TÜRKİYE CUMHURİYET MERKEZ BANKASI

ANNUAL REPORT 2010

Institutional | Training-Conference | Cultural Activities

Activities of the Central Bank of the Republic of Turkey in 2010

1 January 2010
The New Turkish lira (YTL) and the New kuruş (YKr) were withdrawn from circulation.

14 January 2010
Monetary Policy Committee (MPC) meeting was held. Overnight borrowing and lending rates were kept unchanged at 6.5% and 9%, respectively.

25 January 2010
Pursuant to the protocol concluded with TURKSTAT, the "Capacity Utilization Rate of Manufacturing Industry" started to be prepared and published by the CBRT, based on the CBRT Business Tendency Survey results.

26 January 2010
Inflation Report-I of 2010 was made public at a press meeting.

4 February 2010
"The Contest for Academic Studies" was published on the CBRT website.

16 February 2010
MPC meeting was held. Overnight borrowing and lending rates were kept unchanged at 6.5% and 9%, respectively.

17 February 2010
Governor Durmuş Yılmaz gave a lecture on "Monetary Policies" in Adana.

9 March 2010
The maximum contractual interest rate and monthly maximum default interest rate that apply to credit card transactions in Turkish lira were reduced from 2.91% to 2.80% and from 3.66% to 3.55%, respectively, effective as of 1 April 2010.

11 March 2010
Bad check transactions started to be governed by Regulations on Risk Transactions.

18 March 2010
MPC meeting was held. Overnight borrowing and lending rates were kept unchanged at 6.5% and 9%, respectively.

6 April 2010
Exhibition of "Contemporary Masterpieces from Turkey", featuring a selection of works from the Central Bank's Art Collection was inaugurated at the Caixa Forum Madrid Cultural Center.

9 April 2010
The currency units of Russia, Iran, Romania and Bulgaria were included in CBRT's list of convertible foreign currencies.

9-10 April 2010
Within the scope of the South- East European Cooperation Process, the Economy and Finance Ministers' Meeting was organized in Istanbul.

13 April 2010
MPC meeting was held. Overnight borrowing and lending rates were kept unchanged at 6.5% and 9%, respectively.

14 April 2010
The "Monetary Policy Exit Strategy" was announced with a press release.

15 April 2010
Governor Durmuş Yılmaz, delivered a speech entitled "Global Crisis, Its Effects and Monetary Policy Implementations" in Malatya.

15-16 April 2010
Conference on "The South-Eastern European Monetary History Network" was organized in Istanbul.

20 April 2010
The 78th Ordinary Meeting of the General Assembly of the CBRT was held. Prof. Dr. Turalay Kenç and Necati Şahin were re-elected to the Board. Prof. Dr. Hasan Türedi was elected as a Member of the Auditing Committee.

26 April 2010
FX reserve requirement ratios were increased by 0.5 points to 9.5%.

29 April 2010
Inflation Report-II of 2010 was made public at a press meeting.

An Open Letter was sent to the Government as stipulated by Article 42 of the CBRT Law.

18 May 2010
MPC meeting was held. The CBRT adopted the one-week repo rate as the new policy rate and set at 7% with a technical rate adjustment. Overnight borrowing and lending rates were kept unchanged at 6.5% and 9%.

20 May 2010
The regulations governing the method of one-week repo auctions was made public with a press release. Auctions started to be held via the quantity auction method over the fixed interest rate set by the MPC.

24 May 2010
Governor Durmuş Yılmaz gave a presentation before the Council of Ministers.

26 May 2010
The first issue of Financial Stability Report for 2010 was published.

26-29 May 2010
The 9th Regional Payment Systems Workshop was organized.

7 June 2010
Prohibitions on issuing checks and opening check accounts started to be made public by the courts through the National Judiciary Informatics System.

11 June 2010
The "Contemporary Turkish Painting" exhibition, featuring a selection of works from the Central Bank's Art Collection was held at the City Museum of Skopje.

16 June 2010
The maximum contractual interest rate and monthly maximum default interest rate that apply to credit card transactions in Turkish lira were decreased from 2.80% to 2.69%; and from 3.55% to 3.19%, respectively to be effective as of 1 July 2010.

17 June 2010
MPC meeting was held. The one-week repo auction rate (policy rate) remained flat at 7%; overnight borrowing and lending rates were kept unchanged at 6.5% and 9%, respectively.

24 June 2010
Within the scope of effective liquidity management, guidelines on the government securities buying auctions to be conducted in the second half of the year were made public with a press release.

Governor Durmuş Yılmaz gave a presentation before the Planning and Budget Commission of the Grand National Assembly of Turkey (TGNA).

5 July 2010
In computing the real effective exchange rate index, the methodology applied by international institutions was adopted with extended country coverage and revised country weights.

8 July 2010
Governor Durmuş Yılmaz gave a lecture on "Monetary Policies" in Denizli.

15 July 2010
MPC meeting was held. The one-week repo auction rate (policy rate) remained flat at 7%; overnight borrowing and lending rates were kept unchanged at 6.5% and 9%, respectively.

27 July 2010
Inflation Report-III of 2010 was made public at a press meeting.

29 July 2010
FX reserve requirement ratios were increased from 9.5% to 10%.

2 August 2010
The CBRT decided to increase the maximum daily amount to be purchased in FX buying auctions to USD 80 million, with USD 40 million of auction amount and USD 40 million of optional selling amount.

The results of the "Contest for Academic Studies" were announced on our website.

19 August 2010
MPC meeting was held. The one-week repo auction rate (policy rate) remained flat at 7%; overnight borrowing and lending rates were kept unchanged at 6.50% and 9%, respectively.

16 September 2010
MPC meeting was held.The one-week repo auction rate (policy rate) remained flat at 7%. Overnight borrowing and lending rates were decreased from from 6.50% to 6.25% and from 9% to 8.75%, respectively.

20 September 2010
Governor Durmuş Yılmaz delivered a speech on "Monetary Policies" in Kahramanmaraş.

23 September 2010
The Turkish lira required reserve ratio was increased by 0.5 point to 5.5% and the FX required reserve ratio was increased by 1 point to 11%. The remuneration of Turkish lira required reserve ratios was terminated.

The maximum contractual interest rate and monthly maximum default interest rate that apply to credit card transactions in Turkish lira were reduced from 2.69% to 2.44%; and from 3.19% to 2.94%, to be effective of 1 October 2010.

Çanakkale Banknote Depot was established.

26-27 September 2010
A workshop for central bank specialists of the Organization of the Islamic Conference (OIC) member countries and a meeting for central bank governors of OIC member countries was held.

27-29 September 2010
The "2010 Global Economic Symposium" was organized jointly with Kiel Institute, a German research institution, at İstanbul Congress Center.

30 September 2010
Uşak Banknote Depot was established.

1 October 2010
It was announced that FX buying auctions were revised so as to provide room for buying in higher amounts in periods of excess FX supply.

The interest rate applied to super FX accounts and FX deposit accounts with credit letters were reduced.

6 October 2010
"The 2nd Contest for Academic Studies" was published on the CBRT website.

14 October 2010
MPC meeting was held. The one-week repo auction rate (policy rate) remained flat at 7%. Overnight borrowing rate was reduced from 6.25% to 5.75%; and lending rate was kept unchanged at 8.75%.

15 October 2010
The intermediary function of CBRT at the FX Depo Market was suspended and considering that 3-month repo funding is no longer needed, those auctions were terminated. It was decided that the repo facility, which is extended to primary dealers within the open market operations framework would now be available only at overnight maturity.

25 October 2010
The founding agreement of the Islamic Liquidity Management Corporation (IILM) was signed and Turkey became a member.

Governor Durmuş Yılmaz gave a presentation before the Council of Ministers.

26 October 2010
Inflation Report-IV of 2010 was made public at a press meeting.

An Open Letter was sent to the government as stipulated by the article 42 of the CBRT Law.

Governor Durmuş Yılmaz gave a presentation before the Planning and Budget Commission of the TGNA.

28-30 October 2010
The CEPR/ESI 14th Annual Conference with the title "How has Our View of Central Banking Changed with the Recent Financial Crisis?" was held.

11 November 2010
MPC meeting was held. The one-week repo auction rate (policy rate) remained flat at 7%. Overnight borrowing rate was reduced from 5.75% to 1.75%; while lending rate was kept unchanged at 8.75%.

12 November 2010
The Turkish lira required reserve ratio was increased by 0.5 point to 6%.

7 December 2010
The second issue of Financial Stability Report for 2010 was published.

16 December 2010
MPC meeting was held. The one-week repo auction rate (policy rate) was decreased from 7% to 6.50%. Overnight borrowing rate was reduced from 1.75% to 1.50%, and lending rate was increased from 8.75% to 9%.

17 December 2010
The maximum contractual interest rate and monthly maximum default interest rate that apply to credit card transactions in Turkish lira were reduced from 2.44% to 2.26%, and form 2.94% to 2.76%, respectively to be effective of 1 January 2011.

The Turkish lira required reserve ratios were differentiated by maturity.

18 December 2010
Governor Durmuş Yılmaz delivered a speech on "Monetary Policies" in Konya.

21 December 2010
"Monetary and Exchange Rate Policy for 2011" was made public at a press meeting.

30 December 2010
The annual rediscount rate applied to rediscount transactions for bills with maturities up to a maximum of 3 months was reduced from 15% to 14%; and the annual interest rate applied to advance transactions was decreased from 16% to 15%.

CENTRAL BANK OF THE REPUBLIC OF TURKEY JOINT STOCK COMPANY

2010 ANNUAL REPORT DRAWN UP BY THE BOARD FOR
THE SEVENTY-NINTH ACCOUNTING YEAR

Submitted to
THE GENERAL ASSEMBLY OF SHAREHOLDERS
On April 12, 2011

ANKARA
2011

Annual Report 2010

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Portrait, E-9 Emission Group
Depicted on the front of 5 TL and 10 TL denominations from Series 1

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ABBREVIATIONS

BIMER	Communication Center of the Prime Ministry
BIS	Bank for International Settlements
BRSA	Banking Regulation and Supervision Agency
CBRT	Central Bank of the Republic of Turkey
CEPR	Centre for Economic Policy and Research
CLS	Continuous Linked Settlement
CPI	Consumer Price Index
CPSS	Committee on Payment and Settlement Systems
ECB	European Central Bank
ESI	European Summer Institute
EU	European Union
Fed	The Federal Reserve Board of USA
FXRIC	Foreign Exchange Risk and Investment Committee
GDP	Gross Domestic Product
GES	Global Economic Symposium
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBAN	International Bank Account Number
ICH	Interbank Clearing Houses Center
IFLS	International Financial Reporting Standards
IFRIC	International Financial Reporting Interpretations Committee
IILM	International Islamic Liquidity Management Corporation
IMF	International Monetary Fund
ISE	İstanbul Stock Exchange
KOSGEB	Small and Medium Industries Development Organization
MPC	Monetary Policy Committee
MTP	Medium-Term Program
OECD	Organization for Economic Co-operation and Development
OIC	Organization of the Islamic Conference
OIS	Overnight Indexed Swap
OPEC	Organization of the Petroleum Exporting Countries
SB	Strategic Benchmark
SBF	Strategic Benchmark Portfolio
SCA	Special CPI Aggregates
SCA-H	Special CPI Aggregates H Index
SCA-I	Special CPI Aggregates I Index
SDR	Special Drawing Rights
SDIF	State Deposit Insurance Fund
SEPA	Single Euro Payments Area
SME	Small and Medium Enterprises
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TIC-ESTS	Turkish Interbank Clearing – Electronic Security Transfer and Settlement System
TIC-RTGS	Turkish Interbank Clearing – Real Time Gross Settlement System
TL	Turkish Lira
TURKSTAT	Turkish Statistical Institute
USA	United States of America

FOREWORD

The CBRT aims to contain adverse effects of the crisis on economic activity without compromising its primary objective of price stability with the help of its prudent monetary policy during the global turmoil.

2010 was marked by important developments, not only with respect to the Turkish economy and the Central Bank of the Republic of Turkey (CBRT), but also regarding the world economies. The implications of the financial crisis, which deepened further and spread globally from the fourth quarter of 2008 onwards, prevailed in 2010 as well. While global economic activity recovered gradually, advanced economies, which were the source of the crisis, underwent a slower and more fragile recovery process. In advanced economies; budget deficits remained high, concerns over sustainability of the public debt persisted, no significant improvement was observed in the labor market, adverse effects on the balance sheets of financial institutions were yet to be offset and precautionary savings of households rose – all curbing the contribution of private consumption and investment expenditures to domestic demand. Meanwhile, emerging market economies including Turkey experienced relatively fast and stable growth backed by domestic demand.

The growth discrepancy between advanced and emerging market economies became the key driver of monetary policy practices of countries in 2010. Loose monetary policies adopted by advanced economies in order to eliminate the downside risks to economic activity and the monetary easing process that has recently come into prominence have not only boosted global liquidity but have also stimulated the search for yield. The widening discrepancies in interest rates and growth between advanced and emerging economies, coupled with the rising risk appetite, has attracted more capital flows into the latter, resulting in the withdrawal of counter-cyclical monetary policies enforced during the crisis in many countries. It has also led to the launch of monetary tightening, as well as the enforcement of certain measures related to capital controls in some of them.

In our case, Turkey has been one of those economies that exited the global crisis very rapidly. Counter-cyclical monetary and fiscal policies implemented during this period, the low debt ratio of households, and the strong structure of the banking system led domestic demand to soar and the Turkish economy embarked on a strong recovery from mid-2009. Against this background, total production rose above pre-crisis levels by mid-2010. In line with the ongoing economic recovery, the CBRT, which aims to contain adverse effects of the crisis on economic activity without compromising its primary objective of price stability with the help of its prudent monetary policy during the global turmoil, announced its exit strategy on 14 April 2010, envisaging the normalization of the monetary policy implemented during the crisis. Within the framework of this strategy, the Bank decided to implement technical rate adjustment and to use the one-week repo auction rate instead of the overnight borrowing rate as the policy rate. Besides, it gradually mopped up the excess liquidity provided to the market and increased reserve requirement ratios to pre-crisis levels.

For an accurate reading of recent policy decisions of the CBRT, the relation between price stability and financial stability in the context of inflation targeting needs to be well understood. The existence of a smoothly functioning and sound financial system not only bolsters the efficiency of the monetary transmission mechanism, and thus the monetary policy; but also ensures the resilience needed in the face of exogenous shocks; thereby playing a critical role in establishing price stability. Similarly, in line with the price stability mandate central banks can contain inflation expectations, thus alleviating the volatility in market interest rates and other financial variables. Hence, achieving price stability also underpins the establishment of financial stability.

Taking into account the contribution of financial stability to price stability, the CBRT considered the periods when foreign exchange supply rose more than foreign exchange demand as an opportunity to increase its international reserve level. In these periods, the CBRT accelerated reserve accumulation without conflicting with the basic principles and operation of the floating exchange rate regime. In this context, a more flexible method was introduced to foreign exchange buying auctions and put into effect as of October 2010. Moreover, the CBRT terminated the remuneration of Turkish lira required reserves and revised the operational structure of liquidity management with the aim of using alternative policy instruments more effectively to contain risks to financial stability. The low course of interest rates on a global scale besides the announcement of the CBRT that policy rates would be kept unchanged at low levels led market interest rates to hit their lowest-ever levels in 2010. This trend applied to all maturities and the decline in long-term interest rates became more apparent with the improvement in Turkey's risk perceptions.

Along with the primary objective of establishing and maintaining price stability, taking measures to ensure stability in the financial system is also among the mandates of the CBRT. The growth discrepancy between domestic and foreign demand, accelerating credit growth and widening current account deficit as a result of strengthening capital flows have recently raised concerns over financial stability. The discrepancy between domestic and external equilibrium interest rates has necessitated the use of more than one instrument under the monetary policy scheme. With this new monetary policy approach, required reserve ratios and an efficient liquidity management as well as the one-week repo auction rates have been adopted as basic policy instruments. Given the current economic climate, the most appropriate policy mix is believed to be a lower policy rate, a wider interest rate corridor and higher required reserve ratios to safeguard price stability and financial stability concurrently.

Since the launch of the inflation targeting regime in 2002, the Turkish economy has achieved significant success pertaining to disinflation and has sacrificed a lot to attain price stability. In 2010, consumer prices increased by 6.4 percent annually amid global and national economic developments and almost reached the year-end inflation target of 6.5 percent. The fact that inflation did not deviate from the target by a significant margin has bolstered confidence in our monetary policy. Ensuring that measured rate cuts are in tandem with the tightening in financial sector policies and providing assurance that the net impact of this policy mix is restrictive are integral parts of the policy framework safeguarding financial stability without sacrificing price stability.

Within the framework of accountability, transparency and predictability principles required by the inflation targeting regime, the CBRT has taken steps towards diversifying and increasing the effectiveness of communication activities in 2010. In line with our objective of achieving an effective communications policy, the CBRT website has been revised and some new links have been provided with a view to enhancing the communication of our monetary policy. The CBRT's prolific reporting system, press releases as well as speeches and presentations delivered by our senior management have played an important role in reinforcing our communication with the public. Besides the financial support that it has provided for academic studies, the CBRT continued to foster its relations with international institutions, central banks and academicians by organizing national and international seminars and conferences in 2010. Within this framework, the CBRT and one of the leading economic research institutes of the Federal Republic of Germany, the Kiel Institute, jointly hosted the "2010 Global Economic Symposium" (GES) in 27-29 September 2010 bringing together over 500 decision-makers from the politics, business world, academic circles and non-governmental organizations.

Meanwhile, the CBRT continues to foster its bilateral relations with other central banks. These activities not only enrich our knowledge about monetary policy by getting acquainted with different experiences but also contribute to other central banks.

We hereby present to you, our esteemed shareholders, the Annual Report, which outlines the activities of 2010 and elaborates balance sheet details within the framework of the aforementioned developments.

As was the case in 2009, the CBRT will continue to assess the Turkish economy taking into account both the regional and global conjuncture with a long-term perspective and implement a prudent and counter-cyclical monetary policy by employing the most appropriate and cutting edge techniques in the future. As one of the fundamental and well-established institutions of the Turkish economy, the CBRT's robust institutional structure and its highly qualified staff will, as always, be the source of our success in years to come.

I am grateful to all my colleagues for their devoted work and contributions.

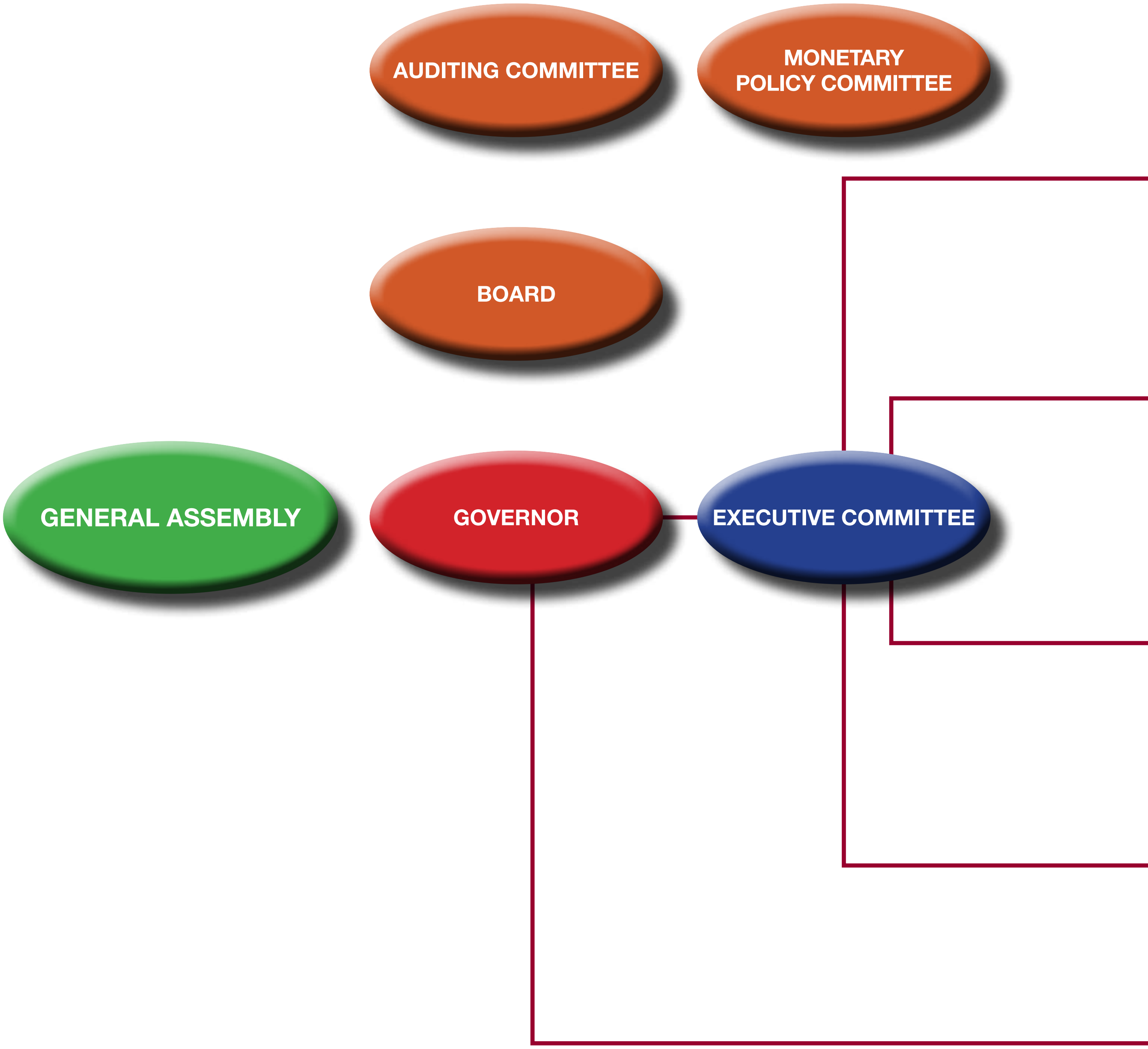
DYılmaz

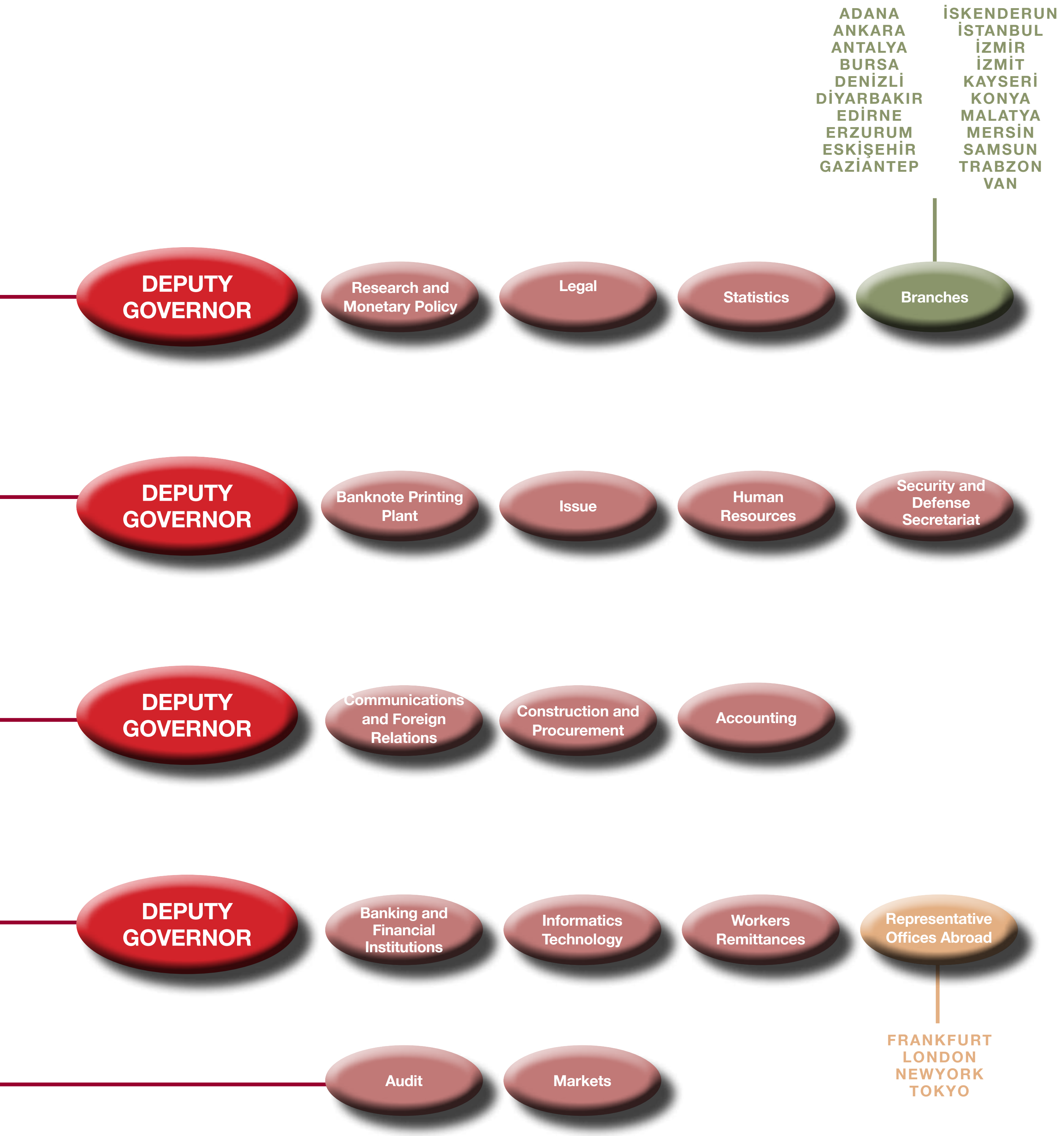
Durmuş Yılmaz
Governor

PART 1
GOVERNING BODIES

BEDRİ RAHMİ EYÜBOĞLU
“View from Ankara”, Oil on Cardboard,
60x70 cm., 1943

1.1. ORGANIZATION CHART




ADANA
ANKARA
ANTALYA
BURSA
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Research and Monetary Policy
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Branches
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Banknote Printing Plant
Issue
Human Resources
Security and Defense Secretariat
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Communications and Foreign Relations
Construction and Procurement
Accounting
DEPUTY GOVERNOR
Banking and Financial Institutions
Informatics Technology
Workers Remittances
Representative Offices Abroad
FRANKFURT
LONDON
NEWYORK
TOKYO
Audit
Markets

1.2. BOARD

From Left to Right; Prof. Turalay Kenç, Mehmet Vehbi Çıtak, Prof. Mustafa İlker Parasız, Durmuş Yılmaz, Prof. Necdet Şensoy, Necati Şahin, Assoc. Prof. Lokman Gündüz

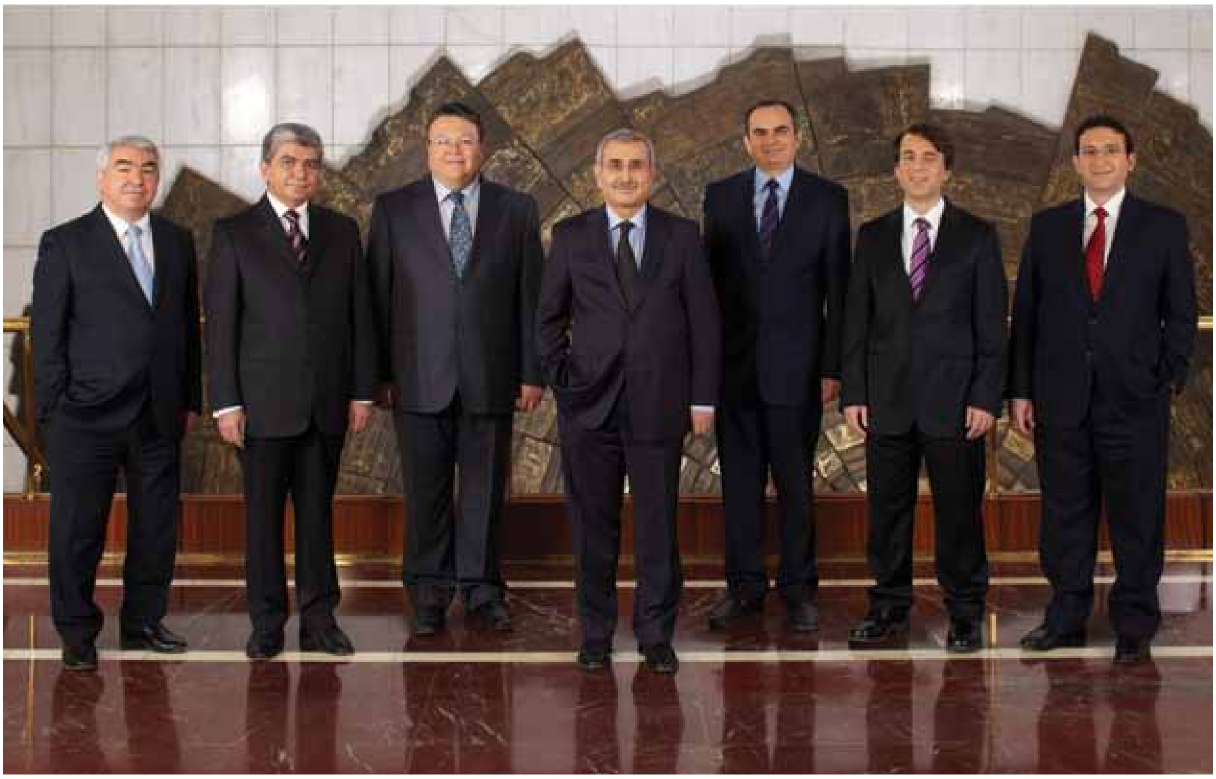
The Board is composed of the Governor and six members to be elected by the General Assembly. The term of office of Board members is three years and a third of Board members are replaced each year. The Governor is the Chairman of the Board. The Board meets at least once a month at the request of the Governor.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

Making decisions concerning the monetary policy to be implemented and monetary policy instruments to be utilized in compliance with the inflation target; setting forth regulations on banknotes in circulation; making regulations regarding open market operations, foreign exchange operations, interest rates relating to rediscount and advance operations, reserve requirements, the management of gold and foreign exchange reserves of the country; preparing the budget, annual report, balance sheet, income statements and the agenda of the General Assembly of the Bank and approving regulations regarding the administration, organization, services and personnel of the Bank are among the duties and powers of the Board. Within this framework, the Board made 21 meetings and took 148 decisions in 2010.

As of December 31, 2010, members of the Board are Governor Durmuş Yılmaz, the Chairman, Prof. Mustafa İlker Parasız, Necati Şahin, Mehmet Vehbi Çıtak, Assoc. Prof. Lokman Gündüz, Prof. Necdet Şensoy and Prof. Turalay Kenç.

At the regular General Assembly meeting of the CBRT held on April 20, 2010; Board members Necati Şahin and Prof. Turalay Kenç, whose memberships were due to expire on April 30, 2010, were re-elected as members for a three-year period from May 1, 2010 to April 30, 2013.

1.3. MONETARY POLICY COMMITTEE



From Left to Right; Prof. Turalay Kenç, Burhan Göklemez, Assoc. Prof. Mehmet Yörükoğlu, Durmuş Yılmaz, Assoc. Prof. Erdem Başçı, Prof. Abdullah Yavaş, Dr. Mustafa İbrahim Turhan

The MPC (Monetary Policy Committee), under the chairmanship of the Governor, is composed of Vice Governors, a member to be elected by the Board among its members and a member to be appointed by a joint decree upon the recommendation of the Governor. The Undersecretary of Treasury or his/her designee (Deputy Undersecretary) may participate in meetings without having the right to vote. The MPC is charged and authorized to determine the principles and the strategy of monetary policy in order to maintain price stability; set the inflation target with the Government within the framework of the monetary policy strategy; provide information to the Government and, in line with the principles set forth, to the public, within specified periods by preparing reports regarding monetary policy targets and their implementation; and take the necessary measures jointly with the Government to preserve the domestic and international value of the Turkish Lira and to set the exchange rate regime in determining the parity of Turkish Lira against gold and foreign currencies.

In 2010, the MPC held 12 regular meetings.

As of December 31, 2010, Governor Durmuş Yılmaz has been the Chairman of the Monetary Policy Committee and its members are: Assoc. Prof. Erdem Başçı, Burhan Göklemez, Assoc. Prof. Mehmet Yörükoğlu, and Dr. Mustafa İbrahim Turhan, Deputy Governors, Prof. Turalay Kenç, member of the Board and Prof. Abdullah Yavaş, member of the Monetary Policy Committee.

1.4. AUDITING COMMITTEE

From Left to Right; Mustafa Saim Uysal, Prof. Hasan Türedi, Abdullah Yalçın, Mehmet Tüfekçi

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

As of December 31, 2010, members of the Auditing Committee are: Mustafa Saim Uysal, Abdullah Yalçın, Mehmet Tüfekçi and Prof. Hasan Türedi.

Class (A) member Mehmet Tüfekçi, Classes (B) and (C) member Abdullah Yalçın and Class (D) member Mustafa Saim Uysal have carried on their posts throughout 2010.

At the regular General Assembly meeting of the CBRT held on April 20, 2010; Prof. Ekrem Yıldız having withdrawn from his post on February 5, 2010 due to his appointment as the Rector of Kırıkkale University, Prof. Hasan Türedi was elected to fill the vacant Auditing Committee membership to represent Class (B) and Class (C) shareholders, for a two-year period from May 1, 2010 to April 30, 2012.

1.5. EXECUTIVE COMMITTEE

From Left to Right; Assoc. Prof. Mehmet Yörükoğlu, Burhan Göklemez, Durmuş Yılmaz, Assoc. Prof. Erdem Başçı, Dr. Mustafa İbrahim Turhan

The Executive Committee is composed of Vice Governors under the chairmanship of the Governor. The Governor is appointed by the Council of Ministers to serve for five years. Vice Governors are appointed for five years by a joint decree on the recommendation of the Governor. Decisions of the Executive Committee are taken by the majority of all members.

When considered necessary by the Governor, the Committee prepares proposals to be submitted to the Board, by examining issues subject to Board decision in advance, and draws up regulations on the administration, organization and services of the Bank. In addition, the Committee is also responsible for ensuring the coordination of Bank operations and performing duties related to the appointment, remuneration, dismissal and retirement of personnel other than those appointed by the Board.

As of December 31, 2010, members of the Executive Committee are Governor Durmuş Yılmaz, the Chairman, Assoc. Prof. Erdem Başçı, Burhan Göklemez, Assoc. Prof. Mehmet Yörükoğlu and Dr. Mustafa İbrahim Turhan, Deputy Governors.

1.6. HEAD OFFICE DEPARTMENTS

(From Left to Right: First line: İrfan Yanar, Mehmet Sertbudak, Çiğdem Tunçtürk Köse, Mustafa Kudret Mennan, Selahattin Akkaş, Dr. Çiğdem Koğar, Ergün Anasoy, Dr. Ahmet Nuri Kıpıcı
Second line: Halit Yıldırım, Emin Keskin, Dr. Bilal San, Hüseyin Zafer
Back: Ömer Öztürk, Dr. Ali Hakan Kara, Mehmet Düzgün

As of December 31, 2010;

Research and Monetary Policy	Executive Director	Dr. Ali Hakan Kara
Banking and Financial Institutions	Executive Director	Dr. Çiğdem Koğar
Banknote Printing Plant	Executive Director	Selahattin Akkaş
Legal	Chief Legal Counsel And Executive Director	Mustafa Kudret Mennan
Informatics Technology	Executive Director	Ömer Öztürk
Audit	Executive Director	Dr. Bilal San
Issue	Executive Director	Mehmet Sertbudak
Communications and Foreign Relations	Executive Director	Hüseyin Zafer
Human Resources	Executive Director	Mehmet Düzgün
Construction and Procurement	Executive Director	Emin Keskin
Statistics	Executive Director	Dr. Ahmet Nuri Kıpıcı
Workers' Remittances	Executive Director	Ergün Anasoy
Accounting	Executive Director	İrfan Yanar
Markets	Executive Director	Çiğdem Tunçtürk Köse
Security And Defense Secretariat	Secretary of Security and Defense	Halit Yıldırım

1.7. BRANCHES

As of December 31, 2010;

Adana	Director	Mehmet Ali Tuğlu
Ankara	Director	Mehmet Ali Koca
Antalya	Director	Mehmet Faik Demir
Bursa	Director	İsmail Yürümez
Denizli	Director	Süleyman Koruyucu
Diyarbakır	Director	Eyüp Kütük
Edirne	Director	Şerafettin Baydaş
Erzurum	Director	İskender Büyüktaş
Eskişehir	Director	Nevzat Gülen
Gaziantep	Director	Ahmet İnci
İskenderun	Director	Tufan Sonek
İstanbul	Director	Lütfi Ümit Fındıkoğlu
İzmir	Director	Tevfik Hayati Boyalı
İzmit	Director	Atanur Dursun
Kayseri	Director	Mehmet Reşit Ketene
Konya	Director	
Malatya	Director	Süleyman Miçooğulları
Mersin	Director	Muharrem Zengin
Samsun	Director	Halil Yeşilbursa
Trabzon	Director	Mehmet Ünal Kekevi
Van	Director	Osman Tanrıkulu

1.8. REPRESENTATIVE BRANCHES

As of December 31, 2010;

Frankfurt Representative Office	Deputy Representative	Jale Ataman
London Representative Office	Deputy Representative	İmirze İlhan Koçaker
New York Representative Office	Deputy Representative	Dr. Nuran Arslaner
Tokyo Representative Office	Deputy Representative	Dr. Yüksel Görmez

PART 2
STRATEGIC PLAN AND OPERATIONS

CEZMİ
“Ahmetoğlan Village, Çorum”, Oil on Canvas,
42,5x62,5 cm., 1959

2.1. STRATEGIC PLAN

In 2010, the CBRT reorganised the strategic planning process with the advantage of ten-year strategic planning experience. The new strategic plan covers the period between 2011-2015. By considering the Bank's activities, three strategic areas entitled "Global", "Public" and "Institutional" have been defined. Under these areas 30 strategic themes have also been set. This plan, which comprises of 5-year strategic goals, will be the basis for activities starting from the year 2011.

2.1.1. CBRT Strategic Plan (2009-2011)

Mission

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

Vision

• To achieve and maintain price stability so as to promote the prosperity of society,
• To contribute to financial stability,
• To pursue an efficient communication policy,
• To be independent, transparent, accountable and credible.

Values

• Transparency, accountability, credibility, good governance, effective communication, giving priority to public benefit.

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

1) Maintaining Trust in the National Currency

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

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

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

3) Developing Adequate and Effective Communication

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

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

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

5) Developing Corporate Governance

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

2.2. PRICE STABILITY AND MONETARY POLICY

2.2.1. Overview

The global economy continued to recover throughout 2010 amid the easing global crisis that deepened during September 2008, and hit the globe, particularly the advanced economies, in the first half of 2009. In 2010, growth performances of advanced and emerging economies diverged significantly, with faster-growing emerging economies being the major driver of global growth and advanced economies, the origin of the global crisis, exhibited a slow and fragile outlook for growth.

This growth divergence between advanced and emerging economies caused monetary stances to vary across these economies. Indeed, recent data on economic activity prompted many advanced economies to adopt a second round of quantitative easing to bolster the already expansionary monetary policy. Having recovered at a relatively stronger pace, emerging economies, including Turkey, were able to withdraw the stimulus packages that were adopted during the crisis. Moreover, the significant divergence in growth dynamics between advanced and emerging economies and the resulting ample global liquidity fueled by ongoing quantitative easing across advanced economies, accelerated capital inflows to emerging economies when combined with the search for higher yields and the relatively higher interest rates in these economies.

Global economic developments had a profound impact on the Turkish economy. In fact, the economy recovered rapidly as the effects of the global financial crisis tapered off in 2010. GDP posted a positive year-on-year growth as of the first quarter of 2010. Furthermore, GDP registered an 8.9 percentage increase in the first nine months of 2010, ranking Turkey among the fastest growing economies across OECD countries. On the spending side, the anti-crisis fiscal and monetary measures eased uncertainty, thereby increasing consumer confidence and improving credit conditions, and thus, encouraging consumption and investment. During this period, final domestic demand, particularly private demand, was the main driver of GDP growth, while net exports made a negative contribution to growth due to weak external demand and the rapid recovery in the demand for imported goods.

In 2010, the positive outlook for GDP growth helped improve the labor market, and accordingly, employment followed a strong upward trend starting from the first quarter of 2009 as the adverse effects of the global crisis on the labor market tapered off. Specifically, employment had grown rapidly by the second quarter of 2010, while unemployment rates fell dramatically, nearing pre-crisis levels.

Inflation remained volatile throughout the year due to developments in unprocessed food prices (especially fresh fruit-vegetables and meat) and base effects from the 2009 tax incentives, but declined in the last quarter as expected amid falling unprocessed food prices. Accordingly, CPI inflation ended 2010 at 6.4 percent, largely meeting the year-end target.

In view of the economic developments briefly outlined above as well as improved credit market conditions and economic recovery, on April 14, 2010, the CBRT decided to withdraw the liquidity measures adopted during the crisis, and announced its exit strategy involving normalization of the operational framework of monetary policy. Accordingly, the CBRT withdrew the temporary liquidity facility initiated during the crisis thereby draining the excess liquidity gradually from the market, and also raised required reserve ratios.

Country-specific positive developments such as the stronger-than-expected economic recovery, credit rating upgrades by rating agencies, reduced political uncertainty in the post-referendum period and the updated Medium-Term Program (MTP) implying further fiscal discipline, exposed Turkey to massive capital inflows, which have already accelerated on a global scale. On the other hand, massive capital inflows raised concerns over financial stability through induced rapid credit expansion. In addition, both the final domestic demand driven growth of the Turkish economy and the negative contribution of net exports to growth prompted close monitoring of capital inflows due to their potential risks to the current account deficit.

In this context, without conflicting with its primary objective of achieving and maintaining price stability and its law-defined duty to take the necessary measures for achieving financial stability, the CBRT adopted a policy mix that effectively combines short-term interest rates, the main policy tool, with alternative policy instruments such as liquidity management and reserve requirements. The policy mix aims to enhance the effectiveness of the monetary policy and contain macro financial risks through a series of new measures adopted in November and December to maintain the flexibility of foreign exchange buying auctions, end interest payments on TL reserve requirements, alter the operational structure of liquidity management, and to channel capital inflows resulting from global monetary expansion into longer-term investment instruments.

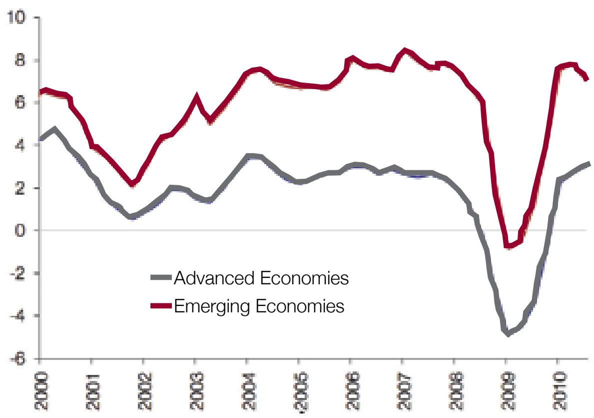
2.2.2. Global Economic Developments

Global Growth

The global economy continued to recover in 2010, while growth rates across advanced and emerging economies diverged remarkably (Graph 1). Global growth was driven by the robust growth in emerging economies where the crisis-induced output gaps tended to close rapidly. Accordingly, emerging economies normalized their monetary and fiscal policies as part of their exit strategies. On the other hand, the growth outlook for advanced economies remained slow and fragile. The peripheral debt crisis, banking sector problems and concerns about the sustainability of growth led by core economies' exports weakened the growth outlook for the euro area, while balance sheet re-structuring across all non-public sectors put a cap on consumption and investment spending in the US.

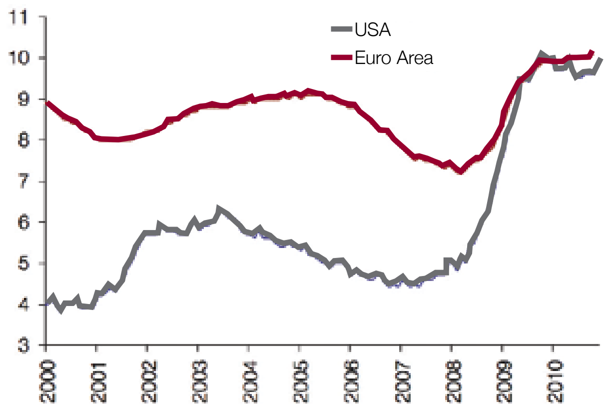
Labor markets recover at a much slower pace than the economy. Unemployment rates in the US and the euro area remained elevated in the final quarter of 2010, weighing on consumption, and thus, on global growth (Graph 2).

Graph 1. Annual Growth Rates in Advanced and Emerging Economies (%)



Source: Bloomberg, CBRT.

Graph 2. Unemployment in Advanced Economies (%)



Source: Bloomberg.

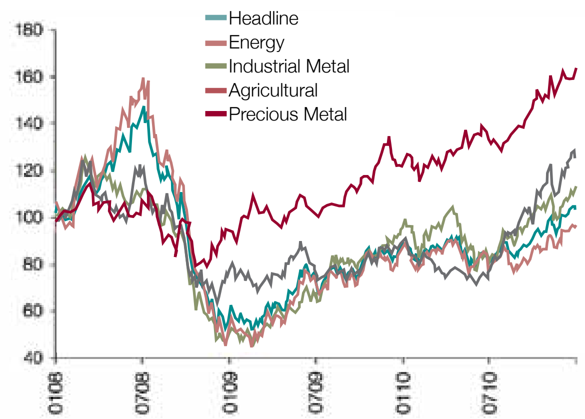
Commodity Prices

Commodity prices remained on the rise over 2010, particularly during the second half, amid the ongoing global economic recovery (Graph 3). Energy price increases stemming primarily from emerging economies kept pace with the changing growth outlook, and became more pronounced in the fourth quarter due to severe weather conditions. International Brent crude oil prices averaged 80 USD/bbl in 2010, up from 62 USD/bbl a year earlier (Graph 4). OPEC's decision to leave production quotas unchanged at regular and extraordinary meetings and the reduction of output by some member countries put additional upward pressure on oil prices during 2010. Another factor accelerating oil prices in the fourth quarter was the adoption of a second round of quantitative easing and new fiscal measures in the US that sparked optimism about growth.

Strong growth performance across emerging economies led by China was the principal source of the upsurge in industrial metal prices. Having fallen during the first half of the year, agricultural prices rose sharply in the second half of 2010 due to supply shortages driven by adverse weather conditions. The demand for precious metals that act as a hedge against inflation and economic risks grew robustly amid the euro area debt crisis, and thus, prices of precious metals increased rapidly.

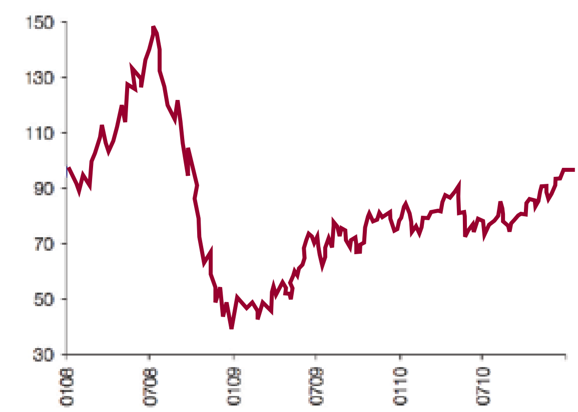
Strong growth performance across emerging economies led by China was the principal source of the upsurge in industrial metal prices.

Graph 3. S&P Goldman Sachs Commodity Prices (2008 January=100)



Source: Goldman Sachs.

Graph 4. Crude Oil (Brent) Prices (USD/bbl)

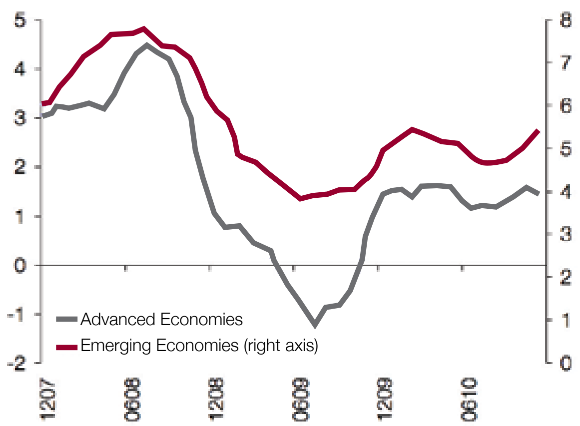


Source: Bloomberg.

Global Inflation

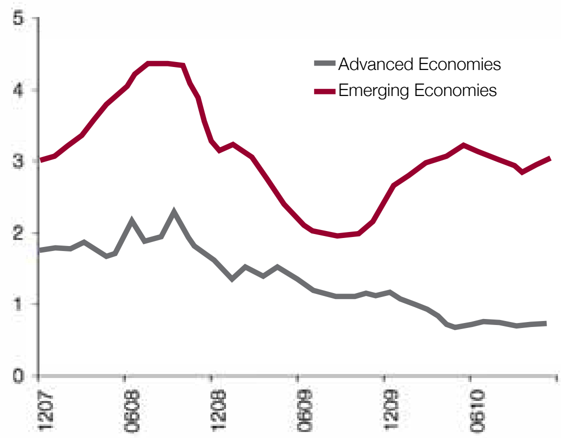
Inflation rates hardly varied across advanced and emerging economies over 2010, with end-2010 inflation remaining almost unchanged year-on-year (Graph 5). After trending downwards, inflation was back on the rise by mid-2010 on rising international agricultural prices in emerging economies. Meanwhile, core inflation began to move upwards as the effects of the crisis waned in emerging economies, and returned to pre-crisis levels. Slow and fragile growth across advanced economies led to ample idle capacity and kept deflationary pressures alive. The Core CPI constructed for advanced economies suggests that core inflation reached a lower plateau than before the crisis (Graph 6). However, the ongoing downtrend in US core inflation urged the Fed to take new policy measures.

Graph 5. CPI Inflation in Advanced and Emerging Economies
(Annual Percent Change)



Source: Bloomberg, CBRT.

Graph 6. Core CPI Inflation in Advanced and Emerging Economies
(Annual Percent Change)



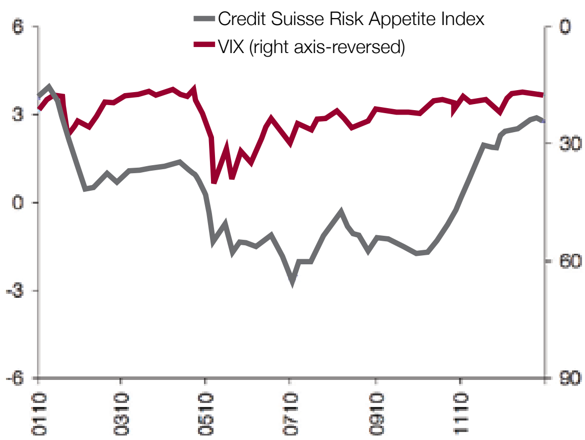
Source: Bloomberg, CBRT.

Global Financial Conditions and Risk Indicators

The normalization that was observed in money and capital markets in early 2010, but having no impact on credit markets, was hampered in May by deepening concerns about sovereign debt sustainability in euro area periphery countries, depressing the risk appetite and leading tightness in the money markets to come back as well as resulting in significantly increased risk premiums (Graphs 7 and 8). Consequently, emerging market currencies depreciated and market indices tumbled. Despite producing unsatisfactory results, stress tests for assessing the resilience of European banks ended the run up in risk premiums during the third quarter by allaying concerns over the banking system. Measures such as the ECB's decision to buy bonds of troubled countries from the secondary market and the Fed's re-extension of swap-lines contributed to the normalization of financial markets. Yet, worse-than-expected problems regarding the Irish banking crisis led to renewed concerns about the euro area debt crisis in the last quarter. The announced rescue packages eased concerns, but failed to fully solve the problems. Money markets remain tight while financial markets are still sensitive to euro area developments.

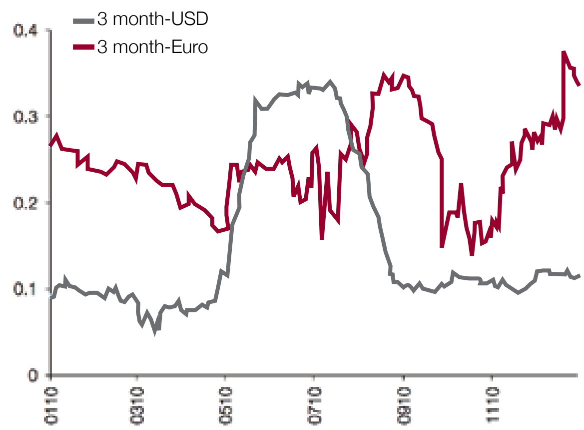
Measures such as the ECB's decision to buy bonds of troubled countries from the secondary market and the Fed's re-extension of swap-lines contributed to the normalization of financial markets.

Graph 7. Global Risk Appetite



Source: Bloomberg.

Graph 8. OIS Spread (%)



Source: Bloomberg.

Global Monetary Policy Developments

The monetary easing that started with the deepening of the global economic crisis in the final quarter of 2008, ended in advanced economies by the third quarter of 2009, but continued into the last quarter of 2009 in emerging economies, albeit at a gradually slowing rate. In 2010, the monetary policy stance was mostly maintained through quantitative methods rather than by policy rates in advanced and emerging economies. As the EU's peripheral debt crisis put downward pressure on global growth, both advanced and emerging economies postponed the normalization of policy rates. Therefore, global policy rates remained largely flat over 2010. Advanced economies raised policy rates very slightly in 2010, and the compound policy rate for advanced economies ended 2010 at 0.65 percent, remaining basically unchanged from the end-2009 level of 0.58 percent (Graph 9). Similarly, policy rate hikes were quite limited across emerging economies, and the compound policy rate for emerging economies rose slightly to 6 percent at the end of 2010 from 5.75 percent at the end of 2009 (Graph 10).

Central banks of advanced economies seeking alternative policies continued further quantitative easing throughout 2010. Emerging economies, however, tightened their monetary stance by actively using non-interest tools such as required reserve ratios, reserve accumulation and capital controls. The quantitative easing in advanced economies boosted global liquidity and led to massive capital inflow to emerging economies when combined with their relatively higher interest rates and robust growth.

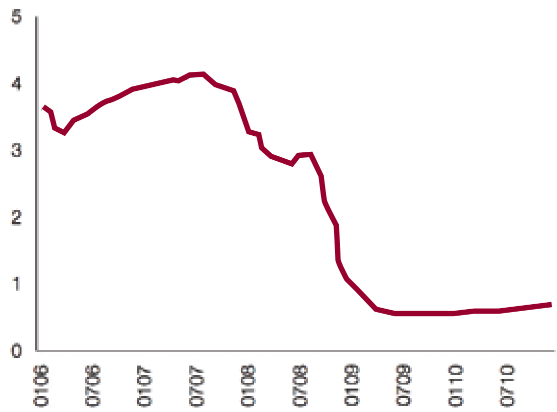
2.2.3. Macroeconomic Developments

Inflation Developments

CPI inflation was down to 6.4 percent year-on-year at the end of 2010. Inflation remained volatile over 2010 due to changes in unprocessed food prices (especially fresh fruit-vegetables and meat) and base effects from the 2009 tax incentives. In the final quarter, CPI inflation declined as expected amid falling unprocessed food prices, and largely met the 2010 target of 6.5 percent (Graph 11).

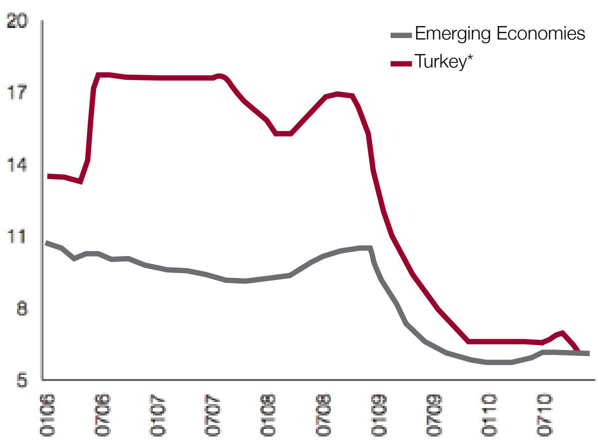
On a year-on-year basis, inflation went down in food and services, remained unchanged in goods excluding energy and food, and rose in energy (Graph 12).

Graph 9. Policy Rates in Advanced Economies
(Percent, Compound)



Source: Bloomberg, CBRT.

Graph 10. Policy Rates in Inflation-Targeting Emerging Economies
(Percent, Compound)



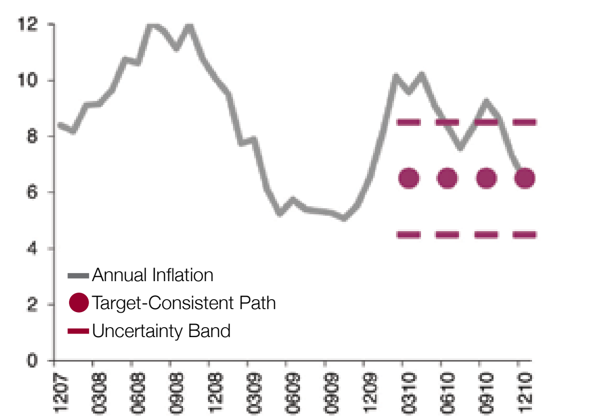
*The weighted overnight repo rate at the ISE Interbank Money Market as of May 2010.

Source: Bloomberg, CBRT.

Annual food inflation fluctuated over 2010 due to extremely volatile unprocessed food prices resulting from high fresh fruit and vegetable prices driven by adverse weather conditions, and soaring red meat prices caused by shortage of livestock. Rising red meat prices not only affected unprocessed food prices but also put upward pressure on prices of processed meat products. Despite the fourth-quarter spike in processed food prices amid rising global food prices, annual food inflation fell to 7.02 percent on falling unprocessed food prices. Thus, having increased as much as 4.67 percent over the year, the contribution of food prices to annual inflation declined to 1.94 percent at the end of 2010. The sharp increase in fuel and bottled gas prices due to tax adjustment in January 2010 put significant upward pressure on energy prices. Although energy prices remained broadly flat until the last quarter of the year, annual energy inflation rose in the first half of 2010 due to the low base effect from the previous year, and started to slow down following the weakening of the base effect. Energy prices picked up in the final quarter on rising fuel and bottled gas prices due to higher international oil prices and increases in water supply tariffs. Accordingly, energy inflation ended 2010 at 9.96 percent, driving annual CPI inflation higher (Graph 12).

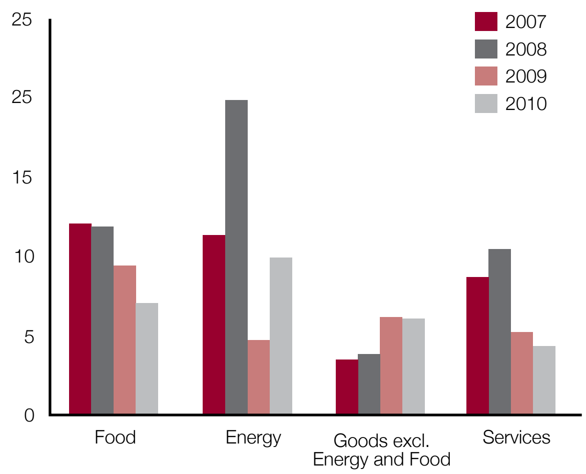
On a year-on-year basis, inflation went down in food and services, remained unchanged in goods excluding energy and food, and rose in energy.

Graph 11. Annual CPI Inflation and Target-Consistent Path



Source: TurkStat, CBRT.

Graph 12. Consumer Prices (Annual Percent Change)



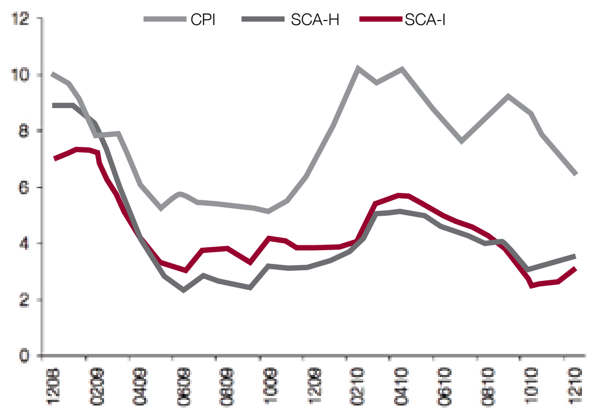
Source: TurkStat, CBRT.

Annual inflation in prices of goods excluding energy and food remained virtually flat year-on-year at 6.09 percent. As in 2009, the main drivers of the increase in this subcategory were prices of alcoholic beverages and tobacco, up around 25 percent due to tax adjustments to restore fiscal balance, and gold prices, up about 24 percent. In fact, despite remaining volatile owing to the 2009 tax incentives on durable goods, annual inflation in core goods (goods excluding food, energy, alcoholic beverages, tobacco and gold) ended 2010 at a record low of 1.70 percent.

Although higher food and energy prices had a pronounced impact on prices of services through catering and transport, annual services inflation declined to an all-time year-end low of 4.24 percent. The lowered ceiling for postpaid rates and the switch from minutes to Turkish lira in quoting prepaid plans increased competition among mobile network operators and pushed communication prices steadily down by mid-2010. Moreover, rental inflation fell during 2010, ending the year at an all-time low of 3.96 percent (Graph 13).

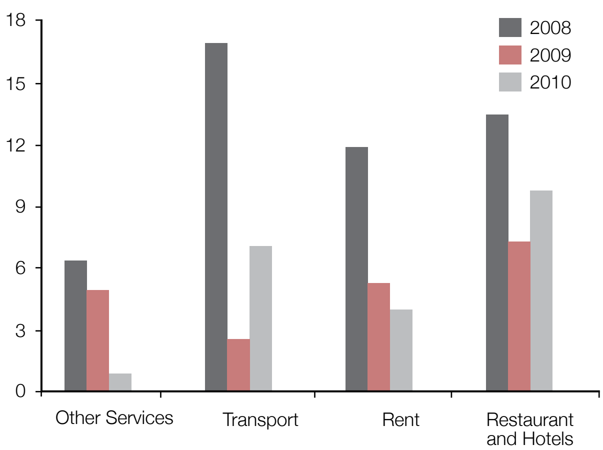
Core inflation measures increased in early 2010 due to base effects from the 2009 tax incentives on durable goods, and therefore, remained slightly volatile in the rest of 2010, but trended downwards over the entire year. Inflation in the CPI excluding energy, unprocessed foods, alcoholic beverages, tobacco and gold (SCA-H) reached 3.49 percent year-on-year. With a further exclusion of processed food, inflation in the index (SCA-I) registered an all-time year-end low of 2.99 percent year-on-year, remaining consistent with medium-term targets (Graph 14). Inflation expectations, which serve as a basis for both price developments and price adjustments, have a major impact on actual inflation. Although medium-term inflation expectations were up in the first quarter of 2010 amid inflation developments, expectations deteriorated only slightly owing to favorable core

Graph 14. CPI, SCA-H and SCA-I
(Annual Percent Change)



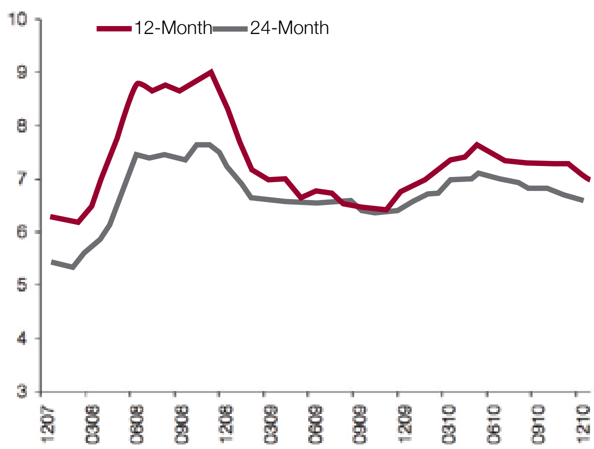
Source: TurkStat, CBRT.

Graph 13. Prices of Services
(Annual Percent Change)



Source: TurkStat, CBRT.

*Graph 15. 12- and 24-Month Ahead CPI Expectations**
(Annual Percent Change)



* CBRT Survey of Expectations, 2nd periid results.
Source: CBRT.

inflation measures. In the remainder of 2010, the volatility in annual inflation driven by food prices had no significant effect on expectations, leading to declines in expected inflation rates. Indeed, expectations for end-2011 inflation are anchored at 6.95 percent as of December 2010, while the inflation forecast for end-2012 has declined to 6.44 percent (Graph 15).

Supply and Demand Developments

The GDP expanded rapidly during the first half of 2010, but grew at a relatively slower pace in the second half with the waning base effects from the previous year. Growing substantially by 11.8 and 10.2 percent year-on-year, respectively, during the first two quarters of 2010, the GDP increased by only 5.5 percent year-on-year in the third quarter (Table 1). Thus, the GDP expanded by 8.9 percent year-on-year during the first nine months of 2010. On the spending side, final domestic demand fuelled by private demand was the main driver of GDP growth. Net exports, on the other hand, made a negative contribution to the GDP in the first nine months owing to the weak pace of exports and the robust recovery of demand for imported goods.

Expectations for end-2011 inflation are anchored at 6.95 percent as of December 2010.

Table 1. GDP by Spending
(1998 Prices, Annual Percent Change)

	2008	2009					2010			
	Annual	I	II	III	IV	Annual	I	II	III	9-Month
1-Consumption Spending	**-0.1**	-8.4	-1.4	-1.1	7.0	**-1.0**	7.6	5.8	6.5	**6.6**
Public	**1.7**	5.1	0.5	5.2	17.9	**7.8**	0.9	3.5	-1.1	**1.1**
Private	**-0.3**	-10.1	-1.7	-1.9	5.0	**-2.2**	8.6	6.2	7.6	**7.4**
2-Fixed Capital Investment	**-6.2**	-27.6	-24.4	-18.5	-4.6	**-19.1**	15.2	28.7	31.3	**25.4**
Public	**12.7**	11.8	0.2	-5.7	-8.6	**-2.3**	-25.6	14.6	17.9	**4.6**
Private	**-9.0**	-32.2	-28.6	-21.0	-3.5	**-22.3**	23.1	32.2	34.4	**30.0**
Machinery-Equipment	**-7.0**	-36.2	-28.5	-19.7	-0.2	**-22.6**	25.3	36.8	38.6	**33.9**
Construction	**-12.4**	-25.0	-28.9	-23.1	-8.5	**-21.6**	19.7	22.9	26.8	**23.1**
Private Demand*	**-2.2**	14.4	-7.3	-5.0	2.9	**-5.9**	10.5	9.8	10.0	**10.1**
3-Inventory Changes*	**0.3**	-7.6	-3.8	0.3	2.2	**-2.1**	7.8	1.4	-0.4	**2.6**
4-Exports of Goods and Services	**2.7**	-11.5	-11.1	-5.4	7.4	**-5.3**	-0.4	11.6	-2.0	**2.8**
5-Imports of Goods and Services	**-4.1**	-31.0	-20.6	-11.7	11.0	**-14.3**	22.3	18.8	16.9	**19.1**
Net Exports*	**1.9**	6.6	3.3	1.7	-0.9	**2.7**	-5.7	-2.0	-4.6	**-4.1**
6-Domestic Aggregate Demand	**-1.2**	-20.1	-10.5	-4.3	6.9	**-7.2**	17.8	12.1	10.1	**13.0**
7-Final Domestic Aggregate Demand	**-1.5**	-12.9	-7.0	-4.9	4.5	**-5.1**	9.1	10.3	11.2	**10.3**
8-GDP	**0.7**	-14.6	-7.6	-2.7	6.0	**-4.7**	11.8	10.2	5.5	**8.9**

* Contribution to GDP growth (%).

Source: TurkStat.

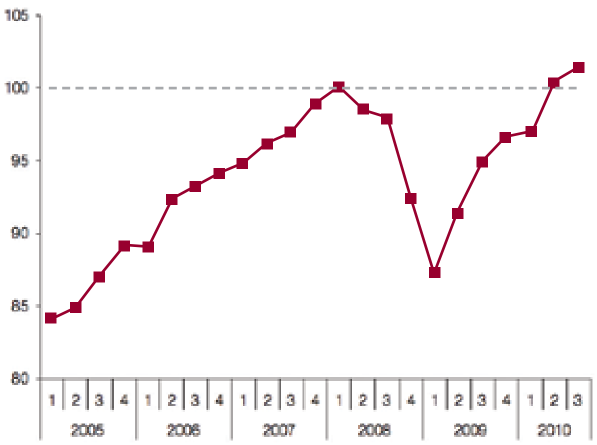
In seasonally adjusted terms, final domestic demand recovered at a very steady pace during the first nine months of 2010, while external demand remained weak amid ongoing problems in the global economy. In fact, the quarter-on-quarter volatility in exports weighed on GDP growth, particularly during the first and third quarters of 2010 (Graphs 16 and 17). After returning to pre-crisis levels in the second quarter, the GDP recovered at a more sluggish pace during the third quarter than in the first half owing to the European debt problems deepening since May. Indicators for the fourth quarter suggest that the third-quarter slowdown in economic activity is temporary. While exports remain weak during this period, domestic demand recovers rapidly owing to the current monetary policy stance.

In the exit phase, the divergence between domestic and external demand growth became more pronounced during the fourth quarter. This divergence heightened concerns over the sustainability of the current account balance and the maintenance of financial stability, and thus, prompted the active use of policy instruments other than overnight rates.

Developments in Balance of Payments

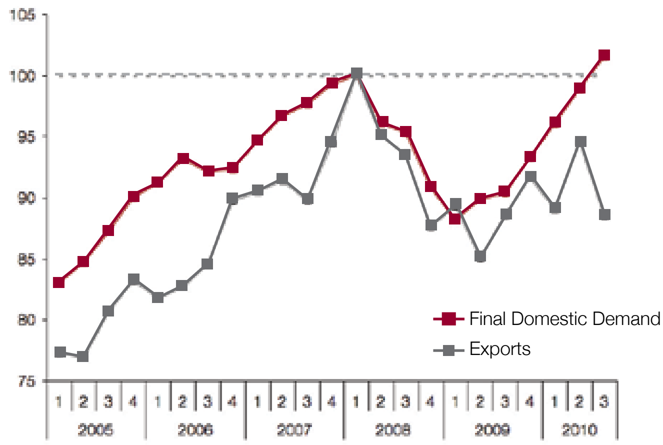
Although external demand remained weak amid Europe's sovereign debt problems, domestic demand grew at a relatively steady pace, leading to a large increase in the foreign trade deficit during 2010. In 2010, total exports of goods increased by 10.3 percent to 121 billion USD, while total imports of goods rose by 31.8 percent to 177.3 billion USD. As a result, the foreign trade deficit widened by 31.4 billion USD year-on-year to 56.3 billion USD. The weak external demand caused export growth to slow dramatically by the third quarter. Motor vehicles, chemicals and chemical products, and textiles and clothing made the highest contribution to exports. On the other hand, the drop in exports of base metals due to the decline in exports of other transport vehicles, including aircraft and trains as well as gold restrained the growth of total exports. All subcategories of imports were up amid strong domestic demand, while the relative stability in oil prices limited the rate of increase in imports. Energy, chemicals and chemical products, base metals and motor vehicles were the main drivers of import growth in 2010.

Graph 16. GDP
(Seasonally Adjusted, 2008Q1=100)



Source: TurkStat.

Graph 17. Final Domestic Demand and Exports
(Seasonally Adjusted, 2008Q1=100)



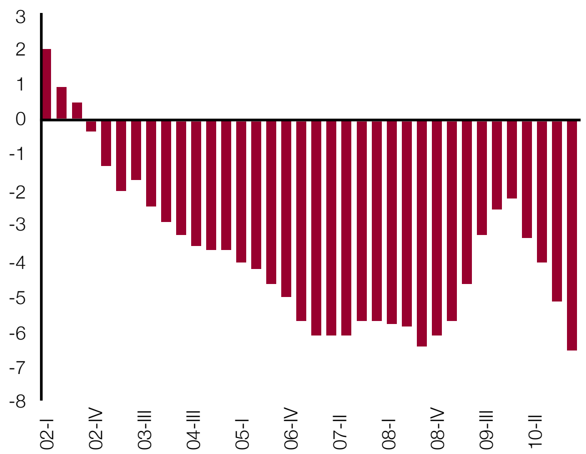
Source: TurkStat, CBRT.

After declining year-on-year due to global recession and falling commodity prices in 2009, foreign trade prices were up again in 2010. Specifically, due to the sharp rise in commodity prices during the second half, prices of imports increased at a faster pace than prices of exports, leading to a significant deterioration in the terms of trade.

Net services revenues dropped by 15.2 percent year-on-year in 2010 due to the widening foreign trade deficit and the rapid increase in service expenditures, causing the current account deficit to expand. Despite the increased number of tourists, the fall in average expenditures brought tourism revenues down by 2.1 percent in 2010. Furthermore, transportation costs remained on the rise due to rising imports. Thus, the current account deficit climbed to 48.6 billion USD in 2010 from 14.3 billion USD in 2009 (Graph 18).

The ample liquidity created by expansionary monetary policies in advanced economies stimulated capital inflows to emerging economies in 2010. As a result, Turkey experienced a portfolio inflow of 6.3 billion USD in 2010. Meanwhile, direct investment increased by 3.9 percent to 7.1 billion USD. Moreover, the private sector became net creditor, while banking sector borrowing, especially short-term, increased.

*Graph 18. Current Account Balance/GDP**
(Annualized, Percent)



* Estimate.
Source: CBRT.

The ample liquidity created by expansionary monetary policies in advanced economies stimulated capital inflows to emerging economies in 2010.

Accordingly, official reserves increased by 12.8 billion USD in 2010, whereas commercial banks' foreign exchange reserves fell by 13.7 billion USD, and net errors and omissions posted a surplus of 4.3 billion USD.

Employment, Productivity and Labor Cost Developments [1]

Labor force increased by 2.6 percent year-on-year to 25.7 million in the final quarter of 2010 from an average of 24.8 million in 2009, while employment rose by 5.1 percent to 22.9 million. The increase in employment brought unemployment down to 11 percent from 13.1 percent. Non-farm unemployment declined from 16.2 percent to 13.7 percent, while youth unemployment dropped to 20.8 percent from 24.4 percent (Table 2).

The effects of the global crisis on the labor market began to wane by the first quarter of 2009, and non-farm employment experienced a rapid recovery. The increase in non-farm employment during 2010 has compensated for crisis-driven job losses, yet, failed to meet the growing need for labor.

After rising modestly in 2009, the ratio of unregistered employment to total employment decreased by 1.2 percent year-on-year to 42.8 percent in the last quarter of 2010.

Having declined amid the global crisis, employment began to grow by the first quarter of 2009. In the last quarter of 2010, total employment grew by 5.1 percent year-on-year. Non-farm employment grew by 4.6 percent year-on-year, accounting for 3.5 percentage points of the increase in

Table 2. Labor and Employment (Thousand)

	2008	2009				2010			
	Average	I	II	III	IV	I	II	III	IV
Population 15 Years and Over	50,772	51,360	51,575	51,789	52,007	52,223	52,431	52,645	52,860
Labor Force	23,805	23,582	24,837	25,537	25,011	24,831	25,901	26,166	25,665
Labor Force Participation Rate (%)	46.9	45.9	48.2	49.3	48.1	47.5	49.4	49.7	48.6
Male	70.1	69.1	70.5	71.9	70.6	69.8	71.2	71.7	70.4
Female	24.5	23.5	26.6	27.5	26.4	26.1	28.4	28.5	27.5
Employment	21,194	19,779	21,455	22,108	21,741	21,267	23,055	23,195	22,854
Farm	5,016	4,391	5,422	5,854	5,342	5,057	5,849	6,195	5,700
Non-Farm	16,178	15,388	16,033	16,254	16,399	16,210	17,206	17,000	17,154
Employment Rate (%)	41.7	38.5	41.6	42.7	41.8	40.7	44.0	44.1	43.2
Female Employment/Employment (%)	26.4	26.2	28.2	28.0	27.8	27.8	29.0	28.6	28.3
Unemployment Rate (%)	11.0	16.1	13.6	13.4	13.1	14.4	11.0	11.4	11.0
Non-Farm	13.6	19.3	17.0	17.0	16.2	17.5	13.8	14.5	13.7
Youth Unemployment Rate	20.5	28.6	24.9	23.5	24.4	25.5	19.8	21.1	20.8
Unregistered Employment (%)	43.5	40.8	44.6	45.7	44.0	41.7	43.6	44.8	42.8

Source: TurkStat.

Table 3. Employment By Sectors (Thousand)

	2008	2009				2010			
	Average	I	II	III	IV	I	II	III	IV
Total Employment	21,194	19,779	21,455	22,108	21,741	21,267	23,055	23,195	22,854
Farm	5,016	4,391	5,422	5,854	5,342	5,057	5,849	6,195	5,700
Non-Farm	16,178	15,389	16,034	16,254	16,399	16,210	17,204	16,998	17,152
Industry	4,441	4,052	3,997	4,163	4,302	4,340	4,511	4,577	4,723
Manufacturing Industry	4,235	3,880	3,829	3,976	4,101	4,111	4,283	4,337	4,485
Construction	1,241	976	1,296	1,373	1,345	1,083	1,450	1,474	1,468
Services	10,495	10,361	10,741	10,718	10,752	10,787	11,243	10,948	10,961
Trade, Hotels, Restaurants	4,573	4,359	4,503	4,762	4,550	4,377	4,571	4,655	4,481
Other	5,922	6,002	6,238	5,956	6,202	6,410	6,672	6,293	6.480

Source: TurkStat.

[1] Employment figures from TurkStat's Household Labour Force Survey are released based on the NACE Rev.2, replacing NACE Rev.1, as of January 2010. The 2010 figures in this Report are converted to NACE Rev.1.

employment. Employment remained above pre-crisis levels across all sectors (Table 3).

The economic contraction in 2009 caused labor productivity to decline and real unit labor costs to rise, particularly across the industrial sector. This trend reversed in 2010, bringing real unit wages down. During the first 9 months of 2010, partial per capita productivity increased by 9.5 percent in the industrial sector, pushing real unit costs down by 7.5 percent. During the same period, hourly labor costs declined in real terms across all sectors (Table 4).[2]

Loan Developments

After flattening out in 2009 due to the global crisis, domestic credit volume increased dramatically in 2010 (Graph 19). The waning effects of the global financial crisis encouraged more sectors to borrow and loan maturities were extended.

Having declined amid the global crisis, employment began to grow by the first quarter of 2009. In the last quarter of 2010, total employment grew by 5.1 percent year-on-year.

Loan growth was largely driven by rapid economic recovery in the exit phase, ample global liquidity fuelled by expansionary monetary policies of major central banks as well as low and predictable interest rates provided by the favorable macroeconomic outlook.

Table 4. Productivity and Wages in Industry, Construction, Trade-Services *
(Annual Percent Change)

	2007	2008	2009					2010			9 Month Average	
	Average	Average	I	II	III	IV	Average	I	II	III	2009	2010
Industry												
Production	7.0	-0.6	-22.3	-15.3	-8.4	8.3	-9.9	17.3	13.8	9.9	-15.3	13.5
Employment	3.8	-0.3	-10.0	-11.9	-9.4	-6.5	-9.5	0.5	4.6	5.5	-10.5	3.6
Per Capita Productivity	3.1	-0.3	-13.6	-3.8	1.1	15.9	-0.4	16.7	8.8	4.2	-5.4	9.5
Real Unit Wages	-1.6	0.9	14.9	7.3	0.8	-10.7	2.8	-13.0	-6.9	-1.8	7.7	-7.5
Construction												
Production	5.5	-7.5	-18.3	-21.0	-17.5	-7.7	-16.4	7.2	20.5	23.7	-19.0	17.9
Employment	0.4	-5.4	-19.2	-23.6	-18.7	-16.0	-19.5	-4.3	2.8	4.8	-20.6	1.2
Per Capita Productivity	5.4	-2.2	1.2	3.5	1.6	9.9	3.9	12.0	17.3	18.0	2.1	16.0
Real Unit Wages	-4.5	7.6	6.5	10.7	5.7	-1.9	5.0	-9.5	-14.0	-13.3	7.5	-12.1
Trade-Services												
Turnover	10.9	6.8	-2.0	-5.0	-3.5	10.0	-0.2	18.0	19.9	20.0	-3.6	19.4
Employment	4.0	1.6	-4.2	-10.8	-5.3	-2.5	-5.8	0.4	1.9	2.6	-6.9	1.6
Per Capita Productivity	6.7	5.1	2.3	6.5	1.9	12.8	6.0	17.6	17.7	17.0	3.6	17.4
Real Unit Wages	3.3	6.7	9.7	7.8	8.3	-3.8	5.5	-5.8	-5.2	-4.8	8.7	-5.3
Hourly Labor Cost												
Total		12.5	13.3	11.1	6.5	5.2	8.9	5.4	7.3	11.0	10.2	7.9
Industry		12.5	14.9	11.3	6.2	4.0	8.9	3.1	6.3	11.5	10.7	6.9
Construction		11.2	15.8	16.1	10.9	10.4	13.2	8.3	9.2	10.5	14.2	9.3
Trade-Services		12.7	8.8	8.9	5.7	6.2	7.4	9.8	8.6	10.4	7.8	9.6
CPI	8.8	10.4	8.4	5.7	5.3	5.7	6.3	9.3	9.2	8.4	6.4	9.0

* Deflated by CPI.
Source: Turkstat, CBRT.

[2] The Hourly Labor Cost Index with base year 2008 is published by TurkStat as earnings and non-earnings (social security, severance and termination payments and other labor cost payments made by the employer).

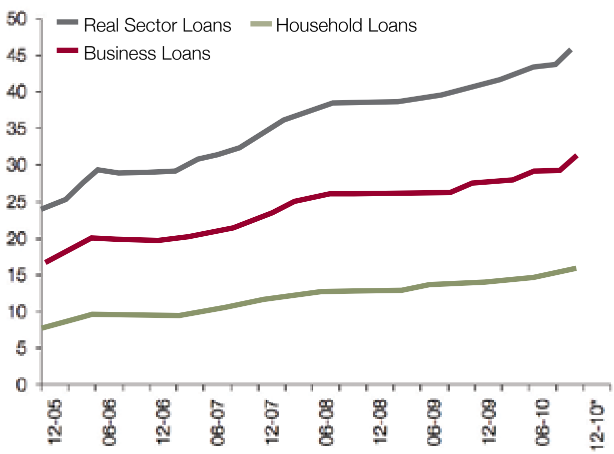
Among subcategories of real sector loans, the rise in both consumer loans and business loans contributed to loan growth. Small and medium-sized enterprises which were most severely hit by the crisis also tended to borrow more (Graph 20).

The measures adopted in 2010 to contain the negative effects of the rapid credit expansion created by ample global liquidity are critical for maintaining financial stability and enhancing resilience to external shocks.

Developments in Public Finance and Debt Stock

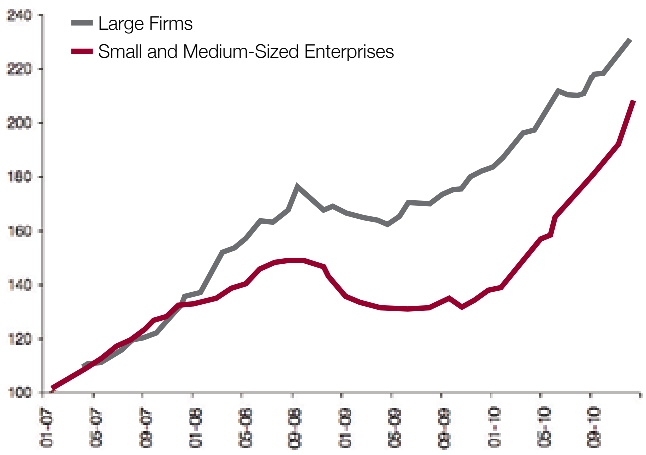
The global crisis driven economic contraction slashing government revenues and the extensive fiscal stimulus packages intended to alleviate the effects of the crisis led to larger fiscal deficits and debt stocks across the globe, particularly in advanced economies. On the other hand, many emerging economies, including Turkey, are on a more stable fiscal footing, as they have adopted more modest fiscal stimulus measures, recovered more swiftly, and entered the global crisis with relatively smaller budget deficits and debt stocks.

Graph 19. Real Sector Loans/GDP (%)



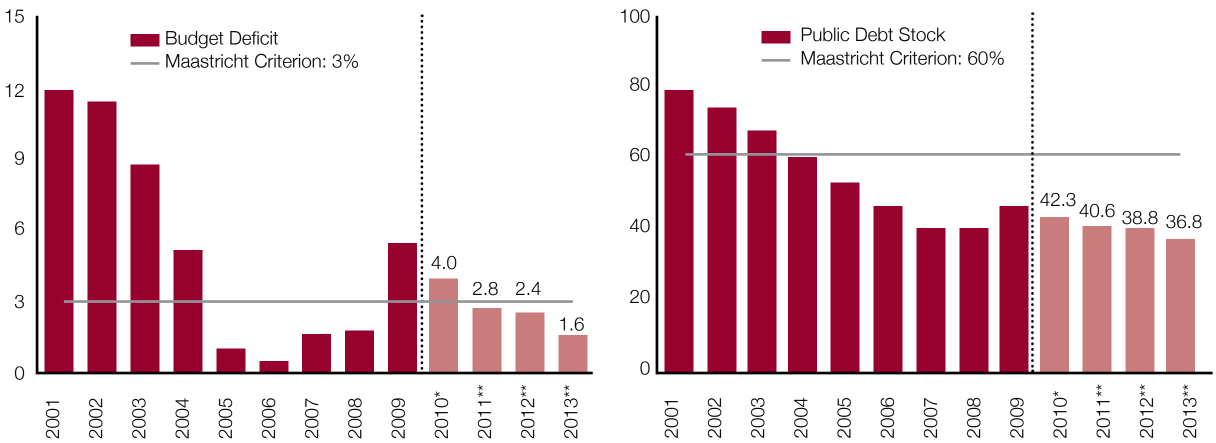
* Estimate.
Source: CBRT.

Graph 20. Business Loans by Size (2007 January=100)



Source: BRSA.

Graph 21. Central Government Budget Deficit and EU-Defined Nominal Central Government Debt Stock (Percent of GDP)



* Estimate.
** MTP (2011-2013) Objectives.
Source: Ministry of Finance.

* Estimate.
** MTP (2011-2013) Objectives.
Source: Ministry of Finance.

In fact, the faster-than-expected recovery in economic activity and falling interest expenditures helped improve Turkey's fiscal outlook in 2010. The increase in tax revenues amid rapid economic growth and tax adjustments was the key driver of the improved budget balance, while the relative slowdown in the growth of non-interest expenditures as well as the steep decline in interest expenditures driven by falling domestic borrowing rates helped to maintain the budget balance (Graph 21).

The October 2010 MTP for the years 2011-2013 envisages a gradual decline in non-interest budget expenditures by 2010. In addition, interest expenditures are expected to decrease amid falling domestic borrowing rates. Tax revenues are planned to be raised by legal and administrative measures aiming to enhance tax audits and expanding the tax base. The gradual reduction of budget deficits may lead to a fall in the debt-to-GDP ratio by 2010 (Table 5).

Fiscal indicators in the MTP indicate that the fiscal outlook would continue to improve in the upcoming period owing to the sooner and stronger-than-expected economic recovery in 2010. However, in order to maintain fiscal discipline and ensure that Turkey continues to have more positive readings than other economies, it is critical to enhance the fiscal framework through the institutional and structural reforms set out in the MTP.

The central government budget produced a deficit of 39.6 billion TL in 2010, while the primary balance delivered a surplus of 8.7 billion TL (Table 6). Higher tax revenues fueled by economic recovery and falling interest payments due to lower domestic borrowing rates were the main drivers of the notable year-on-year narrowing of the budget deficit. In addition, the relative slowdown in the growth of non-interest expenditures helped bring the budget deficit down.

Table 5. Central Government Budget Balance and EU-Defined Debt Stock (Percent of GDP)

	2009	2010*	2011**	2012**	2013**
Budget Revenues	22.5	23.0	23.0	22.9	22.5
Budget Expenditures	28.0	27.0	25.7	25.3	24.2
Budget Balance	-5.5	-4.0	-2.8	-2.4	-1.6
Budget Revenues (Program-Defined)	21.0	21.8	21.8	21.7	21.6
Non-Interest Expenditures (Program-Defined)	22.5	22.5	21.8	21.3	20.8
Primary Balance (Program-Defined)	-1.5	-0.7	0.0	0.4	0.8
Total Public Primary Balance (Program-Defined)	-1.0	-0.2	0.3	0.7	1.0
EU-Defined Nominal Central Government Debt Stock	45.5	42.3	40.6	38.8	36.8

* Estimate. **Target.
Source: Ministry of Finance.

Table 6. Central Government Budget Aggregates (Billion TL)

	2009	2010	Rate of Increase (%)	Actual/Target (%)
Central Government Expenditures	268,2	293,6	9.5	102.3
Interest Expenditures	53,2	48,3	-9.2	85.1
Non-Interest Expenditures	215,0	245,3	14.1	106.6
Central Government Revenues	215,5	254,0	17.9	107.3
I. Tax Revenues	172,4	210,5	22.1	108.9
II. Non-Tax Revenues	36,2	35,6	-1.5	97.2
Budget Balance	-52,8	-39,6	-	78.9
Primary Balance	0,4	8,7	-	132.5

Source: Ministry of Finance.

The decline in the public sector borrowing requirement spurred by the narrowing budget deficit and the steep fall in domestic borrowing rates helped debt dynamics to improve in 2010 (Graph 21). Moreover, both the improvement of the legal and administrative framework for public debt management and the borrowing strategy with a long-term perspective provided a significant enhancement of the debt structure, insulating public debt against macroeconomic shocks. As projected by the MTP, the ratio of government debt stock to GDP is expected to remain on a downward trend in the medium term owing to the gradual narrowing of budget deficits (Graph 21 and Table 5).

2.2.4. Monetary Policy Decisions and Implementations

Inflation Targeting: General Framework

In line with its primary objective of achieving and maintaining price stability, the CBRT conducts monetary policy within the inflation targeting framework. In addition to this primary objective, the CBRT fulfills its law-defined duty to take the necessary measures for ensuring financial stability.

The CBRT's main policy tool aiming to achieve and maintain price stability is the 1-week repo auction rate. Moreover, alternative policy tools such as required reserves and liquidity management are actively used in order to enhance the effectiveness of the monetary policy and to contain macro financial risks.

The target variable is the year-end inflation rate measured by the 12-month change in the CPI, and the inflation target is set jointly by the government as a point target. Within the inflation targeting framework, the CBRT announces an uncertainty band around point targets in order to ensure transparency and accountability and to provide an observable and concrete measure. If the difference between actual inflation and target inflation exceeds 2 percentage points in absolute value, the obligation of accountability sets in, and accordingly, in case of an inflation deviation by more than 2 percentage points from the year-end target at the end of each quarter during the year, the underlying reasons for the deviation and the necessary present and future measures to bring inflation back to target are announced through quarterly published Inflation Reports. If inflation deviates markedly from the year-end target, an open letter is written to the government (Table 7).

While fiscal and monetary policies had strong expansionary effects on domestic demand in 2010, the medium-term outlook suggesting a moderate recovery in the global economy continued to restrain economic activity. Although inflation went up on tax adjustments and soaring unprocessed food prices in the first quarter of 2010, food prices were the main driver of the changes in inflation throughout the year. Despite the increase in food and energy prices, core inflation measures remained weak during the year. As a result, the CPI inflation ended 2010 at 6.4 percent, remaining within the uncertainty band and largely meeting the year-end target of 6.5 percent.

Policy rate decisions were announced monthly on a fixed schedule in 2010. After each meeting, the MPC released an immediate statement giving a brief account of the reasoning behind these decisions and the summary of each meeting within eight business days both in Turkish and English.

The primary communication tools for monetary policy were Inflation Reports and MPC statements in 2010. Inflation Reports were released in January, April, July and October. The CBRT also continued to publish the monthly price bulletin, another key communication tool. Press releases on the CBRT's monetary and exchange rate policy framework, presentations and speeches by the Governor and other officials about CBRT's implementations and monetary policy actions, and the Financial Stability Report published in May and December continued to play an important role in informing the public.

Table 7. Target-Consistent Path, Uncertainty Band and Inflation in 2010

	2010			
	March	**June**	**September**	**December**
Lower Limit of the Uncertainty Band	8.5	8.5	8.5	8.5
Target-Consistent Path	6.5	6.5	6.5	6.5
Upper Limit of the Uncertainty Band	4.5	4.5	4.5	4.5
Realization	9.6	8.4	9.2	6.4

Source: CBRT.

Monetary Policy Implementations

Since the last quarter of 2009, the CBRT has improved communication with the public about its inflation and growth forecasts, and focused on preventing a possible deterioration in the pricing behavior. First quarter developments in 2010 confirmed CBRT's forecasts and reinforced the monetary policy stance requiring policy rates to remain at current levels for some time and low for a longer period of time. As a result, the effectiveness of policy decisions on expectations became more pronounced.

With the waning effects of the global crisis on financial markets, on April 14, 2010, the CBRT announced its exit strategy involving the withdrawal of the crisis-induced liquidity measures and the normalization of the operational framework of the monetary policy. In this context, the ample liquidity produced by repo auctions was gradually drained with the normalization in money markets.

As the market liquidity conditions unfolded as expected, the CBRT took the first step of the technical rate adjustment process in May as part of the exit strategy, and started to use the 1-week repo auction rate as the reference rate for monetary policy. In addition, the spread between the 1-week repo auction rate and the overnight borrowing rate was raised by 25 basis points in September as the second stage of technical rate adjustment.

The CBRT started to actively use alternative policy instruments in order to contain macro financial risks in addition to 1-week repo auction rate, the main policy tool.

In line with its primary objective of achieving and maintaining price stability and the duty to ensure financial stability, the CBRT started to actively use alternative policy instruments in order to contain macro financial risks in addition to 1-week repo auction rate, the main policy tool. Based on policy decisions in October, November and December, the CBRT lowered the overnight borrowing rate from 5.75 to 1.50 percent and raised the lending rate by 0.25 percentage points to 9 percent (Table 8). A similar adjustment was made for late liquidity window rates. Moreover, the CBRT adopted a new policy mix with lower policy rates, a wider interest rate corridor and higher required reserve ratios in order to contain macro financial risks created by the accelerated credit expansion in the second half and the massive capital inflow fuelled by the ongoing easing in the US and the European economies.

Table 8. Monetary Policy Committee Meetings and Policy Rate Decisions in 2010*

MPC Meeting Dates	Overnight Rate Decisions	Overnight Rates	1-Week Rate Decisions	1-Week Rates
January 14, 2010	Unchanged	6.5	-	-
February 16, 2010	Unchanged	6.5	-	-
March 18, 2010	Unchanged	6.5	-	-
April 13, 2010	Unchanged	6.5	-	-
May 18, 2010	Unchanged	6.5	-	-
June 17, 2010	Unchanged	6.5	Unchanged	7
July 15, 2010	Unchanged	6.5	Unchanged	7
August 19, 2010	Unchanged	6.5	Unchanged	7
September 16, 2010	-0.25	6.25	Unchanged	7
October 14, 2010	-0.5	5.75	Unchanged	7
November 11, 2010	-4	1.75	Unchanged	7
December 16, 2010	-0.25	1.5	-0.5	6.5

* On May 18, 2010, the 1-week repo auction rate was the reference rate for the monetary policy and was set 50 basis points above the overnight borrowing rate at 7 percent.

Source: CBRT.

In view of the credit expansion, the TL required reserve ratio was raised by 0.50 points each in September and November to 6 percent. Furthermore, the CBRT ended the interest payment on TL reserve requirements in September to ensure that required reserve ratios are more effectively used as a tool to reduce macroeconomic and financial risks in the future. In December, another extensive arrangement was made about TL required reserve ratios. Accordingly, in order to extend the maturity of the banking system's liabilities and to encourage long-term capital inflows, TL required reserve ratios were differentiated by maturity and the required reserve base was expanded to include foreign and domestic repo transactions which were formerly not subject to reserve requirement (Table 9).

Meanwhile, in view of the falling demand, the CBRT terminated 3-month repo auctions as of October 15, 2010. Since the main funding instrument is 1-week repo auctions after the completion of the gradual technical rate adjustment process within the exit strategy and short-term lending and borrowing facilities are overnight, the CBRT decided, in order to harmonize maturities of similar liquidity management tools, to make the repo facility, which is extended to primary dealers within the open market operations framework, be only available at overnight maturity starting from October 15, 2010.

In addition to raising the TL required reserve ratio, the CBRT ended interest payments on TL reserve requirements in September. Increases in the TL and foreign exchange required reserve ratios which have been effective as of October 1, 2010 helped drain 2.1 billion TL and 1.5 billion USD from the market. Effective as of November 12, 2010, the increase in the TL required reserve ratio reduced the market liquidity by 2.1 billion TL. Moreover, the CBRT bought a total of 5.85 billion USD from the market in the fourth quarter of 2010, generating a liquidity of 7.97 billion TL. In order to maintain the diversity of tools and operational flexibility, the CBRT continued to conduct GDBS buying auctions that were resumed on December 23, 2009, and provided a liquidity injection of 1.01 billion TL into the market. Both GDBS and foreign exchange buying auctions boosted liquidity in the fourth quarter of 2010. The Treasury's average account balance at the CBRT decreased quarter-on-quarter, easing the liquidity shortage. Yet, the sharp increase in the monetary base caused the net liquidity shortage in the banking system to grow quarter-on-quarter (Graph 22).

Exchange Rate Policy

The CBRT continued with the inflation-targeting and the floating exchange rate regimes during 2010. In line with its general strategy to maintain a strong foreign exchange position, the CBRT designs foreign exchange buying auctions when supply is higher than the demand for foreign currency and also assuring to have the least possible impact on free market conditions. In view of the massive capital inflows to emerging economies, the amount of daily foreign exchange purchases was increased in order to ensure stability and to accelerate reserve accumulation. Furthermore, the CBRT decided to change the method of foreign exchange buying auctions on October 1,

Table 9. Decisions on Required Reserve Ratios (%)

Decision Date	Sight	<1-month	<3-month	<6-month	<1-year	≥1-year	Cumulative	Other*,**	Weighted average
October 16, 2009	5	5	5	5	5	5	5	5	5
September 23, 2010	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
November 12, 2010	6	6	6	6	6	6	6	6	6
December 17, 2010	8	8	7	7	6	5	5	8	7.4

* Excluding deposits and participation funds.

**On December 17, 2010, the CBRT decided to expand the required reserve base by including repo transactions except Interbank and CBRT transactions.

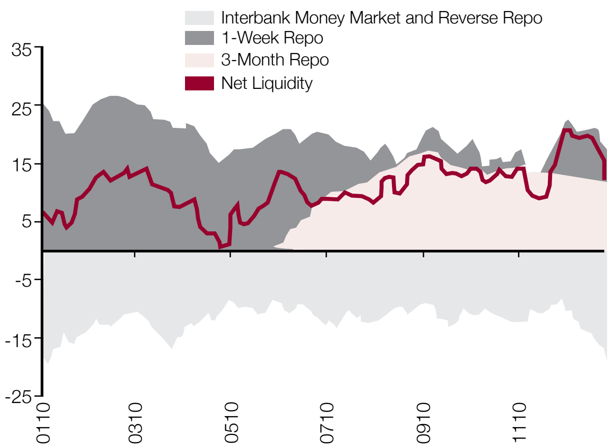
Source: CBRT.

2010 in order to benefit more effectively from capital flows, thereby boosting foreign exchange reserves, and to enhance resilience against volatile capital flows. Given that the new method provides sufficient flexibility to build up reserves at times when foreign exchange supply exceeds the demand, the CBRT decided that banks would no more hold option at regular auctions as of January 3, 2011. Moreover, the daily amount of purchase was raised to 50 million USD in order to avoid a possible sharp decline in CBRT's foreign exchange purchases due to termination of options.

In this regard, the CBRT may raise the amount to be bought at regular foreign exchange auctions in order to accelerate the foreign exchange purchases if liquidity conditions ease on global financial market developments and capital inflows remain strong. In case the CBRT decides to accelerate foreign exchange purchases, the additional amount of purchase would be announced on the first working day of the week. The amount bought at foreign exchange auctions totaled 14.9 billion USD in 2010. As of end-2010, CBRT's gross foreign exchange reserves excluding gold amount to around 79.7 billion USD.

With the objective to bring foreign exchange liquidity facilities orderly and gradually back to pre-crisis levels, the CBRT increased the foreign exchange reserve requirement ratio by a total of 2 percentage points to 11 percent with adjustments in April, July

Graph 22. Market Liquidity (Billion TL)



Source: CBRT.

The CBRT continued with the inflation-targeting and the floating exchange rate regimes during 2010.

and September. Moreover, in view of the improved international liquidity conditions and the increased foreign exchange liquidity in the banking system, the CBRT has terminated its intermediary role in the Foreign Exchange Deposit Market as of October 15, 2010. In addition, under pre-defined borrowing limits, the maturity of foreign exchange deposits borrowed by banks from the CBRT is reduced to one week, as in the period before October 2008.

Monetary and Exchange Rate Policy for 2011

The general framework of the monetary and exchange rate policy for 2011 was disclosed to public by the release of the "Monetary and Exchange Rate Policy for 2011" on December 21, 2010. Accordingly, the CBRT will continue with the inflation targeting and floating exchange rate regimes in 2011. The CBRT expects inflation to be 5.5 percent at end-2011 and leaves the uncertainty band, the difference between actual and target inflation, at 2 percentage points in absolute value for 2011.

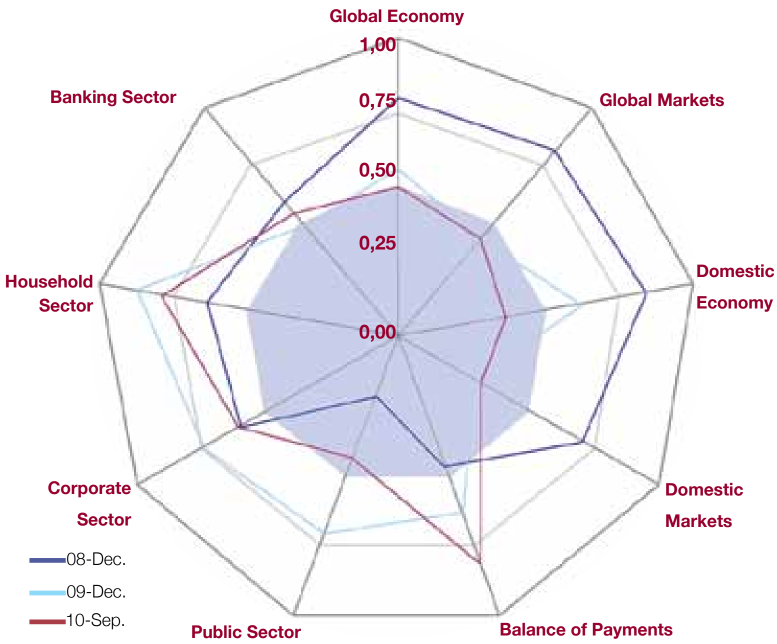
In pursuit of its primary objective of achieving and maintaining price stability, the CBRT will continue to monitor macroeconomic risks and financial stability, and hence, take measures towards enhancing the effectiveness of the monetary policy and liquidity management in 2011. In the upcoming period, the CBRT may alter its liquidity management strategy to meet the emerging needs and actively use additional policy tools, such as the corridor between borrowing and lending rates and reserve requirements, to maximize the effect of the 1-week repo auction rate, the main policy tool, and to contain macro financial risks.

2.3. FINANCIAL STABILITY DEVELOPMENTS AND OPERATIONS

In accordance with its primary objective of price stability and as one of the authorities in charge of financial stability, the CBRT evaluates the risks and vulnerabilities of the financial system with a macro-perspective in its Financial Stability Reports. Within this context, analyses and assessments of developments related to the financial system during 2010 are shared with public through the Financial Stability Report published in May and December 2010.

Although there is significant decoupling between the economic outlook of developing and developed countries, as a whole the global economy has gradually recovered. However, the risks primarily originating from developed economies remained, and especially the increasing problems in the banking and public sector of some European countries adversely affected the markets. Central banks of the developed countries continued the expansionary monetary policies due to the weak outlook of these countries. In line with this, capital inflows to developing countries gained pace with the increasing global liquidity and domestic demand that accelerated with the rapid credit growth became the main determinant of economic growth.

Graph 23. Macro Demonstration of Financial Stability[3]



Source: CBRT

In Turkey, the pace of recovery in economic activity became faster than expected and the Medium-term Program indicated that the fiscal discipline would continue. Together with these developments, the stability of the financial system, the favorable assessments of credit agencies, risk premium indicators being below pre-crisis levels all point to a favorable outlook for the Turkish economy. Factors such as sound public finance, improvement in profitability performance of corporate sector, and relatively low level of mostly Turkish lira denominated household liabilities to GDP ratio compared to other countries increased the resilience of the economy against potential shocks. However, recovery of the economy mostly based on domestic demand, raises the debt ratios of both households and firms widening the current account deficit. In the upcoming period, the course of short and long-term capital flows and the current account deficit are indicators that must be closely monitored with regard to financial stability.

Developments regarding the Turkish banking sector suggests acceleration in all kinds of credit, primarily SME loans, as a result of the recovery in economic activity and low course of interest rates aftermath of the crisis period; and decline in non-performing loans due to fall in the rate of unemployment and positive performance in economic growth. While the banking sector's external funding facilities improved, investment in government securities slowed down. Performance indicators regarding profitability demonstrated a declining trend, along with the narrowing of the net interest margin. Capital adequacy ratios, that are quite higher than minimum and target levels, declined slightly on the back of increased growth rate in loans.

The aforementioned developments and assessments can be summarized within a chart that evaluates the system regarding financial stability with a holistic approach. The chart also indicates that despite the vulnerabilities in the balance of payments, performance of the domestic economy is positive and Turkey's banking sector has a structure that supports rapid credit growth and maintains its resilience against shocks (Graph 23).

[3] The closer to the center, the more stable the sector is. Analysis allows time series comparisons within each sector. Among the sectors, the comparison can be done in terms of the directional change in position with respect to the center.

2.4. PAYMENT AND SETTLEMENT SYSTEMS AND CURRENCY IN CIRCULATION

2.4.1 Cheque Clearing System

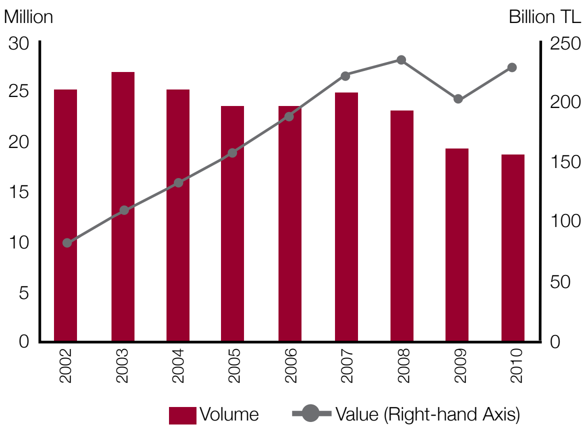
The Interbank Clearing Houses Center (ICH) performs its activities in Ankara and Istanbul Clearing Houses under the oversight of the CBRT.

The smooth and uninterrupted handling of the cheque clearing process, which plays a vital role with regard to payment systems, is of utmost importance. Therefore, with the aim of enhancing the quality and efficiency of services offered, technological developments and current needs are taken into consideration and required improvements are made.While the volume and value of cheques cleared in the ICH in 2009 were 19.3 million and 200.8 billion TL, respectively, the volume of cheques cleared decreased to 18.7 million whereas the value increased to 228.0 billion TL in 2010 (Graph 24).

2.4.2. Alignment with European Union Acquis with Respect to Payment Systems

The process for the preparation of the Payment Systems Law within the context of the National Programme of Turkey for the adoption of the EU acquis continued in 2010.
Moreover, concerning the implementation of the communique to be issued by CBRT on International

Graph 24. Cheques Cleared in the Interbank Clearing Houses Center



Source: ICH

Bank Account Number (IBAN), as of the end of 2010, IBAN usage ratio of payers is 99 percent whereas payees' ratio is about 67 percent for the fund transfer via TIC-RTGS.

2.4.3. Retail Payment System Project

The CBRT plans to introduce a new retail payment system, in order to serve the payments in most efficient way and in a wider time window without being restricted with the working hours of TIC-RTGS, to reduce the risks of the retail payments in the TIC-RTGS system, to provide most effective and efficient infrastructure for the existing and new retail payments, to allow non-banks to access payment systems, to have alternative payment channels to TIC-RTGS, to get ready for the SEPA standards, and to facilitate the re-structuring of TIC RTGS as a high value payment system in the light of international standards.

The work groups at the CBRT and the Banks Association of Turkey defined the specifications and working rules of the new system in great extent.

2.4.4. Regional Payment Systems Workshop

The Regional Payment Systems Workshop, which has been jointly organized by the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS) since 2001, was held on 26-29 May 2010 in Izmir.

The workshop was attended by 45 central bankers from 20 countries. Various speeches and presentations were given at the workshop on the following topics: regional payment system development, regional cooperation, the oversight function of the central banks, retail payments integration, Single European Payment Area (SEPA). Moreover, parallel discussion sessions were held on oversight of payment systems and on retail payments integration.

2.4.5. TIC-RTGS & ESTS System Issues

2.4.5.1. Message Updates

Some TIC-RTGS & ESTS messages have been updated in line with the demands of Ministry of Finance General Directorate of Public Accounts, of the Financial Crimes Investigation Board, and of the system participants. The aim of this update is to ensure compliance of TIC-RTGS & ESTS system with related regulations, to improve the level of end-to-end straight-through-processing, and to prevent the erroneous messages at the very beginning of message transfer.

2.4.5.2. Improvement of Service Management

Efforts continued for the improvement of ITILv3-compatible software that have been used in the management of services provided for TIC-RTGS & ESTS participants and the CBRT users, and new facilities, such as user satisfaction questionnaire, configuration management, and FAQ, have been taken into service. The improvement also provided automatic recording of events that have become incidents by the service management software. All technical and operational services are now covered by the service management. Moreover, event management system and service management infrastructure have been improved, migrated to a new platform, and backed-up.

On the other hand, in order to enhance the existing channels used for communicating with TIC-RTGS & ESTS participants and to provide secure channel alternatives, a chat room has been provided in addition to the current channels of mail-list, web page, and support hours for mobile phone access.

These improvements in service management approach, infrastructure and applications will ensure continuous and secure service availability, an efficient utilization of resources, and a high level user satisfaction.

2.4.5.3. TIC-RTGS & ESTS Business Continuity

In order to provide a high level of business continuity in TIC-RTGS & ESTS system, a controlled switch-over plan has been prepared to verify that a smooth switch-over to back-up systems is possible in case of a failure at the primary central and participant systems.

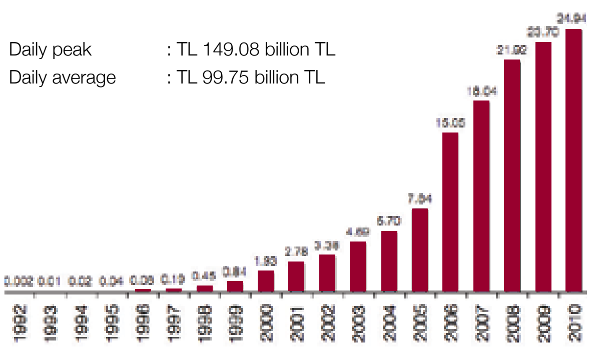
In accordance to this plan, the participant system of the CBRT and the central TIC-RTGS & ESTS system have successfully switched-over to the back-up system during the business day, on 19th February and 11th March, 2010, respectively. In both switch-overs, end-of-day operations have successfully been completed on the back-up systems.

As another effort towards ensuring the business continuity in TIC-RTGS & ESTS, an initiative, which was taken in 2009 to back-up the access of participants to private network of the system, TICNET, using G.SHDSL infrastructure, has successfully been completed in May 2010.

2.4.5.4. Bulk Message Sending Criteria

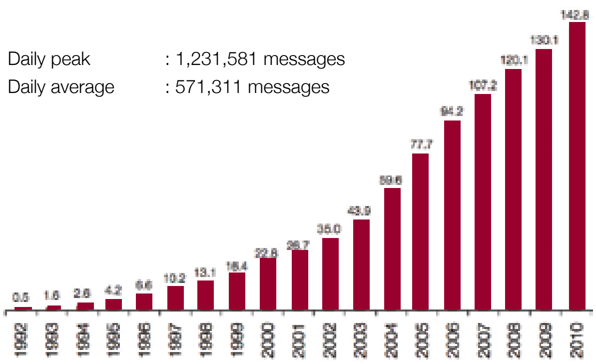
In the light of the monitoring of hourly distribution of transactions within a day as well as resource utilisation within TIC-RTGS & ESTS, bulk message sending criteria, that are effective in the settlement cycle of low priority payments, have been changed to obtain a more efficient use of current capacity and hence to increase the overall effectiveness of TIC-RTGS & ESTS.

Graph 25. Value of Transactions in TIC-RTGS (Trillion TL)



Source: CBRT

Graph 26. Volume of Transactions in TIC-RTGS (Million message)



Source: CBRT.

2.4.5.5. Usage Statistics of the TIC-RTGS & ESTS

The number of messages and the volume of money passing through TIC-RTGS & ESTS are increasing annually. The yearly total amount reached TL 24.94 trillion, with a maximum daily amount of TL 149.08 billion. The average daily amount of transactions was TL 99.75 billion in 2010 (Graph 25).

The number of transactions handled in the system was 142.83 million in 2010. The average daily number of messages was 571,311 in 2010. The daily number of transactions hit a peak of 1,231,581 on November 12, 2010 (Graph 26).

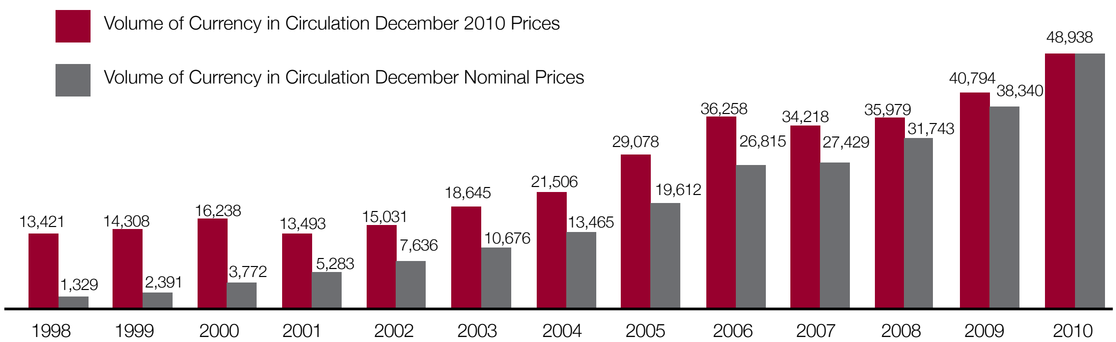
The number of participants in TIC-RTGS & ESTS is 48 as of end-2010.

2.4.6. Currency in Circulation

By the end of 2010, the volume of currency in circulation increased by 27,6 percent annually, reaching TL 48,9 billion. The real volume of currency in circulation increased by 20 percent. (Graph 27).

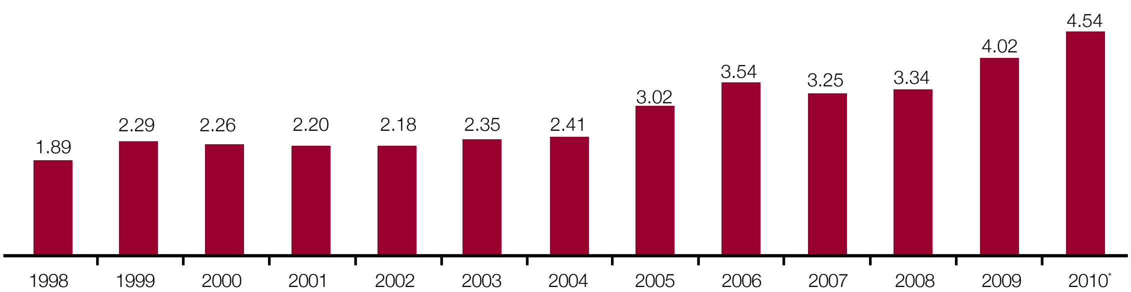
The ratio of Currency in Circulation to GDP was realized as approximately 2,2 percent between the years 1998-2004. After the currency reform in 2005, this ratio increased to approximately 3,6 percent between the years 2005-2010 (Graph 28).

Graph 27. Volume of Currency in Circulation (Real and Nominal, 1998-2010)



Source: CBRT.

Graph 28. Currency in Circulation/GDP



*GDP 2010 data are annualised by using the nine months data.

Source: CBRT, TURKSTAT.

Excluding TL banknotes, which are still in the redemption period, 905,2 million banknotes were in circulation as of December 31, 2010. By the end of 2010, TL 50 and TL 100 had the largest shares in both volume and value in circulation. The share of largest 2 denominations (TL 50 and 100) in the total reached 43,5 percent in units.

In 2010, a total transaction of TL 368,3 billion, (TL 178,8 billion deposits vs. TL 189,4 billion payments), was realized through 21 branches, 16 banknote depots and the cash center.

Moreover, in 2010, TL 18,9 billion deposits and TL 20,1 billion payment transactions were made in banknote depots, which are established in 16 cities (Uşak and Çanakkale banknote depots opened in 2010) where the CBRT does not have branches, in an objective to improve banknote quality and to meet the various cash demands of the market on time. In other words, almost 10,6 percent of the Bank's total transaction volume in 2010 was made through the banknote depots

The Cash Center, which operates on the Anatolian side of Istanbul, had a share of 10,3 percent in total transaction volume with TL 38 billion, and ranks third among all branches.

2.5. FOREIGN EXCHANGE RESERVE AND RISK MANAGEMENT

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

The institutional decision making framework of reserve management has a three-tier hierarchical structure. The Board, as the top decision making authority of the Central Bank, determines the general investment criteria for reserve management by approving the Guidelines for Foreign Exchange Reserve Management that are prepared in accordance with the reserve management priorities set by the Law as security, liquidity and return, respectively and authorizes the Executive Committee and the Foreign Exchange Risk and Investment Committee (FXRIC) to take decisions regarding implementation. The decisions made by the Executive Committee and FXRIC in accordance with the Guidelines for Foreign Exchange Reserve Management approved by the Board constitute the second-tier of the institutional decision making process. At this stage, the Strategic Benchmark (SB), which reflects the general risk tolerance and investment strategy of the Bank, is determined

Table 10. Banknotes in Circulation (as of December 31, 2010)

Denomination	Amount	Share %	Pieces	Share %
200 TL	9,595,546,400.00	19.61	47,977,732.0	4.52
100 TL	21,943,002,100.00	44.84	219,430,021.0	20.66
50 TL	12,152,877,850.00	24.83	243,057,557.0	22.88
20 TL	2,772,691,910.00	5.67	138,634,595.5	13.05
10 TL	1,360,154,995.00	2.78	136,015,499.5	12.80
5 TL	600,663,512.50	1.23	120,132,702.5	11.31
Sub Total	**48,424,936,767.50**	**98.95**	**905,248,107.5**	**85.21**
Others*	512,623,173.80	1.05	157,109,480.5	14.79
Total	**48,937,559,941.30**	**100.00**	**1,062,357,588.0**	**100.00**

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

and approved. According to the strategic asset allocation preferences of the Bank, the SB is determined by the FXRIC at each year-end to be implemented in the following year and becomes effective by the approval of the Executive Committee. The last tier of the institutional decision making process is the implementation of reserve management practices within the limits specified by the Guidelines and the SB. Reserve management activities are carried out within an organizational structure formed in accordance with the separation of duties principle. Accordingly, reserve management activities are performed by the Foreign Exchange Transactions Division whereas risk management relating to reserve management operations is carried out by the Foreign Exchange Risk Management Division.

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

Gold reserves of the CBRT, which are of international standards, are managed within the regulations and constraints stated in the Law and the guidelines set by the Board. Pursuant to these guidelines, the CBRT may conduct outright purchase and sale transactions, gold deposit transactions and gold swap transactions. During 2010, there has been no change in the amount (ounce) of 116 tons of gold holdings. However, due to the increase in gold prices the percentage of our gold reserves in the reserves of the CBRT has increased from 5.5 percent to 6.5 percent in 2010.

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

Reflecting the Bank's preferences regarding strategic asset allocation, the SB consists of the target currency composition, duration targets and related deviation limits

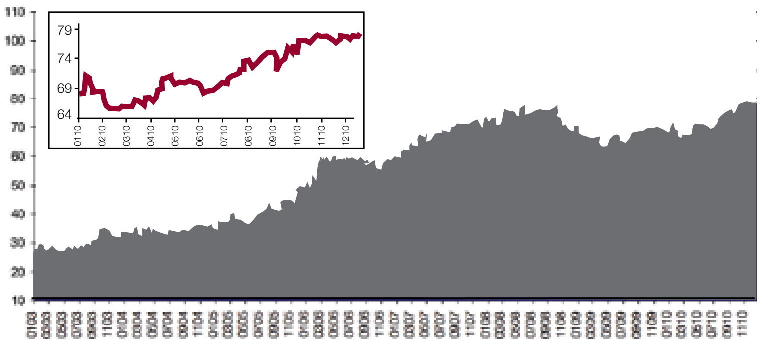
As the financial risks remained elevated, the conservative approach followed in 2008 and 2009 continued in 2010 and necessary measures have been taken to preserve the value of reserve assets.

from these targets, the number and size of sub-portfolios to be held in major reserve currencies, overall credit risk limits and the investment universe representing eligible transaction types, countries and instruments to invest in. While determining the SB, the aim is to ensure that an adequate return is obtained while observing capital preservation and liquidity constraints to devote the utmost importance to the prudent management of foreign exchange reserves, hence the national wealth of the country. After the overall acceptable risk level is defined with respect to the CBRT's risk tolerance through the SB, the existing risks are measured, recorded and monitored regularly.

Although the impacts of the global financial crisis have started to dissipate, the sovereign debt crisis that emerged in peripheral Eurozone countries played an important role while determining the CBRT's reserve management strategies in 2010. In this context, as the financial risks remained elevated, the conservative approach followed in 2008 and 2009 continued in 2010 and necessary measures have been taken to preserve the value of reserve assets.

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

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



Source: CBRT.

2.6. EUROPEAN UNION HARMONISATION ACTIVITIES

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

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

Among the chapters that are directly related to the Bank, chapters “18. Statistics” and “32. Financial Control” were opened to negotiations on 26 June 2007 and chapter “4. Free Movement of Capital” was opened to negotiations on 18 December 2008. Chapter “9. Financial Services” is one of the eight chapters on which “negotiations will be blocked until Turkey fully implements its obligations on Cyprus” as decided at the EU summit on 14-15 December 2006. However, preparations of the Payment Systems Law continues for the sake of harmonization with the relevant EU legislation in this chapter. It is envisaged in “The National Programme for the Adoption of the Acquis-Turkey” that harmonization of the Payment Systems Law and Legislation on Payment Systems will be ensured in the period 2009-2011. Implementation of some articles of the Law will be started upon accession.

The alignment of the mentioned legislation will also harmonize the relevant EU legislation in chapter “4. Free Movement of Capital”. In addition, preparations for harmonizing the relevant EU legislation in chapter “18. Statistics” and establishing closing benchmarks defined for chapter “32. Financial Control” have been continuing in coordination with the relevant public institutions.

Of the chapters that are directly related to the Bank, chapter “17. Economic and Monetary Policy” was not opened to the negotiations at the Intergovernmental Conference held on 26 June 2007 and chapter “33. Financial and Budgetary Provisions” is still under review by the Council.

Among chapters which are indirectly related to the Bank, chapter “28. Consumer and Health Protection” was opened to negotiations on 19 December 2007, chapter “6. Corporate Law” on 12 June 2008 and chapter “16. Taxation” on 30 June 2009. Opening benchmarks have been established for chapter “19. Social Policy and Employment”. Chapter “2. Free Movement of Workers” is still under review by the Council.

In order to monitor the progress achieved in the alignment with the EU acquis and to report this to the Commission, the Bank is continuing to provide information on developments in related chapters to the “National Data Base”, compiled at the Secretariat General for EU Affairs of the Prime Ministry of the Republic of Turkey.

Table 11. Developments in the Chapters in Which the Bank Participated in the Screening Process and in the Accession Negotiations

Directly Related Chapters	Final Status in Negotiations	Indirectly Related Chapters	Final status in Negotiations
4. Free Movement of Capital	Opened to negotiations. (18 December 2008)	2. Free Movement of Workers	In process at the Council.
9. Financial Services	Opening of the chapter was blocked. (14-15 December 2006)	6. Company Law	Opened to negotiations. (12 June 2008)
17. Economic and Monetary Policy	Position Paper was presented. (9 March 2007)	16. Taxation	Opened to negotiations. (30 June 2009)
18. Statistics	Opened to negotiations. (26 June 2007)	19. Social Policy and Employment	Opening benchmarks have been defined.
32. Financial Control	Opened to negotiations. (26 June 2007)	28. Consumer and Health Protection	Opened to negotiations. (19 December 2007)
33. Financial And Budgetary Provisions	In process at the Council.		

2.7. COMMUNICATIONS POLICY AND ACTIVITIES

As an indispensable part of the full-fledged inflation targeting regime, which has been implemented since 2006, and the principle of accountability, brought about by the Bank's instrumental independence, the CBRT continued to implement an efficient communications policy in 2010 in accordance with the main principles of transparency, integrity, consistency and neutrality.

Pursuant to Article 42 of the Law on the CBRT, Governor Durmuş Yılmaz gave presentations on the economic outlook, and monetary and exchange rate policy implementations before the Council of Ministers on 24 May and 25 October 2010 and before the Planning and Budget Commission of the Turkish Grand National Assembly on 24 June and 26 October 2010.

Since 2000, in the context of accountability, the balance sheet and the income statements of the CBRT have been subject to independent audit and results of the audits have been made available to the public in a report. The Audit Report for 2010 was also disclosed to the general public on the CBRT website.

As the main communication tool, Inflation Reports were presented at press conferences by Governor Durmuş Yılmaz on January 26, April 29, July 27 and October 26, 2010.

With annual inflation rate reaching 9.56 percent in March 2010, breaching the 8.5 percent upper limit of the uncertainty band, the CBRT, under the principle of accountability, provided the Government and the public with reasons for the deviation and measures to be taken to meet the target in the future in an "open letter" on 29 April 2010. The CBRT also published an open letter on 26 October 2010 to announce that inflation was 9.24 percent, exceeding the upper limit of the uncertainty band set at 8.5 percent.

In 2010, within the framework of the inflation targeting regime, the CBRT continued to announce decisions of the MPC on short-term interest rates and provide summaries of MPC meetings via press releases on its website. In line with the principle of transparency, the CBRT shared the monetary and exchange rate policy to be implemented in 2011 with the public on 21 December 2010 and announced that the "Monetary and Exchange Rate Policy for 2012" would be released on 27 December 2011.

Since 2000, in the context of accountability, the balance sheet and the income/expense statements of the CBRT have been subject to independent audit and results of the audits have been made available to the public in a report.

In order to ensure better understanding of monthly inflation data, the report entitled "Monthly Price Developments" continued to be published on the next working day following the release of inflation figures.

The CBRT, which also aims to maintain financial stability as an auxiliary objective along with its main objective of price stability, released the Financial Stability Report on May 26 and December 7, 2010, in accordance with its pre-announced calendar of data release and shared its perspective about the financial sector and banking sector with the public.

In line with the principle of transparency, the CBRT announced its exit strategy in its press release of 14 April 2010, involving the withdrawal measures taken during the global crisis and normalization operations of monetary policies. In the strategy, the measures taken towards the Turkish lira and FX markets with the aim of restricting the impact of the global financial crisis have been listed and the methods to be employed in withdrawing them have been explained. Throughout 2010, the CBRT also provided the public with the arrangements pertaining to required reserves, maximum interest rates applied to credit card transactions and foreign exchange buying auctions via press releases.

In 2010, the CBRT published studies about inflation and core inflation, monetary and exchange rate policies, financial asset prices, monetary transmission mechanism, money demand, monetary unions, real effective exchange rates, monetary policy expectations, capital markets, currency substitution, real business cycles, labor supply, the market for cheques, oil prices, the manufacturing industry and foreign trade on its website.

The CBRT continued to inform the public about its policy implementations as well as its institutional structure and publications via the quarterly “Bulletin”. The Bulletin, which is distributed to a wide circle of readers in Turkey and abroad, is also accessible on the CBRT website.

Data on the capacity utilization rate, which were formerly compiled and disseminated by the Turkish Statistical Institute (TURKSTAT), have been prepared and published by the CBRT on a monthly basis since January 2010. Data in question are calculated based on the responses of local units operating in the manufacturing industry to the “Business Tendency Survey (BTS)” of the CBRT and published under the title “The Capacity Utilization Rate of the Manufacturing Industry”.

In the framework of the direct communications policy of the Bank, Governor Yılmaz delivered various speeches and presentations in Turkey and abroad, introducing policies and implementations of the Bank and analyzing current economic developments. Within this scope, Governor Yılmaz gave presentations about the economic outlook and monetary and exchange rate policies at conferences held by the chambers of commerce and industry of Adana, Denizli, Kahramanmaraş and Konya. Speeches delivered by the Governor and videos of some of his speeches are available on the CBRT website.

Some of the presentations and speeches made by members of the MPC and the senior management of the Bank in 2010 were also posted on the CBRT website.

With a view to fostering relations with the press, a meeting was held with representatives from the economy sections of national newspapers on 29 July 2010.

The CBRT website, which was reconstructed in response to changing demands, continued to be used efficiently and effectively in 2010, getting 96,000 hits per day. Inflation Reports, the most viewed documents in 2010, received 15,000 hits per day.

Informative programs were held both within the Bank and outside Ankara at the request of universities as well as public agencies and institutions in 2010, and students were informed about the history of the Bank, monetary and exchange rate policies and career opportunities. In addition, the CBRT continued to provide financial aid in 2010 within the scope of the Financial Support Program for Academic Studies, to support conferences held on fields of economics and finance, as well as other academic and policy-making studies. Various universities and institutions were provided with financial support in a total of 33 activities. Further information regarding the program is available on the CBRT website. Similarly, presentations were made to officials of central banks of other countries on various subjects to facilitate the exchange of information.

In 2010, for the first time, the CBRT organized a “Contest for Academic Studies” with a view to supporting academic studies in the field of the Turkish economy, central banking or monetary policy and making these studies accessible to a larger audience. After evaluating applications to the contest, three applicants were awarded an academic support award for their respective studies.

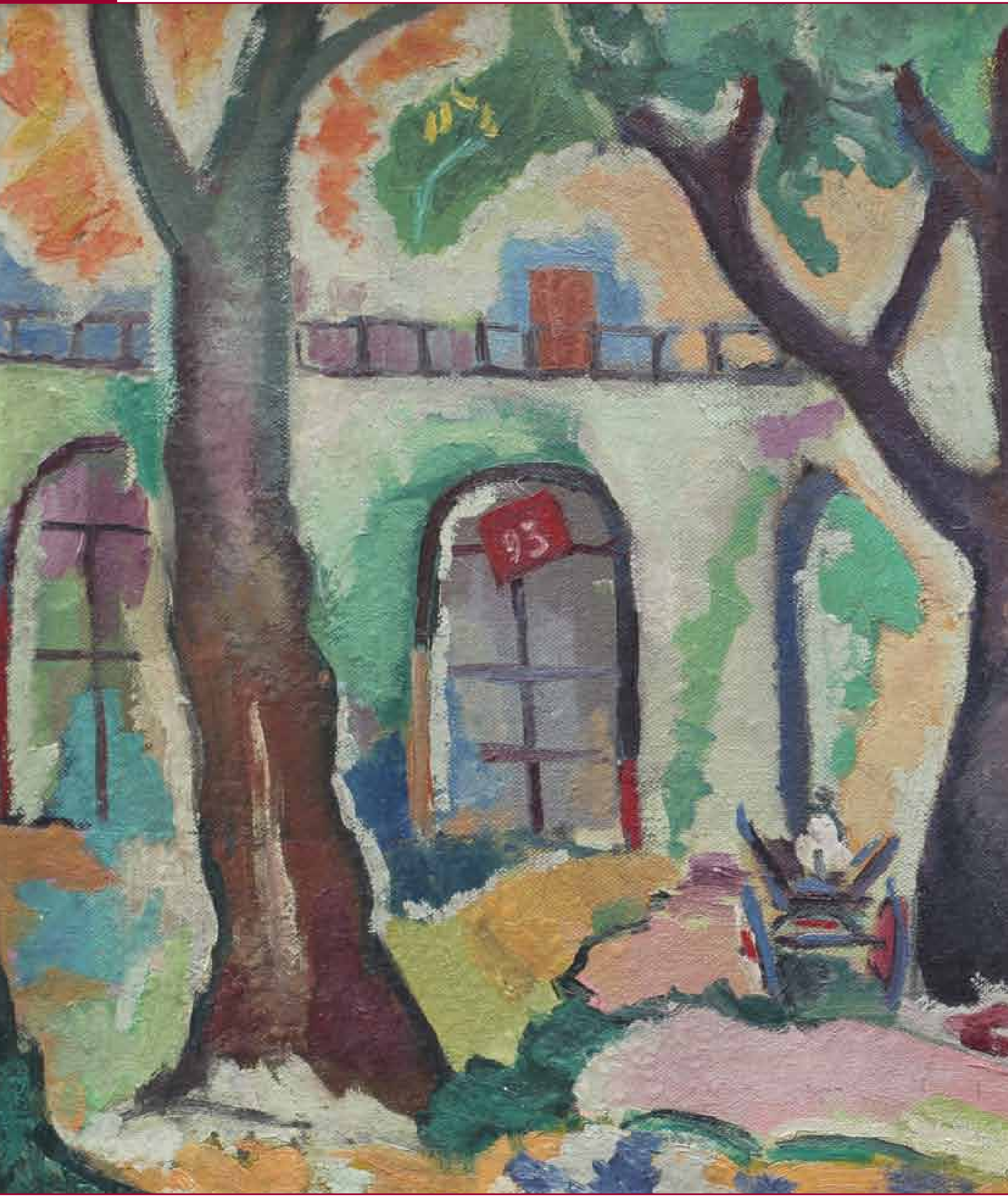
In 2010, the CBRT continued to respond to requests for information via the electronic mail address, iletisimbilgi@tcmb.gov.tr, aimed at ensuring communication with persons, institutions and establishments outside the Bank, as well as through the Unit on Right to information and also BIMER (the Communication Center of the Prime Ministry) pursuant to the Law on the Right to Information. Throughout 2010, 30 applications per day on average were responded via the Right to Information System, whereas 828 applications were answered via BIMER annually.

The CBRT, with a view to promoting Turkey on international economic platforms and furthering mutual relations and cooperation with fellow central banks, organized several workshops, meetings and conferences to discuss topics on the agenda at home and abroad. In this context, an international conference titled “Monetary

Policy During Economic Crises: a Comparative and Historical Perspective" was held on 16 April 2010. Additionally, "Training Seminar on Risk Management in Banking Sector" (28 June-1 July 2010) and "Workshop on Audit in Banks" (15-17 October 2010) were held. The CBRT also participated in the organization of a meeting along with the Undersecretariat of Treasury, the BRSA (Banking Regulation and Supervision Agency) and the Banks Association of Turkey, held on 9-10 April 2010, within the scope of the "South East European Countries Cooperation Process".

In the context of strengthening communication with international institutions, the CBRT organized the Experts' Workshop for the Organization of the Islamic Conference (OIC) Member States' Central Banks and OIC Meeting of Governors of Central Banks on 26-27 September 2010. Moreover, in Istanbul, on 27-29 September 2010, the CBRT hosted the "2010 Global Economic Symposium (GES)" co-organized with one of the prominent economic research institutions of Germany, Kiel Institute for the World Economy. Besides, the CBRT also contributed to the organization of the 14th Annual Conference "How Has Our View of Central Banking Changed with the Recent Financial Crisis?" by CEPR (Centre for Economic Policy and Research) and ESI (European Summer Institute).

In the framework of the direct communications policy of the Bank, Governor Yılmaz delivered various speeches and presentations in Turkey and abroad, introducing policies and implementations of the Bank and analyzing current economic developments.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PART 3
ADMINISTRATIVE AND SOCIAL AFFAIRS

KEMAL ÇİZER
“Koza Inn, Bursa”, Oil on Duralite,
36x52 cm.

3.1. STAFFING

As of end-2010, the total number of CBRT staff positions stands at 4,723. The number of staff employed is 4,379 and the occupancy rate is 92.72 percent (Graph 30).

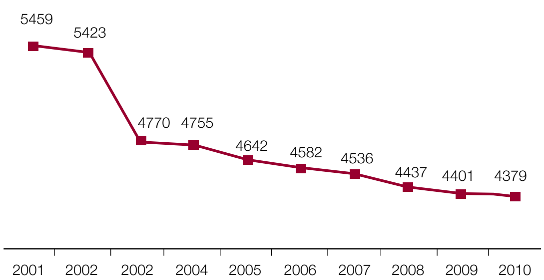
132 staff members have ceased employment due to retirement, resignation, dismissal, military service, transfer or death, while 74 employees have been recruited as economists, researchers, mechanical engineers, architects, assistant computer specialists, office clerks, counter clerk operators, and office boys/girls due to the excess workload of some departments. Besides, 36 staff members, who had left the Bank to do their military service, have resumed their posts. Consequently, the actual number of staff members by the end of the year was reduced by 22 to 4,379 compared to 2009.

57.27 percent of the CBRT staff work at the head office, while 42.73 percent work in the branches.

The distribution of CBRT staff is as follows: 68.94 percent are represented by general administrative services, 7,15 percent by technical services, 0.25 percent by medical services, 0.30 percent by legal services, 7.12 percent by assistance services, and 16.24 percent by contract personnel.

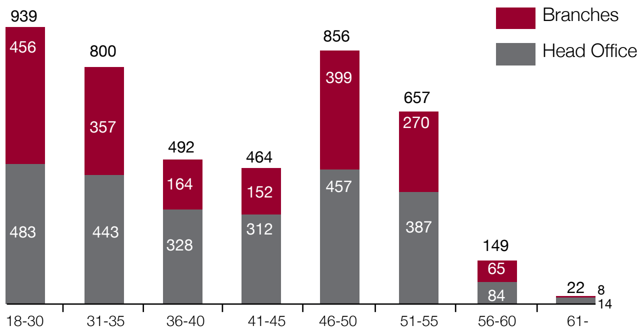
57.27 percent of the CBRT staff work at the head office, while 42.73 percent work in the branches. Based on age distribution of the staff, 39.71 percent of our personnel fall in the range of 18-35 years (Graph 31). The percentage of personnel with bachelors, masters and doctorate degrees equals 64.95 percent (Graph 32).

Graph 30. Number of Employees Between 2001-2010



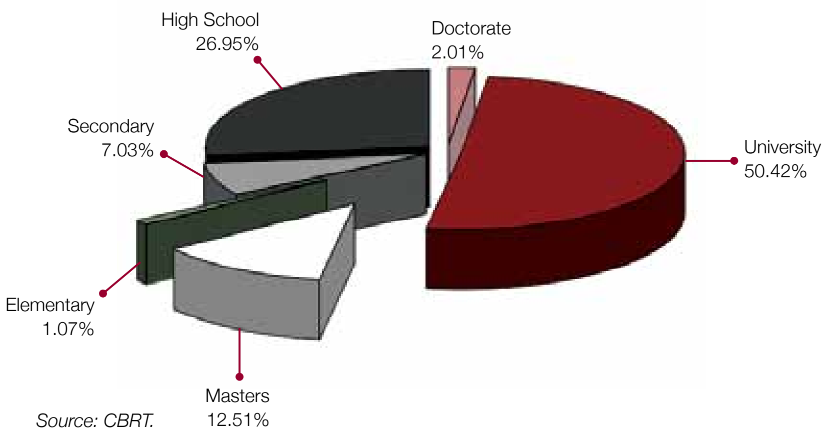
Source: CBRT.

Graph 31. Age Distribution of Employees



Source: CBRT.

Graph 32. Educational Distribution of Employees



Source: CBRT.

Table 12. CBRT Branches and Representative Branches

Branches	Opening Year	Number of Employees (End 2010)
Adana	1969	77
Ankara	1931	273
Antalya	1963	63
Bursa	1969	76
Denizli	1974	58
Diyarbakır	1955	56
Edirne	1963	44
Erzurum	1959	49
Eskişehir	1954	57
Gaziantep	1956	57
İskenderun	1951	49
İstanbul	1931	398
İzmir	1932	162
İzmit	1983	67
Kayseri	1968	58
Konya	1974	53
Malatya	1977	55
Mersin	1933	53
Samsun	1933	59
Trabzon	1963	60
Van	1978	47
Representative Branches		
Frankfurt Representative Office	1976	4
London Representative Office	1977	3
New York Representative Office	1977	4
Tokyo Representative Office	1997	2

Source: CBRT.

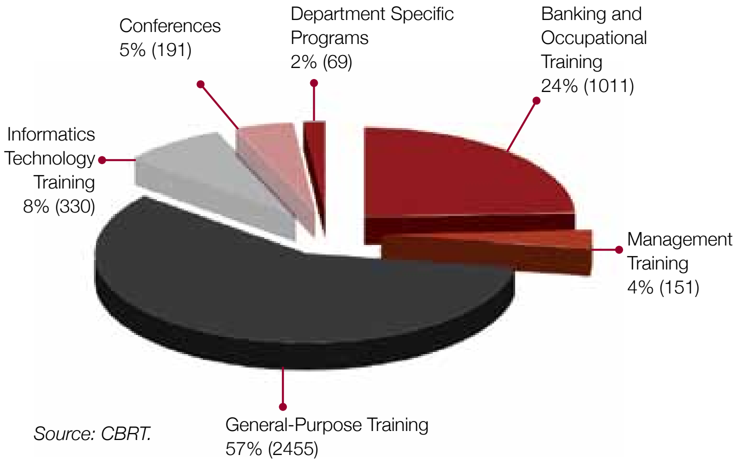
3.2. TRAINING

In 2010, a number of 5,956 personnel and 904 personnel benefited from training activities organized by the CBRT and other institutions, respectively.

Out of 5,956 personnel participating in training programs in 2010, 4,207 personnel were CBRT staff attending in-service training programs provided by the CBRT, within the frame of "Banking and Occupational Training", "Management Training", "General Purpose Training", "Informatics Technology Training", "Department Specific Programs" and "Conference and Panels" (Graph 33).

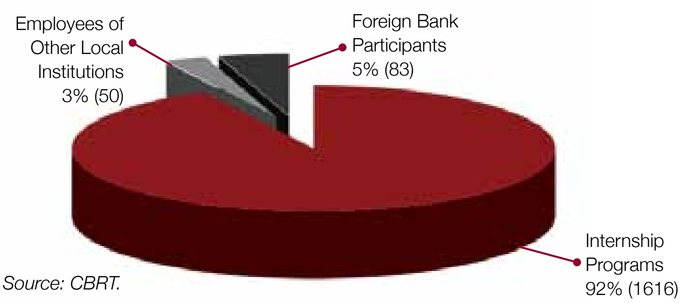
The remaining 1,749 participants composed of 1,616 university students who were attending internship programs in the CBRT; 50 participants from local organizations and 83 participants from a variety of foreign institutions (other central banks etc.) (Graph 34).

Graph 33. In-house Training Programs (Bank Employees)



Source: CBRT.

Graph 34. In-house Training Programs (Other Participants)



Source: CBRT.

205 and 263 personnel attended short-term training programs of other institutions held in Turkey and abroad, respectively (Graph 35).

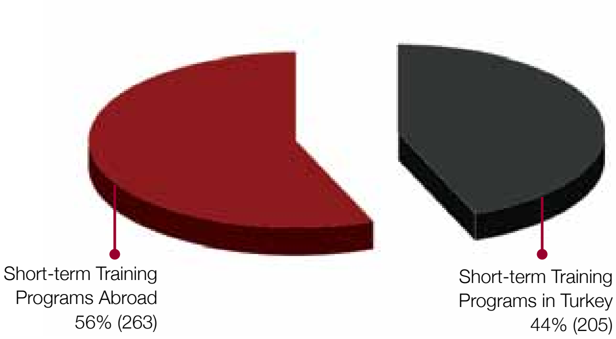
The number of participants of a number of training programs organized by other institutions in line with the "Financial Support Program for Academic Studies" was 237.

79 employees, 18 of whom had recently enrolled, continued their Masters/PhD programs in Turkey, while 60 employees, including 17 newly enrolled, studied for Masters/PhDs abroad (Graph 36).

47 personnel and 13 personnel were assigned to lecture/speak at training activities organized by institutions in Turkey and abroad, respectively.

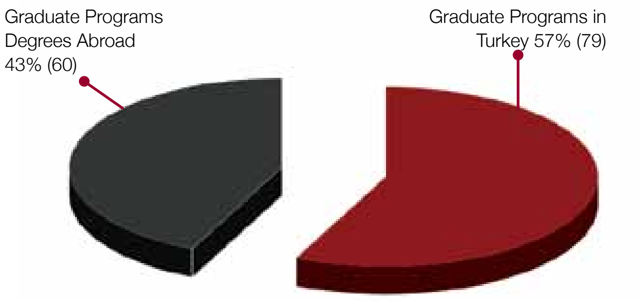
In addition, 19 thesis studies prepared by assistant specialists were examined, evaluated by the committee and these personnel were judged eligible to be promoted to specialists in 2010.

Graph 35. Training Programs (Other Institutions)



Source: CBRT.

Graph 36. Bank Employees Pursuing Graduate Degrees



Source: CBRT.

3.3. RECREATION, ART AND SPORTS ACTIVITIES

The exhibition "Contemporary Masterpieces from Turkey" was held between April 06 – May 30, 2010 in Madrid at "CaixaForum". The exhibition presented a selection of works by Turkish artists who, especially after 1945, attached great importance to following art movements at the multifaceted cultural crossroads in art centers like Paris and New York; while at the same time, succeeded in retaining their own originality in their ideas, beliefs and aesthetic values. A special catalogue was published in Turkish, English and Spanish as a memento of the exhibition.

From the collection of the CBRT, the exhibition entitled "Contemporary Turkish Painting" was held between June 11 – July 4, 2010 at the City Museum of Skopje. A special catalogue was published in Turkish, English and Macedonian as a memento of the exhibition, which featured works referring to the pre-1950s and a modernist ideal of progress with works lying along a post-1950 axis of postmodernist developments and emphasizing a change in perception.

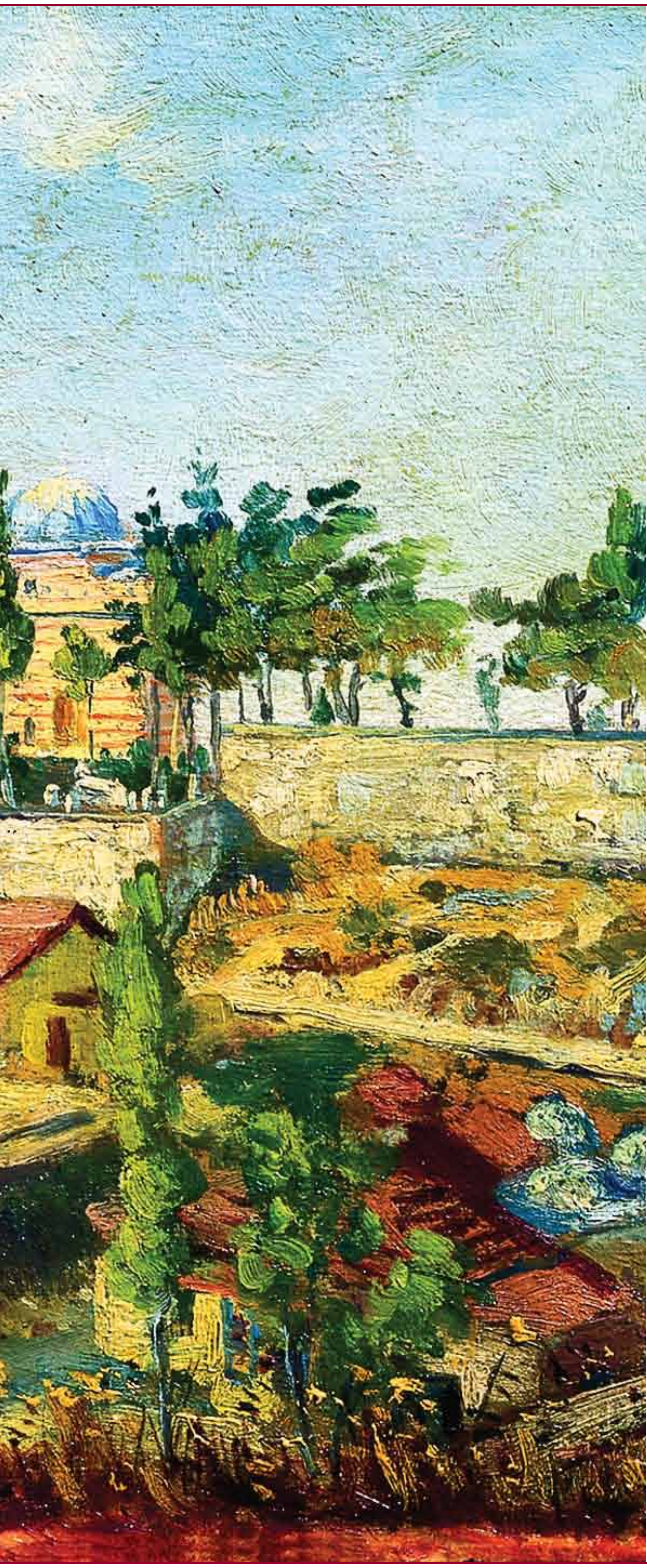
Exhibitions were also held at the Art Gallery of the Central Bank of the Republic of Turkey with selected works of art from the Bank's Collection.

The exhibition "Contemporary Masterpieces from Turkey" was held between April 06 – May 30, 2010 in Madrid at "CaixaForum".

In regards to sporting activities, the Central Bank of the Republic of Turkey hosted "Euro TableTennis 2010" in Antalya; "The 6th Central Bank Sports Tournament" in İzmir, in the disciplines football, volleyball, basketball, tennis, swimming and chess; the fifth Chess Tournament in Ankara with the participation of local banks in Turkey.

CBRT teams attended tournaments in football (Austria), basketball (Spain), and volleyball and swimming (Germany) which were organized by central banks that are members of the Sports and Cultural Associations of the European Central Banks.

Furthermore, in cooperation with the Ministry of Environment and Forestry, " The Central Bank of the Republic of Turkey Memorial Forestation" project is implemented in 20 cities and in one district where the Bank has branches.



Part 4
FINANCIAL STATEMENTS

İHSAN CEMAL KARABURÇAK
"The Sacrificial Bairam", Oil on Duralite,
30x50 cm., 1948

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

4.1.1. Comparative Balance Sheets

ASSETS	31.12.2010 (TL)	31.12.2009 (TL)	Change (TL)
I. Gold	8,361,219,243	6,374,873,001	1,986,346,242
A. International Standard	8,138,466,751	6,205,039,056	1,933,427,695
B. Non-International Standard	222,752,492	169,833,945	52,918,547
II. Foreign Exchange	124,794,214,657	106,476,994,883	18,317,219,774
A. Convertible	124,794,214,657	106,476,994,882	18,317,219,775
a) Foreign Banknotes	461,464,757	410,946,434	50,518,323
b) Correspondent Accounts	124,062,822,937	105,799,335,573	18,263,487,364
c) Reserve Tranche Position	269,926,963	266,712,875	3,214,088
B. Non-convertible	-	1	(1)
a) Foreign Banknotes	-	1	(1)
b) Correspondent Accounts	-	-	-
III. Coins	104,946,281	88,416,043	16,530,238
IV. Domestic Correspondents	-	221,337,900	(221,337,900)
V. Securities Portfolio	20,022,979,929	39,692,302,230	(19,669,322,301)
A. Government Securities	20,022,979,929	39,692,302,230	(19,669,322,301)
a) Bonds	13,572,418,996	32,905,435,233	(19,333,016,237)
b) Treasury Bills	6,450,560,933	6,786,866,997	(336,306,064)
B. Other	-	-	-
VI. Domestic Credit	689,345,224	485,835,628	203,509,596
A. Banking Sector	689,345,224	485,835,628	203,509,596
a) Rediscount	689,345,224	485,835,628	203,509,596
b) As per Art 40/1-c of Law No.1211	-	-	-
c) Other	-	-	-
B. Credit to SDIF	-	-	-
VII. Open Market Operations	12,014,960,933	35,265,339,657	(23,250,378,724)
A. Repurchase Agreements	12,014,960,933	35,265,339,657	(23,250,378,724)
a) Cash	12,014,960,933	33,249,339,657	(21,234,378,724)
i. Foreign Exchange	-	-	-
ii. Securities	12,014,960,933	33,249,339,657	(21,234,378,724)
b) Securities	-	2,016,000,000	(2,016,000,000)
B. Other	-	-	-
VIII. Foreign Credit	29,299,416	33,564,251	(4,264,835)
IX. Share Participations	39,446,146	23,697,527	15,748,619
X. Fixed Assets	281,318,845	280,849,187	469,658
A. Buildings and Buildings Sites	332,029,506	329,121,228	2,908,278
Depreciation Allowance for Real Estate (-)	(71,675,143)	(65,086,993)	(6,588,150)
B. Furniture and Fixtures	112,379,907	100,355,085	12,024,822
Depreciation Allowance for Furniture and Fixtures (-)	(91,415,425)	(83,540,133)	(7,875,292)
XI. Claims under Legal Proceedings (Net)	-	-	-
A. Claims under Legal Proceedings	2,348,736,495	2,281,703,849	67,032,646
B. Provision for Past-Due Receivables (-)	(2,348,736,495)	(2,281,703,849)	(67,032,646)
XII. Treasury Liabilities Due to SDR Allocation	2,564,227,706	2,533,694,809	30,532,897
XIII. Revaluation Account	-	-	-
XIV. Accrued Interest and Income	26,658,979	139,814,492	(113,155,513)
XV. Miscellaneous Receivables	367,841,755	483,483,576	(115,641,821)
XVI. Other Assets	41,845,182	57,524,956	(15,679,774)
TOTAL	**169,338,304,296**	**192,157,728,140**	**(22,819,423,844)**
REGULATING ACCOUNTS	**773,325,751,635**	**747,720,777,338**	**25,604,974,297**

4.1.1. Comparative Balance Sheets

LIABILITIES	31.12.2010 (TL)	31.12.2009 (TL)	Change (TL)
I. Currency Issued	48,937,559,941	38,340,278,128	10,597,281,813
II. Liabilities to Treasury	368,214,778	330,883,342	37,331,436
A. Gold	24,223,576	18,468,864	5,754,712
B. Reserve Tranche Means	269,926,963	266,712,875	3,214,088
C. Other (Net)	74,064,239	45,701,603	28,362,636
III. Foreign Correspondents	21,279,844	1,193,442	20,086,402
A. Convertible	1,131,727	1,193,442	(61,715)
B. Non-Convertible	20,148,117	-	20,148,117
IV. Deposits	89,269,411,084	89,359,637,306	(90,226,222)
A. Public Sector	14,881,043,298	20,471,316,000	(5,590,272,702)
a) Treasury, General and Special Budget Administrations	14,708,273,881	20,352,141,689	(5,643,867,808)
b) Public Economic Institutions	20,447	29,283	(8,836)
c) State Economic Enterprises	44,143,068	60,061,695	(15,918,627)
d) Other	128,605,902	59,083,333	69,522,569
B. Banking Sector	56,150,507,689	46,652,131,467	9,498,376,222
a) Free Deposits of Domestic Banks	34,636,803,105	33,570,379,897	1,066,423,208
b) Foreign Banks	7,975,163	9,335,378	(1,360,215)
c) Required Reserves (Central Bank's Law. Art 40)	21,505,484,985	13,072,370,155	8,443,114,830
i. Cash	21,505,484,985	13,072,370,155	8,443,114,830
ii. Gold (Net Grams)	-	-	-
d) Other	244,436	46,037	198,399
C. Miscellaneous	17,589,613,210	19,471,705,890	(1,882,092,680)
a) Foreign Exchange Deposits By Citizens Abroad	17,539,029,615	19,406,635,188	(1,867,605,573)
b) Other	50,583,595	65,070,702	(14,487,107)
D. International Institutions	6,686,549	7,148,343	(461,794)
E. Extrabudgetary Funds	641,560,338	2,757,335,606	(2,115,775,268)
a) Saving Deposit Insurance Fund	25,619	18,771,150	(18,745,531)
b) Other	641,534,719	2,738,564,456	(2,097,029,737)
V. Liquidity Bills	-	-	-
VI. Open Market Operations	13,101,901,996	47,331,936,054	(34,230,034,058)
A. Repurchase Agreements	12,000,001,996	35,017,436,054	(23,017,434,058)
a) Cash	-	2.017.436.055	(2,017,436,055)
i. Foreign Exchange	-	-	-
ii. Securities	-	2,017,436,055	(2,017,436,055)
b) Securities	12,000,001,996	32,999,999,999	(20,999,998,003)
B. Other	1,101,900,000	12,314,500,000	(11,212,600,000)
VII. Foreign Credit	13,899,337	13,861,842	37,495
A. Short-Term	-	-	-
B. Medium and Long-Term	13,899,337	13,861,842	37,495
VIII. Advances, Collateral and Deposits Collected Against Letters of Credit and Import	747,358,472	679,678,222	67,680,250
A. For Letters of Credit	747,354,786	679,674,536	67,680,250
B. For Imports	3,686	3,686	-
IX. Notes and Remittances Payable	3,293,090	37,382,219	(34,089,129)
X. SDR Allocation	2,564,227,706	2,533,694,809	30,532,897
XI. Capital	46,233,524	46,233,524	-
A. Paid-in Capital	25,000	25,000	-
B. Inflation Adjustment for Paid-in Capital	46,208,524	46,208,524	-
XII. Reserves	4,588,399,144	3,691,281,261	897,117,883
A. Ordinary and Extraordinary Reserves	4,232,647,418	3,335,529,535	897,117,883
B. Special Reserves (CBT's Law, Art. 59)	2,379,249	2,379,249	-
C. Inflation Adjustments for Reserves	353,372,477	353,372,477	-
XIII. Provisions	371,154,530	606,314,777	(235,160,247)
A. Provisions for Pension Commitments	98,834,637	92,526,988	6,307,649
B. Provision for Taxes	222,089,596	465,750,157	(243,660,561)
C. Other Provisions	50,230,297	48,037,632	2,192,665
XIV. Revaluation Account	7,245,849,360	5,010,103,620	2,235,745,740
XV. Accrued Interest and Expenses	628,420,620	919,143,373	(290,722,753)
XVI. Miscellaneous Payables	32,747,657	53,477,875	(20,730,218)
XVII. Other Liabilities	110,224,086	464,385,529	(354,161,443)
XVIII. Profit of the Period	1,288,129,127	2,738,242,817	(1,450,113,690)
TOTAL	**169,338,304,296**	**192,157,728,140**	**(22,819,423,844)**
REGULATING ACCOUNTS	**773,325,751,635**	**747,720,777,338**	**25,604,974,297**

4.1.2. Comparative Profit and Loss Statements

	01.01.2010 – 31.12.2010 (TL)	01.01.2009 – 31.12.2009 (TL) (*)	CHANGE (TL)
Interest Income	4,724,633,586	6,325,579,654	(1,600,946,068)
Interest Expense	(2,864,320,717)	(4,062,481,191)	1,198,160,474
I - Net Interest Income (Expense)	**1,860,312,868**	**2,263,098,464**	**(402,785,596)**
Fee and Commission Income	83,416,323	63,862,100	19,554,223
Fee and Commission Expense	(10,470,641)	(9,782,439)	(688,202)
II - Net Fee and Commission Income (Expense)	**72,945,683**	**54,079,661**	**18,866,022**
Non - Interest Income	1,119,414,859	3,401,294,178	(2,281,879,319)
Non - Interest Expense	(1,542,454,687)	(2,514,479,329)	972,024,642
III - Net Non - Interest Income (Expense)	**(423,039,828)**	**886,814,849**	**(1,309,854,677)**
IV- Net Profit (Loss) Before Tax (I+II+III)	**1,510,218,723**	**3,203,992,974**	**(1,693,774,251)**
V – Tax Provision	**(222,089,596)**	**(465,750,157)**	**243,660,561**
VI - Net Profit (Loss)	**1,288,129,127**	**2,738,242,817**	**(1,450,113,690)**

(*) In 2010, Interest Income and Non-Interest Income items of the Profit and Loss Statement were reclassified and the income figures for 2009 were rearranged for purposes of comparison.

4.2. EXPLANATIONS RELATED TO THE BALANCE SHEET DATED 31.12.2010, AND THE PROFIT AND LOSS STATEMENT FOR THE 01.01.2010- 31.12.2010 PERIOD

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

4.2.1.a. Fundamental Principles for Accounting Practices

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

4.2.1.b. Accounting Policies

The Basis for Recognition

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

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

Since inflation adjustment conditions were realized as of December 31, 2003 and as of December 31, 2004, non-monetary items on the financial statements of the Bank were restated. As the conditions for inflation adjustment have disappeared, the adjustment was not executed between the years 2005 - 2010.

Gold and Foreign Currency Transactions

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

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

Securities

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

4.2. EXPLANATIONS RELATED TO THE BALANCE SHEET DATED 31.12.2010, AND THE PROFIT AND LOSS STATEMENT FOR THE 01.01.2010- 31.12.2010 PERIOD

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

Turkish currency denominated securities that are purchased by the Bank on its own account and under repurchase agreements are recognised initially at their acquisition cost and revalued to their fair value at month ends. Fair value is calculated based on the weighted average price occuring in the Istanbul Stock Exchange for transactions with the same value date. In absence of these prices, the prices of related securities published in the Official Gazette by the Bank on a daily basis are used for the fair value calculation. The accrued interest on the securities purchased under repurchase agreements, calculated as the difference between the acquisition cost and sale price on the settlement date, is reflected in the income statement.

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

Securities denominated in foreign currency are shown in "Correspondent Accounts" under the "Foreign Exchange" item at their fair value calculated using closing prices in the related international markets at the end of each month. Differences between the acquisition cost and fair value are reflected in the income statement. Clean prices are used for coupon bonds.

Liquidity Bills

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

Income Recognition

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

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

Repurchase and Reverse Repurchase Transactions of the Securities

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

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

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

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

Fixed Assets

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

Provisions

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

Employee Termination Benefits

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

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

Taxation

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

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

Participation

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

4.2.2. DETAILED BALANCE SHEET DATED 31.12.2010

ASSETS	AMOUNT IN TURKISH CURRENCY ACCOUNTS TL	AMOUNT IN FOREIGN CURRENCY ACCOUNTS TL	TOTAL IN TURKISH CURRENCY ACCOUNTS TL	TOTAL IN FOREIGN CURRENCY ACCOUNTS TL	TOTAL TL
I. Gold					
A. International Standard (Net Gram)….116,103,752.76				8,138,466,751	
B. Non-International Standard (Net Gram) 3,177,797 .62			222,752,492		**8,361,219,243**
II. Foreign Exchange					
A. Convertible					
a) Foreign Banknotes		461,464,757			
b) Correspondent Accounts		124,062,822,937			
c) Reserve Tranche Position		269,926,963		124,794,214,657	
B. Non-Convertible					
a) Foreign Banknotes		-			
b) Correspondent Accounts		-		-	**124,794,214,657**
III. Coins			104,946,281		**104,946,281**
IV. Domestic Correspondents			-	-	**-**
V. Securities Portfolio					
A. Government Securities					
a) Bonds	13,572,418,996				
b) Treasury Bills	6,450,560,933		20,022,979,929		
B. Other			-		**20,022,979,929**
VI. Domestic Credit					
A. Banking Sector					
a) Rediscount		689,345,224			
b) As per Art 40/c of Law No.1211					
c) Other				689,345,224	
B. Credit of SDIF			-		**689,345,224**
VII. Open Market Operations					
A. Repurchase Agreements					
a) Cash					
i. Foreign Exchange		-			
ii. Securities	12,014,960,933				
b) Securities			12,014,960,933	-	
B. Other			-		**12,014,960,933**
VIII. Foreign Credits				29,299,416	**29,299,416**
IX. Share Participations				39,446,146	**39,446,146**
X. Fixed Assets					
A. Buildings and Building Sites	332,029,506				
Depreciation Allowance for Real Estate (-)	(71,675,143)		260,354,363		
B. Furniture and Fixtures	112,379,907				
Depreciation Allowance for Furniture and Fixtures (-)	(91,415,425)		20,964,482		**281,318,845**
XI. Claims under Legal Proceedings (Net)					
A. Claims under Legal Proceedings				2,348,736,495	
B. Provision for Past –Due Receivables (-)			(2,348,736,495)		**-**
XII. Treasury Liabilities Due to SDR Allocation				2,564,227,706	**2,564,227,706**
XIII. Revaluation Account			-		**-**
XIV- Accrued Interest and Income			26,658,979		**26,658,979**
XV- Miscellaneous Receivables			365,503,987	2,337,768	**367,841,755**
XVI- Other Assets			41,844,973	209	**41,845,182**
TOTAL			**30,732,229,924**	**138,606,074,372**	**169,338,304,296**
REGULATING ACCOUNTS					**773,325,751,635**

Buildings Insured for TL 294,000,335
Furnitures and Fixtures Insured for TL 102,113,273

Prevailing rediscount and advance rates:
Against bills to mature in maximum 3 months:
-Rediscount rate………………….14.00 %
-Advance rate…………………….15.00 %

4.2.2. DETAILED BALANCE SHEET DATED 31.12.2010

LIABILITIES	**AMOUNT IN TURKISH CURRENCY ACCOUNTS TL**	**AMOUNT IN FOREIGN CURRENCY ACCOUNTS TL**	**TOTAL IN TURKISH CURRENCY ACCOUNTS TL**	**TOTAL IN FOREIGN CURRENCY ACCOUNTS TL**	**TOTAL TL**
I. Currency Issued			48,937,559,941		**48,937,559,941**
II. Liabilities to Treasury					
A. Gold (Net Gram) 345,574.68			24,223,576		
B. Reserve Tranche Means				269,926,963	
C. Other (Net)			74,035,372	28,867	**368,214,778**
III. Foreign Correspondents					
A. Convertible				1,131,727	
B. Non-Convertible				20,148,117	**21,279,844**
IV. Deposits					
A. Public Sector					
a) Treasury, General and Special Budget Administrations	5,543,339,797	9,164,934,084			
b) Public Economic Institutions	20,447	-			
c) State Economic Enterprises	20,895	44,122,173			
d) Other	128,605,902	-	5,671,987,041	9,209,056,257	
B. Banking Sector					
a) Free Deposits of Domestic Banks	26,797,739,553	7,839,063,552			
b) Foreign Banks	7,975,163	-			
c) Required Reserves					
(Central Bank Law art. 40)					
i. Cash		21,505,484,985			
ii. Gold (Net Grams)					
d) Other	244,436	-	26,805,959,152	29,344,548,537	
C. Miscellaneous					
a) Foreign Exchange Deposits By Citizens Abroad		17,539,029,615			
b) Other	3,477,588	47,106,007	3,477,588	17,586,135,622	
D. International Institutions			6,686,549		
E. Extrabudgetary Funds					
a) Savings Deposit Insurance Fund	25,619				
b) Other	104,670,577	536,864,142	104,696,196	536,864,142	**89,269,411,084**
V. Liquidity Bills			-		**-**
VI. Open Market Operations					
A. Repurchase Agreements					
a) Cash					
i. Foreign Exchange		-			
ii. Securities					
b) Securities	12,000,001,996		12,000,001,996	-	
B. Other			1,101,900,000		**13,101,901,996**
VII. Foreign Credit					
A. Short-Term				-	
B. Medium and Long-Term				13,899,337	**13,899,337**
VIII. Advances, Collateral and Deposit Collected Against Letters of Credit and Imports					
A. For Letters of Credit				747,354,786	
B. For Imports			3,686	-	**747,358,472**
IX. Notes and Remittances Payable			-	3,293,090	**3,293,090**
X. SDR Allocation				2,564,227,706	**2,564,227,706**
XI. Capital					
A. Paid-in Capital			25,000		
B. Inflation Adjustment for Paid-in Capital			46,208,524		**46,233,524**
XII. Reserves					
A. Ordinary and Extraordinary Reserves			4,232,647,418		
B. Special Reserves (CBTR Law Art. 59)			2,379,249		
C. Inflation Adjustment for Reserves			353,372,477		**4,588,399,144**
XIII. Provisions					
A. Provisions for Pension Commitments			98,834,637		
B. Provisions for Taxes			222,089,596		
C. Other Provisions			50,230,297		**371,154,530**
XIV. Revaluation Account			7,245,849,360		**7,245,849,360**
XV. Accrued Interest and Expenses			628,420,620		**628,420,620**
XVI. Miscellaneous Payables			1,300,654	31,447,003	**32,747,657**
XVII. Other Liabilities			27,840,425	82,383,661	**110,224,086**
XVII. Profit of the Period			1,288,129,127		**1,288,129,127**
TOTAL			**108,927,858,481**	**60,410,445,815**	**169,338,304,296**
REGULATING ACCOUNTS					**773,325,751,635**

4.2.3. EXPLANATIONS RELATED TO THE BALANCE SHEET DATED 31.12.2010

ASSETS

1. Gold

Gold holdings are composed of international standards and non-international standards of gold, the year-end balance of which is TL 8,361,219,243 in total, equivalent to 119,281,550.38 net grams. Gold holdings on the balance sheet are valued using 1 net gram of gold = TL 70.09650039 calculated as 1 ounce of gold = USD 1,410.25, based on prices quoted on the London stock exchange as of December 31, 2010.

	Net Grams	(TL)
International Standard	116,103,752.76	8,138,466,751
Non-International Standard	3,177,797.62	222,752,492
Total	**119,281,550.38**	**8,361,219,243**

While the value of gold holdings of international standards, which was TL 6,205,039,056 equivalent to 116,103,752.76 net grams as of the end of the year 2009, shows an increase of TL 212,147,613 due to the appreciation of USD against Turkish Lira during the year and TL 1,721,280,082 due to the increase in the price of 1 ounce of gold from USD 1,104 in 2009 to USD 1,410.25 in 2010. It amounts to TL 8,138,466,751 showing a total increase of TL 1,933,427,695 at the end of year 2010. 33,670,645.06 net grams of the gold holdings of international standards owned by the Bank, is stored in the vaults of the Head Office, whereas 82,433,107.70 net grams is held with foreign correspondents.

Gold holdings of non-international standards, which was equal to TL 169,833,945 and 3,177,797.62 net grams as of the end of the year 2009, increased by TL 52,918,547 reaching TL 222,752,492 at the end of 2010. TL 5,806,549 of this increase is due to the appreciation of USD against Turkish Lira and TL 47,111,998 of this is due to the increase in the price of 1 ounce of gold.

2. Foreign Exchange

This item consists of the current and deposit accounts opened by the Bank with foreign correspondents against convertible and non-convertible foreign exchange, securities denominated in foreign currency, held for the purpose of reserve management, and the Reserve Tranche Position, held with the IMF, as well as foreign banknotes available in the Bank's vaults. The balance of this account, evaluated at year-end buying rates, amounts to TL 124,794,214,657 all of which are convertible amounts.

a- Convertible

This item includes the convertible foreign exchange accounts with Foreign Correspondents, amounting to TL 124,062,822,937, the Reserve Tranche Position, amounting to TL 269,926,963, and foreign banknotes in the vaults of the Bank's branches, amounting to TL 461,464,757, as of the end of the year.

4.2.3. EXPLANATIONS RELATED TO THE BALANCE SHEET DATED 31.12.2010

b- Non-Convertible

Both Foreign Correspondent Accounts, which were opened in accordance with bilateral agreements, and non-convertible foreign banknotes available in the vaults of the Bank's branches have no balances as of the year-end[1].

3. Coins

This item consists of coins available in the Bank's vaults, amounting to TL 104,946,281 at the end of the year.

4. Domestic Correspondents

This item consists of both Correspondent Accounts that were opened in accordance with the domestic correspondence agreement and foreign exchange deposit operations held in the Foreign Exchange Market. The item had a balance of USD 147 million and TL 221,337,900 at the end of 2009, but because of the suspension of the intermediary functioning of the Bank in the Foreign Exchange and Banknotes Markets Foreign Exchange Deposit Market, started in 2008 due to the problems in international markets with a view to contributing to the enhancement of the mobilization of foreign exchange liquidity in the Interbank Foreign Exchange Market, it has no balance as of the end of 2010.

5. Securities Portfolio

All government securities bought from public banks and banks under the Savings Deposits Insurance Fund in 2001, which were later exchanged for long-term securities in October of the same year, were redeemed in 2010. Government Debt Securities, which equaled TL 39,692,302,230 as of the end of 2009, include outright purchases from the secondary market as well as securities purchased in the secondary market under repurchase agreements. While the securities item increased by TL 2,016,000,000 due to the repurchase of securities under reverse repurchase agreements, by TL 314,297,883 due to the increase in the portfolio cost of securities from repurchases under reverse repurchase agreements, by TL 7,347,689,377 due to the outright purchases through auction and by TL 362,228,403 due to the fair value adjustment, it decreased by TL 20,999,998,003 due to the resale of securities under repurchase agreements and by TL 8,709,539,961 due to redemption. The year-end balance of this item is TL 20,022,979,929.

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

6. Domestic Credit

This item includes credit extended to the Banking Sector and the Savings Deposit Insurance Fund.
The year-end balance of rediscounted credits extended against FX securities is TL 689,345,224 equivalent to USD 313,765,000 and EUR 99,685,000.

Since the total advance extended to the Savings Deposit Insurance Fund, collateralized by Treasury-issued securities on 2004 was redeemed early on 9 May 2005, this item has no balance as of the end of 2010.

	TL
A) Banking Sector	**689,345,224**
a) Rediscount Credit	689,345,224
b) As per Art, 40/c of Law No 1211	-
c) Other	-
B) Credit to Savings Deposit Insurance Fund	**-**
TOTAL	**689,345,224**

[1] While Iranian Rial was accepted as a non-convertible foreign exchange in 2009, it begins to assume a place among convertible currencies in 2010 in accordance with the Bank's Circular No I-M. Therefore Iranian Rial banknotes available in the vaults of the Bank's branches are shown under convertible banknotes.

4.2.3. EXPLANATIONS RELATED TO THE BALANCE SHEET DATED 31.12.2010

7. Open Market Operations

This item, which represents cash claims of the Bank from repurchase agreements and money market operations and security claims of the Bank from reverse repurchase agreements; has a balance of TL 12,014,960,933 at the end of the year, all of which is due to cash claims of the Bank from repurchase agreements.

8. Foreign Credit

This item consists of the credit extended in accordance with the Banking Agreement between the Bank and the Central Bank of Sudan and the credit extended in accordance with the Banking Agreement between the Bank and the Central Bank of Albania concerning claims on non-performing loans due to the Banking Regulation terminated on December 31, 1990. The balance of this item decreased to TL 29,299,416 equivalent of USD 18,951,757 in 2010, from TL 33,564,251 equivalent of USD 22,291,460 in 2009, as principal installments of USD 2,826,985 and USD 512,718, which were received from the Central Bank of Sudan and Central Bank of Albania respectively.

9. Share Participations

The balance of this account is TL 39,446,146 at the end of the year. In accordance with Article 3 of the Bank's Law, this item consists of the Bank's accounts of SDR 10,000,000 in the Bank for International Settlements in Basle and EUR 24,960 held with the Society for Worldwide Interbank Financial Telecommunication (SWIFT). This year, in accordance with the Decision of the Bank Board, dated November 25, 2010, the Bank became a shareholder of the International Islamic Liquidity Management Corporation (IILM) with a capital share of USD 10,000,000. These participations are revalued using year-end buying exchange rates.

10. Fixed Assets

This item, which had a balance of TL 281,318,845 as of the year-end, consists of the net values of buildings, furniture and fixtures owned by the Bank less their allowance for depreciation and cost of lands.

The value of real estate, which was TL 329,121,228 in the previous year, reached TL 332,029,506 after the additions of TL 2,908,278 this year. The net value of real estate is TL 260,354,363 after deducting the accumulated depreciation of buildings totaling TL 71,675,143.

The net value of furniture and fixtures is TL 20,964,482, after deducting the accumulated depreciation totaling TL 91,415,425 from the value of furniture and fixtures, totaling TL 112,379,907. The value of furniture and fixtures increased by TL 12,024,822 compared to the previous year.

11. Claims under Legal Proceedings

This account shows the claims on the Central Bank of Iraq, which was TL 2,205,616,356 (equivalent of USD 1,426,659,997) as well as the claims arising from credit amounting to TL 143,120,139 (equivalent of USD 92,574,475), which was extended against bills bought by the Bank from the Enka Construction and Industry Joint Stock Company regarding the Iraq Bekhme Dam project. As the provision of TL 2,348,736,495 was set for these claims as an offsetting item, this account has no balance as of the end of the year.

4.2.3. EXPLANATIONS RELATED TO THE BALANCE SHEET DATED 31.12.2010

12. Treasury Liabilities Due to SDR Allocation

This item consists of the allocation of SDR 1,071,329,729 equivalent of TL 2,564,227,706, which was allocated to Turkey by the IMF and used by the Treasury. It is recorded reciprocally with the "X-SDR Allocation" on the liability side.

13. Revaluation Account

This item consists of unrealized losses arising from the revaluation of gold and foreign exchange in both assets and liabilities. This account has had no balance since 2008.

14. Accrued Interest and Income

The accrued interest and income as of the end of the year 2010 is TL 26,658,979, which mostly consists of accrued interest income due to Repurchase Aggreements and BIS profit-share income accruals.

15. Miscellaneous Receivables

This item, which shows a balance amounting to TL 367,841,755 at the end of the year, consists of TL 365,503,987 in Turkish currency and TL 2,337,768 in foreign currencies, the breakdown of which is as follows:

	TL
- Provisional Tax to be Deducted From The Corporate Tax Payable	212,159,825
- Income Tax to be Deducted From The Corporate Tax Payable	66,079,542
- TL Deposits Accounts with National Banks Abroad	74,292,560
- Foreign Exchange Differences Received From General and Special Budget Administrations	3,009,244
- Letters of Credit of the Banknote Printing Plant	9,282,805
- Advances and Deposits	661,567
- Other	18,444
TOTAL	**365,503,987**

16. Other Assets

This item shows various claims of the Bank, amounting to TL 41,845,182 at the year-end, and consists of TL 41,844,973 in Turkish currency and TL 209 in foreign currencies.

4.2.3. EXPLANATIONS RELATED TO THE BALANCE SHEET DATED 31.12.2010

LIABILITIES

1. Currency Issued

The year-end balance of currency in circulation, issued in accordance with Article 36 of the Bank's Law, amounts to TL 48,937,559,941, an increase of TL 10,597,281,813 compared to the previous year, balance of which amounted to TL 38,340,278,128.

2. Liabilities to the Treasury

The year-end balance of liabilities to the Treasury amounts to TL 368,214,778, an increase of TL 37,331,436 compared to the previous year.

a- Gold

The value of the gold claims of the Treasury, which amounts to TL 24,223,576 and 345,574.68 net grams, increased by TL 5,754,712 over the previous year, due to the increase in the price of 1 ounce of gold and the appreciation of USD against Turkish Lira, during the year.

b- Reserve Tranche Means

Due to the portion of Turkey's IMF quota of SDR 1,191.3 million, which was paid as gold and foreign exchange, the Treasury has a Reserve Tranche Means of SDR 112,775,000 presented reciprocally with the "Reserve Tranche Position" in the assets. The year-end balance of this item is TL 269,926,963.

c- Other

This item, which shows the net liabilities to the Treasury resulting from various transactions, amounts to TL 74,064,239 at the end of 2010.

3. Foreign Correspondents

This account shows the Bank's debt to correspondents abroad and has a balance of TL 21,279,844 in convertible and non-convertible foreign exchange.

a- Convertible

Convertible foreign exchange liabilities consist of foreign correspondent accounts and accounts of foreign central banks with the Bank. The year-end balance of this item is TL 1,131,727, which indicates a decrease of TL 61,715 compared to the previous year.

b- Non-Convertible

Consisting of accounts opened in accordance with bilateral agreements and having no balance from 2005 to 2009, this item has a balance of TL 20,148,117 (equivalent of agreement USD 13,032,417) at year-end, due to the release of the amount, maintained as blocked under non-convertible Miscellaneous Payables in 2009, according to legal ruling .

4.2.3. EXPLANATIONS RELATED TO THE BALANCE SHEET DATED 31.12.2010

4. Deposits

The year-end balance of this account is TL 89,269,411,084, the breakdown of which is as follows:

	Turkish Currency (TL)	**Foreign Currency (TL)**
A) Public Sector	5,671,987,041	9,209,056,257
a) Treasury, General and Special Budget Administrations	5,543,339,797	9,164,934,084
i) Treasury	5,428,475,046	8,546,405,102
ii) General Budget Administrations	41,676,342	618,528,982
iii) Special Budget Administrations	73,188,409	-
b) Public Economic Institutions	20,447	-
c) State Economic Enterprises	20,895	44,122,173
d) Other	128,605,902	-
B) Banking Sector	26,805,959,152	29,344,548,537
a) Free Deposits of Domestic Banks	26,797,739,553	7,839,063,552
b) Foreign Banks	7,975,163	-
c) Required Reserves (Article 40 of the Central Bank Law)	-	21,505,484,985
i) Cash	-	21,505,484,985
ii) Gold (Net grams)	-	-
d) Other	244,436	-
C) Miscellaneous	3,477,588	17,586,135,622
a) Foreign Exchange Deposits by Citizens Abroad	-	17,539,029,615
b) Other	3,477,588	47,106,007
D) International Institutions	6,686,549	-
E) Extra-budgetary Funds	104,696,196	536,864,142
a) Savings Deposit Insurance Fund	25,619	-
b) Other	104,670,577	536,864,142
Total	**32,592,806,526**	**56,676,604,558**

5. Liquidity Bills

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

6. Open Market Operations

This item, which shows cash debts of the Bank from reverse repurchase agreements and money market operations, as well as security debts of the Bank from repurchase agreements, has a balance of TL 13,101,901,996 at the end of the year. TL 12,000,001,996 of this balance represents security debts of the Bank from repurchase agreements and TL 1,101,900,000 of this balance represents cash debts of the Bank from interbank money market operations.

7. Foreign Credit

This item shows the non-guaranteed trade arrears, amounting to TL 13,899,337 as of year-end.

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

The balance of this item is TL 747,358,472 at the end of 2010. Of this total, TL 747,354,786 represents credit transactions of foreign exchange sales and TL 3,686 represents goods, equivalents and guarantees deposited at the Bank pursuant to import regulations.

9. Notes and Remittances Payable

The year-end balance of this item, amounting to TL 3,293,090, consists of payment orders to be made to beneficiaries.

10. SDR Allocation

This item, presented reciprocally with the "Treasury's Liabilities due to SDR Allocation" on the assets side, shows liability to the IMF amounting to TL 2,564,227,706, equivalent of SDR 1,071,329,729, allocated to Turkey by the IMF and used by the Treasury.

4.2.3. EXPLANATIONS RELATED TO THE BALANCE SHEET DATED 31.12.2010

11. Capital

Capital is composed of paid-in capital of TL 25,000, which consists of 250,000 shares, each with a nominal value of TL 0.10, pursuant to Article 5 of the Bank's Law; and inflation adjustment differences of paid-in capital of TL 46,208,524, as per the decrees of Law No. 5024.

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

Category	Number of Shares	Percent of Total	(TL)
A	136,800	54.72	13,680
B	64,340	25.74	6,434
C	54	0.02	5
D (*)	48,806	19.52	4,881
Paid-in capital	250,000	100.00	25,000
Inflation adjustment for paid-in capital			46,208,524
TOTAL			**46,233,524**

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

The entire category of A shares belong to the Treasury. With its shares in category D, the total share of the Treasury in the capital is 54.74 percent. Category B shares are completely assigned to the national banks. The composition of category B shares according to shareholders is presented below:

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

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

4.2.3. EXPLANATIONS RELATED TO THE BALANCE SHEET DATED 31.12.2010

12. Reserves

This item includes both reserve funds retained in accordance with Articles 59 and 60 of the Bank's Law, and Article 469 of Turkish Commercial Code, and inflation adjustment differences as per Law No. 5024, which came into effect after being published in Official Gazette No. 25332 on December 30, 2003. The year-end balance of this item is TL 4,588,399,144.

	TL
A. Ordinary and Extraordinary Reserves	4,232,647,418
B. Special Reserves (Article 59 of Law No. 1211)	2,379,249
C. Inflation Adjustment Difference for Reserves	353,372,477
TOTAL	**4,588,399,144**

The balance of Ordinary Reserves, which amounted to TL 1,436,079,277 in 2009, increased to TL 2,076,877,871 at the end of 2010 due to the allocation of the 20 percent of the net profit of 2009 to ordinary reserves amounting to TL 640,798,595.

Extraordinary reserves, which had a balance of TL 1,899,450,258 at the end of the 2009, amounted to TL 2,155,769,547 at the end of the 2010 due to the allocation of TL 256,319,288, which was 10 percent of the remaining amount of the net profit of 2009 after deductions specified in the Article 60 of the Bank's Law.

13. Provisions

This item, with a balance of TL 371,154,530 at year-end, consists of provisions retained out of the Bank's gross profit to meet various risks, for transport insurance of valuables, for pension commitments and for tax, pursuant to Article 59 of the Bank's Law.

	TL
A. Provisions for Pension Commitments	98,834,637
B. Tax Provisions	222,089,596
C. Other Provisions	50,230,297
TOTAL	**371,154,530**

14. Revaluation Account

This item consists of unrealized gains arising from the revaluation of gold and foreign exchange on both the assets and liabilities sides. The balance of this item is TL 7,245,849,360 at the year-end.

15. Interest and Expense Accruals

The year-end balance of this item, which is TL 628,420,620, mainly comprises interest accruals due to Foreign Exchange Deposits by Citizens Abroad.

16. Miscellaneous Payables

This account amounts to TL 32,747,657 at the end of the year and consists of the Bank's debts of TL 1,300,654 in Turkish currency and TL 31,447,003 in foreign currencies.

17. Other Liabilities

This item, amounting to TL 110,224,086 at the end of the year, consists of the Bank's debts of TL 27,840,425 in Turkish currency and TL 82,383,661 in foreign currencies.

4.2.4. DETAILED PROFIT AND LOSS ACCOUNT FOR 01.01.2010- 31.12.2010 PERIOD

PROFIT AND LOSS ACCOUNT OF THE CBRT	01.01.2010 - 31.12.2010 (TL)
I- NET PROFIT / (LOSS) FROM TL TRANSACTIONS	**340,345,086**
1- Net Profit / (Loss) from TL Securities Portfolio	644,724,133
2- Net Profit / (Loss) from Open Market Operations, Liquidity Bills and Money Market Operations	1,061,369,199
a- Net Profit / (Loss) from Open Market Operations	1,513,989,408
b- Net Profit / (Loss) from Money Market Operations	(452,620,209)
3- Interest Paid to TL Required Reserves	(795,355,007)
4- Other	(570,393,240)
a - Provision Expense for Past-Due Receivables	(67,032,646)
b - Operating Expenses	(544,834,377)
c - Other	41,473,783
II- NET PROFIT / (LOSS) FROM FX TRANSACTIONS	**1,169,873,637**
1- Net Profit / (Loss) from FX Reserves	1,177,047,376
a- FX Portfolio and Deposit Revenues	885,790,373
b- Interest Paid to FX Deposits by Citizens Abroad	(430,859,123)
c- Interest Paid to FX Deposits	(654,932)
d- FX Net Profit	722,771,059
2- IMF Use of Fund Credit and Charges	(7,173,739)
III- NET PROFIT / (LOSS) (I + II)	**1,510,218,723**

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

	TL
Net Profit of 2010	1,510,218,723
1. Reserves	(422,861,092)
Ordinary Reserves (Article 60 of Law No.1211)	302,043,745
Extraordinary Reserves	120,817,348
2. Shareholders	(3,000)
First Dividends	1,500
Second Dividends	1,500
3. Bonus to Personnel	(8,127,146)
4. Tax Provisions	(222,089,596)
Corporate Tax	222,089,596
Remainder	**857,137,889**

4.2.5. EXPLANATIONS ON PROFIT AND LOSS ACCOUNT FOR THE PERIOD 01.01.2010-31.12.2010

The net profit of the Bank from TL transactions is TL 340,345,086. As of the end of 2010, the Bank has an interest income of TL 644,724,133 from its Turkish lira government securities portfolio. Net income from open market operations is TL 1,513,989,408, net loss from money market operations is TL 452,620,209, and an interest of TL 795,355,007 is paid to Turkish Lira required reserves.

The Bank has a net profit of TL 1,169,873,637 from foreign currency operations. As of the end of 2010, TL 885,790,373 has been gained from foreign currency portfolio and deposit accounts. Interest of TL 430,859,123 is incurred for foreign exchange deposits by citizens abroad, TL 654,932 for foreign exchange deposits and TL 7,173,739 for resources from the IMF. The net gain of foreign exchange operations is TL 722,771,059.

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

At 2003 prices, TL	2010 (TL)	2009 (TL)	Percent Change
I- Personnel Expenses	248,100,582	250,760,211	-1
II- Other Expenses	33,248,995	34,799,973	-4
III-Banknote Printing Expenses	24,050,859	39,309,014	-39
TOTAL	**305,400,436**	**324,869,198**	**-6**

In 2010, a decrease in personnel expenses, other expenses and banknote printing expenses is observed compared to 2009.

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

Within the framework of the policy of decreasing personnel expenses by increasing efficiency through utilizing qualified human capital by employing a small number of employees with higher qualifications as well as implementing up-to-date technology, the number of personnel decreased by 36 percent from 6,880 in 1997 to 4,396 in 2010.

As compared to the previous year, there is a 1 percent decrease in personnel expenses. There is also a 1 percent decrease in salaries and fringe benefits, which constitute a significant portion of personnel expenses, compared to 2009. In 2010, the amount of gross salaries paid to members of the Board, the Executive Committee and Auditing Committee of the Bank was TL 3,592,356. This amount accounts for 1 percent of total salaries and fringe benefits paid to personnel in 2010.

Other expenses; there is a 4 percent decrease in 2010 with respect to the previous year. This has resulted from the decrease in heating, lightning and water expenses, maintenance and restoration expenditures, communication expenses, consulting expenditures and expenses of the transportation of banknotes despite the increase in insurance, publications and announcements, paid stamp tax expenditures, expenses related to social activities and other expenses with respect to the year 2009.

There are no significant changes in other expenditure items.

Banknote printing expenses; there is also a 39 percent decrease in 2010, as compared to the previous year. This decrease results from around 32 percent decrease in the amount of banknotes printed in 2010 and about 7 percent decrease in the average EURO exchange rate against TL in 2010 compared to that of 2009 (Banknote paper and banknote ink are imported).

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

4.3. FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

BALANCE SHEETS AT 31 DECEMBER

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

	Notes	2010 Thousand TL	2009 Thousand TL	2010 Million US$ (*)	2009 Million US$ (*)
ASSETS					
Cash and gold reserves	6	8,927,630	6,874,235	5,775	4,565
Due from banks	7	25,930,729	43,063,546	16,773	28,600
Financial assets at fair value through profit or loss	8	118,165,968	104,665,581	76,433	69,513
Loans and advances to customers	9	711,370	512,318	460	340
Available-for-sale financial assets	10	418,052	373,071	270	248
Property and equipment	11	239,494	240,567	155	160
Intangible assets	12	5,530	4,964	4	3
Other assets	13	110,087	59,566	71	40
Total assets		**154,508,860**	**155,793,848**	**99,941**	**103,469**
LIABILITIES					
Currency in circulation	14	48,937,560	38,340,278	31,654	25,463
Due to banks	15	56,190,942	46,893,296	36,346	31,144
Other deposits	16	33,718,573	43,388,367	21,810	28,816
Due to International Monetary Fund ("IMF")	17	8,315	8,201	5	5
Other borrowed funds	18	1,101,946	14,333,082	713	9,519
Other liabilities	19	923,899	875,278	597	581
Taxes on income	20	-	72,064	-	48
Deferred income tax liability	20	1,437,952	986,043	930	655
Retirement benefit obligations	21	82,084	76,247	53	51
Total liabilities		**142,401,271**	**144,972,856**	**92,108**	**96,282**
EQUITY					
Paid-in share capital	28	47,464	47,464	31	32
Retained earnings		11,695,995	10,437,717	7,566	6,932
Other reserves		364,130	335,811	236	223
Total equity		**12,107,589**	**10,820,992**	**7,833**	**7,187**
Total liabilities and equity		**154,508,860**	**155,793,848**	**99,941**	**103,469**
Commitments and contingent liabilities	27				

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

The notes on pages 87 to 134 are an integral part of these financial statements.

INCOME STATEMENTS
FOR YEARS ENDING 31 DECEMBER
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated)

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

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

The notes on pages 87 to 134 are an integral part of these financial statements.

INCOME STATEMENTS
FOR YEARS ENDING 31 DECEMBER
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated)

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

STATEMENTS OF CHANGES IN EQUITY FOR YEARS ENDING 31 DECEMBER

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

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

The notes on pages 87 to 134 are an integral part of these financial statements.

STATEMENTS OF CASH FLOW FOR YEARS ENDING 31 DECEMBER

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

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

The notes on pages 87 to 134 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 1 - GENERAL INFORMATION

The Central Bank of the Republic of Turkey (the "Bank") was incorporated in Turkey in 1931. It was established as a joint stock company with the exclusive privilege of issuing banknotes in Turkey and is vested with the powers and duties set forth in the Central Bank of the Republic of Turkey Law No. 1211 (the "Central Bank Law"). The Head Office of the Bank is located in Ankara. The Bank's registered head office is located at the following address: İstiklal Cad. 10 Ulus, 06100 Ankara, Turkey. The Bank now operates a nationwide network of 21 branches and four foreign representatives. As at 31 December 2010, the Bank employed 4,396 people (2009: 4,419).

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

The fundamental duties of the Bank are;

a) to carry out open market operations,

b) to take necessary measures in order to protect the domestic and international value of the Turkish Lira ("TL") and to establish the exchange rate policy in determining the parity of TL against gold and foreign currencies jointly with the Government of the Republic of Turkey ("Turkish Government"); to execute transactions such as spot and forward purchases and sales of foreign exchange and banknotes, foreign exchange swaps and other derivatives transactions in order to determine the value of TL against other currencies,

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

d) to conduct rediscount and advance transactions,

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

f) to regulate the volume and circulation of the TL, to establish payment, securities transfer and settlement systems and to set forth regulations to ensure 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.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 2 - BASIS OF PRESENTATION

(a) Turkish Lira financial statements

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

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

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

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

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

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

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

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

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

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

(b) Accounting for the effect of hyperinflation

Prior to 1 January 2006, 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 on the balance sheet date. As the characteristics of the economic environment of Turkey indicate that hyperinflation has ceased, effective from 1 January 2006, the Bank no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2005 are treated as the basis for the carrying amounts in these financial statements.

(c) US$ translation

US$ amounts shown in the balance sheets are translated from TL for purposes of convenience only, at the official bid rates announced by the Bank on 31 December 2010 and 2009 of TL1.5460 = US$1 (2009: TL1.5057 = US$1) and US$ amounts shown in the income statements are translated from TL for convenience purposes only, at the average US$ bid rates calculated from the daily official bid rates announced by the Bank for years ending 31 December 2010 and 2009 of TL1.5001 = US$1 (2009: TL1.5474 = US$1) and therefore, do not form part of these financial statements.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Foreign currency transactions and balances

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

(iii) Exchange rates

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

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

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

(b) Interest income and expense

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

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

(c) Fee and commission income

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

(d) Income tax

(i) Income tax currently payable

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

(ii) Deferred income tax

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

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

(e) Gold

(i) Gold bullion

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

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

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

The exchange rate of gold bullion to TL as at 31 December 2010 was TL 2,180 per troy ounce (2009: TL1,662 per troy ounce).

(ii) Gold coins

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

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

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

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

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

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at drawdown 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. The recovery of amounts previously provided for are treated as a reduction from the provision for loan losses for the year (Note 9).

(h) Investment securities

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

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 value 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 value cannot be measured reliably are recognized at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are transferred to the income statement.

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

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

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

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

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

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

(i) Offsetting financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

(j) Sale and repurchase agreements

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

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

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

(k) Money issuance

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

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

(l) Financial liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

(m) Property and equipment

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

Buildings	50 years
Equipment and motor vehicles	5 years

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

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

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

(n) Intangible assets

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

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

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

(o) Banknotes and coins in circulation

(i) Currency in Circulation - Turkish Lira

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

(ii) Demonetized Currency - Turkish Lira and New Turkish Lira

The legal circulation period of Turkish Lira banknotes, which were in circulation along with New Turkish Lira banknotes between 1 January 2005 and 31 December 2005 according to the 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 working hours on 31 December 2015, which is the end of the 10-year legal redemption period, at 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 the 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 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 branches of the Bank and T.C. Ziraat Bankası A.Ş..

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

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

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

(p) Provisions

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

(q) Retirement benefit obligations

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

(r) Related parties

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

(s) Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

(t) Appropriations

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

i) 20 % to the reserve fund,

ii) 6 % to the shareholders as an initial dividend,

iii) after deducting the above-stated percentages a maximum of 5 % of the remaining amount to Bank personnel in an amount not exceeding the total of two months' salaries, and 10 % to the extraordinary reserve fund,

iv) 6 % as a secondary dividend to the shareholders, with the decision of the General Assembly.

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

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

(u) Comparatives

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

(v) Fiduciary activities

The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of financial individuals and institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets or income of the Bank. The fiduciary capacity on 31 December 2010 and 2009 is as follows:

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 4 - FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

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

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

In this framework, almost all the financial risks which the Bank is exposed to arise while fulfilling its legal duties, such as implementing monetary and exchange rate policies, managing foreign exchange reserves and rendering certain banking services to the banking sector and the Turkish Government. The Bank is exposed to credit, market and liquidity risks due to the aforementioned operations. The financial risks, which the Bank as a monetary authority is exposed to in the process of the implementation of monetary and exchange rate policies, are the consequences of the selected policy targets. On the other hand, financial risks that arise during the management of foreign exchange reserves are the outcome of an investment choice. Nevertheless, the Bank endeavors to minimize such risks by managing them with a conservative approach.

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

(b) Credit risk

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

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

Management of the credit risk that the Bank is exposed to during foreign exchange reserve management is based on the principle of minimizing the default probabilities of the counterparties and the financial loss in case of default. In this framework, the Bank implements a three-stage risk management process in order to minimize the credit risk arising from foreign exchange reserve management operations. In the first stage, the Bank confines its investments to t leading international financial institutions and debtors that meet the minimum credit rating criteria specified in the Guideline based on credit ratings given by international credit rating agencies. Accordingly, the Bank can take on exposure to banks with 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 and the European Investment Bank, regardless of credit rating criteria. In the second stage, the total transaction limit, expressed as a percentage of total reserves, is specified in order to control the overall credit risk including settlement risk arising from transactions with financial institutions. By setting this overall credit risk limit within the scope of the SBP, the Bank aims to prevent non-sovereign credit risk from exceeding its risk tolerance. In the third stage, the institutions eligible for transactions are chosen among those institutions meeting the minimum credit rating criteria set in the Guideline, using the fundamental and the financial analysis methods and each institution is granted a certain credit risk limit in view of its 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 is regularly monitored and reported.

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

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

Total assets of the Bank exposed to credit risk as of 31 December 2010 and 2009 are presented in the table below according to different asset classes (classification according to external credit ratings is made based on credit ratings published by Moody's):

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

Although 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, deposits placed with domestic commercial banks for the purpose of monetary policy implementations are also excluded when calculating credit risk exposures because of the fully collateralized nature of these transactions as previously explained. As of 31 December 2010, the Bank has deposits amounting to TL12,006,947 thousand (2009: TL33,130,033 thousand) placed with domestic commercial banks as part of reverse repurchase agreements. As of 31 December 2009, the Bank has foreign exchange market operations amounting to TL221,414 thousand classified under "Due from banks". The fair value of security collaterals obtained for deposits placed under reverse repurchase agreement as of 31 December 2010 is TL11,641,002 thousand (2009: TL32,683,414 thousand). In addition, as of 31 December 2009, the Bank has security collaterals amounting to TL7,126,898 thousand obtained for all foreign exchange and banknotes markets operations including deposits placed in foreign exchange deposit market operations amounting to TL221,414 thousand. As of 31 December 2010 and 2009, security collaterals are Turkish Government bonds issued by the Turkish Treasury.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

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

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

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

As indicated above, credit risk is mainly concentrated on foreign country treasury and central banks, supranational financial institutions, domestic financial institutions and the Turkish Treasury as of 31 December 2010 and 2009.

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

(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 of securities, which the Bank utilizes mainly for open market operations. Putting aside this TL interest rate risk, it is possible to say that the remaining market risk faced by the Bank arises essentially from the foreign exchange assets and liabilities on its balance sheet.

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

(d) Currency risk

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

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

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

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

	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)**	**-**

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

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In order to measure the sensitivity of foreign exchange gain/loss against volatility in exchange rates, foreign currency net position values were re-calculated under the assumption of the appreciation of TL by 10 percent against all foreign currencies. The hypothetic loss that would occur in the total market value of the net foreign exchange positions of the Bank as of 31 December 2010 and 2009 under such an assumption is presented in the tables below:

Sensitivity of the net foreign exchange position:

	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 10percent appreciation of TL	**(4,977,661)**	**(2,292,834)**	**(99,626)**	**(11,769)**	**(156,648)**	**(43,254)**	**(2,616)**	**(7,584,408)**	**-**	**(7,584,408)**

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

(e) Interest rate risk

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

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

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

	31 December 2010														
	Foreign currency							TL							
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing	Total	TOTAL
Cash and gold reserves	-	-	-	-	-	8,822,684	8,822,684	-	-	-	-	-	104,946	104,946	8,927,630
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	25,930,729
Financial assets at fair value through profit or loss	10,759,935	24,107,312	49,640,544	25,260,325	374,874	-	110,142,990	7,348,884	674,094	-	-	-	-	8,022,978	118,165,968
Loans and advances to customers	-	608,990	85,538	9,425	7,417	-	711,370	-	-	-	-	-	-	-	711,370
Available-for-sale financial assets	-	-	-	-	-	418,052	418,052	-	-	-	-	-	-	-	418,052
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	239,494	239,494	239,494
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	5,530	5,530	5,530
Other assets	-	-	10,723	-	-	1,012	11,735	5,077	1,477	57,665	1,534	-	32,599	98,352	110,087
Total assets	**15,750,211**	**28,506,939**	**49,736,805**	**25,269,750**	**382,291**	**14,301,041**	**133,947,037**	**19,360,908**	**684,854**	**57,665**	**1,534**	**-**	**456,862**	**20,561,823**	**154,508,860**
Currency in circulation	-	-	-	-	-	-	-	-	-	-	-	-	48,937,560	48,937,560	48,937,560
Due to banks	-	-	-	-	-	29,344,548	29,344,548	26,838,175	-	-	-	-	8,219	26,846,394	56,190,942
Other deposits	632,487	980,361	6,710,653	9,797,662	-	9,817,249	27,938,412	-	-	-	-	-	5,780,161	5,780,161	33,718,573
Due to IMF	-	1,628	-	-	-	6,687	8,315	-	-	-	-	-	-	-	8,315
Other borrowed funds		-	-	-	-	-	-	1,101,946	-	-	-	-	-	1,101,946	1,101,946
Other liabilities	4,409	-	754,907	-	-	52,366	811,682	69,168	-	23,253	-	-	19,796	112,217	923,899
Deferred income tax liability	-	-	-	-	-	-	-	-	-	-	-	-	1,437,952	1,437,952	1,437,952
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-	-	-	82,084	82,084	82,084
Equity	-	-	-	-	-	-	-	-	-	-	-	-	12,107,589	12,107,589	12,107,589
Total liabilities and equity	**636,896**	**981,989**	**7,465,560**	**9,797,662**	**-**	**39,220,850**	**58,102,957**	**28,009,289**	**-**	**23,253**	**-**	**-**	**68,373,361**	**96,405,903**	**154,508,860**
Net repricing gap	**15,113,315**	**27,524,950**	**42,271,245**	**15,472,088**	**382,291**	**(24,919,809)**	**75,844,080**	**(8,648,381)**	**684,854**	**34,412**	**1,534**	**-**	**(67,916,499)**	**(75,844,080)**	**-**

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

31 December 2009	Foreign currency Up to 1 month	Foreign currency 1 to 3 months	Foreign currency 3 months to 1 year	Foreign currency 1 to 5 years	Foreign currency More than 5 years	Foreign currency Non-interest bearing	Foreign currency Total	TL Up to 1 month	TL 1 to 3 months	TL 3 months to 1 year	TL 1 to 5 years	TL More than 5 years	TL Non-interest bearing	TL Total	TOTAL
Cash and gold reserves	-	-	-	-	-	6,785,819	6,785,819	-	-	-	-	-	88,416	88,416	6,874,235
Due from banks	4,310,848	-	-	-	-	5,560,312	9,871,160	25,074,750	8,055,283	-	-	-	62,353	33,192,386	43,063,546
Financial assets at fair value through profit or loss	7,186,613	12,297,324	42,172,105	34,301,237	-	-	95,957,279	8,708,302	-	-	-	-	-	8,708,302	104,665,581
Loans and advances to customers	-	415,844	75,041	13,823	7,610	-	512,318	-	-	-	-	-	-	-	512,318
Available-for-sale financial assets	-	-	-	-	-	373,071	373,071	-	-	-	-	-	-	-	373,071
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	240,567	240,567	240,567
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	4,964	4,964	4,964
Other assets	-	-	3,864	-	-	1,087	4,951	4,995	954	4,569	-	-	44,097	54,615	59,566
Total assets	**11,497,461**	**12,713,168**	**42,251,010**	**34,315,060**	**7,610**	**12,720,289**	**113,504,598**	**33,788,047**	**8,056,237**	**4,569**	**-**	**-**	**440,397**	**42,289,250**	**155,793,848**
Currency in circulation	-	-	-	-	-	-	-	-	-	-	-	-	38,340,278	38,340,278	38,340,278
Due to banks	221,414	-	-	-	-	20,252,267	20,473,681	26,410,235	-	-	-	-	9,380	26,419,615	46,893,296
Other deposits	778,333	1,426,132	7,786,806	10,084,906	-	18,189,028	38,265,205	-	-	-	-	-	5,123,162	5,123,162	43,388,367
Due to IMF	-	1,053	-	-	-	7,148	8,201	-	-	-	-	-	-	-	8,201
Other borrowed funds	-	-	-	-	-	-	-	14,333,082	-	-	-	-	-	14,333,082	14,333,082
Other liabilities	38,242	-	688,087	-	-	50,653	776,982	47,433	-	46,776	-	-	4,087	98,296	875,278
Taxes on income	-	-	-	-	-	-	-	-	-	72,064	-	-	-	72,064	72,064
Deferred income tax liability	-	-	-	-	-	-	-	-	-	-	-	-	986,043	986,043	986,043
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-	-	-	76,247	76,247	76,247
Equity	-	-	-	-	-	-	-	-	-	-	-	-	10,820,992	10,820,992	10,820,992
Total liabilities and equity	**1,037,989**	**1,427,185**	**8,474,893**	**10,084,906**	**-**	**38,499,096**	**59,524,069**	**40,790,750**	**-**	**118,840**	**-**	**-**	**55,360,189**	**96,269,779**	**155,793,848**
Net repricing gap	**10,459,472**	**11,285,983**	**33,776,117**	**24,230,154**	**7,610**	**(25,778,807)**	**53,980,529**	**(7,002,703)**	**8,056,237**	**(114,271)**	**-**	**-**	**(54,919,792)**	**(53,980,529)**	**-**

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As the Bank is the monetary authority in Turkey, the interest rate sensitive balance sheet positions in the tables should be interpreted carefully. For example, as of 31 December 2010, the relatively high interest rate sensitive position of the Bank in the 0-1 month TL maturity group mostly emanates from the TL reserve requirements that are shown in this maturity bucket. However, as reserve requirements are one of the policy tools of the Bank, the required reserve ratios are determined by the Bank to attain the related policy targets, regardless of the self-induced interest rate risk. In fact, the Bank made an important policy decision regarding these accounts on 23 September 2010 and stopped paying interest on TL reserve requirements in order to allow a more active use of these accounts as a monetary and macro-prudential policy tool in the future. However, it should be noted that similar to any other central bank, the Bank, which uses short-term interest rates as its main monetary policy tool, does not actively manage the interest rate risk stemming from TL assets and liabilities considering that it might contradict the monetary policy implementations of the Bank. Nevertheless, the tables are prepared using all assets and liabilities including asset and liabilities denominated in TL to show the overall interest rate risk that the Bank is exposed to regardless of whether such risk is actively managed or not.

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

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

Within this framework, based on the average modified durations of foreign currency assets as of 31 December 2010 and 2009, the prospective decline in market values of assets in case of a 1 percent rise in the related interest rates are presented below. The 1 percent rise scenario is based on the assumption that yield curves for the related currencies shift 1 percent upwards in all maturities simultaneously.

Sensitivity of the market value of foreign currency assets to interest rates;

	31 December 2010			31 December 2009		
	US$	**EUR**	**TOTAL**	**US$**	**EUR**	**TOTAL**
Market value of the foreign currency assets	57,171,947	61,600,507	118,772,454	50,474,408	49,907,568	100,381,976
Effect of the scenario of 1percent increase in interest rates	**(350,242)**	**(455,882)**	**(806,124)**	**(347,620)**	**(491,618)**	**(839,238)**

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

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

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

(f) Liquidity risk

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

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

	31 December 2010																
	Foreign currency								TL								
	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total	TOTAL
Cash and gold reserves	8,822,684	-	-	-	-	-	-	8,822,684	104,946	-	-	-	-	-	-	104,946	8,927,630
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	25,930,729
Financial assets at fair value																	
through profit or loss	-	10,759,935	24,107,312	49,640,544	25,260,325	374,874	-	110,142,990	-	-	674,094	1,727,694	5,621,190	-	-	8,022,978	118,165,968
Loans and advances to customers	-	-	608,990	85,538	9,425	7,417	-	711,370	-	-	-	-	-	-	-	-	711,370
Available-for-sale																	
financial assets	-	-	-	-	-	-	418,052	418,052	-	-	-	-	-	-	-	-	418,052
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	239,494	239,494	239,494
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,530	5,530	5,530
Other assets	-	-	-	10,723	-	-	1,012	11,735	3,009	5,077	1,477	48,382	1,534	-	38,873	98,352	110,087
Total assets	**13,881,977**	**15,750,211**	**28,506,939**	**49,736,805**	**25,269,750**	**382,291**	**419,064**	**133,947,037**	**182,248**	**12,012,024**	**684,854**	**1,776,076**	**5,622,724**	**-**	**283,897**	**20,561,823**	**154,508,860**
Currency in circulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48,937,560	48,937,560	48,937,560
Due to banks	-	29,344,548	-	-	-	-	-	29,344,548	7,975	26,838,175	-	-	-	-	244	26,846,394	56,190,942
Other deposits	9,817,249	632,487	980,361	6,710,653	9,797,662	-	-	27,938,412	5,138,601	-	-	-	-	-	641,560	5,780,161	33,718,573
Due to IMF	-	-	1,628	-	-	-	6,687	8,315	-	-	-	-	-	-	-	-	8,315
Other borrowed funds	-	-	-	-	-	-	-	-	-	1,101,946	-	-	-	-	-	1,101,946	1,101,946
Other liabilities	22,955	4,409	-	754,907	-	-	29,411	811,682	6,657	69,168	-	23,253	-	-	13,139	112,217	923,899
Deferred income tax liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,437,952	1,437,952	1,437,952
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	82,084	82,084	82,084
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,107,589	12,107,589	12,107,589
Total liabilities and equity	**9,840,204**	**29,981,444**	**981,989**	**7,465,560**	**9,797,662**	**-**	**36,098**	**58,102,957**	**5,153,233**	**28,009,289**	**-**	**23,253**	**-**	**-**	**63,220,128**	**96,405,903**	**154,508,860**
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)**	**-**

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

	31 December 2009																
	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	TOTAL
Cash and gold reserves	6,785,819	-	-	-	-	-	-	6,785,819	88,416	-	-	-	-	-	-	88,416	6,874,235
Due from banks	5,560,312	4,310,848	-	-	-	-	-	9,871,160	62,353	25,074,750	8,055,283	-	-	-	-	33,192,386	43,063,546
Financial assets at fair value																	
through profit or loss	-	7,186,613	12,297,324	42,172,105	34,301,237	-	-	95,957,279	-	2,018,245	-	6,423,888	266,169	-	-	8,708,302	104,665,581
Loans and advances to customers	-	-	415,844	75,041	13,823	7,610	-	512,318	-	-	-	-	-	-	-	-	512,318
Available-for-sale																	
financial assets	-	-	-	-	-	-	373,071	373,071	-	-	-	-	-	-	-	-	373,071
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	240,567	240,567	240,567
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,964	4,964	4,964
Other assets	-	-	-	3,864	-	-	1,087	4,951	724	4,995	954	4,569	-	-	43,373	54,615	59,566
Total assets	**12,346,131**	**11,497,461**	**12,713,168**	**42,251,010**	**34,315,060**	**7,610**	**374,158**	**113,504,598**	**151,493**	**27,097,990**	**8,056,237**	**6,428,457**	**266,169**	**-**	**288,904**	**42,289,250**	**155,793,848**
Currency in circulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38,340,278	38,340,278	38,340,278
Due to banks	-	20,473,681	-	-	-	-	-	20,473,681	9,335	26,410,235	-	-	-	-	45	26,419,615	46,893,296
Other deposits	15,567,345	778,333	1,426,132	7,786,806	10,084,906	-	2,621,683	38,265,205	4,987,509	-	-	-	-	-	135,653	5,123,162	43,388,367
Due to IMF	-	-	1,053	-	-	-	7,148	8,201	-	-	-	-	-	-	-	-	8,201
Other borrowed funds	-	-	-	-	-	-	-	-	-	14,333,082	-	-	-	-	-	14,333,082	14,333,082
Other liabilities	3,356	38,242	-	688,087	-	-	47,297	776,982	-	47,433	-	46,776	-	-	4,087	98,296	875,278
Taxes on income	-	-	-	-	-	-	-	-	-	-	-	72,064	-	-	-	72,064	72,064
Deferred income tax liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	986,043	986,043	986,043
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	76,247	76,247	76,247
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,820,992	10,820,992	10,820,992
Total liabilities and equity	**15,570,701**	**21,290,256**	**1,427,185**	**8,474,893**	**10,084,906**	**-**	**2,676,128**	**59,524,069**	**4,996,844**	**40,790,750**	**-**	**118,840**	**-**	**-**	**50,363,345**	**96,269,779**	**155,793,848**
Net liquidity gap	**(3,224,570)**	**(9,792,795)**	**11,285,983**	**33,776,117**	**24,230,154**	**7,610**	**(2,301,970)**	**53,980,529**	**(4,845,351)**	**(13,692,760)**	**8,056,237**	**6,309,617**	**266,169**	**-**	**(50,074,441)**	**(53,980,529)**	**-**

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

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

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

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

(g) Operational risk

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

The Bank seeks to minimize losses from operational risk by establishing effective internal control systems, which prevent or detect all errors and situations that 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 operational risk to the managements of departments. According to the decrees of the Board, financial losses occurring as a result of operational risk are reported to the appropriate management levels depending on the amount of financial loss. The limits associated with losses are updated by the Board whenever deemed necessary. The financial loss is recorded under the non-deductible expenses account upon the approval of the authorized management level. Recorded losses are reported to the Board quarterly.

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

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

In the second phase, in every audit assignment process 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, financial risk and reputation risk are also determined. Controls that are designed to reduce these risks to acceptable levels are assessed in terms of sufficiency and effectiveness; additional controls are proposed in order to increase effectiveness.

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

(h) Fair value of financial instruments

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

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

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

	Carrying value		**Fair value**	
	2010	**2009**	**2010**	**2009**
Financial assets				
Cash and gold reserves	8,927,630	6,874,235	8,927,630	6,874,235
Due from banks	25,930,729	43,063,546	25,928,733	43,074,215
Loans and advances to customers	711,370	512,318	709,864	511,163
Financial liabilities				
Currency in circulation	48,937,560	38,340,278	48,937,560	38,340,278
Due to banks	56,190,942	46,893,296	56,190,942	46,893,296
Other deposits	33,718,573	43,388,367	33,925,556	43,727,766
Other borrowed funds	1,101,946	14,333,082	1,101,946	14,333,082

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

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 for similar assets.

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

(ii) Financial liabilities

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

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

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

The following table summarizes the fair values of those financial assets presented on the Bank's balance sheet based on the hierarchy of valuation technique as of 31 December 2010 and 2009.

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

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

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

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

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

(i) Capital management

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

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

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

(a) Impairment losses on loans and advances

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

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

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

NOTE 6 - CASH AND GOLD RESERVES

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

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

NOTE 7 - DUE FROM BANKS

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

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

Movement in the allowance for loan losses is as follows:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 10 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

As of 31 December 2010 and 2009, the Bank's investment in shares issued by the BIS is valued at fair value, which is calculated as being 70 percent of the Bank's interest in BIS's net asset value in SDR, as of 31 December 2010 and 2009, converted to TL at the year end TL/SDR exchange rate. This valuation method has previously been used to establish the appropriate price for purchase and repurchase transactions in BIS share.

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

(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 2008				
Cost	333,783	55,086	6,750	395,619
Accumulated depreciation	(123,743)	(27,865)	-	(151,608)
Net book value	**210,040**	**27,221**	**6,750**	**244,011**
Year ended 31 December 2009				
Opening net book value	210,040	27,221	6,750	244,011
Additions	1,945	5,050	5,477	12,472
Transfers	2,617	-	(2,617)	-
Disposals (net)	(285)	(67)	-	(352)
Depreciation charge (Note 26)	(6,931)	(8,633)	-	(15,564)
Closing net book value	**207,386**	**23,571**	**9,610**	**240,567**
At 31 December 2009				
Cost	337,391	57,691	9,610	404,692
Accumulated depreciation	(130,005)	(34,120)	-	(164,125)
Net book value	**207,386**	**23,571**	**9,610**	**240,567**
Year ended 31 December 2010				
Opening net book value	207,386	23,571	9,610	240,567
Additions	2,276	13,480	326	16,082
Transfers	647	-	(647)	-
Disposals (net)	(10)	(40)	-	(50)
Depreciation charge (Note 26)	(6,735)	(10,370)	-	(17,105)
Closing net book value	**203,564**	**26,641**	**9,289**	**239,494**
At 31 December 2010				
Cost	340,299	68,564	9,289	418,152
Accumulated depreciation	(136,735)	(41,923)	-	(178,658)
Net book value	**203,564**	**26,641**	**9,289**	**239,494**

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 12 - INTANGIBLE ASSETS

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

NOTE 13 - OTHER ASSETS

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

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

NOTE 14 - CURRENCY IN CIRCULATION

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 15 - DUE TO BANKS

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

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

NOTE 16 - OTHER DEPOSITS

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 17 - DUE TO IMF

Due to IMF is denominated in SDR. Due to IMF includes borrowings related to Turkey's IMF quota for the year ending 31 December 2010 and 2009. As of 31 December 2010 and 2009, borrowings related to Turkey's IMF quota are non-interest bearing with no stated maturity.

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

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

NOTE 18 - OTHER BORROWED FUNDS

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

NOTE 19 - OTHER LIABILITIES

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

NOTE 20 - TAXATION

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

Deferred income taxes

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

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

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

The reconciliation for taxation charge is stated below:

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

NOTE 21 - RETIREMENT BENEFIT OBLIGATIONS

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

Additionally, the principal actuarial assumption is that the maximum liability of TL2,517.01 for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL2,623.23 effective from 1 January 2011 (1 January 2010: TL2,427.04), has been taken into consideration in calculating the reserve for the retirement benefit obligation of the Bank.

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

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

NOTE 22 - NET INTEREST INCOME

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 23 - NET FEE AND COMMISSION INCOME

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

NOTE 24 - DIVIDEND INCOME

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

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

NOTE 25 - FOREIGN EXCHANGE GAINS, NET

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

As of 31 December 2010 and 2009, translation gains/(losses) include the unrealized foreign exchange gains/(losses) and 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 the "Valuation Account", in accordance with the Central Bank Law in Turkey.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 26 - OTHER OPERATING EXPENSES

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

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

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

NOTE 27 - COMMITMENTS AND CONTINGENT LIABILITIES

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

As of 31 December 2010, there are a number of legal proceedings outstanding against the Bank amounting to TL64,748 thousand, US$64,106,853 and EUR174,473 (2009: TL65,928 thousand, US$247,352 and EUR162,810). No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise in relation with the above mentioned legal proceedings.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 28 - SHARE CAPITAL

The shareholder structure of the Bank as at 31 December 2010 and 2009 is as follows:

	31 December 2010		31 December 2009	
		Share		Share
	TL	%	TL	%
Turkish Treasury	14	55	14	55
T.C. Ziraat Bankası A.Ş.	5	19	5	19
T.C.M.B Mensupları Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı	1	5	1	5
Türkiye Garanti Bankası A.Ş.	1	3	1	3
Türkiye İş Bankası A.Ş.	1	2	1	2
Others	3	16	3	16
Historical share capital	**25**	**100**	**25**	**100**
Inflation adjustment on share capital	**47,439**		**47,439**	
Total paid-in capital	**47,464**		**47,464**	

According to 5th article of the Central Bank Law, the capital of the Bank is TL25 thousand and is divided into 250,000 shares, with a value of TL0.1 each. The capital may be increased with the approval of the Turkish Government. 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 national banks and to companies possessing certain privileges and (D) shares belong to Turkish commercial institutions and to legal and real persons of Turkish nationality.

NOTE 29 - RETAINED EARNINGS AND LEGAL RESERVES

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

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

i) 20 % to the reserve fund,

ii) 6 % to the shareholders as an initial dividend,

iii) after deducting the above-stated percentages a maximum of 5 % of the remaining amount to Bank personnel in an amount not exceeding the total of two months' salaries, and 10 % to the extraordinary reserve fund,

iv) 6 % as a secondary dividend to the shareholders, with the decision of the General Assembly.

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2010

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

NOTE 30 - CASH AND CASH EQUIVALENTS

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

NOTE 31 - RELATED PARTY BALANCES AND TRANSACTIONS

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

(a) Balances with related parties

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

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

(1) Includes government bonds issued by Turkish Treasury.
(2) Includes deposits placed with shareholders as part of reverse repurchase agreements.
(3) Includes required reserve deposits of shareholders.
(4) Includes deposits of state controlled entities and Turkish Treasury.

(b) Transactions with related parties

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

(1) Includes interest income of government bonds issued by the Turkish Treasury.
(2) Includes interest expense on required reserve deposits of shareholders.
(3) Includes Electronic Fund Transfer commissions from shareholders of the Bank.

4.4. AUDIT AT THE BANK AND AUDIT REPORTS

4.4.1. Audit at the Bank

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

Audits Conducted by the Internal Organs of the Bank

In accordance with Article No 15 of the Bank Law, the General Assembly examines and resolves whether to approve the annual report submitted by the Board of the Bank, the report of the Auditing Committee, the Bank's balance sheet, and profit and loss accounts. The General Assembly completes the monitoring of the Bank's activities every year by clearing the Board of the Bank and the Auditing Committee.

In accordance with Article No 24 of the Bank Law, the Auditing Committee supervises all operations and accounts of the Bank and at the end of the year submits a report of the operations and accounts of the Bank to the General Assembly. Under the authority of the Bank's Law, the Auditing Committee has the responsibility to submit its written opinions to the Board and also to present a copy thereof to the Prime Ministry.

According to Articles no 49 and 50 of the Main Regulation on Organization and Duties of the Bank, the authority and responsibility to audit the Bank's transactions are entrusted with the Audit Department.

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

The Audit Department is composed of two consultant inspectors, 15 chief inspectors, five chief auditors, three inspectors, seven auditors, six authorized assistant auditors, two authorized IT assistant auditors and nine assistant inspectors. Among these department members, one chief auditor and one chief inspector are assigned to assist the Executive Director with his duties.

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

Audits Conducted by External Auditors

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

In accordance with Article No 42 of the Bank Law, the Governor submits a report to the Council of Ministers on the operations of the Bank and the monetary policy followed and to be followed, each year in April and October. The Bank provides information regarding its operations to the Planning and Budget Commission of the Grand National Assembly of Turkey twice a year.

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

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

4.4.2.THE REPORT OF THE AUDITING COMMITTEE FOR 2010

CENTRAL BANK OF THE REPUBLIC OF TURKEY
JOINT STOCK COMPANY

AUDITING COMMITTEE

2010
SEVENTY-NINTH ACCOUNTING YEAR OF THE
CENTRAL BANK OF THE REPUBLIC OF TURKEY
REPORT OF THE AUDITING COMMITTEE

The Auditing Committee has thoroughly examined the activities and the resulting statements of the 2010 Accounting Year of the Central Bank of the Republic of Turkey within the framework of provisions of the related legislation, and concluded that:

1. The cash, gold holdings, foreign exchange banknotes and securities in the service and reserve vaults of the Head Office and Branches, which were subject to inspection and stock-taking, are in conformity with the records as well as the legal books, and these values are kept and administered in accordance with the instructions,

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

3. The balance sheet, compiled as of December 31, 2010 and "the Profit and Loss Statement" created for the period between 01/01/2010 and 31/12/2010 are in compliance with the rules of "Assessment" and the systematic principles of accounting stipulated by the Turkish Commercial Code, Central Bank Law and the Tax Laws,

4. Financial Tables are compiled to present the financial situation of the Central Bank of the Republic of Turkey as of December 31, 2010 and the results of activities relating to the year that ended on the same date in an accurate, correct and clear manner pursuant to the Legislation in force in Turkey and the Central Bank Law,

5. A lawsuit regarding legal liability, which was filed by the Bank, is in the appeal process.

In conclusion, we hereby submit the Balance Sheet of December 31, 2010 and the Profit and Loss Statement for approval of the General Assembly.

Ankara, 02/03/2011

Auditing Committee Member
Mustafa Saim UYSAL

Auditing Committee Member
Abdullah YALÇIN

Auditing Committee Member
Mehmet TÜFEKÇİ

Auditing Committee Member
Prof. Hasan TÜREDİ

4.4.3. INDEPENDENT AUDIT REPORT DRAWN UP IN COMPLIANCE WITH THE CENTRAL BANK LAW AND RELATED LEGISLATION

To the Central Bank of the Republic of Turkey

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

Management's responsibility for the financial statements

2. The management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Central Bank of the Republic of Turkey (the "Central Bank Law") and related legislation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

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

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

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

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

Zeynep Uras, SMMM
Partner
Istanbul, 25 February 2011

4.4.4. INDEPENDENT AUDIT REPORT DRAWN UP IN COMPLIANCE WITH THE IFRS

To the Central Bank of the Republic of Turkey

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

The management’s responsibility for the financial statements

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

Auditor’s responsibility

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

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

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

Opinion

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

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

Zeynep Uras, SMMM

Istanbul, 7 March 2011

4.6. TURKEY-IMF MONETARY RELATIONS

The Bank's liability to the IMF has no balance since December 31, 2005. While the direct use of credit by the Treasury from the IMF was SDR 5,076 million as of the end of 2009, it decreased to SDR 3,654 million due to the redemption of SDR 1,422 million as of December 31, 2010. All redemptions will be completed as of May 14, 2013.

As of December 31, 2010, the IMF's holdings of Turkish Lira amount to TL 10,612 million, equivalent of SDR 4,732 million, converted at the rate of TL/SDR parity determined by the IMF on April 30, 2010.

Account name	TL	SDR
Number 1 account	6,678,499	2,978,250
Number 2 account	7,503	3,346
Securities account	10,605,004,432	4,729,259,307
	10,611,690,434	**4,732,240,903**

The No.1 and No.2 accounts of the IMF are presented in "Deposits as International Institutions" in the liabilities of the Bank's balance sheet. The securities account is kept on the off-balance sheet and includes non-negotiable, non-interest bearing securities issued by the Treasury in favor of the IMF, which are payable on demand.

The paintings used in this Report have been selected from the CBRT Art Collection.

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