 |
| | 110,142,990 |

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NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

| | 2010 | 2009 |
|--|------------------|------------------|
| Loans to corporate entities: | | |
| Foreign country loans | 22,025 | 26,482 |
| Domestic loans | 689,345 | 485,836 |
| Performing loans | 711,370 | 512,318 |
| Impaired loans and advances | 2,356,022 | 2,288,800 |
| Gross loans and advances to customers | 3,067,392 | 2,801,118 |
| Less: Allowance for loan losses | (2,356,022) | (2,288,800) |
| Net loans and advances to customers | 711,370 | 512,318 |

Movement in the allowance for loan losses is as follows:

| | 2010 | 2009 |
|-------------------------|------------------|------------------|
| Balance at 1 January | 2,288,800 | 2,291,298 |
| Charge for the year (*) | 67,222 | (2,498) |
| At 31 December | 2,356,022 | 2,288,800 |

(*) The balance mainly consists of the foreign exchange gain of the impaired loans and advances amounting to TL61,211 thousand (2009: loss amounting to TL10,270 thousand).

As of 31 December 2010, the restructured loans and advances of the Bank amount to TL22,025 thousand (2009: TL26,482 thousand). In accordance with the restructuring agreement of the Bank regarding the above mentioned restructured loans, the Bank forwent TL7,283 thousand (US\$4,712,511) (2009: TL7,096 thousand (US\$4,712,511)) of its interest receivable which will accrue again if the counterparty fails to meet the conditions stated in the restructuring agreement. As of 31 December 2010 and 2009, the Bank provided allowance over such contingent interest receivable.

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NOTE 10 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

| Name | Nature of business | Ownership (%) | | Amount | |
|------------------------|----------------------|---------------|-------|----------------|----------------|
| | | 2010 | 2009 | 2010 | 2009 |
| BIS | Banking Supervision | 1.5 | 1.5 | 402,541 | 373,023 |
| International | | | | | |
| Islamic Liquidity | | | | | |
| Management Corporation | Liquidity Management | 0.01 | - | 15,460 | - |
| SWIFT | Electronic Fund | | | | |
| | Transfer Services | 0.007 | 0.007 | 51 | 48 |
| | | | | 418,052 | 373,071 |

The shares of BIS have a par value of SDR5,000 each and are paid up to SDR1,250 each. The balance of SDR3,750 per share is callable at three months' notice by the decision of the BIS Board and the total amount of commitment is disclosed under contingencies and commitments as of 31 December 2010 and 2009 (Note 27).

As of 31 December 2010 and 2009, 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 2010 and 2009, 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:

| | Available-for-sale financial assets |
|----------------------------|--|
| At 1 January 2010 | 373,071 |
| Purchases | 15,200 |
| Fair value changes | 25,026 |
| Foreign exchange gain | 4,755 |
| At 31 December 2010 | 418,052 |

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NOTE 11 - PROPERTY AND EQUIPMENT

| | Land and buildings | Equipment and vehicles | Construction in progress | Total |
|------------------------------------|-----------------------|------------------------------|-----------------------------|----------------|
| At 31 December 2008 | | | | |
| Cost | 333,783 | 55,086 | 6,750 | 395,619 |
| Accumulated depreciation | (123,743) | (27,865) | - | (151,608) |
| Net book value | 210,040 | 27,221 | 6,750 | 244,011 |
| Year ended 31 December 2009 | | | | |
| Opening net book value | 210,040 | 27,221 | 6,750 | 244,011 |
| Additions | 1,945 | 5,050 | 5,477 | 12,472 |
| Transfers | 2,617 | - | (2,617) | - |
| Disposals (net) | (285) | (67) | - | (352) |
| Depreciation charge (Note 26) | (6,931) | (8,633) | - | (15,564) |
| Closing net book value | 207,386 | 23,571 | 9,610 | 240,567 |
| At 31 December 2009 | | | | |
| Cost | 337,391 | 57,691 | 9,610 | 404,692 |
| Accumulated depreciation | (130,005) | (34,120) | - | (164,125) |
| Net book value | 207,386 | 23,571 | 9,610 | 240,567 |
| Year ended 31 December 2010 | | | | |
| Opening net book value | 207,386 | 23,571 | 9,610 | 240,567 |
| Additions | 2,276 | 13,480 | 326 | 16,082 |
| Transfers | 647 | - | (647) | - |
| Disposals (net) | (10) | (40) | - | (50) |
| Depreciation charge (Note 26) | (6,735) | (10,370) | - | (17,105) |
| Closing net book value | 203,564 | 26,641 | 9,289 | 239,494 |
| 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 |

As of 31 December 2010, the Bank has sold equipment and vehicles amounting to TL2,572 thousand (2009: TL669 thousand of land and buildings and TL2,378 thousand of equipment and vehicles) which were fully depreciated at the date of sale.

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NOTE 12 - INTANGIBLE ASSETS

| | Cost | Accumulated amortisation | Net book value |
|------------------------------------|---------------|-----------------------------|-------------------|
| Opening balance at 1 January 2009 | 11,301 | (6,412) | 4,889 |
| Additions | 785 | (710) | 75 |
| Balance at 31 December 2009 | 12,086 | (7,122) | 4,964 |
| Opening balance at 1 January 2010 | 12,086 | (7,122) | 4,964 |
| Additions | 1,106 | (539) | 566 |
| Balance at 31 December 2010 | 13,192 | (7,661) | 5,530 |

NOTE 13 - OTHER ASSETS

| | 2010 | 2009 |
|--|----------------|---------------|
| Reclaimed corporate tax | 56,150 | 2,057 |
| Raw material and work-in-progress | 24,079 | 37,928 |
| Dividend income accrual | 10,723 | 3,864 |
| Electronic Fund Transfer ("EFT") commission income accrual | 6,204 | 4,478 |
| Prepaid expenses | 2,483 | 2,802 |
| Other | 10,448 | 8,437 |
| | 110,087 | 59,566 |

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

| | 2010 | 2009 |
|--|-------------------|-------------------|
| Balance at 1 January | 38,340,278 | 31,743,434 |
| Banknotes issued into circulation | 25,055,217 | 54,250,067 |
| Banknotes withdrawn from circulation and destroyed | (14,457,935) | (47,651,734) |
| Demonetized banknotes | - | (1,489) |
| Balance at 31 December | 48,937,560 | 38,340,278 |

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NOTE 15 - DUE TO BANKS

| | 2010 | 2009 |
|---|-------------------|-------------------|
| Deposits for reserve requirement obligations | 48,343,564 | 39,482,604 |
| Current accounts of banks | 7,847,378 | 7,189,278 |
| Deposits of banks for foreign exchange deposit market | - | 221,414 |
| | 56,190,942 | 46,893,296 |

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 Turkish Lira reserve requirements as of 14 October 2010 with the announcement, dated 23 September 2010.

NOTE 16 - OTHER DEPOSITS

| | 2010 | 2009 |
|----------------------------------|-------------------|-------------------|
| Deposits by citizens abroad | 18,121,162 | 20,076,175 |
| Deposits of Turkish Treasury | 14,732,497 | 20,370,611 |
| Deposits of state owned funds | 692,145 | 2,822,406 |
| Deposits of state owned entities | 172,769 | 119,175 |
| | 33,718,573 | 43,388,367 |

Deposits by citizens abroad are time deposits with maturities varying from one to three years; other deposits held by government related institutions are interest-free deposits except for the demand deposits amounting to TL353,505 thousand (2009: TL64,730 thousand).

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

| | 2010 | | 2009 | |
|------|-------------------|-------------------|-------------------|-------------------|
| | Interest rate (%) | TL | Interest rate (%) | TL |
| US\$ | 0.25-2.75 | 869,593 | 0.25-3.25 | 935,599 |
| EUR | 0.25-2.75 | 17,166,408 | 0.25-2.75 | 19,056,640 |
| CHF | 0.25-0.50 | 79,117 | 0.25-0.50 | 76,520 |
| GBP | 0.25-1.00 | 6,044 | 0.25-1.00 | 7,416 |
| | | 18,121,162 | | 20,076,175 |

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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 2010 and 2009. As of 31 December 2010 and 2009, 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 1 November 2006, the country quota of Turkey increased by SDR227,300,000 reaching SDR1,191,300,000. 25% of the quota increase in the amount of SDR56,825,000 has been paid in cash and the rest of the increase in the amount of SDR170,475,000 has been paid in securities to the account of IMF at the Bank.

NOTE 18 - OTHER BORROWED FUNDS

| | 2010 | 2009 |
|--|------------------|-------------------|
| Funds borrowed from interbank money market | 1,101,946 | 12,316,723 |
| Funds borrowed under repurchase agreements | - | 2,016,359 |
| | 1,101,946 | 14,333,082 |

NOTE 19 - OTHER LIABILITIES

| | 2010 | 2009 |
|--|----------------|----------------|
| Import transfer orders and deposits | 747,358 | 679,678 |
| Taxes and withholdings payable | 77,357 | 83,084 |
| Expense accruals | 25,031 | 49,136 |
| Blocked accounts for pending court cases | 14,816 | 35,518 |
| Creditors of foreign currencies that were deposited as trust | 557 | 570 |
| Other | 58,780 | 27,292 |
| | 923,899 | 875,278 |

NOTE 20 - TAXATION

| | 2010 | 2009 |
|--|-----------------|---------------|
| Taxes on income | (276,705) | 467,284 |
| Prepaid tax | 222,089 | (395,220) |
| Income taxes (receivable)/payable - net | (54,616) | 72,064 |

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NOTE 20 - TAXATION (Continued)

The Corporate Tax Law was amended by Law No.5520 dated 13 June 2006. Most of the articles of the new Corporate Tax Law, No.5520, have come into force effective from 1 January 2006. Accordingly, corporation tax is payable, at a rate of 20% (2009: 20%) on the total income of the Bank after adjusting for certain disallowable expenses, exempt income and investment and other allowances in accordance with the new tax legislation and the Central Bank Law. No further tax is payable unless the profit is distributed.

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

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

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

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

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

| | 2010 | 2009 |
|---|----------------|----------------|
| Provision for taxes as per statement of income at 31 December | | |
| - Current | 222,089 | 467,284 |
| - Deferred | 450,447 | (277,818) |
| Income taxes expense | 672,536 | 189,466 |

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NOTE 20 - TAXATION (Continued)

Deferred income taxes

Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2010 under the liability method using a principal tax rate of 20% (2009: 20%).

The Bank recognises deferred tax assets and liabilities based upon temporary differences arising between the carrying amounts of assets and liabilities in the financial statements reported for IFRS purposes and the tax base of assets and liabilities. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes. The principal temporary differences arise from the retirement benefit obligations, net differences between carrying amounts and tax bases of property, plant and equipments, fair value differences on financial assets and transfer of the valuation account to income statement (Note 25).

Deferred income tax assets resulting from temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilized. As of 31 December 2010 and 2009, the Bank calculated and recognised deferred income tax liability based upon the temporary differences.

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:

| | <u>Cumulative temporary differences</u> | | <u>Deferred tax assets/(liabilities)</u> | |
|--|---|--------------------|--|--------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Retirement benefit obligations | 82,084 | 76,247 | 16,417 | 15,249 |
| Net differences between carrying value and tax base of property and equipment | 45,584 | 44,928 | 9,117 | 8,986 |
| Other | 31,086 | 55,489 | 6,217 | 11,098 |
| Total Assets | 158,754 | 176,664 | 31,751 | 35,333 |
| Transfer of valuation account to income statement | (7,245,849) | (5,010,104) | (1,449,170) | (1,002,021) |
| Difference in the calculated interest accrual of deposits | (378,606) | (349,373) | (18,931) | (17,469) |
| using effective interest rate method | (8,012) | (9,433) | (1,602) | (1,886) |
| Total Liabilities | (7,632,467) | (5,368,910) | (1,469,703) | (1,021,376) |
| Net Liability | (7,473,713) | (5,192,246) | (1,437,952) | (986,043) |

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NOTE 20 - TAXATION (Continued)

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

| | 2010 | 2009 |
|---|------------------|------------------|
| Balance at 1 January | 986,043 | 1,261,392 |
| Deferred income tax charge to income statement, net | 450,447 | (277,818) |
| Deferred income tax charge to equity | 1,462 | 2,469 |
| Balance at 31 December | 1,437,952 | 986,043 |

The reconciliation for taxation charge is stated below:

| | 2010 | 2009 |
|--|------------------|------------------|
| Profit before income taxes | 3,771,939 | 1,826,127 |
| Tax charge calculated at a tax rate of 20% | 754,388 | 365,225 |
| Income exempt from taxation | (88,429) | (181,561) |
| Non-deductible expenses | 6,577 | 5,802 |
| Income tax expense | 672,536 | 189,466 |

NOTE 21 - RETIREMENT BENEFIT OBLIGATIONS

Under the Turkish Labor Law, the Bank is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL2,517.01 (31 December 2009: TL2,365.16) for each year of service.

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

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

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

| | 2010 | 2009 |
|--|------|------|
| Discount rate (%) | 4.66 | 5.92 |
| Rate to estimate the probability of retirement (%) | 99 | 99 |

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NOTE 21 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

Additionally, the principal actuarial assumption is that the maximum liability of TL2,517.01 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 TL2,623.23 effective from 1 January 2011 (1 January 2010: TL2,427.04), 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:

| | 2010 | 2009 |
|-----------------------|---------------|---------------|
| At 1 January | 76,247 | 70,541 |
| Current year charge | 11,029 | 11,351 |
| Paid during the year | (5,192) | (5,645) |
| At 31 December | 82,084 | 76,247 |

NOTE 22 - NET INTEREST INCOME

| | 2010 | 2009 |
|---|------------------|------------------|
| Interest income: | | |
| Financial assets at fair value through profit or loss | 2,129,645 | 3,733,149 |
| Securities purchased under agreements to resell | 2,007,272 | 2,290,840 |
| Due from banks | 23,006 | 15,597 |
| Loans and advances to customers | 8,502 | 15,188 |
| | 4,168,425 | 6,054,774 |
| Interest expense: | | |
| Other borrowed funds | 1,134,136 | 1,119,667 |
| Due to banks | 798,855 | 1,383,050 |
| Securities sold under repurchase agreements | 493,283 | 986,833 |
| Other deposits | 432,281 | 572,620 |
| Due to IMF | 7,174 | 2,989 |
| Other | 13 | 31 |
| | 2,865,742 | 4,065,190 |
| Net interest income | 1,302,683 | 1,989,584 |

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NOTE 23 - NET FEE AND COMMISSION INCOME

| | 2010 | 2009 |
|--------------------------------------|---------------|---------------|
| Fee and commission income: | | |
| EFT commission income | 72,208 | 54,318 |
| Open market operations | 4,036 | 3,987 |
| Other fund transfer fees | 604 | 717 |
| Other | 6,568 | 4,840 |
| | 83,416 | 63,862 |
| Fee and commission expense: | | |
| Correspondent bank accounts | 3,311 | 3,068 |
| Other | 7,160 | 6,714 |
| | 10,471 | 9,782 |
| Net fee and commission income | 72,945 | 54,080 |

NOTE 24 - DIVIDEND INCOME

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

| | 2010 | 2009 |
|-------------------------------|---------------|--------------|
| Available-for-sale securities | 18,955 | 4,841 |
| | 18,955 | 4,841 |

NOTE 25 - FOREIGN EXCHANGE GAINS, NET

| | 2010 | 2009 |
|-----------------------------------|------------------|------------------|
| Foreign exchange gains, net | | |
| - translation gains/(losses), net | 2,235,198 | (1,367,257) |
| - transaction gains, net | 722,771 | 2,917,245 |
| | 2,957,969 | 1,549,988 |

As of 31 December 2010 and 2009, 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.

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NOTE 26 - OTHER OPERATING EXPENSES

| | 2010 | 2009 |
|--------------------------------|----------------|----------------|
| Wages and salaries | 399,670 | 371,887 |
| Administrative expenses | 106,140 | 124,931 |
| Social security costs | 37,302 | 32,076 |
| KOSGEB fund participation fee | 22,055 | 46,728 |
| Depreciation (Notes 11 and 12) | 17,644 | 16,274 |
| Other | 274 | 1,965 |
| | 583,085 | 593,861 |

As the Bank's more than 50% of the paid-in share capital is owned by the government entities, the Bank is obliged to pay annual fee at a rate of 2% of the corporate tax base of the Bank to Small and Medium Industries Development Organization ("KOSGEB") in accordance with the establishment law of KOSGEB.

The average number of persons employed by the Bank during the year 2010 was 4,427 (2009: 4,454).

NOTE 27 - COMMITMENTS AND CONTINGENT LIABILITIES

| | 2010 | 2009 |
|-------------------------------|-------------------|-------------------|
| Guarantees taken | 20,599,438 | 25,803,223 |
| Uncalled BIS shares (Note 10) | 71,805 | 70,950 |
| | 20,671,243 | 25,874,173 |

As of 31 December 2010, there are a number of legal proceedings outstanding against the Bank amounting to TL64,748 thousand, US\$64,106,853 and EUR174,473 (2009: TL65,928 thousand, US\$247,352 and EUR162,810). 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 2010 and 2009 is as follows:

| | 31 December 2010 | | 31 December 2009 | |
|---|-------------------------|----------------|-------------------------|----------------|
| | 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 |
| Historical share capital | 25 | 100 | 25 | 100 |
| Inflation adjustment on share capital | 47,439 | | 47,439 | |
| Total paid-in capital | 47,464 | | 47,464 | |

According to 5th article of the Central Bank Law, the capital of the Bank is TL25 thousand and is divided into 250,000 shares, with a value of TL0.1 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;

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

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

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NOTE 30 - CASH AND CASH EQUIVALENTS

| | 2010 | 2009 |
|---|-------------------|-------------------|
| Cash and gold reserves | 8,927,630 | 6,874,235 |
| Due from banks (excluding accrued interest) | 25,921,348 | 42,932,212 |
| | 34,848,978 | 49,806,447 |

NOTE 31 - RELATED PARTY BALANCES AND TRANSACTIONS

These 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.

| | 2010 | 2009 |
|--|------------|------------|
| Assets: | | |
| Financial assets at fair value through profit or loss ⁽¹⁾ | 8,022,978 | 8,708,302 |
| Due from banks ⁽²⁾ | 9,162,282 | 28,491,664 |
| Liabilities: | | |
| Due to banks ⁽³⁾ | 40,548,058 | 34,711,335 |
| Other deposits ⁽⁴⁾ | 15,597,411 | 23,312,192 |

(1) Includes government bonds issued by Turkish Treasury.

(2) Includes deposits placed with shareholders as part of reverse repurchase agreements.

(3) Includes required reserve deposits of shareholders.

(4) Includes deposits of state controlled entities and Turkish Treasury.

(ii) Transactions with related parties

| | 2010 | 2009 |
|--|-----------|-----------|
| Salaries and other short-term benefits to key management | 3,800 | 3,452 |
| Interest income ⁽¹⁾ | 963,653 | 730,958 |
| Interest expense ⁽²⁾ | 589,567 | 1,033,980 |
| Fee and commission income ⁽³⁾ | 36,924 | 28,756 |
| Dividends paid to shareholders | 1,833,458 | 1,334,625 |

(1) Includes interest income of government bonds issued by Turkish Treasury.

(2) Includes interest expense on required reserve deposits of shareholders.

(3) Includes Electronic Fund Transfer commissions from shareholders of the Bank.

.....