

**THE CENTRAL BANK OF
THE REPUBLIC OF TURKEY**

**FINANCIAL STATEMENTS
AT 31 DECEMBER 2011
TOGETHER WITH AUDITOR'S REPORT**

INDEPENDENT AUDITOR'S REPORT FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2011

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

We have audited the accompanying financial statements of the Central Bank of the Republic of Turkey (the "Bank") which comprise the balance sheet as of 31 December 2011 and the related statement of income and comprehensive income, statement of cash flows and statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

The Bank Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Independent Auditor's Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2011 and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Other Matter

The financial statements of the Bank as of and for the year ended 31 December 2010 were audited by another auditor who expressed an unmodified opinion on those statements on 7 March 2011.

İstanbul, 5 March 2012

DRT Bağımsız Denetim ve ŞMMM A.Ş.

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

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

FINANCIAL STATEMENTS

31 DECEMBER 2011

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THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEET AS OF 31 DECEMBER 2011

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

		31 December 2011 Thousand TL	31 December 2010 Thousand TL	31 December 2011 Million US\$(*)	31 December 2010 Million US\$(*)
	Notes				
ASSETS					
Cash and gold reserves	6	19.515.995	8.927.630	10.332	5.775
Due from banks	7	63.974.262	25.930.729	33.869	16.773
Financial assets at fair value through profit or loss	8	132.421.605	118.165.968	70.105	76.433
Loans and advances to customers	9	3.039.303	711.370	1.609	460
Available-for-sale financial assets	10	534.382	418.052	283	270
Property and equipment	11	234.747	239.494	124	155
Intangible assets	12	8.174	5.530	4	4
Other assets	13	82.227	110.087	43	71
Total assets		219.810.695	154.508.860	116.369	99.941
LIABILITIES					
Currency in circulation	14	55.103.174	48.937.560	29.172	31.654
Due to banks	15	91.295.269	56.190.942	48.333	36.346
Other deposits	16	37.383.785	33.718.573	19.791	21.810
Due to International Monetary Fund ("IMF")	17	10.127	8.315	5	5
Other borrowed funds	18	516.143	1.101.946	273	713
Other liabilities	19	1.051.678	923.899	557	597
Taxes liabilities	20	723.002	-	383	-
Deferred tax liability	20	3.895.923	1.437.952	2.063	930
Retirement benefit obligations	21	91.477	82.084	48	53
Total liabilities		190.070.578	142.401.271	100.625	92.108
EQUITY					
Paid-in share capital	28	47.464	47.464	25	31
Retained earnings		29.212.680	11.695.995	15.465	7.566
Other reserves		479.973	364.130	254	236
Total equity		29.740.117	12.107.589	15.744	7.833
TOTAL LIABILITIES AND EQUITY		219.810.695	154.508.860	116.369	99.941

(*) US dollar ("US\$") amounts presented above are translated from TL for convenience purposes only, at the official foreign currency bid rate announced by the Bank at 31 December 2011 and 2010, and therefore do not form part of these financial statements (Note 2.d.).

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

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

		2011	2010	2011	2010
	Notes	Thousand TL	Thousand TL	Million US\$(*)	Million US\$(*) (Restated- Note 3.t)
Interest income	22	5.092.633	4.168.425	3.047	2.779
Interest expense	22	(638.399)	(2.865.742)	(382)	(1.910)
Net interest income		4.454.234	1.302.683	2.665	869
Fee and commission income	23	129.388	83.416	77	56
Fee and commission expense	23	(13.347)	(10.471)	(8)	(7)
Net fee and commission income		116.041	72.945	69	49
Dividend income	24	1.446	18.955	1	13
Net income/(expense) from financial assets at fair value through profit or loss		(493.674)	65.662	(295)	44
Foreign exchange gains, net	25	19.314.179	2.957.969	11.556	1.972
Other operating income		71.834	4.032	43	3
Impairment losses on loans and advances	9	(529.216)	(67.222)	(317)	(45)
Other operating expenses	26	(651.824)	(583.085)	(390)	(389)
Profit before income tax		22.283.020	3.771.939	13.332	2.516
Income tax expense	20	(3.901.065)	(672.536)	(2.334)	(448)
Net profit for the year		18.381.955	3.099.403	10.998	2.068

(*) US dollar ("US\$") amounts presented above are translated from TL for convenience purposes only, at the average of daily official foreign currency bid rates announced by the Bank for the years ended 31 December 2011 and 2010, and therefore do not form part of these financial statements (Note 2.d).

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED AS OF 31 DECEMBER 2011**

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

	Notes	2011 Thousand TL	2010 Thousand TL
Net profit for the year		18.381.955	3.099.403
Other comprehensive income			
Changes in fair values of available-for-sale securities	10	116.330	29.781
Deferred tax on changes in fair values of available-for-sale securities	20	(5.380)	(1.462)
Gains on demonetized banknotes	14	4.893	-
Total comprehensive income for the year		<u>18.497.798</u>	<u>3.127.722</u>

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF CASH FLOWS FOR THE

YEAR ENDED 31 DECEMBER 2011

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

	Notes	2011 Thousand TL	2010 Thousand TL (Restated – Note 3.t)
Cash flows (used in)/from operating activities			
Net profit for the year		18.381.955	3.099.403
Adjustment for:			
Depreciation of property and equipment	11	14.841	17.105
Amortization of intangible assets	12	960	539
Impairment losses on loans and advances	9	529.216	67.222
Foreign exchange gains/(losses) on provision for loan losses		(523.275)	(61.211)
Retirement benefit obligations	21	11.851	11.029
Interest income, net	22	(4.454.234)	(1.302.683)
Interest received		5.080.220	4.284.364
Interest paid		(698.164)	(2.859.054)
Dividend income	24	(1.446)	(18.955)
Commission income, net	23	(116.041)	(72.945)
Commission received, net		98.420	81.690
Commission paid		(13.347)	(10.455)
Income tax expense	20	3.901.065	672.536
Unrealized foreign exchange gains, net		(11.720.089)	(5.093.955)
(Increase)/decrease in value of financial assets, net		(364.620)	285.983
Gain on sale of property and equipment		(59.362)	-
Other		1.004	-
Cash flows from operating profits before changes in operating assets and liabilities		10.068.954	(899.387)
Changes in operating assets and liabilities:			
Net change in financial assets			
at fair value through profit or loss		776.116	(9.911.682)
Net change in loans and advances to customers		(2.054.445)	(199.242)
Net change in other assets		54.584	(35.432)
Net change in currency in circulation		6.170.507	10.597.282
Net change in due to banks		29.621.673	8.809.630
Net change in other deposits		1.134.792	(10.463.386)
Net change in other liabilities		(5.860)	(23.459)
Taxes paid		(725.472)	(222.089)
Retirement benefits paid	21	(2.458)	(5.192)
Net cash (used in)/from operating activities		45.038.391	(2.352.957)
Cash flows (used in)/from investing activities			
Purchase of property, equipment and intangible assets	11-12	(26.166)	(17.188)
Disposals of property, equipment and intangible assets		71.830	50
Dividends received		5.772	12.731
Purchase of available for sale financial assets	10	-	(15.200)
Net cash (used in)/from investing activities		51.436	(19.607)
Cash flows (used in)/from financing activities			
Repayments of borrowed funds and due to IMF		(583.991)	(13.231.022)
Dividends paid		(865.270)	(1.841.125)
Net cash used in financing activities		(1.449.261)	(15.072.147)
Effects of exchange-rate changes on cash and cash equivalents		4.967.610	2.487.242
Change in cash and cash equivalents		48.608.176	(14.957.469)
Cash and cash equivalents at the beginning of the period	30	34.848.978	49.806.447
Cash and cash equivalents at the end of the period	30	83.457.154	34.848.978

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 AS OF 31 DECEMBER 2011

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

NOTE 1 - GENERAL INFORMATION

The Central Bank of the Republic of Turkey (the "Bank") was incorporated in Turkey in 1931. It was established as a joint stock company with the exclusive privilege of issuing banknotes in Turkey and is vested with the powers and duties set forth in the Central Bank of the Republic of Turkey Law No. 1211 (the "Central Bank Law"). The Head Office of the Bank is located in Ankara. The Bank's registered head office is located at the following address: İstiklal Cad. 10 Ulus, 06100 Ankara, Turkey. The Bank now operates a nationwide network of 21 branches and 4 foreign representatives. As of 31 December 2011, the Bank employed 4.398 people (31 December 2010: 4.396).

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

The fundamental duties of the Bank are;

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

NOTE 2 – BASIS OF PRESENTATION

(a) Turkish Lira Financial Statements

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

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

These financial statements will be submitted to General Assembly of the Bank on 16 April 2012 after the approval of Board of the Bank on 7 March 2012.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 2 – BASIS OF PRESENTATION (Continued)

(b) Application of New and Revised Standards

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

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

New and Revised IFRSs affecting presentation and disclosure only

IAS 24 *Related Party Disclosures* (2009)

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Bank is a government-related entity. As required by IAS 24 (as revised in 2009), a reporting entity shall disclose information about related parties and nature of relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. According to related amendment, government-related parties are exempt from these disclosures.

New and Revised IFRSs, valid from the year 2011, applied with no material effect on the financial statements

The following new and revised IFRSs have also been adopted in these financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Amendments to IAS 1 *Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)*

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. For each component of equity, the Bank has chosen to present such an analysis in the notes to the consolidated financial statements, with a single-line presentation of other comprehensive income in the statement of changes in equity. The Bank has decided on early adoption of these amendments and has been applied as of 31 December 2010.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 2 – BASIS OF PRESENTATION (Continued)

(b) Application of New and Revised Standards (Continued)

As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure').

Amendments to IFRS 3 Business Combinations

Amendments to IAS 32

Classification of Rights Issues

The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

The application of the amendments has had no effect on the amounts reported in the current and prior years because the Bank has not issued instruments of this nature.

Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*

IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not had material effect on the Bank's financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 2 – BASIS OF PRESENTATION (Continued)

(b) Application of New and Revised Standards (Continued)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss.

The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the Bank has not entered into any transactions of this nature.

Improvements to IFRSs issued in 2010

The application of *Improvements to IFRSs* issued in 2010 has not had any material effect on amounts reported in the financial statements.

New and Revised IFRSs in issue but not yet effective

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

Amendments to IFRS 7	<i>Disclosures – Transfers of Financial Assets</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 13	<i>Fair Value Measurement</i>
Amendments to IAS 1	<i>Presentation of Items of Other Comprehensive Income</i>
Amendments to IAS 12	<i>Deferred Tax – Recovery of Underlying Assets</i>
IAS 19 (as revised in 2011)	<i>Employee Benefits</i>
IAS 27 (as revised in 2011)	<i>Separate Financial Statements</i>
IAS 28 (as revised in 2011)	<i>Investments in Associates and Joint Ventures</i>
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
Amendments to IAS 32	<i>Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities</i>

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 2 – BASIS OF PRESENTATION (Continued)

(b) Application of New and Revised Standards (Continued)

The Bank management does not anticipate that these amendments to IFRS 7 will have a significant effect on the Bank's disclosures. However, if the Bank enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The amendments to IFRS 7 require an entity to disclose information about rights of offset and related agreements for financial instruments under an enforceable master netting agreement or similar arrangement. The new disclosures are required for annual or interim periods beginning on or after 1 January 2013.

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

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 was amended to defer the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 to annual periods beginning on or after 1 January 2015. Prior to the amendments, application of IFRS 9 was mandatory for annual periods beginning on or after 1 January 2013. The amendments continue to permit early application. The amendments modify the existing comparative transition disclosures in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and IFRS 7 "Financial Instruments: Disclosures". Instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9 depending on the entity's date of adoption and whether the entity chooses to restate prior periods.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 2 – BASIS OF PRESENTATION (Continued)

(b) Application of New and Revised Standards (Continued)

The Bank management anticipates that IFRS 9 will be adopted in the Bank's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

Key requirements of these five Standards are described below:

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

IFRS 11 replaces IAS 31 "Interests in Joint Ventures". IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers" has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

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

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Bank management anticipates that these five standards will be adopted in the Bank's financial statements for the annual period beginning 1 January 2013. However, since the Bank has no subsidiary, associate or joint venture, application of these five standards may have no impact on amounts reported in the financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 2 – BASIS OF PRESENTATION (Continued)

(b) Application of New and Revised Standards (Continued)

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

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

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

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012. The directors anticipate that the application of the amendments to IAS 12 in future accounting periods may result in adjustments to the amounts of deferred tax liabilities recognized in prior years regarding the Bank's investment properties of which the carrying amounts are presumed to be recovered through sale. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the statement of financial position to reflect the full value of the plan deficit or surplus.

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 2 – BASIS OF PRESENTATION (Continued)

(b) Application of New and Revised Standards (Continued)

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The Bank management anticipates that the amendments to IAS 19 will be adopted in the Bank's financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may have impact on amounts reported in respect of the Bank's defined benefit plans. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

On 19 October 2011 the IASB issued an Interpretation, IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", clarifying the requirements for accounting for stripping costs in the production phase of a surface mine. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted.

The amendments to IAS 32 are intended to clarify existing application issues relating to the offsetting rules and reduce the level of diversity in current practice. The amendments are effective for annual periods beginning on or after 1 January 2014.

(c) Accounting for the effect of hyperinflation

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

(d) US\$ 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 2011 and 2010 of TL 1,8889 = US\$ 1 (31 December 2010: TL 1,5460 = 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 2011 and 2010 of TL 1,67135 = US\$ 1 (31 December 2010: TL 1,5001 = US\$ 1) and therefore, do not form part of these financial statements.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency translation

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

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Foreign currency translation (Continued)

Exchange rates

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

	<u>31 December 2011</u>	<u>31 December 2010</u>
US Dollar ("US\$")	1,8889	1,5460
Euro ("EUR")	2,4438	2,0491
Swiss Franc ("CHF")	2,0062	1,6438
Great Britain Pound ("GBP")	2,9170	2,3886
Japanese Yen ("JPY")	0,0243	0,0189
Special Drawing Rights ("SDR") (*)	2,9220	2,3935

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

(b) Interest income and expense

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

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

(c) Fee and commission income

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

(d) Income taxes

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

Current tax

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

Deferred tax

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

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Current and deferred tax for the period

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

(e) Gold reserves

Gold bullion

Gold bullion consists of the stocks of gold bars of international standard and non-international standard held at the Bank and held with correspondents. Gold is held by the Bank as part of its foreign currency reserves and represents 11,04% (31 December 2010: 6,3%) of aggregate foreign currency reserves. The Bank has no present intention to dispose of any of its existing gold reserve stocks as the Bank maintains the gold reserve as a part of its foreign currency reserve management. Gold bullion is recorded in physical weight in troy ounces.

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

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

The exchange rate of gold bullion to TL as of 31 December 2011 was TL 2.974 per troy ounce (31 December 2010: TL 2.180 per troy ounce).

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Financial assets at fair value through profit or loss

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

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

Investment securities held-to-maturity

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

Loans and receivables

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

Investment securities available-for-sale

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Effective interest method

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

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

Impairment of financial assets

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

(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 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.

(h) Financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Sale and repurchase agreements

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

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

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

(j) Money issuance

The Bank has the exclusive privilege of issuing banknotes. Stocks of banknotes in issuance which are in process at the Bank's own printing facilities are stated at cost and included in "Other Assets". Expenses associated with the banknotes are initially capitalized and are charged to the income statement upon transfer of the banknotes to reserve banknotes depot of the Bank. Costs of printed banknotes and banknotes in issuance include direct costs, depreciation, staff costs, costs for transportation of banknotes and other issuance costs. The unit cost of raw materials is determined on the moving weighted average basis.

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

(k) Property and equipment

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

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

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

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

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

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

Buildings	50 years
Equipment and motor vehicles	5 years

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Intangible assets

Intangible assets acquired separately

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

Trademarks and licenses

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

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

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

(m) Banknotes in circulation

Currency in Circulation - Turkish Lira

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

Demonetized Currency - Turkish Lira and New Turkish Lira

The legal circulation period of Turkish Lira banknotes, which were in circulation along with New Turkish Lira banknotes between 1 January 2005 and 31 December 2005 according to provisional article 1 of the Law on the Currency Unit of the Republic of Turkey No:5083, expired as of 31 December 2005 and these banknotes will be redeemed for a period of ten years starting from 1 January 2006 to the close of business at 31 December 2015 which is the end of the 10-year legal redemption period, at the branches of the Bank and T.C. Ziraat Bankası A.Ş.. The banknotes will be of no value as of 1 January 2016.

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

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Although it is most unlikely that significant amounts of demonetized currency will be returned for redemption, the Bank is not able to derecognize any part of the liability unless and until it is legally released from the obligation.

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

As of 31 December 2011, the Bank has recorded gain of TL 4.893 thousand due to banknotes those have been take out of circulation and have expired but still outstanding. The Bank has no banknotes in circulation which were expired in the year 2010 (Note 14).

(n) Provisions

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

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

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

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

(o) Retirement benefit obligations

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

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

(p) Related parties

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

(r) Cash and cash equivalents

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

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Profit distribution

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

- i) 20% to the reserve fund,
- ii) 6% over the nominal value of the equity shares to the shareholders as an initial dividend,
- iii) After deducting the above-stated percentages a maximum of 5% of the remaining amount; so as not to exceed two months salaries; to the Bank personnel and 10% percent to the extraordinary reserves,
- iv) Subject to the decision of the General Assembly a maximum of 6% over the nominal value of the equity shares to the shareholders as the secondary dividend.

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

(t) Comparatives

While preparing the current period financial statements, the Bank reviewed the presentation of the U.S. dollar figures in the income statement and restated the prior period financial statements. US dollar amounts presented in the accompanying financial statements are translated from TL for convenience purposes only and therefore do not form part of these financial statements.

Certain reclassifications were made in the previous year cash flow statement in order to maintain comparability with the current year cash flow statement. Accordingly the effect of reclassifications for the year 2010 is as follows:

	2010	Effect of Reclassification	After Reclassification 2010
Interest paid	(3.156.481)	297.427	(2.859.054)
(Increase)/decrease in value of financial assets,net	-	285.983	285.983
Net (increase)/decrease in financial assets			
at fair value through profit or loss	(9.328.272)	(583.410)	(9.911.682)
Net decrease in other liabilities	(250.740)	227.281	(23.459)
Taxes paid	-	(222.089)	(222.089)
Retirement benefits paid	-	(5.192)	(5.192)
Purchase of property, equipment and intangible assets	(17.138)	(50)	(17.188)
Disposals of property, equipment and intangible assets	-	50	50

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Fiduciary activities

The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals and financial institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets or income of the Bank. Fiduciary capacity at 31 December 2011 and 2010 is as follows:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Securities held in custody	314.880.654	341.418.083
Total	314.880.654	341.418.083

NOTE 4 - FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

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

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

In conclusion, the credit risk assumed during reserve management remains at quite low levels as a great portion of reserves are invested in assets issued or directly guaranteed by foreign governments as well as by supranational institutions such as the World Bank, the European Investment Bank and the Bank for International Settlements.

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Total assets of the Bank exposed to the credit risk as of 31 December 2011 and 2010 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 2011		31 December 2010	
	TL	Share (%)	TL	Share (%)
Due from banks	63.974.262	32	25.930.729	18
- Demand Deposits	6.908.815	3	5.142.868	4
Central Banks	3.523.477	2	2.419.222	2
Supranational Institutions	3.121.675	2	2.528.098	2
Foreign Commercial Banks	263.663	<1	195.548	<1
- Time Deposits	17.471.893	9	8.780.914	6
Central Banks	5.325.220	3	2.865.356	2
Supranational Institutions	9.983.960	5	4.597.768	3
Foreign Commercial Banks	544.166	<1	1.317.790	1
Aaa	544.166	<1	1.317.790	1
Aa1	-	-	-	-
Aa2	-	-	-	-
Domestic Commercial Banks	1.618.547	1	-	-
- Securities purchased under agreements to resell	39.593.554	20	12.006.947	8
Domestic Commercial Banks	39.593.554	20	12.006.947	8
Financial assets at fair value through profit or loss	132.421.605	66	118.165.968	81
Foreign Country Treasuries	117.081.357	59	105.527.187	73
Aaa	117.081.357	59	100.011.927	69
Aa1	-	-	5.515.260	4
Supranational Institutions	7.523.716	4	4.615.803	3
Turkish Treasury	7.816.532	4	8.022.978	6
Loans and advances to customers	3.039.303	2	711.370	<1
Available-for-sale financial assets	534.382	<1	418.052	<1
Supranational Institutions	534.382	<1	418.052	<1
Other assets	11.621	<1	16.947	<1
Total	199.981.173	100	145.243.066	100

Although the Turkish Government bonds issued by the Turkish Treasury are included in the above table, the Bank does not consider its receivables from the Turkish Treasury as risky in terms of credit risk and therefore does not take these assets into account when calculating its credit risk exposures. Similarly, the receivables from domestic commercial banks for the purpose of monetary policy implementations are also excluded when calculating credit risk exposures because of the fully collateralized nature of these transactions as previously explained. As of 31 December 2011, the Bank has receivables amounting to TL 39.593.554 thousand (31 December 2010: TL 12.006.947 thousand) placed with domestic commercial banks as part of securities purchased under agreements to resell. As of 31 December 2011, the Bank has foreign exchange market operations amounting to TL 1.618.547 thousand classified under "Due from banks" (31 December 2010: None). The fair value of the security collaterals obtained for the deposits placed under securities purchased under agreements to resell as of 31 December 2011 is TL 39.628.648 thousand (31 December 2010: TL 11.641.002 thousand). In addition, as of 31 December 2011, the Bank has security collaterals amounting to TL 1.618.547 thousand obtained for all foreign exchange markets operations including the placed deposits under foreign currency deposit market operations amounting to TL 8.629.041 thousand. As of 31 December 2011 and 2010, 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 AS OF 31 DECEMBER 2011

(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 2011 and 2010 are as follows:

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

	31 December 2010						Total
	Foreign Country Treasury	Foreign Central Banks	Supranational Financial Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Turkish Treasury	
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 customer	-	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

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 2011 and 2010.

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

(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 2011 and 2010 are as follows:

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

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

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

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

There are no financial assets that are past due but not impaired at 31 December 2011 and 2010; therefore, there are no collaterals held against such past due financial assets.

As of 31 December 2011 and 2010, the Bank has no assets held for resale.

(c) Market risk

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

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

(d) Currency risk

The Bank is exposed to currency risk as it holds a foreign currency position for the purpose of implementing exchange rate policy and achieving other policy targets. Exchange rate risk, which arises from the volatility of exchange rates between TL and foreign currencies on the balance sheet, is directly related to the size of the net balance sheet position in foreign currency. Moreover, the overall net foreign currency position on the balance sheet is the consequence of monetary and exchange rate 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 currency parties.

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

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NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The net foreign currency position of the Bank as of 31 December 2011 and 2010 is summarized below. The table presented below provides the Bank's assets, liabilities, and equity at carrying amounts, categorized by currency:

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

	31 December 2010									
	Foreign currency									
	US\$	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	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)	-

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(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 hypothetic loss that would occur in the total market value of the net foreign currency positions of the Bank as of 31 December 2011 and 2010 under such an assumption is presented in the tables below:

Sensitivity of the net foreign currency position:

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

31 December 2010										
Foreign currency										
	US\$	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	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)

(e) Interest rate risk

Bank is exposed to the interest rate risk which is the probability of incurring losses due to the fluctuations in the interest rates in the market. Such an exposure can result from a variety of factors, including differences in the timing between the maturities or re-pricing of assets, liabilities, and off-balance sheet instruments. Changes in the level and shape of yield curves may also create interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

31 December 2011

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2010									
	Foreign currency					TL				
	Up to 1 month	1 to 3 months to 1 year	More than 5 years	Non-interest bearing	FC Total	Up to 1 month	1 to 3 months to 1 year	More than 5 years	Non-interest bearing	TL 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	-	110,142,990	7,348,884	674,094	-	-	8,022,978
Loans and advances to customers	-	608,990	85,538	-	711,370	-	-	-	-	-
Available-for-sale financial assets	-	-	-	418,052	418,052	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	239,494	239,494
Other assets	-	-	-	-	-	-	-	-	5,530	5,530
Total assets	15,750,211	28,506,939	49,736,805	14,301,041	133,947,037	19,360,908	684,854	57,665	32,599	110,087
Currency in circulation	-	-	-	-	-	-	-	-	456,862	456,862
Due to banks	-	-	-	29,344,548	29,344,548	-	-	-	48,937,560	48,937,560
Other deposits	632,487	980,361	6,710,653	9,817,249	27,938,412	-	-	-	26,846,394	26,846,394
Due to IMF	-	1,628	-	6,687	8,315	-	-	-	5,780,161	5,780,161
Other borrowed funds	-	-	-	-	-	-	-	-	-	-
Other liabilities	4,409	-	754,907	52,366	811,682	1,101,946	-	-	19,796	1,101,946
Deferred income tax liability	-	-	-	-	-	69,168	-	-	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	39,220,850	58,102,957	1,171,114	-	23,253	95,211,536	96,405,903
Net repricing gap	15,113,315	27,524,950	42,271,245	15,472,088	75,844,080	18,189,794	684,854	34,412	(94,754,674)	(75,844,080)

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

As the Bank is the monetary authority in Turkey, the interest rate sensitive balance sheet positions in the tables should be interpreted carefully. Required reserves are calculated over total domestic liabilities of banks according to the banking legislation effective in Turkey, after deductions determined in the Communiqué, No. 2005/1 on Required Reserves and deposit/participation funds accepted by banks in Turkey on behalf of foreign branches and loan amounts provided by banks and followed up in foreign branches and are deposited to the Bank. The Bank stopped paying interest over foreign currency reserve requirements as of 28 November 2008 with the announcement, dated 5 December 2008. On 23 September 2010 a major policy change has been submitted in Turkish Lira reserve requirements. To provide more active usage of reserve requirements in order to reduce the future macroeconomic and financial risk, interest payment for Turkish Lira reserve requirements has been abolished by the Bank. However, it should be noted that similar to any other central bank, the Bank, which uses short-term interest rates as its main monetary policy tool, does not actively manage the interest rate risk stemming from TL assets and liabilities considering that it might contradict the monetary policy implementations of the Bank. Nevertheless, the tables are prepared using all assets and liabilities including asset and liabilities denominated in TL to show the overall interest rate risk that the Bank is exposed to regardless of whether such risk is actively managed or not.

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

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

Within this framework, based on the average modified durations of foreign currency assets as of 31 December 2011 and 2010, 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 2011			31 December 2010		
	US\$	EUR	TOTAL	US\$	EUR	TOTAL
Market value of the foreign currency assets	73.867.429	67.161.367	141.028.796	57.171.947	61.600.507	118.772.454
Effect of the scenario of 1% increase in interest rates	(617.815)	(532.525)	(1.150.340)	(350.242)	(455.882)	(806.124)

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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 2011 and 2010:

	31 December 2011		
	US\$ (%)	EUR (%)	TL (%)
Assets			
Due from banks	0,06	0,02	9,04
Financial assets at fair value through profit or loss	0,21	0,28	10,99
Loans and advances to customers	0,54	1,56	-
Liabilities			
Due to banks	3,91	3,59	-
Other deposits	1,52	1,97	5,75
Other borrowed funds	-	-	5,00
	31 December 2010		
	US\$ (%)	EUR (%)	TL (%)
Assets			
Due from banks	0,19	0,16	6,5
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			
Due to banks	-	-	-
Other deposits	2,64	2,75	-
Other borrowed funds	-	-	1,5

(f) Liquidity risk

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

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

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 2011																
Foreign currency																
TL																
	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No Maturity	FC Total	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No Maturity	TL Total
Cash and gold reserves	19,436,544	-	-	-	-	-	-	19,436,544	79,451	-	-	-	-	-	-	79,451
Due from banks	6,819,697	17,471,893	-	-	-	-	-	24,291,590	89,118	39,593,554	-	-	-	-	-	39,682,672
Financial assets at fair value through profit or loss	-	5,119,402	13,254,201	69,627,506	36,409,017	194,947	-	124,605,073	-	1,191,469	1,271,148	1,790,324	3,563,591	-	-	7,816,532
Loans and advances to customers	-	359,073	1,684,609	979,690	14,315	1,616	-	3,039,303	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-	534,382	534,382	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	234,747	234,747	234,747
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	8,174	8,174	8,174
Other assets	1,341	745	-	4,729	-	-	-	6,815	8,742	6,926	30,321	-	-	29,423	29,423	75,412
Total assets	26,257,582	22,951,113	14,938,810	70,611,925	36,423,332	196,563	534,382	171,913,707	177,311	40,791,949	1,301,469	1,790,324	3,563,591	-	272,344	47,896,988
Currency in circulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to banks	-	62,513,210	-	-	-	-	-	62,513,210	16,834	28,765,225	-	-	-	-	55,103,174	55,103,174
Other deposits	11,101,365	691,821	1,060,772	7,799,746	8,338,788	-	-	28,992,492	8,391,293	-	-	-	-	-	-	28,782,059
Due to IMF	8,935	-	1,192	-	-	-	-	10,127	-	-	-	-	-	-	-	8,391,293
Other borrowed funds	-	-	-	-	-	-	-	-	-	516,143	-	-	-	-	-	516,143
Other liabilities	10,326	1,086	-	-	-	-	-	993,757	-	43,363	723,002	-	-	-	14,558	780,923
Deferred income tax liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,895,923	3,895,923
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	91,477	91,477
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29,740,117	29,740,117
Total liabilities and equity	11,120,626	63,206,117	1,061,964	7,799,746	8,338,788	-	982,345	92,509,586	8,408,127	29,324,731	723,002	-	-	-	88,845,249	127,301,109
Net liquidity gap	15,136,956	(40,255,004)	13,876,846	62,812,179	28,084,544	196,563	(447,963)	79,404,121	(8,230,816)	11,467,218	578,467	1,790,324	3,563,591	-	(88,572,905)	(79,404,121)

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

31 December 2010																
	Foreign currency						TL									
	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
Cash and gold reserves	8,822,684	-	-	-	-	-	-	8,822,684	104,946	-	-	-	-	-	-	104,946
Due from banks	5,059,293	4,990,276	3,790,637	-	-	-	-	13,840,206	74,293	12,006,947	9,283	-	-	-	-	12,090,523
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	-	10,759,935	24,107,312	49,640,544	25,260,325	374,874	-	110,142,990	-	-	674,094	1,727,694	5,621,190	-	-	8,022,978
Available-for-sale financial assets	-	-	608,990	85,538	9,425	7,417	-	711,370	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	-	418,052	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	10,723	-	-	-	11,735	3,009	5,077	1,477	48,382	1,534	-	-	5,530
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	154,508,860
Currency in circulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to banks	-	29,344,548	-	-	-	-	-	29,344,548	7,975	26,838,175	-	-	-	-	48,937,560	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	56,190,942
Due to IMF	-	-	1,628	-	-	-	-	8,315	-	-	-	-	-	-	641,560	33,718,573
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	1,101,946
Deferred income tax liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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)

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

31 December 2011								
	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	-	-	-	-	-	-	55.103.174	55.103.174
Due to banks	16.834	91.278.435	-	-	-	-	-	91.295.269
Other deposits	19.492.658	692.394	1.064.589	7.906.735	8.559.438	-	-	37.715.814
Due to IMF	8.935	-	1.192	-	-	-	-	10.127
Other borrowed funds	-	516.212	-	-	-	-	-	516.212
Total financial liabilities	19.518.427	92.487.041	1.065.781	7.906.735	8.559.438	-	55.103.174	184.640.596

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

(g) Operational risk

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

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

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

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

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

(h) Fair value of financial instruments

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

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

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

	Carrying value		Fair value	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Financial assets				
Cash and gold reserves	19.515.995	8.927.630	19.515.995	8.927.630
Due from banks	63.974.261	25.930.729	63.927.337	25.928.733
Loans and advances to customers	3.039.303	711.370	3.039.015	709.864
Financial liabilities				
Currency in circulation	55.103.174	48.937.560	55.103.174	48.937.560
Due to banks	91.295.269	56.190.942	91.295.269	56.190.942
Other deposits	37.383.785	33.718.573	36.957.435	33.925.556
Other borrowed funds	516.143	1.101.946	516.143	1.101.946

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

(i) Financial assets

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

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

(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 2011 and 2010.

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

(*) Financial assets and liabilities are carried at quoted prices in an active market which are used for similar financial assets and liabilities.

(**) Other than quoted prices specified in Level I, financial assets and liabilities are carried at inputs used to determine direct or indirect observable market prices.

(***) Financial assets and liabilities are carried at inputs which are used in determining fair value of financial assets and liabilities but not based on any observable market data.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

(*) Financial assets and liabilities are carried at quoted prices in an active market which are used for similar financial assets and liabilities.

(**) Other than quoted prices specified in Level I, financial assets and liabilities are carried at inputs used to determine direct or indirect observable market prices.

(***) Financial assets and liabilities are carried at inputs which are used in determining fair value of financial assets and liabilities but not based on any observable market data.

(i) Capital management

The Bank's shareholders' equity as at 31 December 2011 and 2010 comprises:

	31 December 2011	31 December 2010
Paid-in capital	47.464	47.464
Retained earnings	29.212.680	11.695.995
Other reserves	479.973	364.130
Total Equity	29.740.117	12.107.589

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

The Bank is not subject to any regulatory requirements concerning the level of capital it must maintain, however the Central Bank Law sets out how the statutory annual net profit for the year shall be 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 currency reserves should the TL appreciate significantly against other foreign currencies.

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

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

(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

	<u>31 December 2011</u>	<u>31 December 2010</u>
Gold bullion - International standards	18.677.555	8.138.467
Cash in hand	534.583	566.411
Gold bullion and coins - Non-International standards	303.857	222.752
Total	19.515.995	8.927.630

Gold coins and bullion in the amount of TL 33.043 thousand (31 December 2010: TL 24.224 thousand) are kept in the Bank's vaults on behalf of the Turkish Treasury. Additionally, Gold bullion - International standards include TL 7.575.877 thousand (31 December 2010: None) worth of gold kept by the Bank which belongs to the banks those deposited gold in order to meet their reserve requirement.

NOTE 7 - DUE FROM BANKS

	<u>31 December 2011</u>	<u>31 December 2010</u>
Funds lent under securities purchased under agreements to resell	39.593.554	12.006.947
Time deposits	17.471.893	8.780.914
Demand deposits	6.908.815	5.142.868
Total	63.974.262	25.930.729

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

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

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

	31 December 2011		31 December 2010	
	Cost	Carrying Value	Cost	Carrying Value
Turkish government bonds and treasury bills	7.730.721	7.816.532	7.611.036	8.022.978
Foreign government bonds and treasury bills	116.350.547	117.081.357	105.301.315	105.527.187
Corporate bonds of supranational institutions	7.450.722	7.523.716	4.503.803	4.615.803
Total	131.531.990	132.421.605	117.416.154	118.165.968

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

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

	31 December 2011	31 December 2010
Loans to corporate entities:		
Foreign country loans	20.646	22.025
Domestic loans	3.018.657	689.345
Total performing loans	3.039.303	711.370
Impaired loans and advances	2.885.238	2.356.022
Gross loans and advances to customers	5.924.541	3.067.392
Less: Allowance for loan losses	(2.885.238)	(2.356.022)
Net loans and advances to customers	3.039.303	711.370

Movement in the allowance for loan losses is as follows:

	31 December 2011	31 December 2010
Balance at 1 January	2.356.022	2.288.800
Charge for the year (*)	529.216	67.222
Balance at 31 December	2.885.238	2.356.022

(*) The balance mainly consists of the foreign exchange gain on the impaired loans and advances amounting to TL 521.659 thousand (31 December 2010: loss amounting to TL 61.211 thousand).

As of 31 December 2011, the restructured loans and advances of the Bank amounted to TL 16.276 thousand (31 December 2010: TL 17.680 thousand). In accordance with the restructuring agreement of the Bank regarding the above mentioned restructured loans, the Bank forwent TL 8.901 thousand (US\$ 4.712.512) (31 December 2010: TL 7.283 thousand (US\$ 4.712.512)) of its interest receivable which will accrue again if the counterparty fails to meet the conditions stated in the restructuring agreement. As of 31 December 2011 and 2010, the Bank provided allowance for such contingent interest receivable.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

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NOTE 10 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

Name	Nature of business	Ownership (%)		Amount	
		31 December 2011	31 December 2010	31 December 2011	31 December 2010
BIS	Banking Supervision	1,43	1,49	515.428	402.541
International Islamic Liquidity Management Corporation	Liquidity Management	0,01	0,01	18.889	15.460
SWIFT	Electronic Fund Transfer Services	0,007	0,007	65	51
Total				534.382	418.052

The shares of BIS have a par value of SDR 5.000 each and are paid up to SDR 1.250 each. The balance of SDR 3.750 per share is callable at three months' notice by the decision of the BIS Board and the total amount of commitment is disclosed under contingencies and commitments as of 31 December 2011 and 2010 (Note 27).

As of 31 December 2011 and 2010, 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 2011 and 2010, 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:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Opening balance	418.052	373.071
Purchases	-	15.200
Fair value changes	116.330	29.781
Closing balance	534.382	418.052

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

NOTE 11 - PROPERTY AND EQUIPMENT

	Land and buildings	Equipment and vehicles	Construction in progress	Total
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 as of 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
Year ended as of 31 December 2011				
Opening net book value	203.564	26.641	9.289	239.494
Additions	4.930	10.150	7.453	22.533
Transfers	9.193	-	(9.193)	-
Disposals (net)	(12.292)	(147)	-	(12.439)
Depreciation charge (Note 26)	(6.078)	(8.763)	-	(14.841)
Closing net book value	199.317	27.881	7.549	234.747
At 31 December 2011				
Cost	328.412	66.927	7.549	402.888
Accumulated depreciation	(129.095)	(39.046)	-	(168.141)
Net book value	199.317	27.881	7.549	234.747

In the year 2011 the Bank has disposed property and equipment with net book value of TL 12.439 thousand for a proceeds of TL 71.830 thousand.

NOTE 12 - INTANGIBLE ASSETS

	Cost	Accumulated amortisation	Net book value
Opening balance at 1 January 2010	12.086	(7.122)	4.964
Additions	1.105	(539)	566
Balance at 31 December 2010	13.191	(7.661)	5.530
Opening balance at 1 January 2011	13.191	(7.661)	5.530
Additions	3.633	(960)	2.673
Disposals	(2.835)	2.806	(29)
Balance at 31 December 2011	13.989	(5.815)	8.174

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 13 - OTHER ASSETS

	<u>31 December 2011</u>	<u>31 December 2010</u>
Charges and commissions due from Treasury (*)	30.321	-
Raw material and work-in-progress	22.011	24.079
Electronic Fund Transfer ("EFT") commission income accrual	6.851	6.204
Dividend income accrual	4.729	10.723
Prepaid expenses	799	2.483
Prepaid taxes	-	56.150
Other	17.516	10.448
Total	82.227	110.087

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

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

NOTE 14 - CURRENCY IN CIRCULATION

	<u>31 December 2011</u>	<u>31 December 2010</u>
Balance at 1 January	48.937.560	38.340.278
Banknotes issued into circulation	26.769.916	25.055.217
Banknotes withdrawn from circulation and destroyed	(20.599.409)	(14.457.935)
Demonetized banknotes	(4.893)	-
Balance at 31 December	55.103.174	48.937.560

NOTE 15 - DUE TO BANKS

	<u>31 December 2011</u>	<u>31 December 2010</u>
Deposits for reserve requirement obligations	79.398.446	48.343.564
Current accounts of banks	10.968.110	7.847.378
Deposits of banks for foreign currency deposit market	928.713	-
Total	91.295.269	56.190.942

Required reserves are calculated over total domestic liabilities of banks according to the banking legislation effective in Turkey, after deductions determined in the Communiqué, No. 2005/1 on Required Reserves and deposit/participation funds accepted by banks in Turkey on behalf of foreign branches and loan amounts provided by banks and followed up in foreign branches and are deposited to the Bank. The Bank stopped paying interest over foreign currency reserve requirements as of 28 November 2008 with the announcement, dated 5 December 2008. The Bank stopped paying interest over Turkish Lira reserve requirements as of 14 October 2010 with the announcement, dated 23 September 2010.

NOTE 16 - OTHER DEPOSITS

	<u>31 December 2011</u>	<u>31 December 2010</u>
Deposits by citizens abroad	17.923.515	18.121.162
Deposits of Turkish Treasury	18.284.265	14.732.497
Deposits of state owned entities	1.088.779	172.769
Deposits of state owned funds	87.226	692.145
Total	37.383.785	33.718.573

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 16 - OTHER DEPOSITS (Continued)

Deposits by citizens abroad are time deposits with maturities varying from one to three years; other deposits; including deposit of Turkish Treasury; held by government related institutions are interest-free deposits except for the demand deposits amounting to TL 10.430.619 thousand (31 December 2010: TL 353.505 thousand).

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

	31 December 2011		31 December 2010	
	Interest rate (%)	TL	Interest rate (%)	TL
EUR	0,25-3,25	17.031.890	0,25-3,25	17.166.408
US\$	0,25-2,75	794.374	0,25-2,75	869.593
CHF	0,25-0,50	91.695	0,25-0,50	79.117
GBP	0,25-1,00	5.556	0,25-1,00	6.044
Total		17.923.515		18.121.162

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 2011 and 2010. As of 31 December 2011 and 2010, borrowings related to Turkey's IMF quota are non-interest bearing with no stated maturity.

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

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

NOTE 18 - OTHER BORROWED FUNDS

	<u>31 December 2011</u>	<u>31 December 2010</u>
Funds borrowed from interbank money market	516.143	1.101.946
Total	516.143	1.101.946

NOTE 19 - OTHER LIABILITIES

	<u>31 December 2011</u>	<u>31 December 2010</u>
Import transfer orders and deposits	945.855	747.358
Taxes and withholdings payable	43.636	77.357
Non-guaranteed commercial debts	16.826	13.899
Expense accruals	7.083	25.031
Blocked accounts for pending court cases	4.246	14.816
Other	34.032	45.438
Total	1.051.678	923.899

NOTE 20 - TAXATION

	<u>31 December 2011</u>	<u>31 December 2010</u>
Taxes on income	1.448.474	222.089
Prepaid taxes	(725.472)	(276.705)
Income taxes (receivable)/payable - net	723.002	(54.616)

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NOTE 20 - TAXATION (Continued)

Corporate Tax

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

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

The effective tax rate in 2011 is 20% (2010: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2011 is 20%. (2010: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

As of 31 December 2011 and 2010, income taxes are summarized as follows;

	<u>31 December 2011</u>	<u>31 December 2010</u>
- Corporate tax	1.448.474	222.089
- Deferred tax	2.452.591	450.447
Tax liabilities	3.901.065	672.536

Deferred income taxes

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

For calculation of deferred tax asset and liabilities, the rate of 20% (2010: 20%) is used.

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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

NOTE 20 - TAXATION (Continued)

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

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Retirement benefit obligations	91.477	82.084	18.295	16.417
Net differences between carrying value and tax base of property and equipment	35.237	45.584	7.047	9.117
Other	10.483	31.086	2.097	6.217
Total Assets	137.197	158.754	27.439	31.751
Transfer of valuation account to income statement (*)	(19.489.213)	(7.245.849)	(3.897.843)	(1.449.170)
Fair value differences of financial assets	(486.208)	(378.606)	(24.310)	(18.931)
Difference in the calculated interest accrual of deposits using effective interest rate method	(6.044)	(8.012)	(1.209)	(1.602)
Total Liabilities	(19.981.465)	(7.632.467)	(3.923.362)	(1.469.703)
Net Liability	(19.844.268)	(7.473.713)	(3.895.923)	(1.437.952)

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

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

	31 December 2011	31 December 2010
Balance at 1 January	1.437.952	986.043
Deferred income tax charge to income statement, net	2.452.591	450.447
Deferred income tax charge to equity	5.380	1.462
Balance at 31 December	3.895.923	1.437.952

The reconciliation for taxation charge is stated below:

	31 December 2011	31 December 2010
Profit before income taxes	22.283.020	3.771.939
Tax charge calculated at a tax rate of 20%	4.456.604	754.388
Income exempt from taxation	(566.173)	(88.429)
Non-deductible expenses	10.634	6.577
Income tax expense	3.901.065	672.536

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NOTE 21 - RETIREMENT BENEFIT OBLIGATIONS

Under Turkish Labor Law, the Bank is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated.

The amount payable consists of one month's salary limited to a maximum of TL 2.731,85 (2010: TL 2.517,01) 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

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2011, the provision has been calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated based on the following actuarial assumptions:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Discount rate (%)	4,66	4,66
Rate to estimate the probability of retirement (%)	99	99

Additionally, the principal actuarial assumption is that the maximum liability of TL 2.517,01 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 TL 2.805,04 effective from 1 January 2012 (1 January 2011: TL 2.623,23), 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:

	<u>2011</u>	<u>2010</u>
At 1 January	82.084	76.247
Current year charge	11.851	11.029
Paid during the year	(2.458)	(5.192)
Balance at 31 December	91.477	82.084

NOTE 22 - NET INTEREST INCOME

	<u>2011</u>	<u>2010</u>
Interest income:		
Securities purchased under agreements to resell	2.934.037	2.007.272
Financial assets at fair value through profit or loss	2.110.871	2.129.645
Due from banks	34.872	23.006
Loans and advances to customers	12.853	8.502
Total	5.092.633	4.168.425
Interest expense:		
Other deposits	505.817	432.281
Interest expense due to Treasury(*)	116.883	13
Due to IMF	11.604	7.174
Other borrowed funds	3.037	1.134.136
Due to banks	1.035	798.855
Securities sold under agreements to repurchase	23	493.283
Total	638.399	2.865.742
Net interest income	4.454.234	1.302.683

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

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NOTE 23 - NET FEE AND COMMISSION INCOME

	<u>2011</u>	<u>2010</u>
Fee and commission income:		
EFT commission income	89.111	72.208
Commissions due from Treasury (*)	29.010	-
Open market operations	4.320	4.036
Other fund transfer fees	654	604
Other	6.293	6.568
Total	129.388	83.416
Fee and commission expense:		
Correspondent bank accounts	4.209	3.311
Other	9.138	7.160
Total	13.347	10.471

Net fee and commission income	116.041	72.945
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(*) With the decision of the Board of the Bank numbered 9525/19124 and dated 4 October 2011, Tariffs Regulations has been amended. According to these amendments, starting from 12 October 2011, commissions, charges and fees have been started to be collected from the Prime Ministry Undersecretariat of Treasury due to the transactions with the public administrations within the scope of overall budget.

NOTE 24 - DIVIDEND INCOME

	<u>2011</u>	<u>2010</u>
Available-for-sale securities	1.446	18.955
Total	1.446	18.955

NOTE 25 - FOREIGN EXCHANGE GAINS, NET

	<u>2011</u>	<u>2010</u>
Foreign exchange gains, net		
- translation gains/(losses), net	12.234.636	2.235.198
- transaction gains, net	7.079.543	722.771
Total	19.314.179	2.957.969

As of 31 December 2011 and 2010, translation gains/(losses) include the unrealized foreign exchange gains/(losses) and the unrealized gains on gold reserves. In the statutory financial statements of the Bank, the unrealized foreign exchange gains/(losses) and unrealized gains on gold reserves are excluded from the statutory net profit and corporate tax base and monitored in a temporary account on the balance sheet, namely "Valuation Account", in accordance with the Central Bank Law in Turkey.

NOTE 26 - OTHER OPERATING EXPENSES

	<u>2011</u>	<u>2010</u>
Wages and salaries	455.220	399.670
Administrative expenses	125.704	106.140
Social security costs	39.855	37.302
Depreciation and amortization (Notes 11 and 12)	15.801	17.644
KOSGEB fund participation fee	-	22.055
Other	15.244	274
Total	651.824	583.085

The average number of personnel employed by the Bank during the year 2011 was 4.397 (2010: 4.427).

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NOTE 27 - COMMITMENTS AND CONTINGENT LIABILITIES

	31 December 2011	31 December 2010
Guarantees taken	33.520.705	20.599.438
Uncalled BIS shares (Note 10)	87.660	71.805
Total	33.608.365	20.671.243

As of 31 December 2011, there are a number of legal proceedings outstanding against the Bank amounting to TL 57.230 thousand, US\$ 64.214.366 and EUR 162.810 (31 December 2010: TL 64.748 thousand, US\$ 64.106.853 and EUR 174.473). 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.

NOTE 28 - SHARE CAPITAL

The shareholder structure of the Bank as at 31 December 2011 and 2010 is as follows:

	31 December 2011		31 December 2010	
	TL	Share %	TL	Share %
Turkish Treasury	14	55	14	55
T.C. Ziraat Bankası A.Ş.	5	19	5	19
T.C.M.B Mensupları Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı	1	5	1	5
Türkiye Garanti Bankası A.Ş.	1	3	1	3
Türkiye İş Bankası A.Ş.	1	2	1	2
Others	3	16	3	16
Paid-in capital	25	100	25	100
Inflation adjustment on paid-in capital	47.439		47.439	
Total paid-in capital	47.464		47.464	

According to 5th article of the Central Bank Law, the capital of the Bank is TL 25 thousand and is divided into 250.000 shares, with a value of TL 0,1 each. The capital may be increased with the approval of the Turkish Government. The shares are divided into (A), (B), (C), and (D) shares. The (A) group shares belongs solely to the Turkish Treasury while (B) shares belong to national banks, (C) shares belong to banks other than the national banks and to companies possessing certain privileges and (D) shares belong to Turkish commercial institutions and to legal and real persons of Turkish nationality.

NOTE 29 - RETAINED EARNINGS AND LEGAL RESERVES

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

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

- 20% to the reserve fund,
- 6% over the nominal value of the equity shares to the shareholders as an initial dividend,
- After deducting the above-stated percentages a maximum of 5% of the remaining amount; so as not to exceed two months salaries; to the Bank personnel and 10% percent to the extraordinary reserves,
- Subject to the decision of the General Assembly a maximum of 6% over the nominal value of the equity shares to the shareholders as the secondary dividend.

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

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NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

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NOTE 30 - CASH AND CASH EQUIVALENTS

	<u>31 December 2011</u>	<u>31 December 2010</u>
Cash and gold reserves	19.515.995	8.927.630
Due from banks (excluding accrued interest)	63.941.159	25.921.348
Total	83.457.154	34.848.978

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.

	<u>31 December 2011</u>	<u>31 December 2010</u>
Assets:		
Financial assets at fair value through profit or loss ⁽¹⁾	7.816.532	8.022.978
Due from banks ⁽²⁾	28.888.360	9.162.282
Liabilities:		
Due to banks ⁽³⁾	54.353.054	40.548.058
Other deposits ⁽⁴⁾	19.460.270	15.597.411

⁽¹⁾ Includes government bonds issued by Turkish Treasury.

⁽²⁾ Includes receivables from shareholders as part of securities purchased under agreements to resell and interbank foreign currency transactions.

⁽³⁾ Includes required reserve deposits of shareholders.

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

(ii) Transactions with related parties

	<u>2011</u>	<u>2010</u>
Salaries and other short-term benefits to key management	3.935	3.800
Interest income ⁽¹⁾	633.387	963.653
Interest expense ⁽²⁾	116.883	589.567
Fee and commission income ⁽³⁾	78.569	36.924
Dividends paid to shareholders	857.141	1.833.458

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

⁽²⁾ Includes interest expense paid on deposits of shareholders.

⁽³⁾ Includes Electronic Fund Transfer commissions from shareholders of the Bank and commission and charges due from Treasury and state controlled entities.