

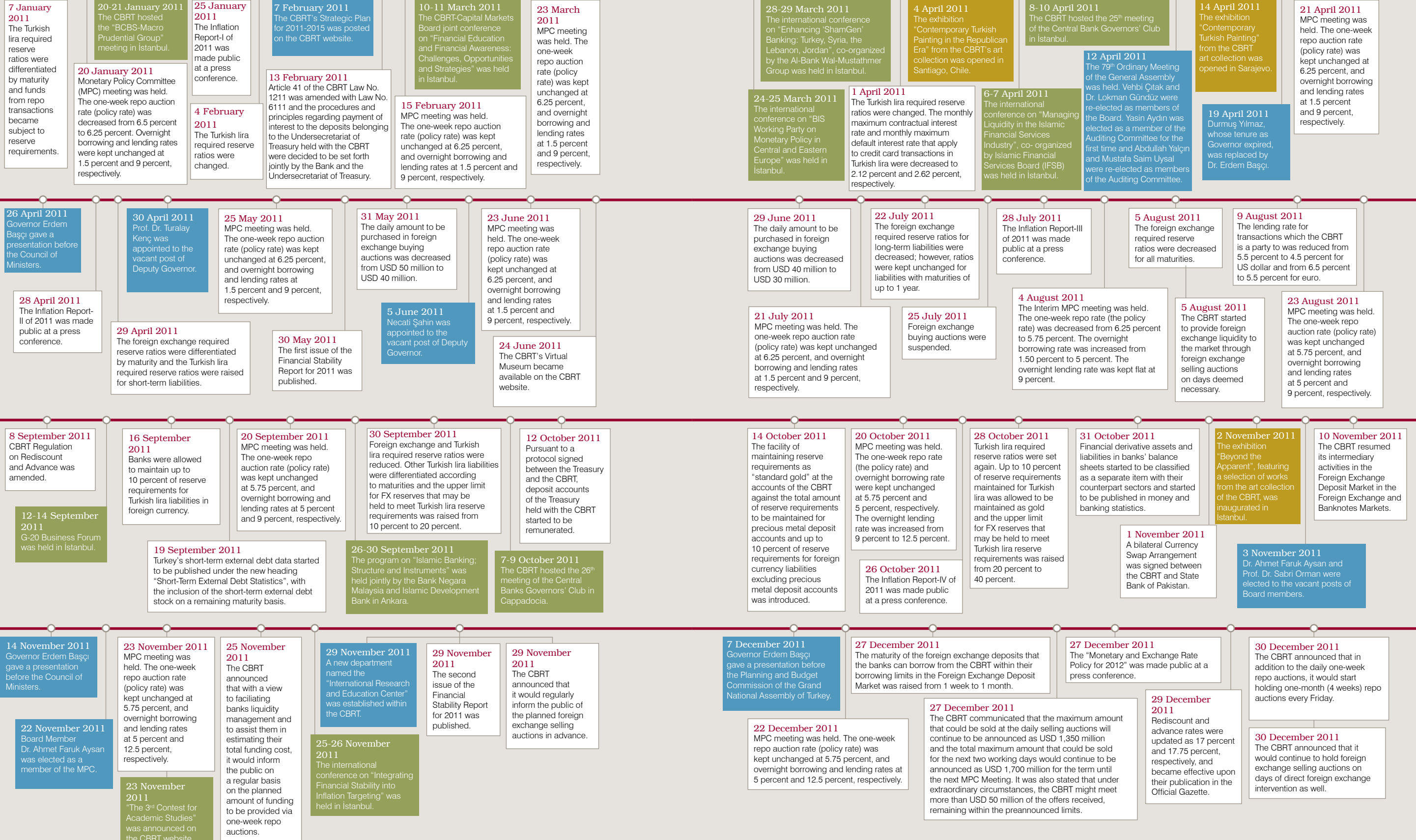
# The Central Bank of the Republic of Turkey

## Activities in 2011

## Institutional

## Training-Conference

## Cultural Activities



# The Central Bank of the Republic of Turkey

2011 ANNUAL REPORT DRAWN UP BY THE BOARD  
FOR  
THE EIGHTIETH ACCOUNTING YEAR

Submitted to  
THE GENERAL ASSEMBLY OF SHAREHOLDERS  
On 16 April 2012

ANKARA  
2012

Annual Report 2011

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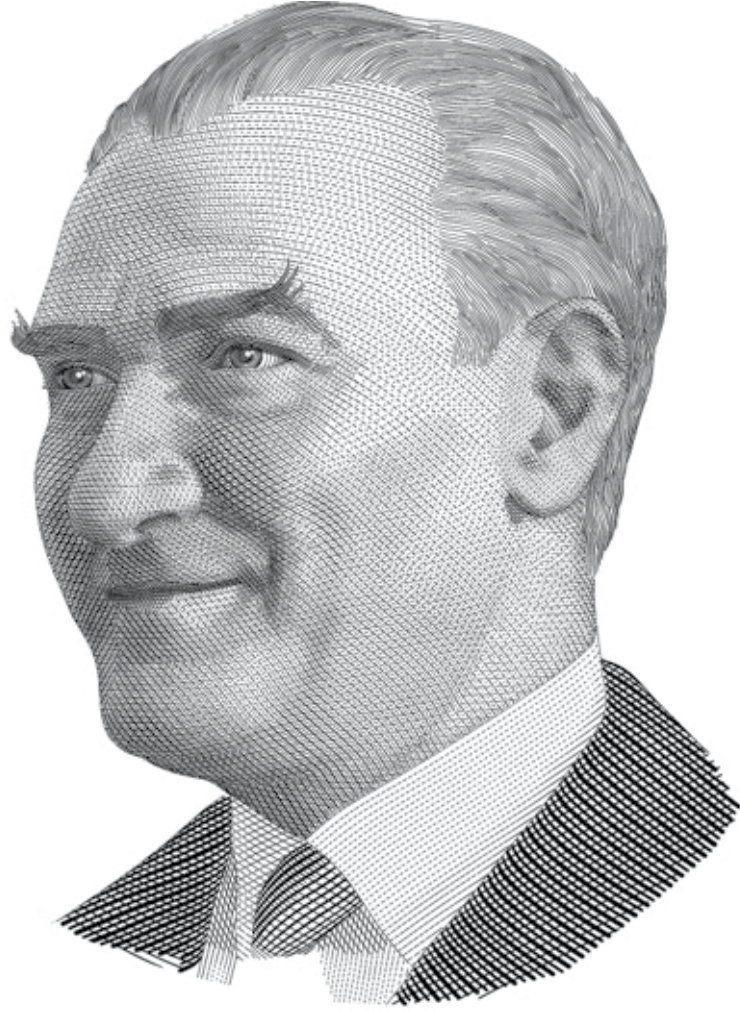
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Portrait, E-9 Emission Group  
Depicted on the front of TL 20 and TL 50 denominations in Series 1

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## ABBREVIATIONS

ADUP	Emergency Application Package
BIMER	Communication Center of the Prime Ministry
BIS	Bank for International Settlements
BRSA	Banking Regulation and Supervision Agency
CBRT	The Central Bank of the Republic of Turkey
CPI	Consumer Price Index
CPSS	Committee on Payment and Settlement Systems
DRSP	Disaster Recovery Software Package
EU	European Union
FXRIC	Foreign Exchange Risk and Investment Committee
GDP	Gross Domestic Product
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBAN	International Bank Account Number
ICH	Interbank Clearing Houses Center
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board
IILM	International Islamic Liquidity Management Corporation
IMF	International Monetary Fund
ISE	Istanbul Stock Exchange
KOSGEB	Small and Medium Enterprises Development Organization
MPC	Monetary Policy Committee
MTP	Medium-Term Program
OPEC	Organization of the Petroleum Exporting Countries
RPS	Retail Payment System
SB	Strategic Benchmark
SCA	Special CPI Aggregates
SCA-H	Special CPI Aggregates H Index
SCA-I	Special CPI Aggregates I Index
SCT	Special Consumption Tax
SDIF	Savings Deposit Insurance Fund
SDR	Special Drawing Right
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
VAT	Value Added Tax

## Foreword



The expansionary monetary policies, which were adopted by central banks of developed countries in the aftermath of the global financial turmoil to contain the impacts of the global crisis, had significant reverberations on developing economies, and the Turkish economy was no exception. During this period, the availability of ample and low-cost short-term foreign financing led to rapid credit expansion and appreciation of the Turkish Lira. This led to the accumulation of macro-financial risks and rising external imbalances as of the second half of 2010. As escalating risks pertaining to financial stability have the potential to hamper price stability over the medium term, the Central Bank of the Republic of Turkey (CBRT) has adopted different approaches of incorporating financial stability into the monetary policy framework since then.

The Central Bank Law, which was amended in 2001, charges the Bank with taking necessary measures to contribute to financial stability besides its primary mandate of achieving and maintaining price stability. Accordingly, in order to contain the macro-financial risks in the domestic economy posed by global imbalances, the CBRT designed and launched a new policy strategy by the end of 2010. The new policy approach preserves the main objective of achieving and maintaining price stability while safeguarding financial stability as a supporting objective. In this context, in addition to the policy rate, complementary tools such as reserve requirement ratios and the interest rate corridor are also used. Through lowering financial imbalances,

these policies aim to ensure sounder economic growth in a gradual way without hampering the medium-term inflation outlook. Accordingly, policies were pursued to prevent excessive deviation of the exchange rate from economic fundamentals, while the necessary measures were taken in collaboration with other regulatory institutions, to avert overborrowing within the system.

In the period between November 2010 - when the new policy strategy was introduced - and August 2011, which was marked by escalating uncertainties in the European economy, the monetary policy strategy was shaped around two axes. The first one is channeling of capital inflows to longer term and preventing over-appreciation of the Turkish Lira. And the second one is more controlled growth in domestic loans and domestic demand; and the rebalancing of domestic and external demand. During this period, the interest rate corridor was widened downwards due to the strong risk appetite and intense short-term capital inflows. Hence, overnight interest rates were allowed to materialize below the policy rate occasionally so that short term carry trade was discouraged. Also, in the same period, reserve requirement ratios were significantly increased to prevent excessive credit growth and to control domestic demand. Moreover, foreign exchange buying auctions were held regularly to take advantage of strong capital inflows in reserve build-up. These measures made a significant contribution to mitigating excessive appreciation pressures on Turkish Lira. Meanwhile, a notable deceleration was

observed in loan growth after mid-2011 also owing to the measures taken by other public authorities, especially those taken by the Banking Regulation and Supervision Agency. As a consequence, demand composition and quality of capital inflows started to progress in the desired direction and the Turkish economy assumed a rebalancing trend as of mid-2011.

Due to mounting concerns over the global growth outlook and sovereign debt problems in some European economies, as of August 2011, global risk aversion escalated and volatility in the risk appetite reached historic highs. As capital outflows from developing countries accelerated in this period, CBRT used the same policy tools in the opposite direction of the period of rapid capital inflows. The interest rate corridor was narrowed via raising overnight borrowing rates and Turkish Lira reserve requirements were revised so as to decrease the liquidity requirement of the banking sector. Moreover, a series of liquidity measures were introduced to contain fluctuations in the foreign exchange market.

However, the rise in inflation was higher than expected due to excessive depreciation of the Turkish lira stemming from deterioration in the global risk appetite since August and adjustments in administered goods prices in the final quarter. In order to contain the adverse effects on the medium-term inflation expectations and outlook, the CBRT raised overnight lending rates in October and widened the interest rate corridor upwards. Thus, overnight lending rates were permitted to materialize above the policy rate through adjustments to the funding provided to the market. In the meantime, reserve requirement ratios were reduced in order to prevent an undesirable tightening in liquidity conditions driven by the increase in overnight interest rates.

Accordingly, the measures taken since August have significantly contributed to alleviating the adverse effects of fluctuations on the Turkish economy, which emerged in parallel to uncertainties in the European economy. The CBRT's measures regarding the foreign exchange market and decisions related to the interest rate corridor in August and October reduced the extent of fluctuations in the exchange rate compared to that of other emerging market economies. Meanwhile, the monetary tightening implemented since October has proved to be successful. Therefore, loan growth and domestic demand are predicted to follow a moderate course in the upcoming period too.

Furthermore, in order to enhance the CBRT's communication with the public, which is vital in terms of conveying the monetary policy, Inflation Reports will be promoted through press conferences held four times in a year; twice in Ankara and twice in Istanbul. Other vehicles of the Bank's communication are the bi-annual "Financial

Stability Report", press releases regarding the monetary and exchange rate policy, bi-annual informational presentations on CBRT policies made before the Council of Ministers and the Planning and Budget Commission of the Grand National Assembly of Turkey, meetings with bank economists and analysts, along with presentations and speeches made at national and international meetings, as well as other press releases. These will play a key role in informing the public during 2012 as they have done in the past. Working papers, booklets, published technical notes and conferences and workshops arranged by the Bank will also continue to be used as effective tools of the communication policy.

Along with the financial support lent to 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 2011. Within this framework, the CBRT and the Capital Markets Board held a joint conference on "Financial Education and Financial Awareness: Challenges, Opportunities and Strategies" on 9-11 March 2011 in Istanbul, considered to be a significant step towards increasing cooperation and enhancing the exchange of information on financial education and financial awareness among national and international authorities. This event constituted the first step towards designing a "national strategy on financial education", currently lacking in Turkey. Within the scope of activities related to monetary policy, the CBRT held a conference on "Incorporating Financial Stability into Inflation Targeting" in Istanbul on 25-26 November 2011 with the participation of prominent economists from central banks and academic circles. The conference provided a platform to discuss the relationship between financial stability and monetary policy and to address the new environment which central banks have been exposed to in the post-crisis period.

As was the case in 2011, the CBRT will continue to safeguard the flexibility of the monetary policy in line with changing global conditions on the one hand, and ensure predictability through monetary policy publications and communication tools in the future on the other. The monetary policy will continue to contribute to the stable and sound growth of the Turkish economy in the context of price stability.



Erdem Başçı  
Governor



## 1 kuruş

**In the design of 1 kuruş, the Snowdrop pattern has been used to draw the attention of the Turkish people to the damage and extinction of Turkey's natural beauty, due either to human error or natural and global causes.**

**Diameter:** 16.50 mm.

**Weight:** 2.2 gr.

**Edge:** Plain

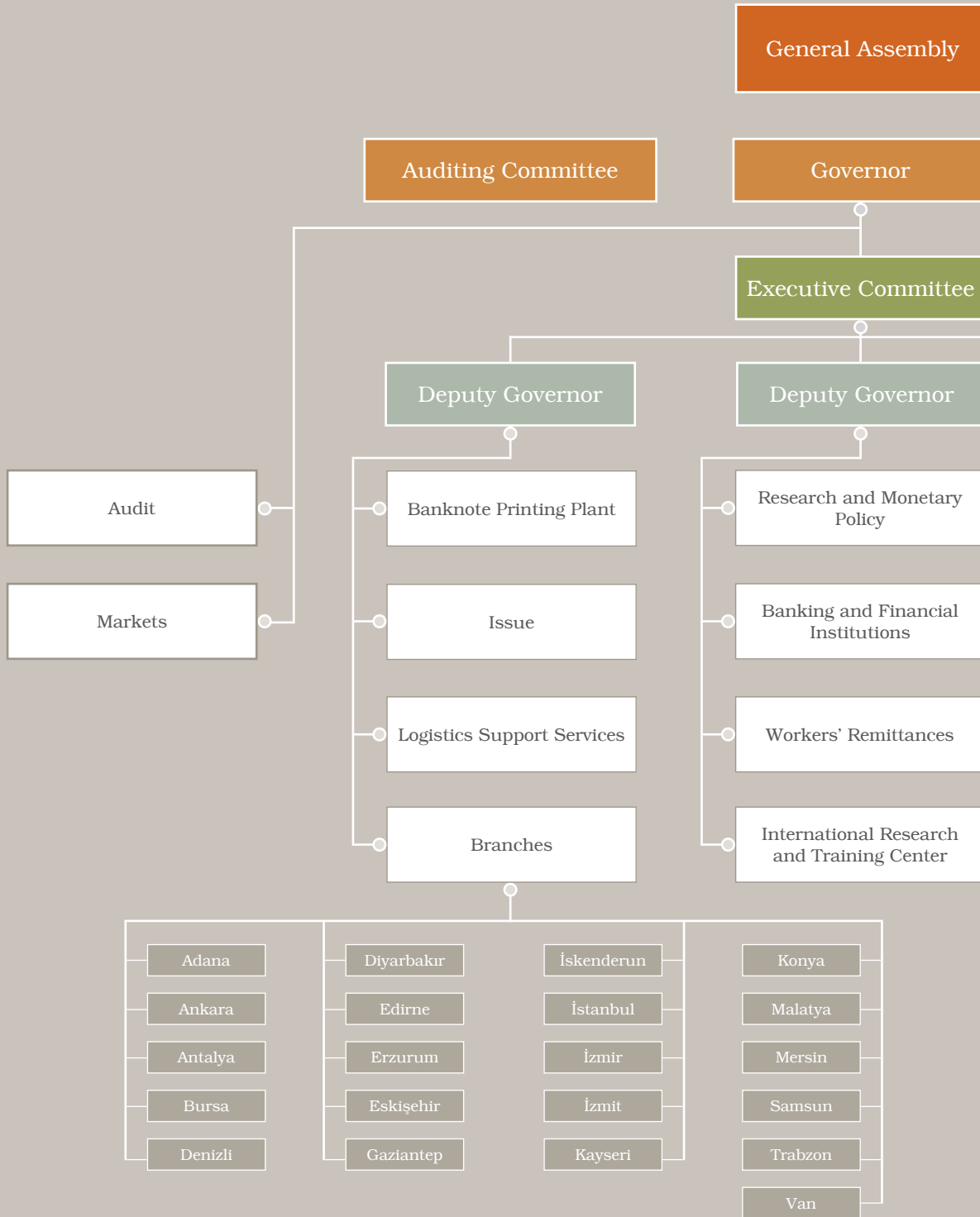
**Obverse:** Crescent and Star, denomination (1 kuruş), Snowdrop, year of mint

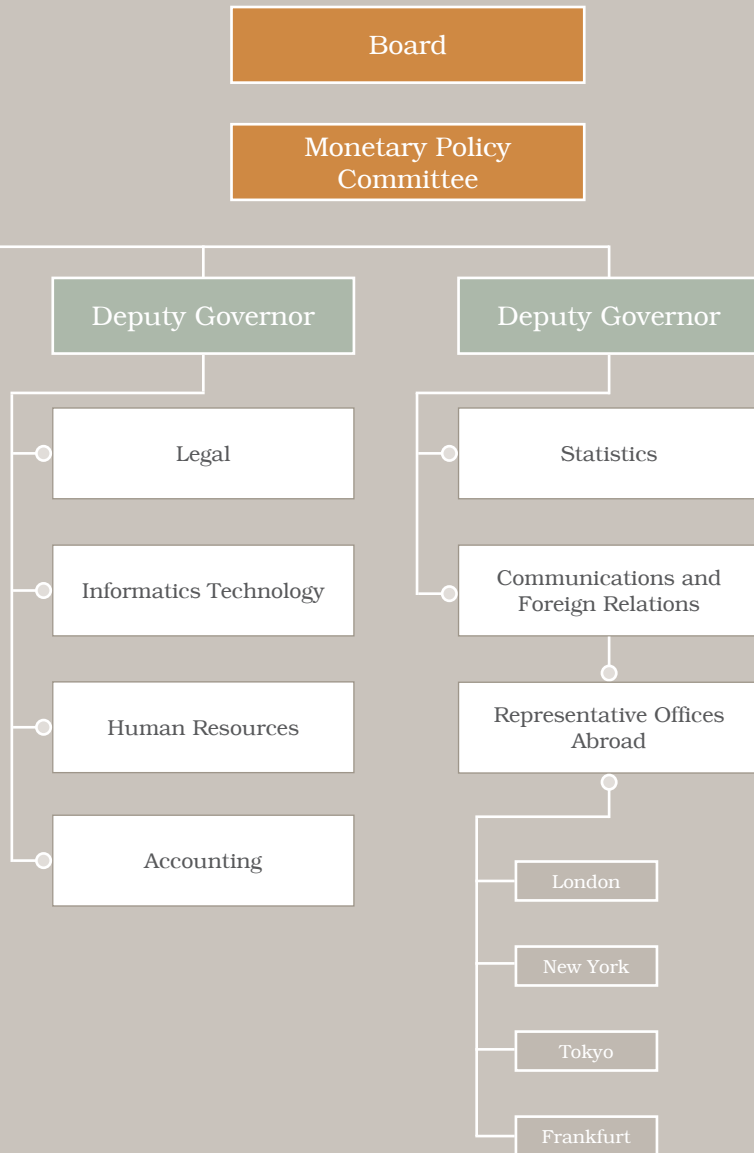
**Reverse:** "Republic of Turkey" inscription around the perimeter, Mustafa Kemal Atatürk's encircled relief portrait in the center.

# Part 1

## Governing Bodies

## 1.1. Organization Chart





## 1.2. Board



**Dr. Erdem Başçı**  
Chairman



**Prof. Dr. Mustafa İlker Parasız**  
Member



**Mehmet Vehbi Çıtak**  
Member



**Dr. Lokman Gündüz**  
Member



**Prof. Dr. Necdet Şensoy**  
Member



**Prof. Dr. Sabri Orman**  
Member



**Dr. Ahmet Faruk Aysan**  
Member



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

Duties and powers of the Board include making decisions concerning the monetary policy to be implemented and monetary policy instruments to be utilized in compliance with the inflation target; setting forth regulations regarding banknotes in circulation; drawing up regulations regarding open market operations and foreign exchange and foreign currency transactions, interest rates related to rediscount and advance operations, reserve requirements and the management of gold and foreign exchange reserves of the country; preparing the budget, annual report, balance sheet, income statements and the agenda of the General Assembly of the Bank; approving the personnel cadre and regulations on the administration, organization, services and personnel of the Bank. In 2011, the Board held 23 meetings and made 173 decisions.

By 31 December 2011, the Chairman of the Board was Governor Dr. Erdem Başçı. Board members were Prof. Dr. Mustafa İlker Parasız, Mehmet Vehbi Çıtak, Dr. Lokman Gündüz, Prof. Dr. Necdet Şensoy, Prof. Dr. Sabri Orman and Dr. Ahmet Faruk Aysan.

Due to the expiry of the term of office of Durmuş Yılmaz on 18 April 2011, Deputy Governor Dr. Erdem Başçı was appointed as Governor.

At the regular General Assembly of Shareholders held on 12 April 2011, Board members Mehmet Vehbi Çıtak and Dr. Lokman Gündüz, whose terms of office expired on 30 April 2011, were re-elected for a term of 3 years from 1 May 2011 to 30 April 2014.

On 3 November 2011, the Board elected Prof. Dr. Sabri Orman and Dr. Ahmet Faruk Aysan as members to occupy the two seats vacated by Necati Şahin and Prof. Dr. Turalay Keleş, whose terms of office ended upon their appointment as Deputy Governors; and Prof. Dr. Orman's and Dr. Aysan's appointments were to be submitted to the General Assembly at its first upcoming meeting for approval.

## 1.3. Monetary Policy Committee



Dr. Erdem Başçı  
Chairman



Prof. Dr. Turalay Kenç  
Member



Dr. Mehmet Yörükoğlu  
Member



Dr. Mustafa İbrahim Turhan  
Member



Necati Şahin  
Member



Prof. Dr. Abdullah Yavaş  
Member



Dr. Ahmet Faruk Aysan  
Member

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

The MPC's duties and powers are to determine the principles and the strategy of monetary policy in order to achieve price stability, to determine the inflation target jointly with the Government within the framework of the monetary policy strategy, to provide information to the public in line with the principles set forth; and provide information to the Government within specified periods by preparing reports regarding monetary policy targets and implementations; to take necessary measures to protect the domestic and

international value of the Turkish lira and to set the exchange rate regime to be employed in determining the value of the Turkish lira against gold and foreign currencies jointly with the Government.

The MPC held 13 meetings in 2011.

At the Board meeting on 21 November 2011, Board Member Dr. Ahmet Faruk Aysan was elected as a member of the MPC.

By 31 December 2011, members of the MPC chaired by Governor Dr. Erdem Başçı were Deputy Governors Dr. Mehmet Yörükoğlu, Dr. Mustafa İbrahim Turhan, Prof. Dr. Turalay Keç, Necati Şahin, MPC member Prof. Dr. Abdullah Yavaş and Board member Dr. Ahmet Faruk Aysan.

## 1.4. Auditing Committee



Mustafa Saim Uysal  
Member



Abdullah Yalçın  
Member



Prof. Dr. Hasan Türedi  
Member



Yasin Aydın  
Member

Members of the Auditing Committee are elected as follows: one member by the shareholder of class (A), two members by the shareholders of classes (B) and (C) and one member by the shareholders of class (D).

Members of the Auditing Committee serve a two-year term of office. The Auditing Committee supervises all operations and accounts of the Bank. The Auditing Committee, which has no administrative power, submits its opinions to the Board in writing and presents a copy thereof to the Prime Ministry. At the end of the year, the Committee prepares a report on the operations and accounts of the Bank and submits it to the General Assembly.

Prof. Dr. Hasan Türedi, who was elected as an Auditing Committee member on 20 April 2010 to represent the shareholders of classes (B) and (C), continued his duties in 2011.

At the regular General Assembly of Shareholders held on 12 April 2011, Yasin Aydın was elected as an Auditing Committee member by the shareholder of class (A), to fill the seat vacated by Mehmet Tüfekçi for a term of office from 1 May 2011 until 30 April 2013. Abdullah Yalçın and Mustafa Saim Uysal were re-elected as members of the Auditing Committee by shareholders of classes (B) and (C), and (D), respectively, for a term of office from 1 May 2011 until 30 April 2013.

By 31 December 2011, members of the Auditing Committee were Mustafa Saim Uysal, Abdullah Yalçın, Prof. Dr. Hasan Türedi and Yasin Aydın.

## 1.5. Executive Committee



Dr. Erdem Başçı  
Chairman



Dr. Mehmet Yörükoğlu  
Member



Dr. Mustafa İbrahim Turhan  
Member



Prof. Dr. Turalay Kenç  
Member



Necati Şahin  
Member

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

The Executive Committee draws up regulations on the administration, organization and services of the Bank, and, when the Governor deems necessary, it examines issues subject to Board decision in advance and prepares proposals to be submitted to the Board. Moreover; 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.

On 30 April 2011, Board Member Prof. Dr. Turalay Kenç was appointed as Deputy Governor for the seat vacated by Dr. Erdem Başçı due to his appointment as Governor of the Bank. On 5 June 2011, Board Member Necati Şahin was appointed as Deputy Governor for the seat vacated by Dr. Burhan Göklemmez due to his retirement on 31 May 2011.

On 5 June 2011, Deputy Governor Dr. Mehmet Yörükoğlu was re-appointed as Deputy Governor.

By 31 December 2011, members of the Executive Committee chaired by Governor Dr. Erdem Başçı were Deputy Governors Dr. Mehmet Yörükoğlu, Dr. Mustafa İbrahim Turhan, Prof. Dr. Turalay Kenç and Necati Şahin.

## 1.6. Head Office Departments



### As of December 31, 2011:

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



## 1.7. Branches

As of December 31, 2011:

Adana	Director	İskender Büyüктаş
Ankara	Director	Mehmet Ali Koç
Antalya	Director	Eyüp Kütük
Bursa	Director	Ahmet İnci
Denizli	Director	
Diyarbakır	Director	Ramazan Karaman
Edirne	Director	Hatice Oya Amaç
Erzurum	Director	Ceyhun Türker
Eskişehir	Director	
Gaziantep	Director	Kemal Ketenci
İskenderun	Director	Atanur Dursun
İstanbul	Director	İlker Bayır
İzmir	Director	Tevfik Hayati Boyalı
İzmit	Director	Mehmet Faik Demir
Kayseri	Director	Mehmet Reşit Ketene
Konya	Director	Cemal Şahiner
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	H. Ahmet Fikret Karabudak
London Representative Office	Representative	Çiğdem Tunçtürk Köse
New York Representative Office	Deputy Representative	Dr. Nuran Arslaner
Tokyo Representative Office	Deputy Representative	Dr. Yüksel Görmez



## 5 kuruş

**The Tree of Life on the 5 kuruş coin is one of the most common symbolic patterns that assumes an important place in Anatolian culture and has long been used in Turkish rugs. The Tree of Life symbol depicts the desire for the country to live forever and is placed on the coin as a tribute to an ancient art form that has been an indispensable part of Turkish culture.**

**Diameter:** 17.50 mm.

**Weight:** 2.9 gr.

**Edge:** Plain

**Obverse:** Crescent and Star, denomination (5 kuruş), Tree of Life, year of mint

**Reverse:** "Republic of Turkey" inscription around the perimeter, Mustafa Kemal Atatürk's encircled relief portrait in the center.

## Part 2

# Strategic Plan and Operations

## 2.1. CBRT Strategic Plan

### 2.1.1. Vision

To be one of the World's leading Central Banks, possessing –while maintaining its independence– an effective organizational structure, highly qualified employees, an outstanding technological structure and the ability to achieve effective results.

### 2.1.2. Mission

- To create and implement policies that will contribute to financial stability and will achieve price stability which promotes the money, credit and capital markets along with other markets
- To manage foreign exchange and gold reserves
- To issue the country's banknotes

- To assure the reliable circulation of banknotes, to establish and operate payment systems
- To increase the effectiveness of the CBRT on a regional and global scale by developing international relations, to add value to our employees, stakeholders and to the community by maintaining our corporate governance structure, transparency and accountability

### 2.1.3. Values

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

### 2.1.4. Strategic Areas and Strategic Themes

Tasks that are assigned by law to the bank and corporate internal logistics activities are grouped into three strategic areas. Those areas are referred to as Public, Global, and Institutional areas and subtitled as strategic themes.

#### 2.1.4.1. Public Area

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

#### 2.1.4.2. Global Area

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

#### 2.1.4.3. Institutional Area

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

## 2.2. Price Stability and Monetary Policy

### 2.2.1. Overview

After reverting to a recovery path since 2010, the global economy continued to recover further in 2011, albeit at a slower pace. Meanwhile, the evident diversification in growth performances between the advanced and emerging economies in 2010 continued into 2011, thereby influencing monetary policy implementations in the respective countries. As a matter of fact, in the post-crisis period, advanced economies opted for additional monetary expansion and focused particularly on solving crisis-originated balance sheet problems. On the other hand, emerging economies, which also include Turkey, concentrated mainly on managing macro financial risks due to accelerated capital flows driven by the higher search for yield as well as excess global liquidity on the back of the additional monetary expansion conducted by major central banks. Thus, seeking a more comprehensive policy, many central banks adopted a new scheme that also takes financial stability into consideration in addition to price stability. This approach, which widens the purview of central banks, has led to the widespread use of macro prudential policies alongside traditional monetary policy tools.

As it is known, owing to country-specific favorable conditions such as the better-than-expected recovery in economic activity, credit rating upgrades and waning political uncertainties following the referendum as well as the revised MTP hinting that the fiscal discipline would be sustained, the effects of globally accelerated capital flows were deeply felt in Turkey in the post-crisis period. Hence, short-term external financing was available in excess at low cost, resulting in rapid credit expansion and the gradual appreciation of the Turkish lira. This led to the accumulation of macro financial risks and external imbalances as of the second half of 2010. Moreover, final-domestic-demand-driven economic growth with a negative contribution from net exports required close scrutiny of the massive capital flows in this period, also in terms of their potential risks on the current account deficit.

In order to contain the macro financial risks caused by divergences in growth, and hence, in monetary policies between emerging and advanced economies, the CBRT adopted a new policy strategy in line with its liability that was laid down in its Law No.1211 to take measures for stability in the financial system without prejudice to its objective of achieving and maintaining price stability. In this context, the CBRT started to consider macro financial stability, while

preserving price stability as the main objective. Accordingly, with a view to ensuring diversification of tools required by the implementation of monetary policy towards multiple objectives, a policy mix was designed entailing the joint use of the interest rate corridor between O/N borrowing and lending rates, as well as the required reserve ratios and short-term interest rates, the main policy instrument.

According to the new strategy adopted in late 2010, macro prudential policies were formed as the favorable inflation outlook permitted in the respective period. Thus, besides the one-week repo auctions, the traditional policy tool, the interest rate corridor and other liquidity policies were effectively used.

From the adoption of the new policy strategy in November 2010 to the period of heightened uncertainties in European economies in August 2011, the CBRT aimed at limiting short-term capital flows and preventing excessive appreciation of the exchange rate. Moreover, the CBRT focused on ensuring more controlled growth in domestic credits and demand in addition to balancing the divergence between domestic and external demand. Owing to the macro prudential policies adopted, this balancing started to be observed from the second half of the year. As a matter of fact, notwithstanding the rapid growth rates and the negative contribution of net exports to growth in the first half of the year, net exports began to contribute positively to growth in the third quarter, and economic growth registered a relative slowdown.

Accordingly, the GDP, which posted a year-on-year growth of 12.0 percent in the first quarter of the year, decelerated slightly in the second and third quarters to 8.8 and 8.2 percent, respectively. Thus, the GDP recorded a year-on-year growth of 9.6 percent during the first nine months of the year. The final domestic demand fuelled by the private sector was the main driver of growth in 2011. Amid high-rated increases in imports in addition to the relatively weak growth of exports, net exports weighed on growth in the first two quarters. On the other hand, this outlook was reversed in the third quarter, and indicators for the last quarter of 2011 imply that net exports will further contribute positively to growth in the last quarter.

The favorable GDP outlook in 2011 brought about improvements in the labor market, resulting in significant year-on-year increases in the labor force as well as employment. Moreover, the higher growth of employment than the labor force participation rate caused unemployment rates to plummet between 2010 and 2011. Furthermore, production grew beyond employment, leading to partial per capita productivity increases across all non-farm sectors in 2011. Additionally, real unit labor costs, which declined across all sectors in 2010, declined further throughout 2011 on the back of improved labor productivity.

However, amid increased downside risks on global growth coupled with aggravating concerns over sovereign debt problems in some European countries since August 2011, risk aversion increased globally and the volatility of the risk appetite climbed to historic highs. In order to meet the liquidity needs of the banking system amid accelerating capital outflows from emerging economies, the interest rate corridor was narrowed through the O/N lending rate hike and regulations on Turkish lira reserve requirements were amended. Additionally, a series of liquidity measures were adopted with a view to containing fluctuations in the FX market. Furthermore, policy rates were reduced modestly in order to minimize the risk of the ever-growing global problems to cause a recession in domestic economic activity.

Meanwhile, due to the excessive depreciation of the Turkish lira amid the worsening risk appetite since August as well as administered price adjustments in the last quarter of the year, inflation appeared to soar faster than envisioned in the short term. In order to prevent this from adversely affecting medium-term inflation expectations and outlook, the CBRT widened the interest rate corridor upwards in October by a sizeable O/N lending rate hike, and adjusted the market funding by allowing the O/N money market rate to settle above policy rates. Meanwhile, required reserve ratios were lowered slightly in order to prevent an unfavorable tightness in liquidity conditions due to the lending rate hike. Due to the depreciation of the Turkish lira amid deterioration in the risk appetite since August and administered price adjustments in the last quarter of the year as well as the base-effect-driven acceleration of unprocessed food prices, annual consumer inflation posted a year-on-year increase of 4 percentage points, reaching 10.45 percent at end 2011. Soaring consumer inflation was mainly caused by the marked depreciation of the Turkish lira, which was especially reflected on core goods. The increase in inflation in this period was also attributed to the significant decline in the contribution of aggregate demand conditions to disinflation as well as elevated food prices over the last three years. Under current circumstances, assessing the need to start disinflation earlier than the fall in expectations in terms of containing the secondary effects, the CBRT has delivered an additional tightening as of December 29.

## 2.2.2. Global Economic Developments

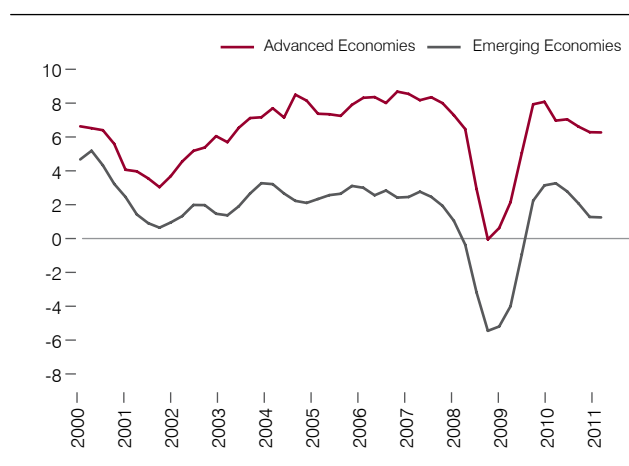
### Global Growth

The global economic recovery lost pace in 2011, and the pronounced divergence between growth performances of advanced and emerging economies persisted (Graph 1). The introduction of measures to prevent overheating of the economy and the weakening external demand led to an economic slowdown in emerging economies. The lacking recovery in the real estate and labor markets continue to pose downside risks on the U.S. economy, which diverged

from the Euro Area by exhibiting a relatively better growth performance. As for the Euro Area, aggravating uncertainties on the solution of the debt crisis continue to weigh on the growth outlook.

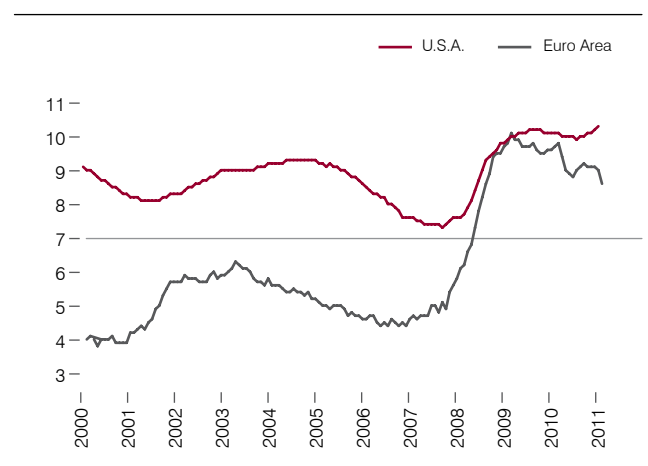
The recovery in labor markets lags behind the improvement in economic activity. As a matter of fact, during the last quarter of 2011, U.S. unemployment rates improved slightly, whereas unemployment rates were elevated across the Euro Area, despite significant divergences among member states (Graph 2).

**Graph 1. Annual Growth in Advanced and Emerging Economies (Percent)**



Source: Bloomberg, CBRT.

**Graph 2. Unemployment in Advanced Economies (Percent)**



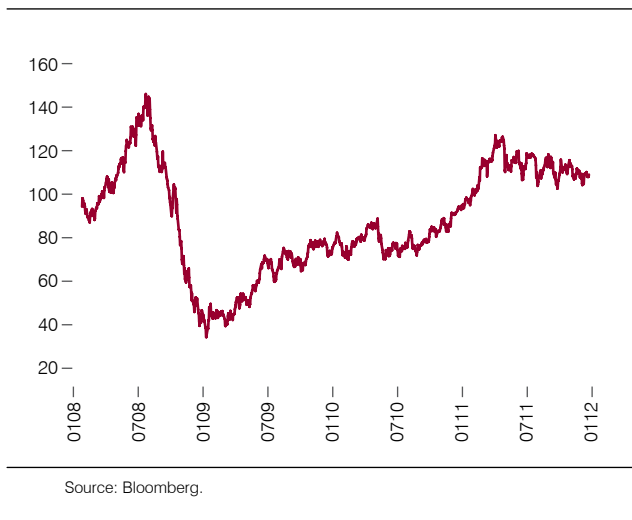
Source: Bloomberg.

### Commodity Prices

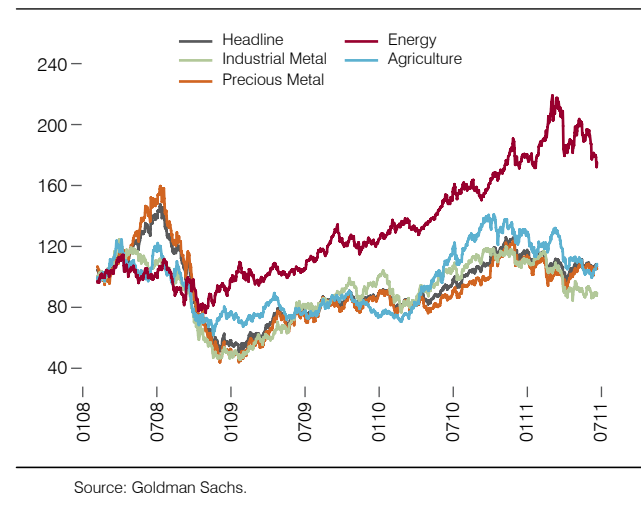
In the first quarter of 2011, commodity prices trended upwards on energy prices amid the strong economic growth forecasts at a global scale and the political unrest in the Middle East and North Africa. International Brent crude oil prices neared USD 120 per barrel in this period and recorded a recent-high in early April by USD 126 per barrel since July 2008. As of the second quarter of the year, mounting concerns over the debt crisis in the Euro Area also spilled over into the banking sector. Accordingly, global growth forecasts for 2011 and 2012 were revised downwards, causing energy prices to decline as of the second quarter of the year. Despite the downward revision to global growth forecasts, the fall in oil prices remained limited amid the supply-side squeeze in oil market due to the reluctance of OPEC countries to increase production notwithstanding their high idle capacity as well as the production cuts in non-OPEC oil-producing countries. Against this background, average international Brent crude oil prices went up from USD 80 per barrel in 2010 to USD 110 per barrel in 2011 (Graph 3).

Industrial metal prices have trended downwards since the second quarter of 2011, on the back of the downward revision of global growth forecasts, particularly in the Euro Area and the U.S., in addition to the weakening Chinese demand, a major determinant of industrial metal prices, due to the tightening credit measures adopted to dampen elevated inflationary pressures. Agricultural prices also trended downwards amid supply-side developments. The partial ending of the drought in Western Europe and the U.S., the abolition of quota restrictions on exports in the Ukraine and Russia, which have been effective since 2010, and the increase in cultivated lands are the prominent supply-side developments. Precious metal prices soared until the end of the third quarter amid elevated concerns over the debt crisis in the Euro Area, and assumed a downward course afterwards (Graph 4).

**Graph 3. Crude Oil (Brent) Prices (USD/barrel)**



**Graph 4. S&P Goldman Sachs Commodity Prices (01.01.2008=100)**



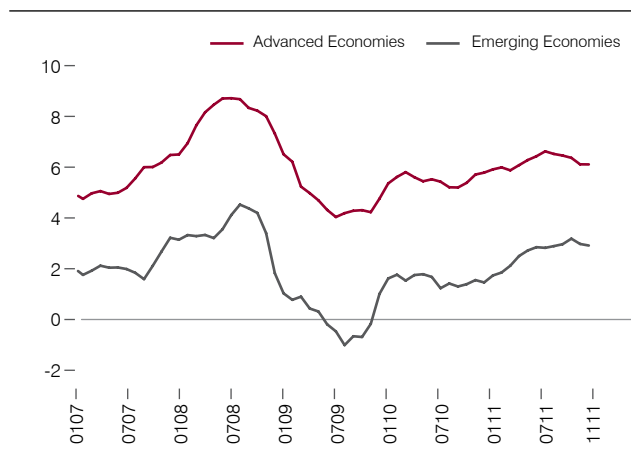


## Global Inflation

In the first half of 2011, consumer inflation rates soared in advanced and emerging countries, markedly exceeding 2010 figures. As of the second half of the year, inflation slowed down amid growing expectations for a global slowdown in economic activity as well as the decline in commodity prices (Graph 5).

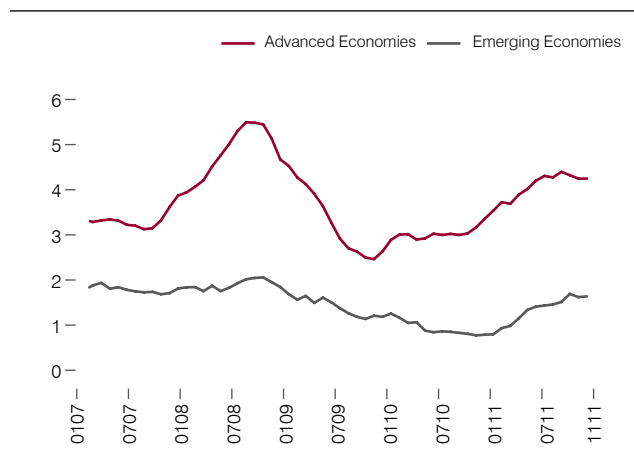
However, core inflation rates increased in 2011, especially in emerging countries with relatively brisk demand (Graph 6). Core inflation rates assumed a weaker course as of the last quarter of 2011, providing central banks with flexibility in implementing monetary policy.

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



Source: Bloomberg, CBRT.

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



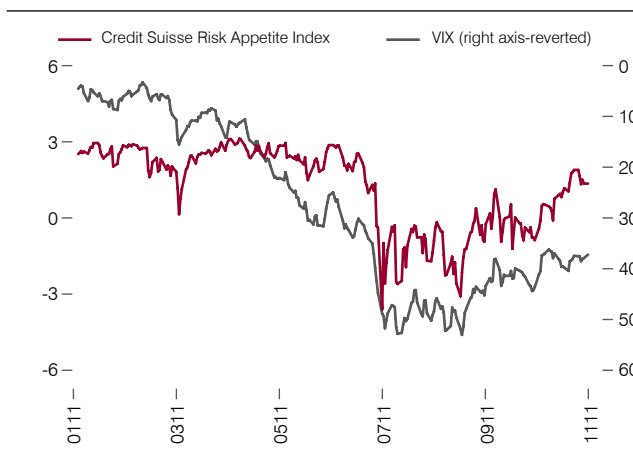
Source: Bloomberg, CBRT.

**Global Financial Conditions and Risk Indicators**

Developments regarding the Euro Area debt problem stood out as the prominent factor affecting financial markets in 2011. Arrangements by debt-ridden countries in the first half of the year were welcomed by the financial markets, while the expectation of a vigorous use of the European Financial Stability Fund prevented the mounting of risk perceptions. Despite having successfully passed banking sector stress tests, and thus, having diverged from other countries, Ireland continued to suffer from a worsening debt problem in the second half of the year. Credit ratings of some core countries as well as private banks were downgraded

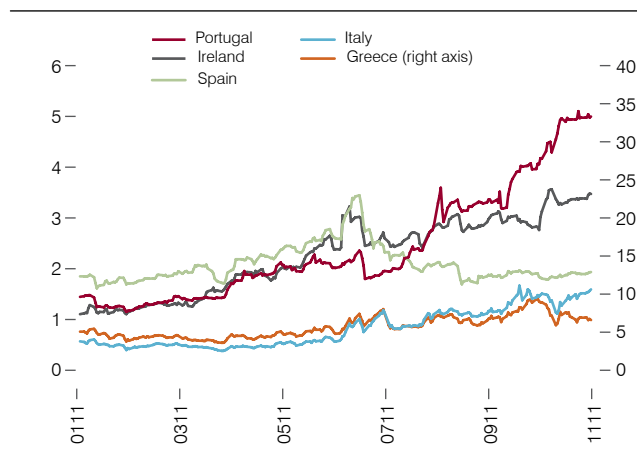
as the debt problem started to spread from peripheral to core countries and also into the banking sector. The extension of the European Financial Stability Fund and the introduction of budget limitations failed to bring about the desired improvement in the risk appetite. Accordingly, risk perceptions increased notably in the second half of the year and bond spreads between troubled countries and Germany widened markedly (Graphs 7 and 8). Meanwhile, stock indices dropped amid the deterioration in the risk appetite and risk premiums in emerging economies heightened with exchange rates posting a decline.

**Graph 7. Global Risk Appetite**



Source: Bloomberg.

**Graph 8. Bond Yield Spreads in Selected Countries over German Bonds (10- Year, Points)**



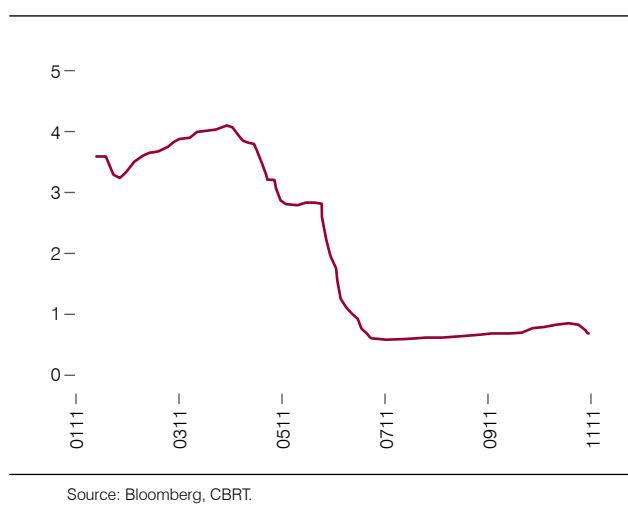
Source: Bloomberg.

### Global Monetary Policy

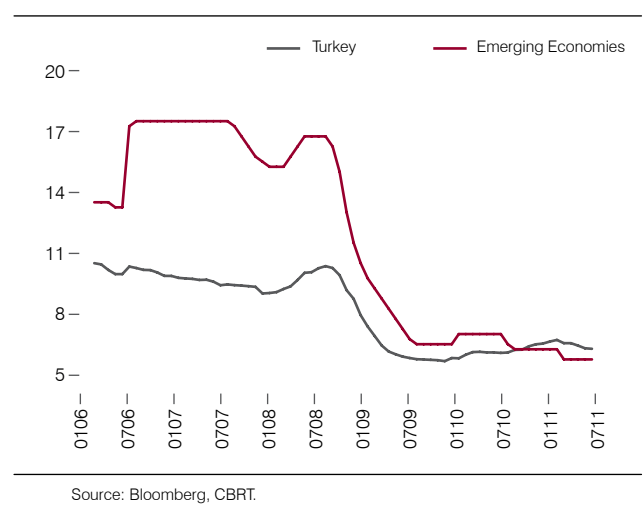
In the first three quarters of 2011, global monetary policies were characterized by normalization, whereas the aggravating debt problems in the peripheral countries of the Euro Area in addition to the unfavorable global growth outlook caused an interruption of the normalization process in the last quarter of the year. In advanced economies, policy rates were normalized amid the post-crisis recovery, particularly in the second and third quarters, and signals were hinted to terminate quantitative easing policies. However, as the global growth re-assumed a negative outlook in the last quarter of the year, this trend was reversed and G4 countries signaled for further low-rate policy and quantitative easing. Accordingly, the composite policy rate in advanced economies, which was 0.69 percent at end-2010, remained unchanged by end-2011 (Graph 9).

As for emerging economies, the normalization of policy rates, which started in mid-2010, was similarly interrupted in the last quarter of 2011. Hence, the composite policy rate, which was 6 percent at end-2010, increased slightly to 6.27 percent at end-2011 (Graph 10). Meanwhile, in order to minimize the potential impacts of capital inflows on their economies, emerging economies continued with macro prudential measures throughout 2011, and opted for monetary tightening by the effective use of non-interest tools, such as required reserves, reserve accumulation and capital control.

**Graph 9. Composite Policy Rate in Advanced Economies (Percent)**



**Graph 10. Composite Policy Rate in Inflation-Targeting Emerging Economies (Percent)**



### 2.2.3. Macroeconomic Developments

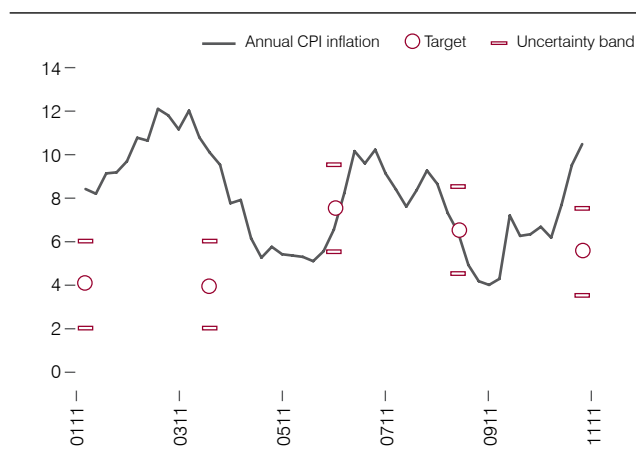
#### Inflation

Annual consumer inflation posted a year-on-year increase by 4 percentage points, reaching 10.45 percent at end-2011. Having reflected especially on core goods prices, the notable depreciation of the Turkish lira was the main driver of the rise in consumer inflation throughout the year. The sizeable decline in the contribution of aggregate demand conditions to disinflation as well as the high annual food inflation within the last three years also added to the rise in inflation in this period. Moreover, by adding 1.6 points, soaring administered prices in the last quarter on energy price adjustments and SCT rate hikes drove annual consumer inflation remarkably above the target of 5.5 percent (Graph 11). Annual inflation went up across most of the subcategories, and especially in core goods in 2011 (Graph 12).

Annual food inflation was volatile throughout 2011 amid elevated unprocessed food prices. In particular, the volatility in the prices of fruits and vegetables due to adverse weather conditions as well as base effects were influential on the volatile course of food inflation. Red meat prices, which remained elevated in 2010 due to the decline in domestic livestock supply, settled into a relatively milder path amid reduced tariffs and higher imports of livestock in 2011. Annual processed food inflation rose steadily in 2011 with soaring prices of fats and oils amid higher import prices and exchange rates in addition to prices of bread and cereals, which decelerated in the second quarter due to the temporary abolition of customs duty on wheat. As a result, annual food inflation hit 12.21 at end 2011, remaining above the previous years' average.

The year-on-year increase by around 40 percent in the USD-denominated international oil prices and exchange rate developments were influential on rising energy prices throughout 2011. Accordingly, in the first three quarters of the year, fuel and bottled gas prices and municipal water tariffs surged, while electricity and natural gas prices increased notably in the last quarter. Thus, annual energy inflation soared until October, and declined in the last two months of the year on base effects, and hit 10.36 percent at the year-end, remaining close to 2010 figures (Graph 12).

**Graph 11. Annual CPI Inflation, Target and the Uncertainty Band**

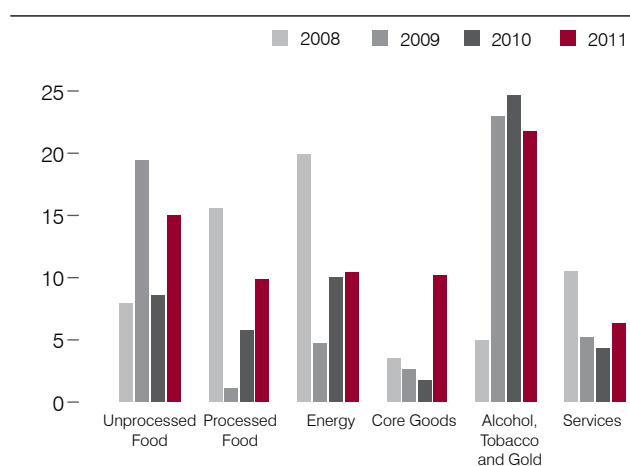


Source: TurkStat, CBRT.

Annual inflation in core goods (goods excluding food, energy, alcoholic beverages and tobacco and gold) went well above past years' average, hitting 10.09 percent (Graph 12). The depreciation of the Turkish lira besides the rise in commodity prices across the year caused the prices of durable goods (excluding gold) to accelerate. In addition, clothing prices remained above seasonal averages due to adopted protection measures in imports of textiles and ready-wear; thus, adding to the rise in prices of core goods. Moreover, the robust course of demand for durable goods in this period was also instrumental on the upward course of core inflation. In 2011, annual inflation in core goods, one of the subcategories of consumer prices with the highest exchange rate pass-through, soared by approximately 8.4 percentage points, and contributed to headline inflation by an additional 2.1 percentage points compared to the previous year.

SCT rate hikes in some motor vehicles, mobile phones, alcoholic beverages and tobacco products in the last quarter resulted in a marked increase in consumer prices by approximately 1 percentage point from tobacco products. Meanwhile, gold prices went up by 46.6 percent in 2011. Thus, alcoholic beverages, tobacco products and gold recorded the highest annual price increase (Graph 12).

**Graph 12. Consumer Prices  
(Annual Percent Change)**



Source: TurkStat, CBRT.

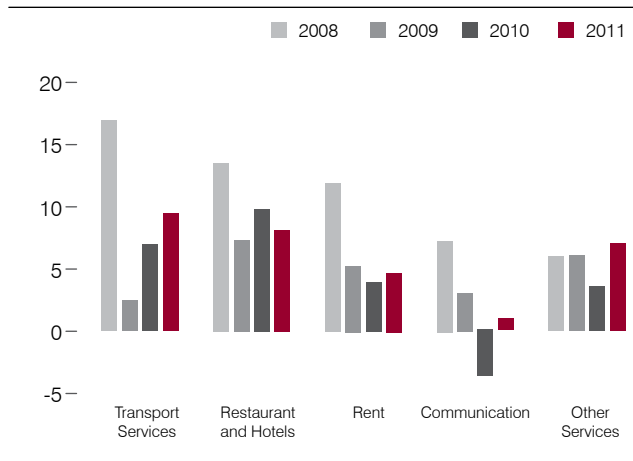
Services prices increased by 6.27 percent in 2011. Across subcategories, annual inflation in transport services increased mainly on price hikes in fuel, while rent inflation maintained a mild course throughout the year. Prices of communication services remained broadly unchanged, with annual inflation standing at 1.04 percent (Graph 13). Prices of catering services rose mainly on the increase in processed food prices, and annual inflation in restaurants and hotels remained below 2010 figures. Meanwhile, annual inflation in other services remained above previous years. Accordingly, services inflation posted a year-on-year increase by 2 percentage points in 2011, and seasonally adjusted data indicated a mild outlook in the underlying trend of services prices throughout the year.

Annual inflation in core price indicators trended upwards throughout 2011, mainly due to soaring core goods prices amid the depreciation of the Turkish lira as well as the rise in services prices. As of end-2011, annual inflation in core goods excluding energy, unprocessed food, alcoholic beverages, tobacco and gold (SCA-H) stood at 8.54 percent, and SCA-I inflation with a further exclusion of processed food, hit 8.12 percent (Graph 14).

Medium-term inflation expectations remained broadly flat throughout 2011, notwithstanding the slight increase in the last quarter. Even though annual inflation saw a historic-low of 4 percent, and subsequently surged above 10 percent

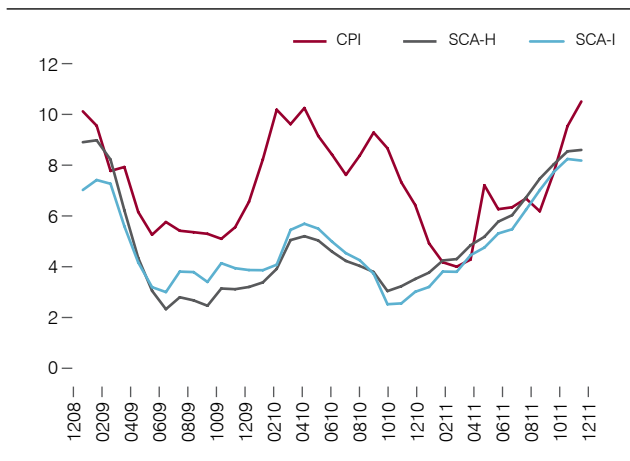
due to the exchange rate pass-through, administered price adjustments as well as rises in food prices, with simultaneously soaring core price indicators, medium-term inflation expectations have been relatively less sensitive to inflation realizations in 2011, indicating the effectiveness of the monetary policy. Yet, the hovering of medium-term inflation expectations above the inflation target of 5 percent indicates that expectations are yet to be anchored to the target. Accordingly, 12 and 24-month ahead annual inflation expectations were 7.1 percent and 6.5 percent, respectively at end-2011 (Graph 15).

**Graph 13. Prices of Services (Annual Percent Change)**



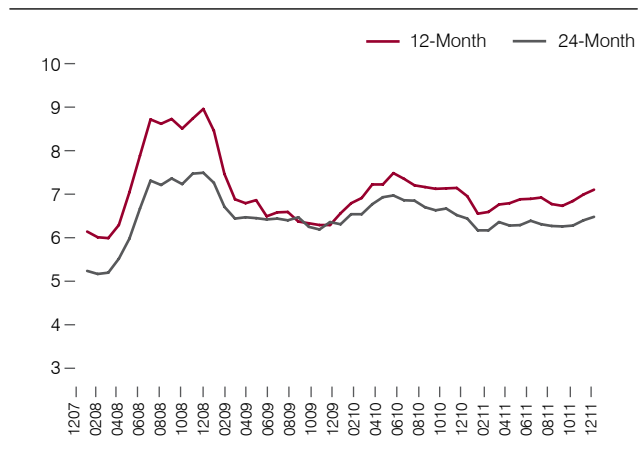
Source: TurkStat, CBRT.

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



Source: TurkStat, CBRT.

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



\* CBRT Survey of Expectations, second survey period results. Source: CBRT.

## Supply and Demand

GDP posted high-rated annual increases in the first nine months of 2011. GDP, which posted a year-on-year increase by 12.0 percent in the first quarter, rose by 8.8 and 8.2 percent in the second and third quarters, respectively (Table 1). Thus, in the first nine months of the year, GDP recorded a year-on-year increase by 9.6 percent. On the production side, both the services as well as the industry sector followed a markedly robust course. In particular, wholesale-retail trade and transport-communication sectors, which are closely related to the industry sector, a subcategory

of the services, contributed remarkably to growth. On the expenditures side, the final domestic demand fuelled by the private sector has been the main driver of growth. Amid soaring imports and relatively weak exports, net exports weighed on growth in the first two quarters; whereas, this outlook was reversed in the third quarter. Leading indicators for the last quarter of 2011 indicate that net exports will continue to contribute positively to growth in the last quarter.

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

	2009					2010					2011				
	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Nine-Months
1-Consumption Spending	-1.0	7.0	3.4	5.8	8.0	6.1	11.6	8.8	7.8	9.3	6.1	11.6	8.8	7.8	9.3
Public	7.8	0.6	4.7	-0.9	3.2	2.0	7.2	9.4	13.7	10.2	2.0	7.2	9.4	13.7	10.2
Private	-2.3	8.0	3.2	6.7	9.0	6.7	12.2	8.8	7.0	9.2	6.7	12.2	8.8	7.0	9.2
2-Fixed Capital Investments	-19.0	16.8	28.4	30.0	42.1	29.9	33.6	29.0	15.2	25.4	29.9	33.6	29.0	15.2	25.4
Public	-0.6	13.6	15.5	13.5	17.1	15.1	4.7	4.0	6.2	5.0	15.1	4.7	4.0	6.2	5.0
Private	-22.5	17.3	31.4	34.2	49.5	33.5	38.4	34.1	17.2	29.4	33.5	38.4	34.1	17.2	29.4
Machinery-Equipment	-22.9	25.8	37.3	39.1	67.0	43.0	49.7	41.4	19.9	36.1	43.0	49.7	41.4	19.9	36.1
Construction	-21.9	4.8	19.9	25.1	19.1	16.9	18.2	17.6	11.6	15.7	16.9	18.2	17.6	11.6	15.7
Private Sector Demand*	-6.0	9.1	7.6	9.3	14.2	10.1	16.0	12.8	7.8	11.9	10.1	16.0	12.8	7.8	11.9
3-Change in Inventories*	-2.3	8.4	3.4	-0.1	-0.6	2.4	0.5	0.1	-1.6	-0.4	2.4	0.5	0.1	-1.6	-0.4
4-Exports of Goods and Services	-5.0	-0.9	12.5	-1.6	4.3	3.4	8.8	0.6	10.8	6.7	3.4	8.8	0.6	10.8	6.7
5-Imports of Goods and Services	-14.3	22.0	19.2	16.2	25.4	20.7	27.3	19.2	7.3	17.3	20.7	27.3	19.2	7.3	17.3
Net Exports*	2.7	-5.7	-1.9	-4.3	-5.6	-4.4	-5.4	-5.2	0.6	-3.1	-4.4	-5.4	-5.2	0.6	-3.1
6- Domestic Demand	-7.4	18.2	12.0	9.7	14.7	13.4	16.8	13.6	7.4	12.3	13.4	16.8	13.6	7.4	12.3
7-Final Domestic Demand	-5.1	8.9	8.3	10.4	14.8	10.7	16.2	13.5	9.5	12.9	10.7	16.2	13.5	9.5	12.9
8-GDP	-4.8	12.2	10.2	5.3	9.2	9.0	12.0	8.8	8.2	9.6	9.0	12.0	8.8	8.2	9.6

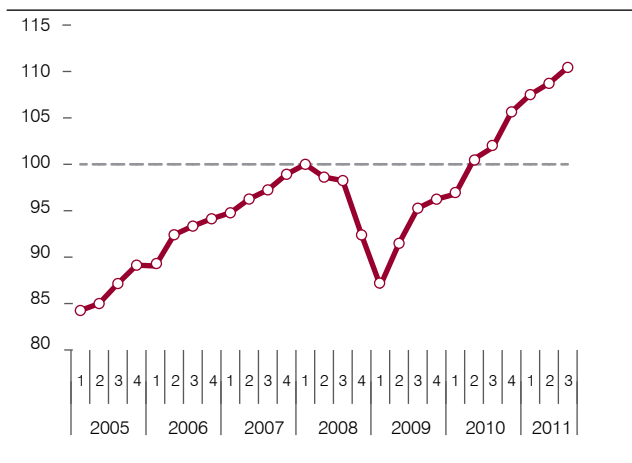
\* Contributions to GDP growth (Percent).

Source: TurkStat.

The divergence between the speed of recovery of the domestic and external demand as of the second half of 2010 posed significant risks on financial stability and the current account, and accordingly, policy measures were adopted in order to balance domestic and external demand. The effects of the adopted measures on domestic demand were materialized as of the second quarter of 2011. Seasonally adjusted data indicate that final domestic demand, which increased in the first quarter of 2011, followed a relatively weaker course in the second and third quarters (Graph 16). Consequently, the growth of final domestic demand slowed down in the second and third quarters (Graph 17).

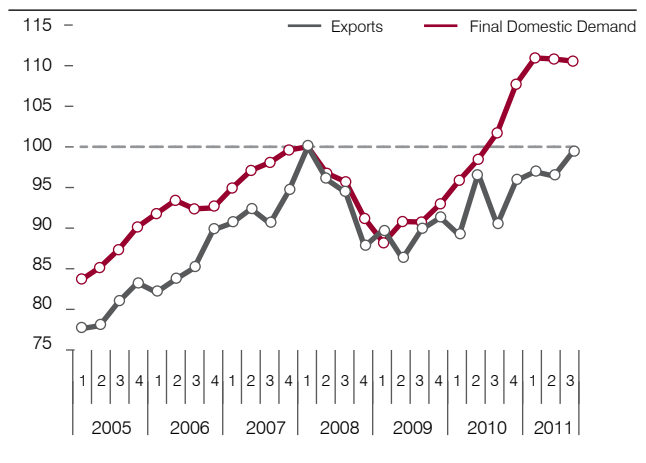
Exports of goods and services followed a weak course in the first two quarters, and converged to its pre-crisis level in the third quarter, despite mounting problems in the Euro Area (Graph 17). The stronger course of exports in addition to decelerating final domestic demand thus contributed to the balancing between domestic and external demand. Moreover, as a result of the cumulative effect of the ongoing depreciation in real exchange rates since end-2010, imports of goods and services remained below the level projected by domestic demand. Indicators for the last quarter of 2011 do not indicate a slowdown in economic activity, yet signal a weak course in exports and imports.

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



Source: TurkStat.

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



Source: TurkStat, CBRT.



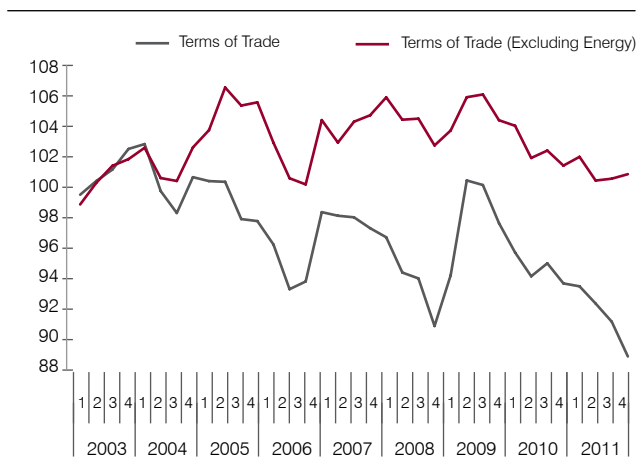
## Balance of Payments

In the post-crisis recovery period, the Turkish economy followed a robust course, with domestic and external demand displaying divergences in terms of their speed of recovery. Accordingly, imports surged amid robust domestic demand in 2011; whereas, exports exhibited only a mild recovery due to relatively weak external demand. Despite the evident slowdown in imports owing to the policy measures adopted in the second half of the year to balance domestic and external demand, the foreign trade deficit continued to grow in 2011. Consequently, balance-of-payments-defined total exports and imports of goods registered annual increases by 20.1 and 35.1 percent and reached USD 130.3 billion, and USD 213 billion, respectively. As a result, the foreign trade deficit hit USD 82.7 billion in 2011, with a year-on-year increase by USD 33.6 billion.

Despite weaker external demand conditions amid intensifying downside risks to the global economy due to heightened concerns over sovereign debt sustainability in the Euro Area as well as the perception that the recovery in the U.S. economy would be slower than expected, exports remained relatively stable throughout the year. Exports were mainly driven by base metals, motor vehicles, food products and textiles throughout 2011. All subcategories of imports, particularly base metals, chemicals and chemical products, machinery-equipment and road vehicles, increased amid brisk domestic demand.

Having improved in favor of the Turkish economy amid the decline in international energy prices during the global crisis, terms of trade started to deteriorate particularly by the second half of 2009; worsening further in 2011 on the back of the mild recovery in the post-crisis period, causing energy prices, and in particular, crude oil prices to soar (Graph 18). However, even when excluding energy prices, terms of trade have followed a downward course since the second half of 2009.

**Graph 18. Terms of Trade  
(2003=100)**



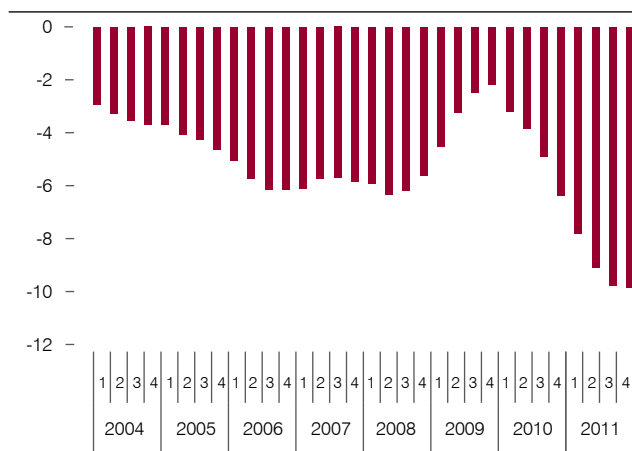
Source: TurkStat, CBRT.

Net services income posted a year-on-year increase by 17.7 percent in 2011 amid soaring tourism revenues as well as increases in other transport revenues. In 2011, tourism revenues and expenditures posted a year-on-year increase by 10.6 and 3.1 percent, respectively. The year-on-year increase by 9.9 percent of the number of tourists visiting Turkey was instrumental on the rise in tourism revenues. Meanwhile, net outflows went up by 8.2 percent to USD 7.7 billion in 2011. Despite plummeting interest expenditures, the rise in expenditures driven by foreign direct investment (FDI) and portfolio investment had an impact on the deterioration of the revenue account. Thus, the ratio of the current account deficit to national income, which was 6.4 percent in 2010, went up to 9.8 percent in 2011 (Graph 19).

Net capital inflow has been USD 51.6 billion in 2011, with the exclusion of reserve changes (CBRT, banks and other sectors) and IMF loans. Unlike the previous year, the non-bank private sector was a net creditor in 2011. Long and short-term borrowings of banks and other sectors, the FDI as well as portfolio investment, particularly GDBS purchases, were the main drivers of net capital inflows. Due to the policy measures adopted in this period, the share of portfolio investment and short-term capital inflows dropped, while the FDI and long-term capital inflows gained a higher share in external financing (Graph 20).

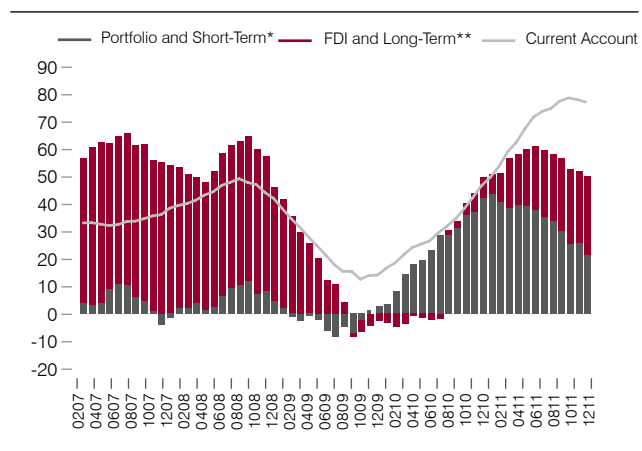
Accordingly, official reserves declined by USD 1.8 billion in 2011, while FX assets of banks and the private sector went down by USD 12.4 billion, with net errors and omissions posting a surplus of USD 12.2 billion.

Graph 19. Current Account/GDP (Annualized, Percent)



Source: CBRT.

Graph 20 Financing of the Current Account Deficit (12-Month, USD Million)



\* Short-term capital flows include net short-term borrowing by banks and the real sector besides deposits at banks.

\*\* Long-term capital flows include long-term borrowing by banks and the real sector besides FX bonds issued by banks and the Treasury.

Source: CBRT.

### Employment, Productivity and Labor Costs<sup>1</sup>

The labor force, which averaged 25.6 million people in 2010, posted a year-on-year increase of 4.2 percent and climbed to 26.7 million in 2011; while employment rose by 6.7 percent to 24.1 million people. The increase in employment pushed the unemployment rate down from 11.9 percent to 9.8 percent. Moreover, the non-farm unemployment rate decreased from 14.8 percent to 12.4 percent, and the youth unemployment rate went down from 21.7 percent to 18.4 percent (Table 2).

In line with the recovery of the Turkish economy, the number of people employed in non-farm sectors, primarily the services and construction sectors recorded a year-on-year improvement in 2011. Moreover, the number of people employed in the farm sector increased in this period on an annual basis, contributing favorably to developments in the labor market. Accordingly, the increase in employment exceeded the number of people participating in the labor force, resulting in a year-on-year plunge in unemployment rates in 2011.

**Table 2. Labor Force and Employment (Thousand People)**

	2009					2010					2011					
	Average	I	II	III	IV	Average	I	II	III	IV	Average	I	II	III	IV	Average
Population of 15-Years and Older	51,686	52,223	52,431	52,645	52,860	52,541	53,152	53,439	53,734	54,027	53,593					
Labor Force	24,748	24,831	25,901	26,166	25,665	25,641	25,766	26,995	27,406	26,696	26,725					
Labor Force Participation Rate (Percent)	47.9	47.5	49.4	49.7	48.6	48.8	48.5	50.5	51.0	49.4	49.9					
Male	70.5	69.8	71.2	71.7	70.4	70.8	70.6	72.0	72.8	71.3	71.7					
Female	26.0	26.1	28.4	28.5	27.5	27.6	27.2	29.8	30.0	28.3	28.8					
Employment	21,277	21,267	23,055	23,195	22,854	22,594	22,802	24,445	24,884	24,267	24,110					
Farm	5,254	5,057	5,849	6,195	5,700	5,701	5,590	6,291	6,722	6,008	6,161					
Non-Farm	16,023	16,210	17,206	17,000	17,154	16,893	17,212	18,154	18,162	18,259	17,949					
Employment Rate (Percent)	41.2	40.7	44.0	44.1	43.2	43.0	42.9	45.7	46.3	44.9	45.0					
Female Employment/ Employment (Percent)	27.6	27.8	29.0	28.6	28.3	28.4	28.2	29.5	29.1	28.7	28.9					
Unemployment Rate (Percent)	14.0	14.4	11.0	11.4	11.0	11.9	11.5	9.4	9.2	9.1	9.8					
Non-Farm	17.4	17.5	13.8	14.5	13.7	14.8	14.2	12.0	11.9	11.4	12.4					
Youth Unemployment Rate	25.3	25.5	19.8	21.1	20.8	21.7	20.6	17.5	18.6	17.0	18.4					
Unregistered Unemployment Rate (Percent)	43.9	41.7	43.6	44.8	42.8	43.3	41.0	42.7	43.6	40.0	42.1					

Source: TurkStat.

The share of unregistered employment within total employment, which increased amid the crisis, edged down in 2010, and decreased by 1.2 percentage point from 2010 to 42.1 percent in 2011. In this period, non-farm

employment posted a year-on-year increase by 6.3 percent and employment increased across all sectors, especially the construction sector, on an annual basis (Table 3).

**Table 3. Employment by Sectors (Thousand People)**

	2009					2010					2011					
	Average	I	II	III	IV	Average	I	II	III	IV	Average	I	II	III	IV	Average
Industry	4,130	4,340	4,511	4,577	4,723	4,541	4,686	4,823	4,738	4,740	4,748					
Manufacturing Industry	3,949	4,111	4,283	4,337	4,485	4,307	4,417	4,530	4,459	4,473	4,471					
Construction	1,249	1,083	1,450	1,474	1,468	1,368	1,279	1,690	1,823	1,609	1,602					
Services	10,644	10,787	11,243	10,948	10,961	10,985	11,247	11,639	11,600	11,906	11,597					
Trade, Hotels, Restaurants	4,542	4,377	4,571	4,655	4,481	4,520	4,609	4,760	4,807	4,733	4,728					
Other Services	6,102	6,410	6,672	6,293	6,480	6,465	6,638	6,879	6,793	7,173	6,869					

Source: TurkStat.

<sup>1</sup> Since January 2010, TurkStat Household Labor Survey employment results have been published according to NACE Revised 2 coding rather than NACE Revised 1. In this section, 2010 data are transformed into NACE Revised 1.

Production growth surpassed employment growth in 2011, resulting in partial productivity increases per capita across all non-farm sectors (Table 4). Real unit labor costs continued to decline in 2011, amid the increase in labor productivity in all sectors. In the first nine months of 2011,

partial productivity per capita went up by 2.7 percent in the industrial sector, causing real unit wages to decrease by 0.2 percent. Hourly labor cost went up across all sectors during the same period.<sup>2</sup>

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

	2008	2009	2010				2011					
	Average	Average	I	II	III	IV	Average	I	II	III	IV	Average
<b>Industry</b>												
Production	-0.6	-9.9	17.3	13.8	10.0	12.1	13.1	13.3	7.3	6.7	5.6	8.2
Employment	-0.3	-9.5	0.8	4.8	5.7	6.4	4.5	6.1	5.3	4.8	5.0	5.3
Per Capita Productivity	-0.3	-0.4	16.4	8.5	4.0	5.3	8.2	6.8	1.9	1.8	0.6	2.7
Real Unit Wage	0.9	2.8	-12.8	-6.7	-1.7	-2.0	-6.1	-2.5	0.7	1.5	-0.5	-0.2
<b>Construction</b>												
Production	-7.5	-16.4	9.3	19.5	21.2	18.0	17.4	15.7	13.4	10.7		
Employment	-5.4	-19.5	-4.3	2.8	5.0	6.4	2.6	6.1	4.2	-0.2	0.8	2.7
Per Capita Productivity	-2.2	3.9	14.1	16.2	15.5	10.9	14.2	9.1	8.9	10.9		
Real Unit Wage	7.6	5.0	-11.2	-13.2	-11.3	-6.7	-10.6	-3.3	-4.9	-4.9		
<b>Trade-Services</b>												
Turnover	6.8	-2.0	15.4	16.9	17.5	26.0	19.2	23.9	22.7	21.5	12.1	19.8
Employment	1.6	-5.8	0.5	1.9	2.6	2.0	1.7	3.6	5.0	5.4	6.4	5.1
Per Capita Productivity	5.1	4.1	14.8	14.8	14.5	23.5	17.1	19.7	16.8	15.4	5.4	14.0
Real Unit Wage	6.7	7.2	-3.5	-2.7	-2.7	-9.7	-4.6	-7.2	-4.7	-3.4	6.2	-2.4
<b>Hourly Labor Cost</b>												
Total	12.5	8.9	5.7	7.5	11.3	10.3	8.7	8.7	9.5	9.5	10.3	9.5
Industry	12.5	8.9	3.1	6.3	11.6	10.2	7.8	9.2	9.0	8.6	9.0	8.9
Construction	11.2	13.2	8.2	9.2	10.7	11.1	9.8	10.9	12.5	14.6	14.0	13.0
Trade-Services	12.7	7.4	10.4	9.1	11.0	10.1	10.1	8.5	10.3	9.0	11.0	9.7
CPI	10.4	6.3	9.3	9.2	8.4	7.4	8.6	4.3	5.9	6.4	9.2	6.5

\* Wages are deflated by CPI.  
Source: TurkStat, CBRT.

<sup>2</sup> Hourly Labor Cost Index released by TurkStat with base year 2008 is published as earnings and non-earnings (payments by the employer such as social security, advance notice and severance pay and other labor cost payments).

## Loans

Given the macro prudential concerns regarding the high current account deficit as well as financial stability, the CBRT closely monitored loans that rapidly expanded as of mid-2010. In order to slow down loan growth, the CBRT delivered sizeable hikes to the required reserve ratios as of late 2010. Meanwhile, in view of the risks that loan growth may pose on the balance sheet of the banking sector, the BRSA amended some regulations.

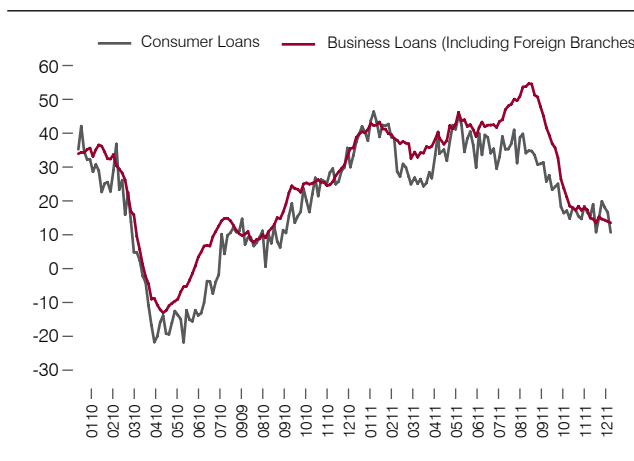
Despite sizeable hikes to the required reserve ratios, loans failed to grow at desired rates in the first half of the year. However, by June, consumer loan growth paused significantly owing to measures adopted by the BRSA on consumer loans other than automobile and housing. In fact, consumer loan growth slowed down markedly across all subcategories following the amendments to regulations on general provisions (Graph 21).

CBRT's tight monetary policy stance also played a major role on the continuous slowdown in loan growth in the second half of the year. In particular, the widening of the interest rate corridor and liquidity tightening in October were extremely effective on loan rates (Graph 22). Besides the policy measures adopted, the gradual slowdown in economic activity particularly due to elevated uncertainties in the Euro Area, also weighed on loan demand. Unfavorable developments in the Euro Area are considered to restrict loan supply due to their adverse effects on capital flows, which constitute an important source of funding for the banking sector.

Meanwhile, loan rates, which slumped at end-2010, followed an upward course throughout 2011. Loan rates which increased amid required reserve ratio hikes as well as the CBRT's liquidity policies in the first half of the year, increased further following the BRSA's measures in June. The firm stance of the authorities in restricting loan growth is considered to propel banks to limit loan growth by raising loan rates (Graph 22).

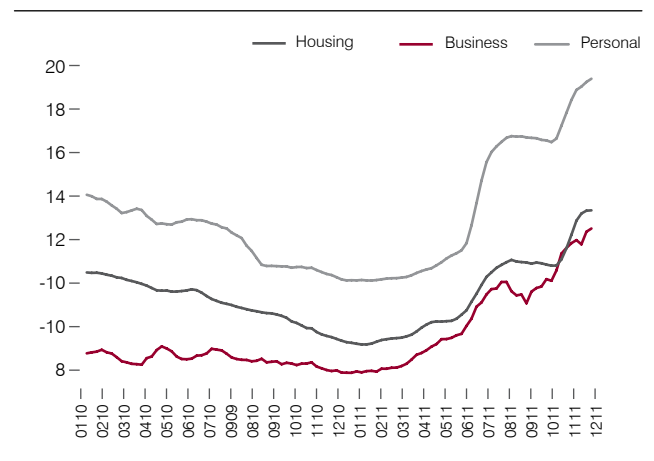
As a result of the measures adopted by the authorities as well as other factors, loan growth hovered around 25 percent across 2011, while dropping to 12 percent - considered to be quite low - by the last quarter.

**Graph 21. Loan Growth**  
(Annual Percent Change, 13-Week Moving Average)



Source: CBRT.

**Graph 22. Loan Rates**  
(Annualized Percent, Flow Data, 4-Week Moving Average)



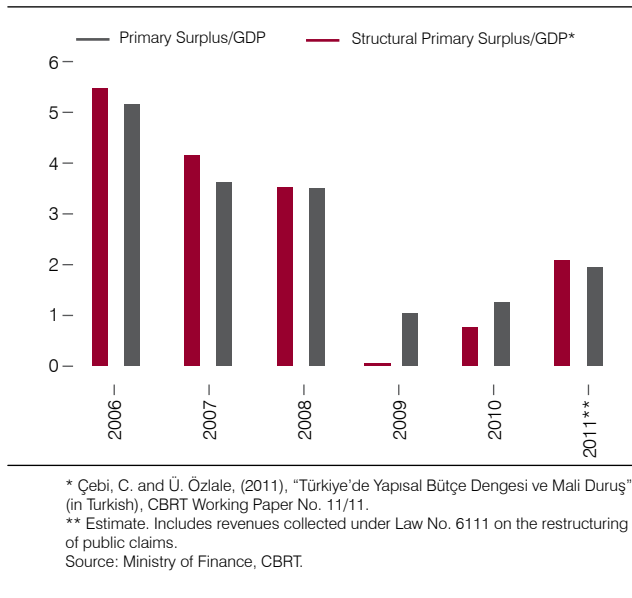
Source: CBRT.

### Public Finance and Debt Stock

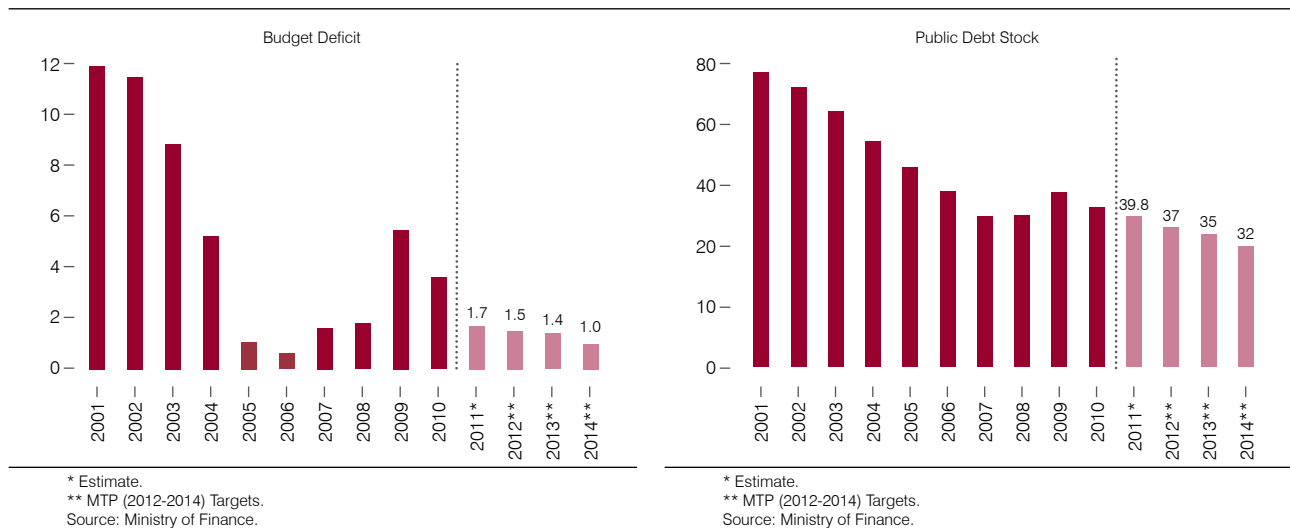
The faster-than-expected rebound in economic activity pushed tax revenues up and interest expenditures down in 2011; thus, favorably affecting fiscal balances (Graph 23). Moreover, the additional revenue, which is expected to account for 1 percent of the GDP in 2011, provided by Law No. 6111 on the restructuring of public claims (tax and social security premium amnesty), applications for which were due on 31 May 2011; as well as the relative slowdown in primary expenditures also supported fiscal balances.

Increases in indirect taxes, VAT on imports in particular, which are mainly fuelled by the vigorous private consumption demand, in addition to revenues collected under the law on restructuring of public claims were particularly effective on the favorable outlook of budget performance, indicating that the improvement in fiscal balances was mainly driven by cyclical factors and regulations. In fact, excluding revenues collected under the tax and social security premium amnesty, which is expected to account for about 1 percent of the GDP, the ratio of primary surplus to GDP posted a modest increase in 2011, and the ratio of structural primary surplus to potential GDP declined (Graph 24).

**Graph 24. Central Government Primary Surplus and the Structural Primary Surplus (Percent)**



**Graph 23. Central Government Budget Deficit and EU-Defined Public Debt Stock (Percent of GDP)**



The MTP covering 2012-2014 was announced to the public in October 2011. According to MTP targets, primary expenditures are envisioned to be reduced gradually as of 2012. Moreover, besides tax revenues that increased due to legal and administrative arrangements, it is also aimed to gradually raise the primary surplus. The public debt-to-GDP ratio is envisaged to decline markedly amid the fall in the public sector borrowing requirement (Table 5).

Fiscal indicators in the MTP indicate that the improvement fuelled by the stronger-than-expected recovery in 2011 will continue in the period ahead. However, in order to ensure sustainability of the fiscal discipline and to maintain positive divergence of Turkey from other countries, strengthening of the fiscal framework with institutional and structural improvements laid down in the MTP is of utmost importance.

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

	2009	2010	2011*	2012**	2013**	2014**
Budget Revenues	22.5	23.0	22.7	23.1	22.9	22.5
Budget Expenditures	28.0	26.6	24.4	24.6	24.2	23.6
Budget Balance	-5.5	-3.6	-1.7	-1.5	-1.4	-1.0
Budget Revenues (Program-Defined)	21.0	21.8	22.0	22.1	22.0	21.8
Primary Expenditures (Program-Defined)	22.5	22.2	21.1	21.1	20.9	20.4
Primary Balance (Program-Defined)	-1.5	-0.5	0.9	1.0	1.2	1.4
Total Public Primary Balance (Program-Defined)	-1.0	0.8	1.2	1.1	1.3	1.5
EU-Defined General Government Nominal Debt Stock	46.1	42.2	39.8	37.0	35.0	32.0

\* Estimate.

\*\* MTP (2012-2014) Targets.

Source: Ministry of Finance.

Central government budget posted a deficit of TL 17.4 billion, while the primary balance posted a surplus of TL 24.8 billion in 2011 (Table 6). The improvement in budget performance in 2011 was driven by soaring tax revenues amid the recovery as well as the decline in interest expenditures besides the TL 13.3 billion of tax revenues

collected under the law on restructuring of public claims by December 2011. In addition, the relative slowdown in the growth of primary expenditures also contributed to the decline in the budget deficit.

**Table 6. Central Government Budget Aggregates (TL Billion)**

	2010	2011	Rate of Increase (Percent)	Realization/Budget Target (Percent)
Central Government Budget Expenditures	294.4	313.3	6.4	100.2
Interest Expenditures	48.3	42.2	-12.6	88.9
Primary Expenditures	246.1	271.1	10.2	102.3
Central Government Budget Revenues	254.3	295.9	16.4	106.0
I. Tax Revenues	210.6	253.8	20.5	109.3
II. Non-Tax Revenues	35.5	32.6	-8.1	82.7
Budget Balance	-40.1	-17.4	-56.5	52.0
Primary Balance	8.2	24.8	201.5	177.5

Source: Ministry of Finance.

Fiscal and debt management policies implemented in accordance with the prudent monetary policy in 2011 besides the faster-than-expected recovery in economic activity as of the last quarter of 2009 had favorable effects on fiscal balances, and thus, public debt stock indicators. Moreover, amid the improvement of the legal and administrative framework of public debt management as well as borrowing strategies with a long-term perspective, the debt stock structure was improved, the real cost of borrowing was significantly reduced and the sensitivity of the public debt stock to external shocks diminished. In accordance with MTP targets, the public debt-stock-to-GDP ratio, which started to decline in 2010, is envisioned to decline further in the medium term amid a gradual decline in the fiscal deficit (Graph 23 and Table 5).

#### 2.2.4. Monetary Policy Decisions and Implementations

##### Inflation Targeting: Overview

With an amendment made to its Law No. 1211 in 2001, the CBRT was charged to take measures to ensure stability of the financial system in addition to its main objective of achieving price stability. Accordingly, in order to contain macro financial risks caused by divergences in growth, and hence, in monetary policies between emerging and advanced economies; the CBRT improved its inflation targeting framework, and adopted a new policy strategy. In this context, the CBRT also considers macro financial stability, while preserving price stability as the main objective. This new strategy designed for multiple objectives requires the use of more than one tool. Hence, with a view to ensuring the diversification of tools, the CBRT jointly uses the one-week policy rate, the interest rate corridor between O/N lending and borrowing rates as well as the required reserve ratios.

Under the inflation targeting regime, as in previous years, year-end inflation rates calculated as the 12-month change in the CPI is set as the target variable, and inflation targets are jointly determined with the government as point targets. The structural transformation of the Turkish economy in recent years, the rigidities brought about by chronic high inflation in the past, measurement biases due to quality improvement, as well as convergence to the European Union required setting a relatively higher inflation rate as the target than in advanced economies. Accordingly, the inflation target was set at 5.5 percent for 2011, and the medium-term inflation target was preserved at 5 percent. The uncertainty band, a constituent to the CBRT's liability

for accountability, was maintained as 2 percentage points in both directions. In the event of a breach of inflation from the year-end target by more than 2 percentage points, reasons for the deviation in addition to the measures already adopted to meet the target as well as the necessary measures to be adopted in the future are publicly announced through the Inflation Report. The CBRT submits an open letter to the government should year-end inflation deviate markedly from the inflation target.

Policy rate decisions, like those of previous years, were taken on a monthly basis within a pre-determined schedule in 2011. A briefing on MPC decisions was released on the same day, while a more detailed summary of the meetings, including the English versions, were announced within five days of the meeting.

The Inflation Report and announcements of MPC meetings, like previous years, remained as the main communication tool of the monetary policy in 2011. The Inflation Report was published in January, April, July and October in 2011, as in previous years. Furthermore, the Monthly Price Developments released on the subsequent working day of the announcement of inflation data, the bi-annual Financial Stability Report, press releases regarding monetary and exchange rate policy, presentations and speeches by CBRT officials as well as meetings with banking sector economists played a significant role in communicating with the public. Moreover, working papers, booklets, economic notes in addition to conferences and workshops held by the CBRT also constituted major components of the communication policy.

##### Monetary Policy Implementations

The anti-crisis monetary easing policies pursued by major central banks in the post-crisis period had significant effects on emerging economies as well as Turkey. The availability of ample and low-cost short-term external financing caused rapid credit growth and gradual appreciation of the Turkish lira; thus, leading to the accumulation of macro financial risks and external imbalances as of the second half of 2010. Short-term capital inflows causing a further divergence between domestic and external demand led to a widening current account deficit, thus requiring the adoption of macro prudential measures.

Through the policies implemented as of the last quarter of 2010, the CBRT aimed to gradually drive the economy onto a robust growth path as allowed by the favorable inflation outlook in the said period. Accordingly, the CBRT followed a



strategy to discourage capital inflows by keeping short-term rates low on the one hand, and to contain domestic demand and credit growth by raising the required reserve ratios on the other. Moreover, extension of the liabilities of the financial system was adopted as a supplementary objective.

Under the new policy mix, the one-week repo rate, the policy rate, was lowered from 7 percent to 6.25 percent in December 2010 and January 2011 (Table 7). In addition to lowering the policy rate, the O/N borrowing rate was also reduced, and thus, the interest rate corridor was widened. Hence, O/N market rates were allowed to be lower than the policy rate, thus causing increased downside volatility in O/N market rates and a decline in short-term capital inflows.

Ongoing hikes in oil and other commodity prices intensified the upside risks on inflation in the first quarter of 2011, and accordingly, the CBRT envisioned the need for additional monetary tightening in order to contain the secondary effects. Having assessed that delivering additional tightening through raising the required reserve ratios rather than policy rate hikes would prove more effective in alleviating macro financial risks stemming from the divergence between internal and external demand, the weighted average of the Turkish lira required reserve ratios were raised significantly in January, March and April 2011 (Table 7). Moreover, FX required reserve ratios were differentiated by maturity, with short-term FX required reserve ratios being increased slightly in April (Table 8).

**Table 7. CBRT's Decisions on Money Markets in 2011**

	<b>1-Week Repo Auction Rate</b>	<b>Interest Rate Corridor</b>	<b>TL Required Reserve Ratios</b>	<b>Other</b>
January 2011	Lowered by 25 basis points.		Raised for short-term liabilities.	
February 2011				
March 2011			Raised for short-term liabilities.	
April 2011			Raised for short-term liabilities.	
May 2011				
June 2011				
July 2011				
August 2011	Lowered by 50 basis points.	O/N borrowing rates were raised and the interest rate corridor was narrowed.	Method for calculation of the liabilities subject to reserve requirement was amended in the Communique on Reserve Requirements.	Method for repo auctions was changed.
September 2011			Up to 10 percent of the reserve requirements for Turkish lira liabilities were allowed to be kept in USD and/or euro.	Gold deposit accounts were included in liabilities subject to required reserves.
October 2011		O/N lending rate was raised and the interest rate corridor was widened.	Required reserve ratios were lowered twice and differentiated by maturities. The upper limit for required reserves to be kept as FX was raised to 20 and 40 percent, respectively. Up to 10 percent of the reserve requirements were allowed to be kept as standard gold.	
November 2011				The planned lower limit started to be announced bi-weekly for the outstanding funding stock (weekly repo funding amount) provided by weekly repo auctions for any day during the following period of the establishment of required reserves.
December 2011				One-month repo auctions started to be held under the traditional auction method every Friday.

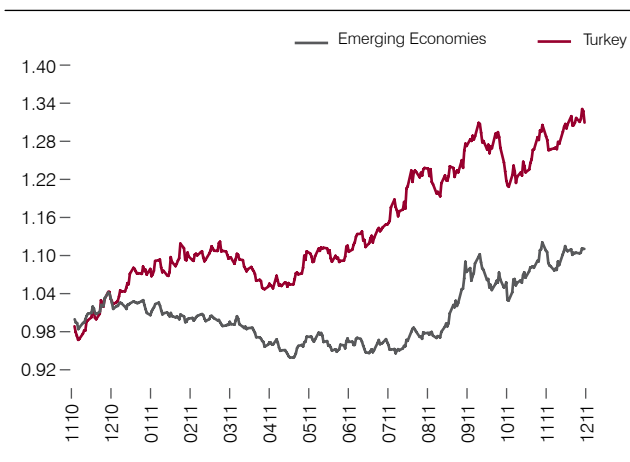
In the second quarter of the year, core inflation indicators increased gradually as foreseen due to the lagged effects of the cumulative increases in import prices. The increase in import prices was considered to be the result of a relative price change in tradable goods rather than deterioration in the general pricing behavior, hence secondary effects are yet to be observed. Accordingly, in view of the slowdown in economic activity and uncertainties in the global economy, the policy rate and Turkish lira required reserve ratios were kept unchanged in the May-July period.

The measures adopted removed the excessive appreciation pressure on the Turkish lira (Graph 25). However, mounting concerns over global growth and sovereign debt problems in some European countries fuelled the risk of a renewed slowdown in the global economy as of August 2011. Envisioning that external demand might be adversely affected, while domestic demand, and hence, economic activity would slow down further amid heightened global uncertainty; the CBRT held an interim meeting on 4 August and lowered the policy rate by 50 basis points. In addition, in order to effectively enforce countercyclical liquidity measures in the event of a further deterioration in the risk appetite, the interest rate corridor was narrowed by raising the O/N borrowing rate and a technical arrangement was introduced to the weekly auction method (Table 7). Moreover, regulations on Turkish lira required reserves were amended in order to meet the liquidity needs of the banking system.

The excessive depreciation of the Turkish lira since August amid the worsening global risk appetite in addition to administered price adjustments in the last quarter appeared to cause a faster-than-expected rise in short-term inflation. With a view to containing the adverse effects on the medium-term inflation expectations and outlook, the CBRT widened the interest rate corridor upwards by delivering a sizeable borrowing rate hike in October. Accordingly, the CBRT allowed money market O/N rates to be higher than the policy rate by adjusting the market funding. Meanwhile, in order to prevent an unfavorable tightness in liquidity conditions due to the O/N rate hike, Turkish Lira required reserve ratios were lowered in October (Table 7). Moreover, in order to enhance the liquidity management of banks and help them foresee total funding costs, technical arrangements were rendered in repo auctions in November and traditional one-month repo auctions were initiated starting from 27 December 2011 on every Friday.

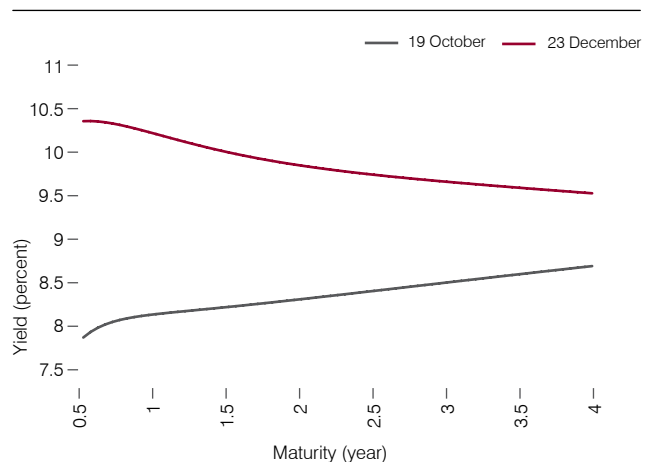
Decisions taken in October on the upward widening of the interest rate corridor as well as tightening of liquidity conditions significantly pushed O/N market rates upwards. Monetary tightening pushed the yield curve up across all maturities, and particularly in the short term (Graph 26).

**Graph 25. TL and Emerging Market Currencies\* (01.10.2010=1)**



\* Emerging economies include Brazil, Chile, the Czech Republic, Hungary, Mexico, Poland, South Africa, Indonesia, South Korea and Colombia. Increases denote the depreciation of the currency against the USD.  
Source: Bloomberg, CBRT.

**Graph 26. Yield Curve\***



\* Calculated from the bonds quoted in ISE Bonds and Bills Market by using Extended Nelson Siegel (ENS) method.  
Source: ISE, CBRT.

Macro prudential policies in 2011 proved effective, by giving way to balancing of the economy. However, the excessive depreciation of the Turkish lira amid the worsening global risk appetite as of August as well as administered price adjustments in the last quarter caused inflation to remarkably deviate from the target. As a result, year-end CPI inflation went far above the year-end target of 5.5 percent, by hitting 10.45 percent at end-2011.

With a view to controlling inflation expectations and balancing medium-term inflationary risks, the CBRT delivered a significant monetary tightening in October 2011. Moreover, assessing the need to start disinflation earlier than expectations in order to contain secondary effects, the CBRT has implemented an additional monetary tightening as of 29 December 2011. The additional tightening was delivered mainly through open market operations. The funding quoted at the policy rate was temporarily reduced below the lower limit announced for ordinary days. Furthermore, non-sterilized (effective) FX sales and direct interventions were resorted to when deemed necessary.

### Exchange Rate Policy

Along with the inflation targeting regime, the CBRT continued to implement the floating exchange rate regime in 2011. This regime does not entail the use of the exchange rate as a policy tool, and the CBRT does not set any nominal or real exchange rate target. However, in the event of observing unhealthy price formation in exchange rates due to loss of market depth, FX markets can be directly intervened. Moreover, during times when FX supply exceeds FX demand, FX buying auctions for reserve accumulation can be held with prior notice.

Amid strong capital inflows to Turkey in the first quarter of 2011, further FX buying auctions were held with the objective to strengthen CBRT reserves as much as possible. In the second quarter of 2011, aggravated concerns over global growth and sovereign debt sustainability in some European countries deteriorated the risk appetite and had an adverse impact on capital flows to emerging economies, including Turkey. In view of these developments, the amount to be purchased via daily FX auctions was reduced by the arrangements brought about in May and June, and FX buying auctions were suspended as of 25 July 2011.

Table 8. CBRT's Decisions on FX Markets in 2011

	FX Auctions and Interventions	FX Required Reserve Ratios	FX and Banknotes Markets FX Deposit Market
January 2011			
February 2011			
March 2011			
April 2011		Raised in different ratios by maturities.	
May 2011	The amount to be purchased via daily FX auctions was reduced from USD 50 million to USD 40 million.		
June 2011	The amount to be purchased via daily FX auctions was reduced from USD 40 million to USD 30 million.		
July 2011	FX buying auctions were suspended.	Lowered for long-term liabilities.	
August 2011	FX selling auctions were decided to be held when deemed necessary.	Lowered for all maturities.	Lending rates in USD and euro-denominated transactions to which the CBRT is a party were reduced.
September 2011	The selling amount was set as the maximum daily amount to be sold on the days of FX sales. The amount to be sold could also be lower than the maximum selling amount when deemed necessary.		The Regulation on Rediscount and Advance from the CBRT was amended and the use of exports re-discount credits was eased. The time for fulfilling the export commitment was extended.
October 2011	Direct FX sale intervention was performed on October 18.	Lowered in different ratios by maturities. Standard gold was facilitated to be kept in the CBRT to fulfill the whole reserve requirement held against the precious metal deposit accounts and up to 10 percent of the required reserves for FX liabilities, excluding precious metal deposit accounts.	
November 2011	Maximum amount of FX that can be sold via auctions was announced on every working day for the subsequent two working days.		CBRT resumed intermediation activities in FX and Banknotes Markets of FX Deposit Markets.
December 2011	Maximum amount of FX that can be sold within two working days following the daily FX auctions and the amount that can be sold other than exceptions were revised following the MPC meetings. Regular auctions were also held on the days of direct FX intervention prior to the auction. Direct FX sale intervention was performed on December 30.		The maturity of FX deposits that the banks can borrow from the CBRT within their borrowing limits in the FX Deposit Markets was extended.

Given the heightened uncertainty due to aggravated concerns over global growth and sovereign debt sustainability in some European countries as of late July, with a view to providing the market with FX liquidity, the CBRT started to hold FX selling auctions as of 5 August when deemed necessary. Technical arrangements on the method of FX selling auctions were amended in September, November and December (Table 8). Moreover, on 18 October and 30 December, a direct FX sale intervention was performed in response to observing unhealthy price formation in exchange rates due to loss of market depth.

In 2011, the amount of FX purchased via FX buying auctions totaled USD 6.45 billion, while the total amount of FX sold through FX sale auctions and direct interventions amounted to USD 11.74 billion.<sup>3</sup> Gross FX reserves excluding gold stood at USD 78.33 billion at end-2011.

With a view to providing the market with FX liquidity, FX required reserve ratios were reduced in July and August. In addition, interest rates on weekly FX deposits at the FX and Deposit Markets were slightly reduced in August. The maturity of FX deposits that banks can buy from the CBRT was extended from one week to one month in December. Furthermore, in order to ease FX liquidity in the interbank FX markets, the CBRT resumed its intermediation activities in the FX Deposit Markets in November (Table 8).

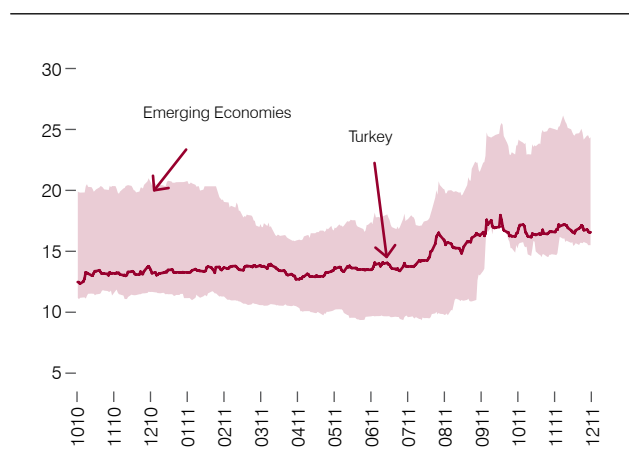
Measures adopted by the CBRT since August have reduced the adverse effects of heightening uncertainties in the Euro Area on the Turkish economy. Owing to FX market arrangements as well as policy decisions on the interest rate corridor, exchange rate volatility remained more subdued in Turkey than in other emerging economies (Graph 27).

### Monetary and Exchange Rate Policy in 2012

The general framework of the monetary and exchange rate policy for 2012 was publicly announced via “The Monetary and Exchange Rate Policy for 2012” of the CBRT on 27 December 2011. Accordingly, the CBRT will continue with the inflation targeting and floating exchange rate regimes in 2012. The inflation target set for end-2012 is 5 percent. As in previous years, the uncertainty band is preserved as 2 percentage points in both directions in 2012.

In the forthcoming period, the CBRT will continue to observe financial stability, while focusing on price stability. To this end, the CBRT will take steps to enhance the efficiency of the monetary policy and liquidity management. Accordingly, the CBRT will continue to effectively utilize the one-week repo auction rate, the interest rate corridor between O/N borrowing and lending rates, and the required reserve ratios. In the period ahead, in order to ensure the smooth functioning of the FX market and to support FX liquidity, the CBRT will closely monitor developments in FX demand and supply, and prudently take the necessary measures within its means.

Graph 27. Exchange Rate Volatility\*



\* Emerging economies include Brazil, Chile, the Czech Republic, Hungary, Mexico, Poland, South Africa, Indonesia, South Korea and Colombia.  
Source: Bloomberg, CBRT.

<sup>3</sup> The direct FX selling intervention on December 30, 2011 is not included.

## 2.3. Financial Stability Developments and Operations

With the Central Bank Law which was revised in 2001, the CBRT is charged with implementing measures to ensure stability of the financial system, in addition to its primary objective of price stability. Within this context, analyses and assessments related to risks and vulnerabilities in the financial system during 2011 are shared with the public through the Financial Stability Reports published in May and November.

The impact and extent of the global financial turmoil have reached a level that has never been experienced before. The public sector, which at the onset of the global turmoil played a supportive role towards the financial and corporate sectors that were at the heart of the problems, became the main risk factor at this stage of the crisis and the notion of “sovereign risk” started to become more significant. Excessive falls in the values of particularly risky sovereign bonds due to increased sovereign risk, started to affect banking sectors of countries via the government securities that they hold in their portfolios. Along with the problems spreading across Europe due to the interconnected structure of the financial markets, the global risk appetite decreased significantly. Consequently, the central banks of many developed countries tended to implement “unorthodox” monetary policies.

Meanwhile, the loss of confidence in risky countries started to spill over to other countries as well, due to concerns over the inadequacy of measures taken by the authorities, both in terms of scope and extent, to mitigate the effects of the crisis. Deterioration of the growth performance of developed countries reflects on developing countries through the channels of funding, expectations and trade. The excessive increase in public debts and money supply also raises the volatility of capital flows to developing countries.

Ongoing capital inflows in the first half of 2011, strong macroeconomic fundamentals and accommodative market conditions gave way to a high growth performance in Turkey. Improvement in the budget balance and public debt stock continues thanks to increased tax revenues on the back of robust economic activity and containing public expenditures. Besides, parallel to measures taken to curb credit growth, the growth rate decelerated starting from the second quarter of the year, accompanied by a narrower gap between internal and external demand. Credit growth lost pace from the third quarter onwards and attained reasonable levels. In line with increased uncertainty over the global economy and the deterioration in the risk appetite, capital outflows were observed in Turkey in the third quarter -as was the case in other developing countries- and the Turkish lira depreciated, albeit within a narrower band compared to the said countries. Besides, imports have continued to weaken recently on the back of the deceleration in domestic demand and exports have displayed a limited increase. This situation

has contributed to curbing the high growth trend of the current account deficit. Furthermore, the increased share of long-term borrowings in financing the current account deficit has improved the quality of financing.

In spite of adverse developments in external markets, the Turkish banking sector has maintained its sound structure in 2011 with the contribution of macro prudential measures. While deposits have continued to be the main source of funding for the sector, its asset quality has improved on the back of the increased debt service capacity of the corporate sector and households. Banks' liquidity ratios still hover above legal ratios. The net interest margin has narrowed down and primary expenditures have increased recently, as a result of which the profitability of the banking sector has declined. However, profitability performance indicators remain robust compared to other countries. Meanwhile, despite a decline stemming mainly from the surge in credits, the capital adequacy ratio of the sector hovers above the minimum and target ratios. The quality of capital is above the levels stipulated by international standards, which indicates robustness of the capital structure of the sector.

As can be seen from the illustration of determinants of financial stability, sectors other than households and the public sector display a riskier outlook globally, which is in general attributed to negative developments in global markets (Graph 28). Nevertheless, the Turkish banking sector maintains its sound structure and resilience against shocks.

Graph 28. Financial Stability Map<sup>1,2</sup>



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

### 2.3.1. Reserve Requirements

In order to encourage the extension of the maturity of liabilities, thereby decreasing maturity mismatches and contributing to financial stability, the Turkish lira reserve requirement ratio was differentiated according to maturity structure as of 7 January 2011. Following this, Turkish lira reserve requirement ratios were raised several times especially for short term liabilities so as to support financial

stability. As of the second half of 2011, considering the slowdown in the global economy and developments regarding domestic demand, Turkish lira reserve requirement ratios were gradually decreased with the aim of supplying the liquidity needs of the market.

**Table 9. TL Reserve Requirement Ratios (%)**

Date of Enforcement	Deposits / Participation Fund					Other Liabilities				Weighted Average
	Demand Dep, Private Current Acc.	Up to 1 Month	Up to 3 Month	Up to 6 Month	Up to 1 Year	1 Year and Longer, Cumulative Dep.	Up to 1 Year	Up to 3 Year	Longer Than 3 Year	
07.01.2011	8	8	7	7	6	5	8	8	8	7.4
04.02.2011	12	10	9	7	6	5	9	9	9	9.4
01.04.2011	15	15	13	9	6	5	13	13	13	13.2
29.04.2011	16	16	13	9	6	5	13	13	13	13.3
30.09.2011	16	16	12.5	9	6	5	11	8	5	12.5
28.10.2011	11	11	11	8	6	5	11	8	5	10.5

FX reserve requirement ratio were differentiated according to maturity structure as of 29 April 2011 in order to lengthen

the maturity of liabilities, while ratios were decreased in the second half of the year.

**Table 10. FX Reserve Requirement Ratios (%)**

Date of Enforcement	Deposits / Participation Fund					Other Liabilities				Weighted Average
	Demand Dep, Private Current Acc.	Up to 1 Month	Up to 3 Month	Up to 6 Month	Up to 1 Year	1 Year and Longer, Cumulative Dep.	Up to 1 Year	Up to 3 Year	Longer Than 3 Year	
29.04.2011	12	12	12	12	12	11	12	11.5	11	11.8
22.07.2011	12	12	12	12	12	10	12	10	9	11.5
05.08.2011	11.5	11.5	11.5	11.5	11.5	9.5	11.5	9.5	8.5	11
30.09.2011	11	11	11	11	11	9	11	9	6	10.25

In order to support and use the Central Bank's foreign exchange reserves in a timely, controlled and effective manner, banks were offered a facility where they could maintain up to 10 percent of their reserve requirements for Turkish lira liabilities in US dollar and/or euro, effective as of 16 September 2011. This ratio was raised to 20 and 40 percent on 30 September and 28 October, respectively.

Gold deposit accounts, which displayed a rapid rise in the last few years, became subject to reserve requirements as of 14 October 2011. Accordingly, as a new degree of flexibility to the banking sector, the total amount of reserve requirements for precious metal deposit accounts and up to 10 percent of the reserve requirements for foreign currency liabilities excluding precious metal deposit accounts, was allowed to be maintained as "standard gold". Following this, up to 10 percent of reserve requirements maintained for Turkish lira liabilities was also allowed to be maintained as "standard gold" to be effective as of 28 October 2011.

### 2.3.2. Export Rediscount Credits

The Central Bank of the Republic of Turkey Rediscount and Advance Regulation has been updated to accommodate current needs and entered into force on 8 September 2011.

In order to mitigate the adverse effects of the global financial crisis on exporting firms and to increase foreign exchange reserves, the USD 2.5 billion rediscount credit limit that is extended to export firms via banks in order to finance pre-shipment and post-shipment exports was raised to USD 3 billion on 8 September 2011; then it was increased by another USD 1.5 billion to a total of USD 4.5 billion on 27 December 2011.

Bills to be approved for rediscount credits may also obtain the payment guarantee of the Credit Guarantee Fund, which is authorized to provide guarantees for Small and Medium Sized Enterprises, as well as the payment guarantee of a bank residing in Turkey.

In order for the credit limit allotted to Turkish Eximbank to be used more efficiently and intensely, in addition to our Ankara and İstanbul branches, our İzmir branch has started to take part in extending rediscount credits. Accordingly, the İstanbul and İzmir branches of Turkish Eximbank have been licensed to submit rediscount credit applications.

The credit limit allocated to each Foreign Trade Capital Company has been raised from USD 40 million to USD 60 million, the credit limit for other companies has been raised from USD 20 million to USD 40 million for each company.

The duration for the fulfillment of the export commitment needed to obtain rediscount credits (including exports made from free trade zones to foreign countries and exports made by group companies) has been raised to six months beginning from the date the credit has been used.

Throughout 2011, approximately, USD 3 billion worth of export rediscount credits have been extended while its outstanding balance for year end 2011 is USD 1.6 billion. In case the rise in demand for rediscount credits over the last four months of 2011 continues in 2012 and the limit allotted to Turkish Eximbank is to be used completely, the total contribution of these credits to foreign exchange reserves could reach up to USD 9.5 billion. The contribution of rediscount credits to foreign exchange reserves in the previous year was approximately USD 1.9 billion.



## 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 2010 were 18.7 million and TL 228.0 billion, respectively, the volume of cheques cleared decreased to 18.2 billion; whereas the value increased to TL 275.4 billion in 2011 (Graph 29).

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

The process for the preparation of the Draft Payment Systems, Payment Services and Electronic Money Institutions Law, within the context of the 2008 National Programme of Turkey for the adoption of the EU acquis continued in 2011.

Moreover, concerning the implementation of the communique to be issued by CBRT on International Bank Account Number (IBAN), as of the end of 2011, IBAN usage ratio of payers is 99 percent whereas the payees' ratio is about 76 percent for fund transfer via Electronic Fund Transfer System.

### 2.4.3. Restructuring of TIC-RTGS & ESTS System

Based on various business requirements and the need to upgrade the technical infrastructure, studies for restructuring the TIC-RTGS and ESTS was initiated in August 2011. The new system which will facilitate the risks of the current system to be reduced, and the disaster recovery and business availability capabilities will be improved, has started to be developed by the internal resources of the CBRT.

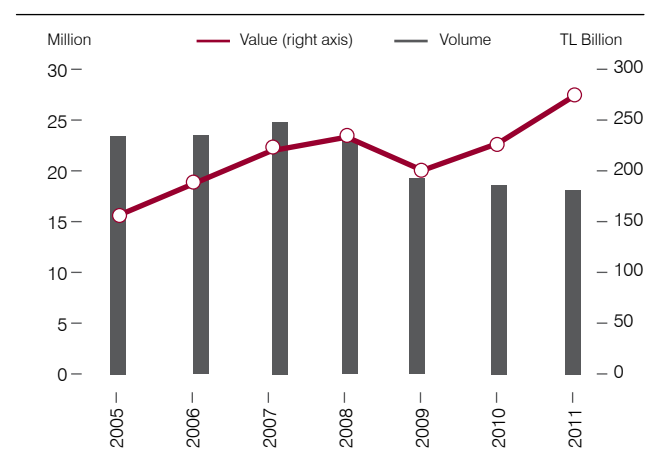
In this regard, the RPS (Retail Payment System), which is the retail payment system that will process the low-valued customer payments, TIC-RTGS III - which is the high value interbank payments system to replace the current EFT System (TIC-RTGS II) and TIC-ESTS II system which is the new generation of the electronic securities transfer and settlement system to replace the current TIC-ESTS will be designed and developed by the resources of CBRT. The related projects have been started and will be accomplished with a phased approach. All systems will be in production by the end of 2013.

### 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 11-14 May 2011 in Izmir.

The workshop was attended by 42 central bankers from 17 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 payment integration. Moreover, parallel discussion sessions were held on oversight of payment systems and on retail payments integration.

**Graph 29. Cheques Cleared in the Interbank Clearing Houses Center**



Source: The Interbank Clearing Houses Center

## 2.4.5. TIC-RTGS & ESTS System Issues

### 2.4.5.1. Studies for Disaster Recovery Software Package

The disaster recovery software package (DRSP) has been developed and provided for participants of TIC-RTGS and ESTS System. ADUP has been designed and implemented in order to establish the business continuity of the TIC-RTGS and ESTS System and runs on an entirely different messaging and network infrastructure.

DRSP avails the business continuity of the settlement processes based on the offline transfer of XML files containing messages and the net settlement of these messages when TIC-RTGS & ESTS is not working totally or partially. The software package is periodically rehearsed with participants according to test scenarios.

### 2.4.5.2. Improvement of Service Management

Continued efforts 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 an event management system and incident management system integration have been applied. All technical and operational services are now covered by service management. Moreover, the event management system and service management infrastructure have been improved, migrated to a new platform, and backed-up.

These improvements in the service management approach, infrastructure and applications will ensure continuous and secure service availability, an efficient utilization of resources, and high level of 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 failure at the primary central and participant systems.

In accordance with this plan, the participant system of the CBRT, the central TIC-RTGS & ESTS and the private network of TIC-RTGS & ESTS successfully switched-over to the back-up systems during the business day, on 16 December, 11 December and 29 November of 2011, respectively. In all these switch-overs, end-of-day operations have successfully been completed on the back-up systems.

Tests for the disaster recovery software package (DRSP) have been held according to the pre-defined test scenarios by the participants of all banks held on 8 July, 3 November and 14 December of 2011.

Graph 30. Value of Transactions in TIC-RTGS (Trillion TL)

Daily Peak:

TL 216.92 billion (31 October 2011)

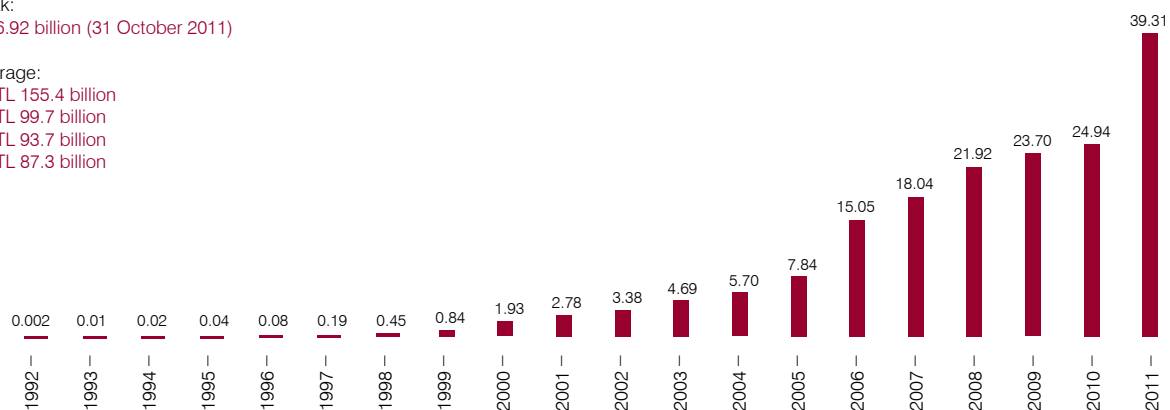
Daily Average:

2011: TL 155.4 billion

2010: TL 99.7 billion

2009: TL 93.7 billion

2008: TL 87.3 billion



Source: CBRT.

#### 2.4.5.4. 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 39.3 trillion, with a maximum daily amount of TL 216.92 billion. The average daily amount of transactions was TL 155.4 billion in 2011.

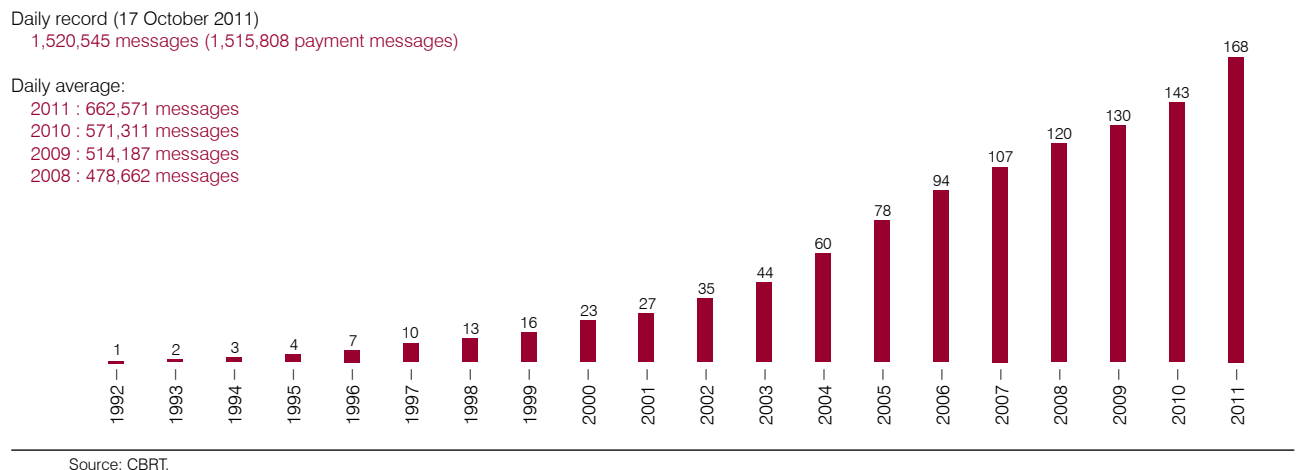
The number of transactions handled in the system was 168 million in 2011. The average daily number of messages was 662,571 in 2011. The daily number of transactions hit a peak of 1,520,545 on 17 October 2011.

The number of participants in TIC-RTGS & ESTS is 47 as of end-2011.

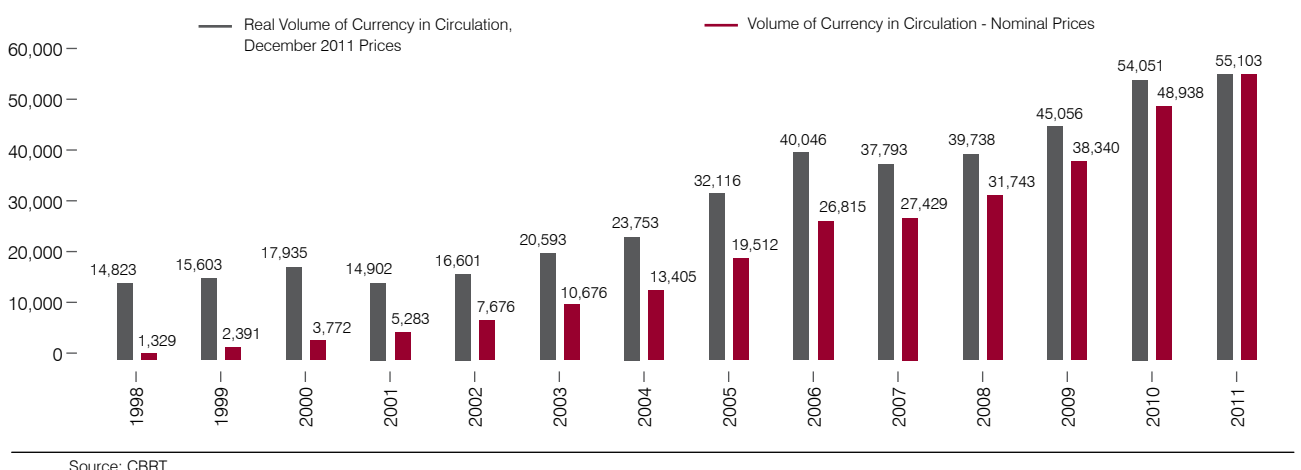
#### 2.4.6. Currency in Circulation

By the end of 2011, the volume of currency in circulation increased by 12.6 percent annually, reaching TL 55.1 billion. The real volume of currency in circulation increased by 2 percent (Graph 32).

Graph 31. Volume of Transactions in TIC-RTGS (Million Message)



Graph 32. Volume of Currency in Circulation (TL Million - Real and Nominal, 1998-2011)



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 3.7 percent between the years 2005-2011. (Graph 33).

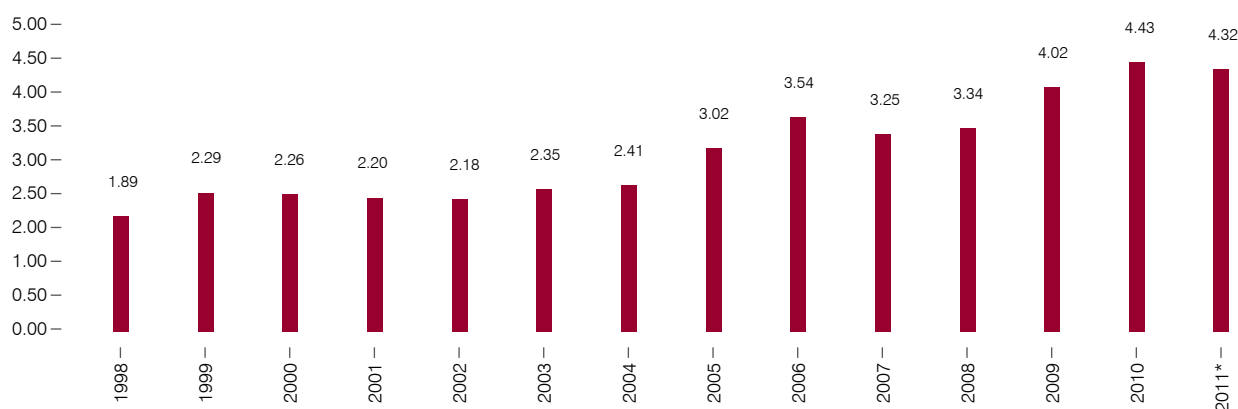
Excluding TL banknotes, which are still in the redemption period, 974.5 million banknotes were in circulation as of 30 December 2011. By the end of 2011, TL 100 and TL 50 had the largest shares in number of banknotes and TL 100 and TL 200 had the largest shares in value. The largest share of two denominations (TL 100 and TL 50) in the total reached 45.2 percent in the number of banknotes (Table 11).

In 2011, a total transaction of TL 434.2 billion, (TL 214 billion deposits vs. TL 220.2 billion payments), was realized through 21 branches, 16 banknote depots and the cash center.

Moreover, in 2011, TL 23.2 billion deposits and TL 23.8 billion payment transactions were made in banknote depots, which have been established in 16 cities where our Bank does not have branches, with the objective of improving banknote quality and meeting the various cash demands of the market on time. In other words, almost 10.8 percent of the Bank's total transaction volume in 2011 was made through the banknote depots.

The Cash Center, which operates on the Anatolian side of Istanbul, had a share of 9.8 percent in total transaction volume with TL 42.5 billion, and performed as the third largest branch among all branches.

Graph 33. Currency in Circulation / GDP



Source: CBRT, TurkStat.

\* GDP 2011 data are annualized by using the nine months data.

Table 11. Banknotes in Circulation (as of December 30, 2011)

DENOMINATION	AMOUNT	SHARE (PERCENT)	PIECES	SHARE (PERCENT)
TL 200	12,301,059,400.00	22.32	61,505,297.0	5.69
TL 100	25,862,219,250.00	46.93	258,622,192.5	23.94
TL 50	11,507,108,575.00	20.88	230,142,171.5	21.31
TL 20	2,882,853,660.00	5.23	144,142,683.0	13.34
TL 10	1,469,114,860.00	2.67	146,911,486.0	13.60
TL 5	665,762,957.50	1.21	133,152,591.5	12.33
<b>SUB TOTAL</b>	<b>54,688,118,702.50</b>	<b>99.25</b>	<b>974,476,421.5</b>	<b>90.21</b>
Others*	415,054,943.75	0.75	105,737,641.0	9.79
<b>TOTAL</b>	<b>55,103,173,646.25</b>	<b>100.00</b>	<b>1,080,214,062.5</b>	<b>100.00</b>

Source: CBRT

(\*) Banknotes that are still in the redemption period.

## 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 the foreign exchange and gold reserve management practices.

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

process is the implementation of reserve management practices within the limits specified by the Guidelines and the 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 the reserve management operations is carried out by the Foreign Exchange Risk Management Division.

Based on the objectives and limits set by the Guidelines and the 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. In 2011, the facility of maintaining reserve requirements as "standard gold" at the accounts of the CBRT against the total amount of reserve requirements to be maintained for the precious metal deposit accounts and up to 10 percent of reserve requirements for foreign currency liabilities excluding precious metal deposit accounts has been provided. In this respect, gold holdings has risen from 116 tons to 195.3 tons and the percentage of our gold reserves is 11.2 percent as of 2011 year end.

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

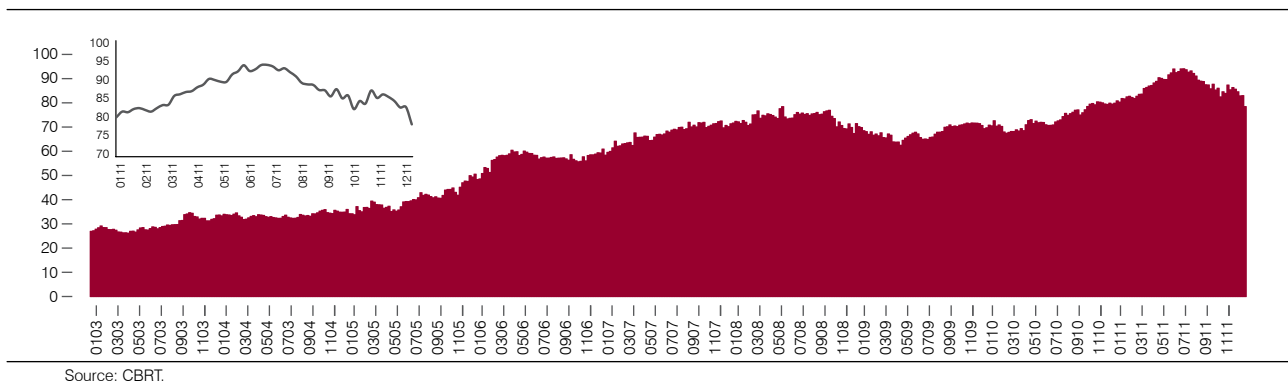
Reflecting the Bank's preferences regarding strategic asset allocation, the SB consists of the target currency composition, duration targets and related deviation limits from these targets, the number and size of sub-portfolios to be held in major reserve currencies, overall credit risk limits and the investment universe representing eligible transaction types, countries and instruments to invest in. While determining the 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.

Deepening of the sovereign debt crisis in European Union and the continuing impacts of the global financial crisis played an important role in determining the CBRT's reserve management strategies in 2011. In this context, as the financial risks remained elevated in 2011, the conservative approach continued and all necessary measures have been taken to preserve the value of reserve assets.

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

Graph 34. Foreign Exchange Reserves of CBRT (USD Billion)



## 2.6. European Union Harmonization Activities

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

The table below shows 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 the "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 are continuing for the sake of harmonization with the relevant EU legislation in this chapter. The draft Law will be sent to the Prime Ministry by June 2012. The mentioned Law 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 for fulfilling the closing benchmarks defined for chapter "32. Financial Control" have continued 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 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. Company Law" on 17 June 2008 and chapter "16. Taxation" on 30 June 2009. Opening benchmarks have been established for chapter "19. Social Policy and Employment". Chapter "2. Free Movement of Workers" is still under review by the Council.

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

**Table 12. 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. (17 June 2008)
17. Economic and Monetary Policy	Position Paper was presented. (9 March 2007)	16. Taxation	Opened to negotiations. (30 June 2009)
18. Statistics	Opened to negotiations. (26 June 2007)	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. Communication Policy and Activities

The CBRT, having the primary objective of achieving price stability, acts diligently in order to pursue an effective communications policy within the framework of the inflation targeting regime and the principle of accountability achieved by the Bank's instrumental independence. Accordingly, in 2011, the CBRT continued to implement a communications policy that safeguards the main principles of transparency, integrity, consistency and neutrality.

In 2011, the CBRT, aware of its responsibility of accountability and in line with the principle of transparency, for the first time announced to the public the strategic planning studies it has undertaken for nearly a decade. In this context, the Strategic Plan for the 2011-2015 period was published on the CBRT's website on 7 February 2011.

The implications of the principle of accountability from the Bank's perspective are explicitly set out in Article 42 of the CBRT Law. Accordingly, Governor Erdem Başçı delivered presentations on the economic outlook and monetary and exchange rate policy implementations before the Council of Ministers on 26 April and 14 November 2011, and before the Planning and Budget Commission of the Grand National Assembly of Turkey on 7 December 2011.

The CBRT, which publishes its analytical balance sheet daily on its website in the context of accountability, has had its balance sheet and income statements audited by independent auditors and has disclosed the results of the audits to the public in a report since 2000. The Audit Report for 2011 was also disclosed to the general public on the CBRT website.

As the main communication tool within the framework of the inflation targeting regime, Inflation Reports were presented at press conferences by Governor Durmuş Yılmaz on 25 January 2011 and by Governor Erdem Başçı on 28 April, 28 July and 26 October 2011.

In 2011, within the framework of the inflation targeting regime, the CBRT continued to announce the decisions of the MPC on short-term interest rates and provide summaries of MPC meetings via press releases on its website. Moreover, the interim MPC meeting held on 4 August 2011 had been announced to the public in advance via a press release in line with the principle of transparency. The CBRT shared the monetary and exchange rate policy to be implemented in 2012 with the public on 27 December 2011 and announced that the "Monetary and Exchange Rate Policy for 2013" would be released on 25 December 2012.

In order to ensure better understanding of monthly inflation data, the report entitled "Monthly Price Developments" continued to be published 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 30 May and 29 November 2011, in accordance with its pre-announced calendar of data release and shared its perspective about the overall financial sector and banking sector with the public.

Throughout 2011, the CBRT also provided the public with information about the arrangements pertaining to the required reserves, maximum interest rates applied to credit card transactions, open market operations and foreign exchange selling auctions via press releases. In 2011, the Bank published studies on growth, productivity and wages, the credit market, the labor force and employment, financial stability, monetary and fiscal policies, exchange rates and price rigidities on its website.

In 2011, the CBRT published several booklets for improved publicity of the Bank and its policy implementations for segments of the public that are relatively less informed about the Bank. In this context, the booklet "The Central Bank of the Republic of Turkey From Past to Present", which had first been released in 2008, was updated in line with current developments and re-published in 2011. Besides, booklets entitled "Central Banks and Communications-The Development of Communications Policies at the Central Bank of the Republic of Turkey" and "Reserve and Risk Management in Central Banks - Reserve and Risk Management at the Central Bank of the Republic of Turkey" were prepared and disseminated to faculties providing education in the field of economics, libraries, non-governmental organizations and various other institutions in Turkey. These publications can also be accessed through the CBRT's website.

The CBRT also continued to publish the quarterly "Bulletin", which is prepared to inform the public about its policy implementations as well as its institutional structure and publications. The Bulletin, which is distributed to a wide readership in Turkey, is also accessible on the CBRT's website.

Another publication released by the CBRT in 2011 is the prestigious book titled "History of Money in Anatolia". The book, which was prepared and published with the assistance of Prof. Halil İnalçık (editorial consultant) and Dr. Bülent Arı (editor) in order to publicize the monetary authority role of the Bank on national and international platforms, comprehensively explores the stages in the evolution of money from its invention in Anatolia; to date one of the most important developments in the history of mankind after the invention of writing.

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

Besides those of the Governor, texts of some presentations and speeches delivered by the members of the MPC and the senior management of the Bank also continued to be posted on the CBRT's website in 2011.



An exciting new development in the communication policy implementations in 2011 was the commencement of meetings with economists from the Turkish banking sector, the first of which was held in İstanbul on 4 May 2011. At these meetings, presentations by the executive directors of the Research and Monetary Policy Department, the Banking and Financial Institutions Department and the Markets Department were followed by a question-answer session, where Governor Başçı and members of the MPC answered economists' questions. A total of nine meetings were held in 2011, attended by around 900 economists. The presentations delivered by the CBRT authorities have been posted on the Bank's website under the "Remarks/Technical Presentations" menu.

The CBRT continued to use its website efficiently and effectively in 2011 and had around 109,000 hits per day on average on weekdays. Inflation Reports, as the most viewed documents of 2011, received as much as 18,000 hits per issue.

In recognition of its social responsibility and in order to promote the cultural heritage of Turkey to a wider community above and beyond frontiers, the CBRT introduced a "Virtual Museum" on its website in 2011. The Virtual Museum is composed of four sections: The "Banknotes" section provides information on the history of banknote printing activities since the Ottoman Era as well as banknote printing and production processes. In the "History of the CBRT" section, details pertaining to central banking are presented in a historical perspective. The "Valuable Objects" section features objects of historical value from the CBRT's collection, gold coins and gifts presented to the Bank by foreign institutions and fellow central banks. The "Art Collection" section contains a selection of works from the CBRT's rich art collection.

One of the strategic aims outlined in CBRT's Strategic Plan for 2011-2015 was to introduce a sign for Turkish lira to promote it both at home and abroad. With this in mind, the CBRT launched a competition to select a unique symbol for the Turkish currency that would be both easily recognizable and aesthetically pleasing; and at the same time eye-catching and easy to reproduce by hand, hence raising worldwide recognition and further enhancing the prestige of the Turkish lira. Applications for the competition, where the award was TL 25,000, were received until 31 October 2011 and the result was unveiled in a press conference held on 1 March 2012.

Responding to the demand from universities as well as public agencies and institutions, the Bank organized informative programs both within the Bank and outside Ankara in 2011, and university students were informed about the history of the Bank, monetary and exchange rate policies and career opportunities. Within the scope of the Financial Support Program for Academic Studies, the CBRT continued to provide financial support to conferences and other academic and policy-making studies in the fields of economics and finance. In 2011, the Bank financially supported various universities and institutions in a total of 34 activities. Further information is available under the Financial

Support Program on the CBRT's website. Meanwhile, presentations on a spectrum of subjects were delivered and ideas were exchanged with officials of fellow central banks.

In 2011, the CBRT organized the second "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 for the competition, three applicants received an academic support award for their studies.

In 2011, the CBRT continued to respond to requests for information via the electronic mail address, [iletisimbilgi@tcmb.gov.tr](mailto:iletisimbilgi@tcmb.gov.tr), which was introduced specifically to ensure communication with individuals, institutions and establishments outside the Bank, as well as through the 'Unit on Right to Information' and also 'BIMER' (the Communication Center of the Prime Ministry), both established pursuant to the Law on the Right to Information. Throughout 2011, a total of 11,350 applications were responded to via the Right to Information System and 1,067 applications were answered via BIMER.

With a view to promoting Turkey on international economic platforms and fostering mutual relations and cooperation with fellow central banks, the CBRT organized various workshops, meetings and conferences to discuss topics on the agenda both at home and abroad. In this context, the CBRT hosted the Basel Committee on Banking Supervision conferences on 20-21 January 2011, in İstanbul and on 12-13 September 2011, in Ankara. Moreover, the CBRT hosted the 25<sup>th</sup> and 26<sup>th</sup> meetings of the Central Bank Governors' Club on 8-10 April 2011, and 7-9 October 2011, respectively.

With a view to fostering the exchange of information and cooperation among national and international institutions in the field of financial education and financial awareness, the "Financial Education and Financial Awareness: Challenges, Opportunities and Strategies" conference was held jointly with the Capital Markets Board on 9-11 March 2011.

The CBRT held an international conference entitled "Enhancing 'ShamGen' Banking Conference: Turkey, Syria, the Lebanon, Jordan" between 27-29 March; and organized an international seminar on "Managing Liquidity in the Islamic Financial Services Industry" on 6-7 April 2011.

Lastly, the CBRT organized an international conference on "Incorporating Financial Stability into Inflation Targeting" on 25-26 November 2011, with the aim of bringing central bankers, economists and other institutions together with academicians to discuss the empirical and theoretical interaction between monetary policy and financial stability.



## 10 kuruş

**Designed using decorative patterns of plants and leaves featured in eastern decorative arts as well as Kufic inscription, which are distinct features of Seljuk decorative arts, intertwined with the Rumi motif.**

**Diameter:** 18.5 mm.

**Weight:** 3.15 gr.

**Edge:** Plain

**Obverse:** Crescent and Star, denomination (10 kuruş), Rumi pattern in the background and around the figure 10, year of mint

**Reverse:** Republic of Turkey" inscription on the outer border, Mustafa Kemal Atatürk's encircled profile relief portrait in the center.

## Part 3

# Administrative and Social Affairs

### 3.1. Staffing

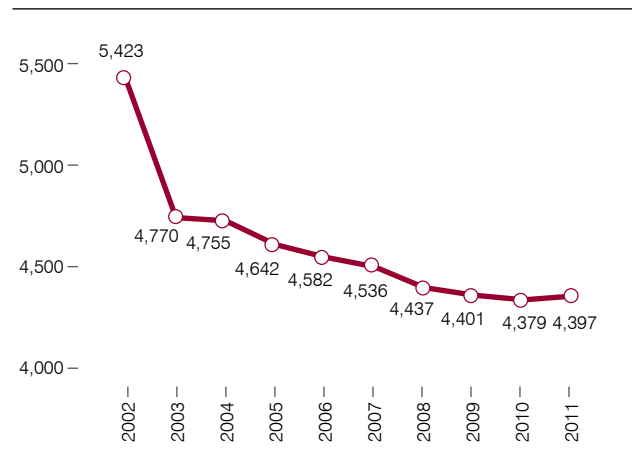
As of end-2011, the total number of CBRT staff positions stands at 4,806. The number of staff employed is 4,397 and the occupancy rate is 91.49 percent (Graph 35).

76 staff members have ceased employment due to retirement, resignation, dismissal, military service or death, while 53 employees have been recruited as deputy executive director, economists, researchers, assistant specialists, lawyers, advisors, publishing advisors, foreign specialists, secretaries, and counter clerk operators due to the excess workload of some departments. Besides, 41 staff members, who had left the Bank for their military service or been obliged to leave the Bank according to court decisions have returned. Consequently, by the end of the year the actual number of staff members increased by 18 to 4,397 compared to 2010.

The distribution of CBRT staff is as follows: 70.07 percent are represented by general administrative services, 7.35 percent by technical services, 0.18 percent by medical services, 0.32 percent by legal services, 6.98 percent by assistance services, and 15.10 percent by contract personnel.

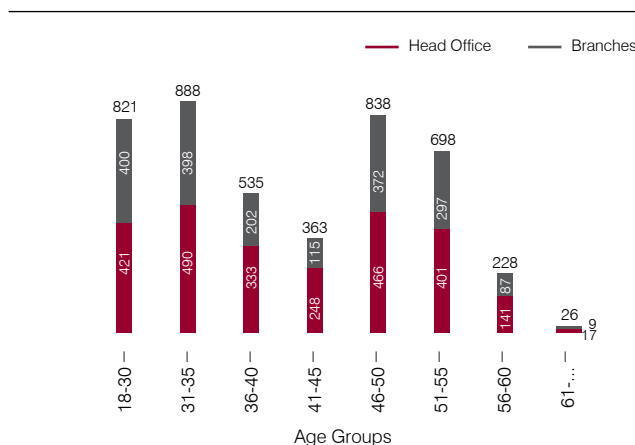
57.31 percent of the CBRT staff work at the head office, while 42.69 percent work at the branches. Based on age distribution of the staff, 38.87 percent of our personnel fall in the range of 18-35 years (Graph 36). Furthermore, the percentage of personnel with bachelors, masters and doctorate degrees equals 66.84 percent (Graph 37).

**Graph 35. Number of Employees between 2002 - 2011**



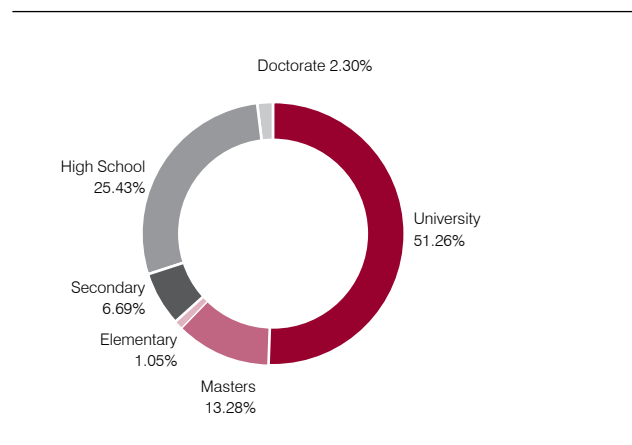
Source: CBRT.

**Graph 36. Age Distribution of Employees**



Source: CBRT.

**Graph 37. Educational Distribution of Employees**



Source: CBRT.

## 3.2. Training

Table 13. CBRT Branches and Representative Branches

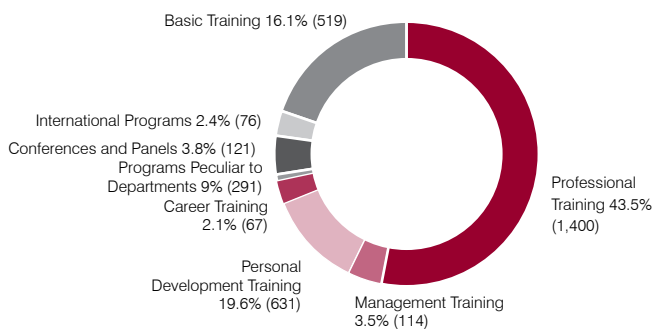
Branches	Opening Year	Number of Employees (End 2011)
Adana	1969	78
Ankara	1931	267
Antalya	1963	66
Bursa	1969	74
Denizli	1974	61
Diyarbakır	1955	54
Edirne	1963	47
Erzurum	1959	48
Eskişehir	1954	55
Gaziantep	1956	61
İskenderun	1951	47
İstanbul	1931	397
İzmir	1932	159
İzmit	1983	70
Kayseri	1968	60
Konya	1974	53
Malatya	1977	59
Mersin	1933	53
Samsun	1933	57
Trabzon	1963	62
Van	1978	49

Representative Branches		
Frankfurt Representative Office	1976	4
London Representative Office	1977	5
New York Representative Office	1977	2
Tokyo Representative Office	1997	2

Source: CBRT.

Graph 38. In-house Training Programs (Bank Employees)



Source: CBRT.

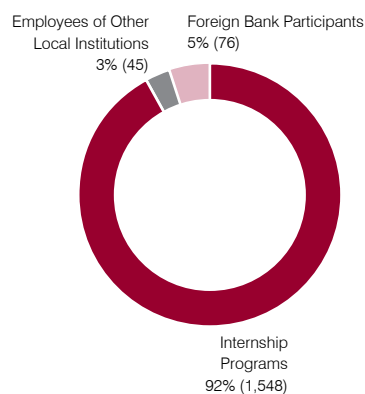
In 2011, 4,888 people participated in training activities organized by the CBRT, while 801 CBRT employees benefited from training activities organized by other institutions.

### 3.2.1. Training Activities Organized By CBRT

In 2011, 3,219 CBRT employees attended programs organized by CBRT. These programs can be considered within the frame of “Basic Training”, “Professional Development Training”, “Management Training”, “Personal Development Training”, “Career Training”, “Programs Tailored to Departments’ Needs”, “Conferences and Panels” and “International Seminars Organized by the CBRT” (Graph 38).

In addition, 1,548 students have enrolled for the internship program aimed at presenting the CBRT to university students, while 45 participants from local organizations and 76 participants from a variety of foreign institutions (other central banks etc.) have participated in international training events organized by the CBRT (Graph 39).

Graph 39. In-house Training Programs (Other Participants)



Source: CBRT.

### 3.2.2. Training Activities Organized by Other Institutions

A number of 211 and 229 CBRT personnel have attended short-term training programs of other institutions held in Turkey and abroad, respectively (Graph 40). Furthermore, in accordance with the “Financial Support Program for the Academic Studies”, 131 Bank employees participated in training events organized by other institutions.

75 employees, 13 of whom were recently enrolled, have continued their Masters/PhD programs in Turkey, while 59 employees, including 21 newly enrolled, have studied for Masters/PhDs abroad (Graph 41).

### 3.2.3 Other Activities

In the frame of assignment of speakers/lecturers for the trainings organized by other institutions, 72 and 24 employees were assigned to lecture/speak in training activities organized by the institutions in Turkey and abroad, respectively.

In addition, 10 thesis studies prepared by assistant specialists were examined, evaluated by the committee and they were considered eligible to be promoted to specialists in 2011.

Graph 40. Training Programs (Other Institutions)



Source: CBRT.

Graph 41. Bank Employees Pursuing Graduate Degrees



Source: CBRT.

### 3.3. Recreation, Art and Sports Activities

The exhibition “Contemporary Turkish Painting in the Republican Era from the Art Collection of the Central Bank of the Republic of Turkey” was held between 4-29 April 2011 at the Montecarmelo Cultural Center, Santiago, Chile. On display, a selection of works was composed of examples, from figurative to abstract, from abstract to concept, and from concept to the neo-figurative, placing on view the contemporary approaches of our day along with current developmental dynamics in art - representing the period from the early years of the Republic to the 1950s - and from the 1950s to the present. A special catalogue was published in Turkish, English and Spanish as a memento of the exhibition.

The exhibition “Contemporary Turkish Painting from the Collection of the Central Bank of the Republic of Turkey” was held in Sarajevo between the dates of 14 April- 7 May 2011. The exhibition represented works which drew attention to the original phenomena of identity in which one finds two differing ideas and perceptions in harmony, and presented the visual richness which has been naturally synthesized by Turkey thanks to its situation at the crossroads of Eastern and Western culture. As a memento of the exhibition a special catalogue was published in Turkish, English and Bosnian.

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

On the occasion of the 80<sup>th</sup> anniversary of the founding of the Bank the exhibition “Beyond the Apparent: A Selection from the Art Collection of the Central Bank of the Republic of Turkey” was held at Pera Museum between 1 November -31 December 2011, and also, with the participants of the local banks in Turkey the “6<sup>th</sup> Chess Tournament” was held in İstanbul on 3 December 2011.

The Bank’s teams attended “Euro Table-Tennis 2011” organized by Oesterreichische Nationalbank within the scope of activities of the Sports and Cultural Associations of the European Central Banks and the “7<sup>th</sup> Central Banks’ Sports Tournament” hosted by Bulgarian National Bank, in the disciplines of basketball, volleyball (men and women), swimming and chess. “Euro Football 2011” was held in Antalya hosted by the Central Bank of the Republic of Turkey.

With the aim of lending support to the cause of promoting afforestation, trees were planted in “CBRT Memorial Forestation” sites - which were established in 20 cities and a district where the Bank has branches in cooperation with the Ministry of Forestry and Water Works.



## 25 kuruş

**Designed using decorative patterns of plants and leaves featured in eastern decorative arts as well as Kufic inscription, which are distinct features of Seljuk decorative arts, intertwined patterns with a Rumi motif.**

**Diameter:** 20.5 mm.

**Weight:** 4.0 gr.

**Edge:** Milled

**Obverse:** Crescent and Star, denomination (25 kuruş), Kufic inscription and intertwined pattern encircling 25 kuruş, year of mint

**Reverse:** "Republic of Turkey" inscription on the outer border, Mustafa Kemal Atatürk's encircled profile relief portrait in the center.



## Part 4

# Financial Statements

## 4.1. Comparative Financial Statements of the Central Bank of the Republic of Turkey

### 4.1.1. Comparative Balance Sheets

ASSETS	31.12.2011	31.12.2010	CHANGE
	(TL)	(TL)	(TL)
I. Gold	18,981,411,828	8,361,219,243	10,620,192,585
A. International Standard	18,677,555,276	8,138,466,751	10,539,088,525
B. Non-International Standard	303,856,552	222,752,492	81,104,060
II. Foreign Exchange	148,199,668,804	124,794,214,657	23,405,454,147
A. Convertible	148,199,668,804	124,794,214,657	23,405,454,147
a) Foreign Banknotes	455,132,055	461,464,757	(6,332,702)
b) Correspondent Accounts	147,415,008,199	124,062,822,937	23,352,185,262
c) Reserve Tranche Position	329,528,550	269,926,963	59,601,587
B. Non-convertible	-	-	-
a) Foreign Banknotes	-	-	-
b) Correspondent Accounts	-	-	-
III. Coins	79,451,046	104,946,281	(25,495,235)
IV. Domestic Correspondents	1,617,672,000	-	1,617,672,000
V. Securities Portfolio	47,379,033,839	20,022,979,929	27,356,053,910
A. Government Securities	47,379,033,839	20,022,979,929	27,356,053,910
a) Bonds	38,796,098,543	13,572,418,996	25,223,679,547
b) Treasury Bills	8,582,935,296	6,450,560,933	2,132,374,363
B. Other	-	-	-
VI. Domestic Credit	3,023,162,975	689,345,224	2,333,817,751
A. Banking Sector	3,023,162,975	689,345,224	2,333,817,751
a) Rediscount	3,023,162,975	689,345,224	2,333,817,751
b) As per Art 40/1-c of Law No.1211	-	-	-
c) Other	-	-	-
B. Credit to SDIF	-	-	-
VII. Open Market Operations	39,644,656,708	12,014,960,933	27,629,695,775
A. Repurchase Agreements	39,644,656,708	12,014,960,933	27,629,695,775
a) Cash	39,644,656,708	12,014,960,933	27,629,695,775
i. Foreign Exchange	-	-	-
ii. Securities	39,644,656,708	12,014,960,933	27,629,695,775
b) Securities	-	-	-
B. Other	-	-	-
VIII. Foreign Credit	29,535,242	29,299,416	235,826
IX. Share Participations	48,173,516	39,446,146	8,727,370
X. Fixed Assets	270,609,984	281,318,845	(10,708,861)
A. Buildings and Buildings Sites	320,143,861	332,029,506	(11,885,645)
Depreciation Allowance for Real Estate (-)	(72,132,180)	(71,675,143)	(457,037)
B. Furniture and Fixtures	111,535,867	112,379,907	(844,040)
Depreciation Allowance for Furniture and Fixtures (-)	(88,937,564)	(91,415,425)	2,477,861
XI. Claims under Legal Proceedings(Net)	-	-	-
A. Claims under Legal Proceedings	2,876,336,725	2,348,736,495	527,600,230
B. Provision for Past-Due Receivables (-)	(2,876,336,725)	(2,348,736,495)	(527,600,230)
XII. Treasury Liabilities Due to SDR Allocation	3,130,425,468	2,564,227,706	566,197,762
XIII. Revaluation Account	-	-	-
XIV. Accrued Interest and Income	75,437,974	26,658,979	48,778,995
XV. Miscellaneous Receivables	820,317,676	367,841,755	452,475,921
XVI. Other Assets	43,918,202	41,845,182	2,073,020
<b>TOTAL</b>	<b>263,343,475,262</b>	<b>169,338,304,296</b>	<b>94,005,170,966</b>
<b>REGULATING ACCOUNTS</b>	<b>806,431,268,904</b>	<b>773,325,751,635</b>	<b>33,105,517,269</b>

## 4.1. Comparative Financial Statements of the Central Bank of the Republic of Turkey

### 4.1.1. Comparative Balance Sheets

LIABILITIES	31.12.2011 (TL)	31.12.2010 (TL)	CHANGE (TL)
I. Currency Issued	55,103,173,646	48,937,559,941	6,165,613,705
II. Liabilities to Treasury	405,121,721	368,214,778	36,906,943
A. Gold	33,043,366	24,223,576	8,819,790
B. Reserve Tranche Means	329,528,550	269,926,963	59,601,587
C. Other (Net)	42,549,805	74,064,239	(31,514,434)
III. Foreign Correspondents	1,388,473	21,279,844	(19,891,371)
A. Convertible	1,383,908	1,131,727	252,181
B. Non-Convertible	4,565	20,148,117	(20,143,552)
IV. Deposits	128,093,770,204	89,269,411,084	38,824,359,120
A. Public Sector	18,334,748,927	14,881,043,298	3,453,705,629
a) Treasury, General and Special Budget Administrations	18,247,522,810	14,708,273,881	3,539,248,929
b) Public Economic Institutions	10,138	20,447	(10,309)
c) State Economic Enterprises	45,289,537	44,143,068	1,146,469
d) Other	41,926,442	128,605,902	(86,679,460)
B. Banking Sector	91,294,777,568	56,150,507,689	35,144,269,879
a) Free Deposits of Domestic Banks	40,663,143,777	34,636,803,105	6,026,340,672
b) Foreign Banks	7,644,667	7,975,163	(330,496)
c) Required Reserves (Central Bank's Law, Art 40)	50,623,764,916	21,505,484,985	29,118,279,931
i. Cash	43,047,888,791	21,505,484,985	21,542,403,806
ii. Gold (Net Grams)	7,575,876,124	-	7,575,876,124
d) Other	224,209	244,436	(20,227)
C. Miscellaneous	17,424,599,988	17,589,613,210	(165,013,222)
a) Foreign Exchange Deposits By Citizens Abroad	17,366,530,075	17,539,029,615	(172,499,540)
b) Other	58,069,913	50,583,595	7,486,318
D. International Institutions	8,934,811	6,686,549	2,248,262
E. Extrabudgetary Funds	1,030,708,910	641,560,338	389,148,572
a) Saving Deposit Insurance Fund	4,590	25,619	(21,029)
b) Other	1,030,704,320	641,534,719	389,169,601
V. Liquidity Bills	-	-	-
VI. Open Market Operations	40,078,501,996	13,101,901,996	26,976,600,000
A. Repurchase Agreements	39,562,501,996	12,000,001,996	27,562,500,000
a) Cash	-	-	-
i. Foreign Exchange	-	-	-
ii. Securities	-	-	-
b) Securities	39,562,501,996	12,000,001,996	27,562,500,000
B. Other	516,000,000	1,101,900,000	(585,900,000)
VII. Foreign Credit	16,826,390	13,899,337	2,927,053
A. Short-Term	-	-	-
B. Medium and Long-Term	16,826,390	13,899,337	2,927,053
VIII. Advances, Collateral and Deposits Collected Against Letters of Credit and Import	945,855,253	747,358,472	198,496,781
A. For Letters of Credit	945,851,567	747,354,786	198,496,781
B. For Imports	3,686	3,686	-
IX. Notes and Remittances Payable	1,086,544	3,293,090	(2,206,546)
X. SDR Allocation	3,130,425,468	2,564,227,706	566,197,762
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	5,016,153,686	4,588,399,144	427,754,542
A. Ordinary and Extraordinary Reserves	4,655,508,510	4,232,647,418	422,861,092
B. Special Reserves (CBT's Law, Art. 59)	7,272,699	2,379,249	4,893,450
C. Inflation Adjustments for Reserves	353,372,477	353,372,477	-
XIII. Provisions	1,612,922,875	371,154,530	1,241,768,345
A. Provisions for Pension Commitments	111,206,859	98,834,637	12,372,222
B. Provision for Taxes	1,448,473,616	222,089,596	1,226,384,020
C. Other Provisions	53,242,400	50,230,297	3,012,103
XIV. Revaluation Account	19,489,212,873	7,245,849,360	12,243,363,513
XV. Accrued Interest and Expenses	567,746,690	628,420,620	(60,673,930)
XVI. Miscellaneous Payables	42,973,229	32,747,657	10,225,572
XVII. Other Liabilities	226,882,506	110,224,086	116,658,420
XVIII. Profit of the Period	8,565,200,184	1,288,129,127	7,277,071,057
<b>TOTAL</b>	<b>263,343,475,262</b>	<b>169,338,304,296</b>	<b>94,005,170,966</b>
<b>REGULATING ACCOUNTS</b>	<b>806,431,268,904</b>	<b>773,325,751,635</b>	<b>33,105,517,269</b>

## 4.1. Comparative Financial Statements of the Central Bank of the Republic of Turkey

### 4.1.2. Comparative Profit and Loss Statements

	01.01.2011 – 31.12.2011 (TL)	01.01.2010 – 31.12.2010 (TL)	CHANGE (TL)
Interest Income	5,092,633,573	4,724,633,586	367,999,987
Interest Expense	(962,562,623)	(2,864,320,717)	1,901,758,094
<b>I - Net Interest Income (Expense)</b>	<b>4,130,070,950</b>	<b>1,860,312,868</b>	<b>2,269,758,082</b>
Fee and Commission Income	129,388,375	83,416,323	45,972,052
Fee and Commission Expense	(13,346,971)	(10,470,641)	(2,876,330)
<b>II - Net Fee and Commission Income (Expense)</b>	<b>116,041,404</b>	<b>72,945,683</b>	<b>43,095,721</b>
Non - Interest Income	7,685,123,779	1,119,414,859	6,565,708,920
Non - Interest Expense	(1,917,562,333)	(1,542,454,687)	(375,107,646)
<b>III - Net Non - Interest Income (Expense)</b>	<b>5,767,561,446</b>	<b>(423,039,828)</b>	<b>6,190,601,274</b>
<b>IV - Net Profit (Loss) Before Tax (I+II+III)</b>	<b>10,013,673,800</b>	<b>1,510,218,723</b>	<b>8,503,455,077</b>
<b>V - Tax Provision</b>	<b>(1,448,473,616)</b>	<b>(222,089,596)</b>	<b>(1,226,384,020)</b>
<b>VI - Net Profit (Loss)</b>	<b>8,565,200,184</b>	<b>1,288,129,127</b>	<b>7,277,071,057</b>

## 4.2. Explanations Related to the Balance Sheet Dated 31.12.2011, and the Profit and Loss Statement for the 01.01.2011- 31.12.2011 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 the Law of the Central Bank of the Republic of Turkey No.1211 (the Bank's Law). According to Article 57 of the Bank's Law, the accounting period is defined as the calendar year.

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

Since inflation adjustment conditions were realized as of 31 December 2003 and as of 31 December 2004, non-monetary items on the financial statements of the Bank were restated. As the conditions for inflation adjustment have disappeared, the adjustment was not executed between the years 2005 - 2011.

##### Gold and Foreign Currency Transactions

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

The gain or loss arising from the purchase and sale of foreign exchange is calculated according to the "average cost" method and reflected in 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. Turkish currency denominated securities that are purchased by the Bank on its own account and under repurchase agreements are recognized initially at their acquisition cost. Securities owned by the bank are revalued to their fair values at month ends. Fair value is calculated based on the weighted average price occurred in Istanbul Stock Exchange for the transactions with same value date. In absence of these prices, the prices of related securities published in the Official Gazette by the Bank on a daily basis are used for the fair value calculation.

The accrued interest on the securities purchased under repurchase agreements, calculated as the difference between the acquisition cost and sale price on the settlement date, is reflected in the income statement.

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

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

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

##### Liquidity Bills

The item "Liquidity Bills" consists of issues of the Bank's liquidity bills whose maturity do not exceed 91 days and that are tradable in the secondary markets for the Bank's own account and on its behalf with an aim 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, the unrealized revaluation gains and losses, arising from the revaluation of gold, foreign exchange and foreign exchange indexed items due to a change in the value of the Turkish currency and the price of gold in international markets, are monitored in an account named "Revaluation Account". Realized exchange differences are reflected in the income statement on the date of occurrence.

##### Repurchase and Reverse Repurchase Transactions of the Securities

In reverse repurchase transactions; securities are sold with a commitment to buy the security back at a later date at a price, specified on the value date based on a contract made on the transaction date. Securities sold under the reverse repurchase agreement are removed from the securities portfolio and are shown in the assets under "VII. Open Market Operations / A. Repurchase Agreements / b) Securities" item. Cash debts 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. At the maturity date, the securities subject to reverse repurchase transactions are recorded to the securities portfolio account at the repurchase price.

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

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

##### Fixed Assets

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

##### Provisions

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

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

##### 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 the personnel in accordance with related laws.

##### Taxation

The Bank, established as a "joint stock company" as per Article 1 of the Bank's Law, is a corporate taxpayer. Moreover, the Bank is responsible for withholding tax, as per Article 94 of the Individual Income Tax Law, on wages, outsourcing payments, interest on deposits, etc. and as per Article 30 of the Corporate Income Tax Law, on 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.

Revaluation gains from assets and liabilities that are subject to Article 61 of Bank's Law are not considered as a profit item for the year in which the revaluation is applied and also not taken as an income item in the computation of corporate tax base. Revaluation losses from assets and liabilities that are subject to Article 61 of Bank's Law are not considered as an expense for the year in which the revaluation is applied and also not taken as an loss item in the computation of corporate tax base. Article 280 of Tax Procedure Law No. 213 is not executed to the case of revaluation made according to Article 61 of Bank's Law.

##### Participations

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

## 4.2.2. Detailed Balance Sheet Dated 31.12.2011

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).....	195,333,917.75			18,677,555,276	
B. Non-International Standard (Net Gram)..	3,177,797.62		303,856,552		18,981,411,828
II. Foreign Exchange					
A. Convertible					
a) Foreign Banknotes		455,132,055			
b) Correspondent Accounts		147,415,008,199			
c) Reserve Tranche Position		329,528,550		148,199,668,804	
B. Non-Convertible					
a) Foreign Banknotes		-			
b) Correspondent Accounts		-		-	148,199,668,804
III. Coins			79,451,046		79,451,046
IV. Domestic Correspondents			-	1,617,672,000	1,617,672,000
V. Securities Portfolio					
A. Government Securities					
a) Bonds	38,796,098,543				
b) Treasury Bills	8,582,935,296		47,379,033,839		
B. Other			-		47,379,033,839
VI. Domestic Credit					
A. Banking Sector					
a) Rediscount		3,023,162,975			
b) As per Art 40/c of Law No.1211					
c) Other				3,023,162,975	
B. Credit of SDIF			-		3,023,162,975
VII. Open Market Operations					
A. Repurchase Agreements					
a) Cash					
i. Foreign Exchange		-			
ii. Securities	39,644,656,708				
b) Securities	-		39,644,656,708	-	
B. Other			-		39,644,656,708
VIII. Foreign Credits				29,535,242	29,535,242
IX. Share Participations				48,173,516	48,173,516
X. Fixed Assets					
A. Buildings and Building Sites	320,143,861				
Depreciation Allowance for Real Estate (-)	(72,132,180)		248,011,681		
B. Furniture and Fixtures	111,535,867				
Depreciation Allowance for Furniture and Fixtures(-)	(88,937,564)		22,598,303		270,609,984
XI. Claims under Legal Proceedings (Net)				2,876,336,725	
A. Claims under Legal Proceedings				2,876,336,725	
B. Provision for Past –Due Receivables (-)			(2,876,336,725)		-
XII. Treasury Liabilities Due to SDR Allocation				3,130,425,468	3,130,425,468
XIII. Revaluation Account			-		-
XIV. Accrued Interest and Income			75,437,974		75,437,974
XV. Miscellaneous Receivables			817,397,057	2,920,619	820,317,676
XVI. Other Assets			43,173,556	744,646	43,918,202
<b>TOTAL</b>			<b>85,737,279,991</b>	<b>177,606,195,271</b>	<b>263,343,475,262</b>
<b>REGULATING ACCOUNTS</b>					<b>806,431,268,904</b>

Buildings Insured for TL 296,923,420

Furnitures and Fixtures Insured for TL 114,295,858



## 4.2.2. Detailed Balance Sheet Dated 31.12.2011

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			55,103,173,646		55,103,173,646
II. Liabilities to Treasury					
A. Gold (Net Gram) .....345,574.68			33,043,366		
B. Reserve Tranche Means				329,528,550	
C. Other (Net)			42,514,535	35,270	405,121,721
III. Foreign Correspondents					
A. Convertible				1,383,908	
B. Non-Convertible				4,565	1,388,473
IV. Deposits					
A. Public Sector					
a) Treasury, General and Special Budget Administrations	8,228,174,790	10,019,348,020			
b) Public Economic Institutions		10,138		-	
c) State Economic Enterprises	6,721,368	38,568,169			
d) Other	41,926,442		8,276,832,738	10,057,916,189	
B. Banking Sector					
a) Free Deposits of Domestic Banks	28,774,190,245	11,888,953,532			
b) Foreign Banks	7,644,667			-	
c) Required Reserves (Central Bank Law art. 40)					
i. Cash		43,047,888,791			
ii. Gold (Net Grams)	-	7,575,876,124			
d) Other	224,209		28,782,059,121	62,512,718,447	
C. Miscellaneous					
a) Foreign Exchange Deposits By Citizens Abroad		17,366,530,075			
b) Other	3,320,070	54,749,843	3,320,070	17,421,279,918	
D. International Institutions			8,934,811		
E. Extrabudgetary Funds					
a) Savings Deposit Insurance Fund	1,564	3,026			
b) Other	107,987,855	922,716,465	107,989,419	922,719,491	128,093,770,204
V. Liquidity Bills					
VI. Open Market Operations					
A. Repurchase Agreements					
a) Cash					
i. Foreign Exchange					
ii. Securities					
b) Securities	39,562,501,996		39,562,501,996	-	
B. Other			516,000,000		40,078,501,996
VII. Foreign Credit					
A. Short-Term					
B. Medium and Long-Term				16,826,390	16,826,390
VIII. Advances, Collateral and Deposit Collected Against Letters of Credit and Imports					
A. For Letters of Credit				945,851,567	
B. For Imports			3,686	-	945,855,253
IX. Notes and Remittances Payable			250	1,086,294	1,086,544
X. SDR Allocation				3,130,425,468	3,130,425,468
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			4,655,508,510		
B. Special Reserves (CBTR Law Art. 59)			7,272,699		
C. Inflation Adjustment for Reserves			353,372,477		5,016,153,686
XIII. Provisions					
A. Provisions for Pension Commitments			111,206,859		
B. Provisions for Taxes			1,448,473,616		
C. Other Provisions			53,242,400		1,612,922,875
XIV. Revaluation Account			19,489,212,873		19,489,212,873
XV. Accrued Interest and Expenses			567,746,690		567,746,690
XVI. Miscellaneous Payables			6,993,641	35,979,588	42,973,229
XVII. Other Liabilities			87,987,594	138,894,912	226,882,506
XVIII. Profit of the Period			8,565,200,184		8,565,200,184
<b>TOTAL</b>			<b>167,828,824,705</b>	<b>95,514,650,557</b>	<b>263,343,475,262</b>
<b>REGULATING ACCOUNTS</b>					<b>806,431,268,904</b>

### 4.2.3. Explanations Related to the Balance Sheet Dated 31.12.2011

#### ASSETS

##### 1. Gold

Gold holdings are composed of international standards and non-international standards of gold, the year-end balance of which is TL 18,981,411,828 in total, equivalent to 198,511,715.37 net grams. Gold holdings on the balance sheet are valued using 1 net gram of gold = TL 95.61859759 calculated as 1 ounce of gold = USD 1,574.50, based on prices quoted on the London stock exchange as of 31 December 2011.

	Net Grams	(TL)
International Standard	195,333,917.75	18,677,555,276
Non-International Standard	3,177,797.62	303,856,552
<b>Total</b>	<b>198,511,715.37</b>	<b>18,981,411,828</b>

While the value of gold holdings of international standards, which was TL 8,138,466,751 equivalent to 116,103,752.76 net grams as of the end of the year 2010, shows an increase of TL 2,015,334,735 due to the appreciation of USD against Turkish Lira during the year and TL 947,877,666 due to the increase in the price of 1 ounce of gold from USD 1,410.25 in 2010 to USD 1,574.50 in 2011. It amounts to TL 11,101,679,152 equivalent to 116,103,764.67 net grams as of the end of the year 2011.

Required reserves provided in terms of gold, is TL 7,575,876,124 equivalent to 79,230,153.08 net grams as of the end of the year 2011. As of the end of the year 2011, total gold holdings of international standards is TL 18,677,555,276 equivalent to 195,333,917.75 net grams as of the end of the year 2011.

161,663,272.69 net grams of gold holdings of international standards is held with foreign correspondents, whereas 33,670,645.06 net grams of gold holdings of international standards is stored in the vaults of the Head Office.

Gold holdings of non-international standards, which was equal to TL 222,752,492 and 3,177,797.62 net grams as of the end of the year 2010, increased to TL 303,856,552 at the end of 2011. TL 55,160,364 of this increase is due to the appreciation of USD against Turkish Lira and TL 25,943,696 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 148,199,668,804; all of which are convertible amounts.

###### a- Convertible

This item includes the convertible foreign exchange accounts with Foreign Correspondents, amounting to TL 147,415,008,199, the Reserve Tranche Position, amounting to TL 329,528,550, and foreign banknotes in the vaults of the Bank's branches, amounting to TL 455,132,055 as of the end of the year.

###### b- Non-Convertible

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

##### 3. Coins

This item consists of the coins available in the Bank's vaults, amounting to TL 79,451,046 at the end of the year.

#### 4.2.3. Explanations Related to the Balance Sheet Dated 31.12.2011

##### 4. Domestic Correspondents

This item consists of both the Correspondent Accounts that were opened in accordance with the domestic correspondence agreement and the foreign exchange deposit operations held in the Foreign Exchange Market. The item had no balance at the end of 2010, because of the suspension of the intermediary functioning of the Bank in the Foreign Exchange and Banknotes Markets Foreign Exchange Deposit Market, as of 15 October 2010. The Bank has resumed its activities as an intermediary in the Foreign Exchange and Banknotes Markets Foreign Exchange Deposit Market as of 10 November 2011. As a result, the item has a balance of TL 1,617,672,000 at the end of 2011.

	FOREIGN EXCHANGE	TL
Deposits Extended by CBRT	USD 365,000,000	689,448,500
Deposits Intermediated by CBRT	USD 265,000,000	500,558,500
	EUR 175,000,000	427,665,000
<b>TOTAL</b>		<b>1,617,672,000</b>

Government Debt Securities, which equaled TL 20,022,979,929 as of the end of 2010, include outright purchases from the secondary market as well as securities purchased in the secondary market under repurchase agreements. While the securities item decreased by TL 2,273,312,576 due to redemption and by TL 326,131,050 due to the fair value adjustment, it increased by TL 2,316,741,520 due to the outright purchases through auction, by TL 27,562,500,000 due to the purchase of securities under repurchase agreements; and by TL 76,256,016 due to the increase in the portfolio cost of securities from repurchases under reverse repurchase agreements. The year-end balance of this item is TL 47,379,033,839.

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 3,023,162,975 - equivalent to USD 1,341,760,734 and EUR 199,980,000.

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 2011.

	TL
<b>A) Banking Sector</b>	<b>3,023,162,975</b>
a) Rediscount Credit	3,023,162,975
b) As per Art, 40/c of Law No 1211	-
c) Other	-
<b>B) Credit to Savings Deposit Insurance Fund</b>	<b>-</b>
<b>TOTAL</b>	<b>3,023,162,975</b>

##### 7. Open Market Operations

This item, which represents the cash claims of the Bank from repurchase agreements and money market operations and the security claims of the Bank from reverse repurchase agreements; has a balance of TL 39,644,656,708 at the end of the year, all of which is due to the cash claims of the Bank from repurchase agreements.

##### 8. Foreign Credit

This item consists of credit extended in accordance with the Banking Agreement between the Bank and the Central Bank of Sudan and credit extended in accordance with the Banking Agreement between the Bank and the Central Bank of Albania concerning claims on non-performing loans due to the Banking Regulation terminated on 31 December 1990. The balance of this item decreased to TL 29,535,242 equivalent of USD 15,636,213 in 2011, from TL 29,299,416 equivalent of USD 18,951,757 in 2010, as principal installments of USD 2,802,826 and USD 512,718 were received from the Central Bank of Sudan and Central Bank of Albania, respectively.

### 4.2.3. Explanations Related to the Balance Sheet Dated 31.12.2011

#### 9. Share Participations

The balance of this account is TL 48,173,516 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 - equivalent to 8,000 shares in the Bank for International Settlements in Basle; EUR 26,400 equivalent to 8 shares held with the Society for Worldwide Interbank Financial Telecommunication (SWIFT); and USD 10,000,000 equivalent to 10 shares held with the International Islamic Liquidity Management Corporation (IILM). These participations are revalued using year-end buying exchange rates.

#### 10. Fixed Assets

This item, which had a balance of TL 270,609,984 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 332,029,506 in the previous year, decreased to TL 320,143,861 after the sale of some real estate to the value of TL 11,885,645 this year. The net value of real estate is TL 248,011,681 after deducting the accumulated depreciation of buildings totaling TL 72,132,180.

The net value of furniture and fixtures is TL 22,598,303 after deducting the accumulated depreciation totaling TL 88,937,564 from the value of furniture and fixtures, totaling TL 111,535,867. The value of furniture and fixtures decreased by TL 844,040 compared to the previous year.

#### 11. Claims under Legal Proceedings

This account shows the claims on the Central Bank of Iraq, which was TL 2,701,472,798 (equivalent of USD 1,430,183,068.47) as well as the claims arising from credit amounting to TL 174,863,927 (equivalent of USD 92,574,475.48), which was extended against bills bought by the Bank from the Enka Construction and Industry Joint Stock Company regarding the Iraq Bekhme Dam project. As the provision of TL 2,876,336,725 was set for these claims as an offsetting item, this account has no balance as of the end of the year.

#### 12. Treasury Liabilities Due to SDR Allocation

This item consists of the allocation of SDR 1,071,329,729 equivalent of TL 3,130,425,468, 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 no balance since 2008.

#### 14. Accrued Interest and Income

The accrued interest and income as of the end of the year 2011 is TL 75,437,974, which mostly consists of accrued interest income due to Repurchase Agreements and accrued commission charges, received from the Treasury.

#### 4.2.3. Explanations Related to the Balance Sheet Dated 31.12.2011

##### 15. Miscellaneous Receivables

This item, which shows a balance amounting to TL 820,317,676 at the end of the year, consists of TL 817,397,057 in Turkish currency and TL 2,920,619 in foreign currencies, the breakdown of which is as follows:

	TL
- Provisional Tax to be Deducted From The Corporate Tax Payable	595,357,871
- Income Tax to be Deducted From The Corporate Tax Payable	130,113,636
- TL Deposits Accounts with National Banks Abroad	83,183,584
- Foreign Exchange Differences Received From General and Special Budget Administrations	1,953,388
- Letters of Credit of the Banknote Printing Plant	5,934,020
- Advances and Deposits	834,432
- Other	20,126
<b>TOTAL</b>	<b>817,397,057</b>

##### 16. Other Assets

This item shows various claims of the Bank, amounting to TL 43,918,202 at the year-end, and consists of TL 43,173,556 in Turkish currency and TL 744,646 in foreign currencies.

#### LIABILITIES

##### 1. Currency Issued

The year-end balance of currency in circulation, issued in accordance with Article 36 of the Bank's Law, amounts to TL 55,103,173,646, an increase of TL 6,165,613,705 compared to the previous year; the balance of which amounted to TL 48,937,559,941.

##### 2. Liabilities to the Treasury

The year-end balance of liabilities to the Treasury amounts to TL 405,121,721, an increase of TL 36,906,943 compared to the previous year.

##### a- Gold

The value of the gold claims of the Treasury, which amounts to TL 33,043,366 and 345,574.68 net grams, increased by TL 8,819,790 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 1,455.8 million, which was paid as gold and foreign exchange, the Treasury has a Reserve Tranche Means of SDR 112,775,000 presented reciprocally with the "Reserve Tranche Position" in the assets. The year-end balance of this item is TL 329,528,550.

### 4.2.3. Explanations Related to the Balance Sheet Dated 31.12.2011

#### c- Other

This item, which shows the net liabilities to the Treasury resulting from various transactions, amounts to TL 42,549,805 at the end of 2011.

### 3. Foreign Correspondents

This account shows the Bank's debt to correspondents abroad and has a balance of TL 1,388,473 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 1,383,908, which indicates an increase of TL 252,181 compared to the previous year.

#### b- Non-Convertible

Consisting of the accounts opened in accordance with bilateral agreements, this item has a balance of TL 4,565 (equivalent of agreement USD 2,417) at the year-end.

### 4. Deposits

The year-end balance of this account is TL 128,093,770,204, the breakdown of which is as follows:

	Türk Parası (TL)	Yabancı Para (TL)
A) Public Sector	8,276,832,738	10,057,916,189
a) Treasury, General and Special Budget Administrations		
i) Treasury	8,228,174,790	10,019,348,020
ii) General Budget Administrations	8,192,656,364	9,425,583,389
iii) Special Budget Administrations	34,419,128	593,764,631
b) Public Economic Institutions	1,099,298	-
c) State Economic Enterprises	10,138	-
d) Other	6,721,368	38,568,169
B) Banking Sector	41,926,442	-
a) Free Deposits of Domestic Banks	28,782,059,121	62,512,718,447
b) Foreign Banks	28,774,190,245	11,888,953,532
c) Required Reserves (Article 40 of the Central Bank Law)	7,644,667	-
i) Cash	-	50,623,764,915
ii) Gold (Net grams)	-	43,047,888,791
d) Other	224,209	7,575,876,124
C) Miscellaneous	3,320,070	17,421,279,918
a) Foreign Exchange Deposits by Citizens Abroad	-	17,366,530,075
b) Other	3,320,070	54,749,843
D) International Institutions	8,934,811	-
E) Extra-budgetary Funds	107,989,419	922,719,491
a) Savings Deposit Insurance Fund	1,564	3,026
b) Other	107,987,855	922,716,465
<b>Total</b>	<b>37,179,136,159</b>	<b>90,914,634,045</b>

#### 4.2.3. Explanations Related to the Balance Sheet Dated 31.12.2011

##### 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 the cash debts of the Bank from reverse repurchase agreements and money market operations, as well as the security debts of the Bank from repurchase agreements, has a balance of TL 40,078,501,996 at the end of the year. TL 39,562,501,996 of this balance represents security debts of the Bank from repurchase agreements and TL 516,000,000 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 16,826,390 as of the year-end.

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

The balance of this item is TL 945,855,253 at the end of 2011. Of this total, TL 945,851,567 represents credit transactions of foreign exchange sales and TL 3,686 represents the 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 1,086,544, 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 the liability to the IMF amounting to TL 3,130,425,468, the equivalent of SDR 1,071,329,729, allocated to Turkey by the IMF and used by the Treasury.

##### 11. Capital

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

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

Class	Number of Shares	Percent of Total	TL
A	137,800	55.12	13,780
B	64,340	25.74	6,434
C	54	0.02	5
D <sup>(*)</sup>	47,806	19.12	4,781
<b>Paid-in capital</b>	<b>250,000</b>	<b>100.00</b>	<b>25,000</b>
Inflation adjustment for paid-in capital			46,208,524
<b>TOTAL</b>			<b>46,233,524</b>

<sup>(\*)</sup>7 shares, transferred to the Treasury due to the Civil Law, are in category D.

### 4.2.3. Explanations Related to the Balance Sheet Dated 31.12.2011

The entire category A shares belong to the Treasury. With its shares in category D, the total share of the Treasury in the capital is 55.12 percent. 954 shares of Turkish State Railways are transferred to the Treasury this year. 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
<b>TOTAL</b>	<b>64,340</b>	<b>25.74</b>	<b>6,434</b>

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 the total shares as of the year-end.

### 12. Reserves

This item includes both reserve funds retained in accordance with Articles 59 and 60 of the Bank's Law, and Article 469 of the Turkish Commercial Code, and inflation adjustment differences as per Law No. 5024, which came into effect after being published in the Official Gazette No. 25332 on December 30, 2003. The year-end balance of this item is TL 5,016,153,686.

	TL
A. Ordinary and Extraordinary Reserves	4,655,508,510
B. Special Reserves (Article 59 of Law No. 1211)	7,272,699
C. Inflation Adjustment Difference for Reserves	353,372,477
<b>TOTAL</b>	<b>5,016,153,686</b>



#### 4.2.3. Explanations Related to the Balance Sheet Dated 31.12.2011

The balance of Ordinary Reserves, which amounted to TL 2,076,877,871 in 2010, increased to TL 2,378,921,616 at the end of 2011 due to the allocation of the 20 percent of the net profit of 2010 to ordinary reserves amounting to TL 302,043,745.

Extraordinary reserves, which had a balance of TL 2,155,769,547 at the end of the 2010, amounted to TL 2,276,586,894 at the end of the 2011 due to the allocation of TL 120,817,348, which was 10 percent of the remaining amount of the net profit of 2010 after deductions specified in the Article 60 of the Bank's Law.

#### 13. Provisions

This item, with a balance of TL 1,612,922,875 at the 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	111,206,859
B. Tax Provisions	1,448,473,616
C. Other Provisions	53,242,400
<b>TOTAL</b>	<b>1,612,922,875</b>

#### 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 19,489,212,873 at the year-end.

#### 15. Interest and Expense Accruals

The year-end balance of this item, which is TL 567,746,690, mainly comprises interest accruals due to Foreign Exchange Deposits by Citizens Abroad.

#### 16. Miscellaneous Payables

This account amounts to TL 42,973,229 at the end of the year and consists of the Bank's debts of TL 6,993,641 in Turkish currency and TL 35,979,588 in foreign currencies.

#### 17. Other Liabilities

This item, amounting to TL 226,882,506 at the end of the year, consists of the Bank's debts of TL 87,987,594 in Turkish currency and TL 138,894,912 in foreign currencies.

## 4.2.4. Detailed Profit and Loss Account for 01.01.2011- 31.12.2011 Period

	01.01.2011 - 31.12.2011 (TL)
<b>PROFIT AND LOSS ACCOUNT OF THE CBRT</b>	
<b>I- NET PROFIT / (LOSS) FROM TL TRANSACTIONS</b>	<b>2,111,302,447</b>
1- Net Profit / (Loss) from TL Securities Portfolio	307,256,374
2- Net Profit / (Loss) from Open Market Operations, Liquidity Bills and Money Market Operations	2,932,031,690
a- Net Profit / (Loss) from Open Market Operations	2,934,013,593
b- Net Profit / (Loss) from Money Market Operations	(1,981,903)
3- Interest Paid to TL Required Reserves	-
4- Other	(1,127,985,617)
a - Provision Expense for Past-Due Receivables	(527,600,230)
b - Operating Expenses	(626,770,028)
c - Other	26,384,641
<b>II- NET PROFIT / (LOSS) FROM FX TRANSACTIONS</b>	<b>7,902,371,353</b>
1- Net Profit / (Loss) from FX Reserves	7,913,974,946
a- FX Portfolio and Deposit Revenues	1,336,512,343
b- Interest Paid to FX Deposits by Citizens Abroad	(503,849,449)
c- Interest Received from FX Deposits	1,768,908
d- FX Net Profit	7,079,543,144
2- IMF Use of Fund Credit and Charges	(11,603,593)
<b>III- NET PROFIT / (LOSS) (I + II)</b>	<b>10,013,673,800</b>

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

	(TL)
Net Profit of 2011	10,013,673,800
1. Reserves	(2,803,828,514)
Ordinary Reserves (Article 60 of Law No.1211)	2,002,734,760
Extraordinary Reserves	801,093,754
2. Shareholders	(3,000)
First Dividends	1,500
Second Dividends	1,500
3. Bonus to Personnel	(8,785,120)
4. Tax Provisions	(1,448,473,616)
Corporate Tax	1,448,473,616
<b>Remainder</b>	<b>5,752,583,551</b>

#### 4.2.5. Explanations on Profit and Loss Account for the Period 01.01.2011-31.12.2011

The net profit of the Bank from TL transactions is TL 2,111,302,447. As of the end of 2011, the Bank has an interest income of TL 307,256,374 from its Turkish lira government securities portfolio. The net income from open market operations is TL 2,934,013,593, and the net loss from money market operations is TL 1,981,903.

The Bank has a net profit of TL 7,902,371,353 from foreign currency operations. As of the end of 2011, TL 1,336,512,343 has been gained from foreign currency portfolio and deposit accounts. Interest of TL 503,849,449 has been incurred for foreign exchange deposits by citizens abroad, TL 1,768,908 for foreign exchange deposits and TL 11,603,593 for the resources from the IMF. The net gain of foreign exchange operations is TL 7,079,543,144.

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

At 2003 prices, TL	2011 (TL)	2010 (TL)	% Change
I- Personnel Expenses	262,208,572	248,100,582	6
II- Other Expenses	39,612,259	33,248,995	19
III-Banknote Printing Expenses	28,152,207	24,050,859	17
<b>TOTAL</b>	<b>329,973,038</b>	<b>305,400,436</b>	<b>8</b>

In 2011, an increase in personnel expenses, other expenses and banknote printing expenses is observed compared to 2010.

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

Within the framework of the policy of decreasing personnel expenses by increasing efficiency through utilizing qualified human capital by employing a small number of employees with higher qualifications as well as implementing up-to-date technology, the number of personnel decreased by 36 percent from 6,880 in 1997 to 4,414 in 2011.

As compared to the previous year, there is a 6 percent increase in personnel expenses. There is also a 5 percent increase in salaries and fringe benefits, which constitute significant portion of personnel expenses, compared to 2010. In 2011, the amount of gross salaries paid to members of the Board, the Executive Committee and Auditing Committee of the Bank was TL 3,954,883. This amount accounts for 1 percent of total salaries and fringe benefits paid to personnel in 2011.

- **Other expenses;** there is a 19 percent increase in 2011 with respect to the previous year. This increase results from the increase in communication expenses, paid stamp tax expenditures, expenses related to social activities and other expenses with respect to the year 2010.
- **Banknote printing expenses;** there is also a 17 percent increase in 2011, as compared to the previous year. This increase results from an increase of around 13 percent in the amount of banknotes printed in 2011 and increase in the average EURO exchange rate against TL in 2011 compared to that of 2010 (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 in terms of improvements in technology.



## 50 kuruş

**Designed around the image of İstanbul, the sole city in the world spanning two continents and renowned for its historical and cultural diversity.**

**Diameter:** 23.55 mm.

**Weight:** 6.8 gr.

**Edge:** Large-Milled

**Obverse:** Crescent and Star, denomination (50 kuruş), the Bosphorus Bridge connecting Asia and Europe, year of mint

**Reverse:** "Republic of Turkey" inscription on the outer border, Mustafa Kemal Atatürk's encircled profile relief portrait in the center.

## Financial Statements in Accordance with IFRS and Notes to the Financial Statements

## 4.3. Financial Statements in Accordance with IFRS

The Central Bank of the Republic of Turkey

### Balance Sheet as of 31 December 2011

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

		31 December 2011	31 December 2010	31 December 2011	31 December 2010
	Notes	Thousand TL	Thousand TL	Million USD <sup>(*)</sup>	Million USD <sup>(*)</sup>
<b>ASSETS</b>					
Cash and gold reserves	6	19,515,995	8,927,630	10,332	5,775
Due from banks	7	63,974,262	25,930,729	33,869	16,773
Financial assets at fair value through profit or loss	8	132,421,605	118,165,968	70,105	76,433
Loans and advances to customers	9	3,039,303	711,370	1,609	460
Available-for-sale financial assets	10	534,382	418,052	283	270
Property and equipment	11	234,747	239,494	124	155
Intangible assets	12	8,174	5,530	4	4
Other assets	13	82,227	110,087	43	71
<b>Total assets</b>		<b>219,810,695</b>	<b>154,508,860</b>	<b>116,369</b>	<b>99,941</b>
<b>LIABILITIES</b>					
Currency in circulation	14	55,103,174	48,937,560	29,172	31,654
Due to banks	15	91,295,269	56,190,942	48,333	36,346
Other deposits	16	37,383,785	33,718,573	19,791	21,810
Due to International Monetary Fund ("IMF")	17	10,127	8,315	5	5
Other borrowed funds	18	516,143	1,101,946	273	713
Other liabilities	19	1,051,678	923,899	557	597
Taxes liabilities	20	723,002	-	383	-
Deferred tax liability	20	3,895,923	1,437,952	2,063	930
Retirement benefit obligations	21	91,477	82,084	48	53
<b>Total liabilities</b>		<b>190,070,578</b>	<b>142,401,271</b>	<b>100,625</b>	<b>92,108</b>
<b>EQUITY</b>					
Paid-in share capital	28	47,464	47,464	25	31
Retained earnings		29,212,680	11,695,995	15,465	7,566
Other reserves		479,973	364,130	254	236
<b>Total equity</b>		<b>29,740,117</b>	<b>12,107,589</b>	<b>15,744</b>	<b>7,833</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>219,810,695</b>	<b>154,508,860</b>	<b>116,369</b>	<b>99,941</b>

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

The notes on pages 97 to 147 are an integral part of these financial statements.

## The Central Bank of the Republic of Turkey

**Statement of Income for the Year Ended 31 December 2011**

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

	Notes	2011 Thousand TL	2010 Thousand TL	2011 Million USD <sup>(*)</sup>	2010 Million USD <sup>(*)</sup> (Restated-Note 3.t)
Interest income	22	5,092,633	4,168,425	3,047	2,779
Interest expense	22	(638,399)	(2,865,742)	(382)	(1,910)
<b>Net interest income</b>		<b>4,454,234</b>	<b>1,302,683</b>	<b>2,665</b>	<b>869</b>
Fee and commission income	23	129,388	83,416	77	56
Fee and commission expense	23	(13,347)	(10,471)	(8)	(7)
<b>Net fee and commission income</b>		<b>116,041</b>	<b>72,945</b>	<b>69</b>	<b>49</b>
Dividend income	24	1,446	18,955	1	13
Net income/(expense) from financial assets at fair value through profit or loss		(493,674)	65,662	(295)	44
Foreign exchange gains, net	25	19,314,179	2,957,969	11,556	1,972
Other operating income		71,834	4,032	43	3
Impairment losses on loans and advances	9	(529,216)	(67,222)	(317)	(45)
Other operating expenses	26	(651,824)	(583,085)	(390)	(389)
<b>Profit before income tax</b>		<b>22,283,020</b>	<b>3,771,939</b>	<b>13,332</b>	<b>2,516</b>
Income tax expense	20	(3,901,065)	(672,536)	(2,334)	(448)
<b>Net profit for the year</b>		<b>18,381,955</b>	<b>3,099,403</b>	<b>10,998</b>	<b>2,068</b>

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

The notes on pages 97 to 147 are an integral part of these financial statements.

The Central Bank of the Republic of Turkey  
**Statement of Comprehensive Income for the  
Year Ended as of 31 December 2011**

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

	Notes	2011 Thousand TL	2010 Thousand TL
<b>Net profit for the year</b>		<b>18,381,955</b>	<b>3,099,403</b>
<b>Other comprehensive income</b>			
Changes in fair values of available-for-sale securities	10	116,330	29,781
Deferred tax on changes in fair values of available-for-sale securities	20	(5,380)	(1,462)
Gains on demonetized banknotes	14	4,893	-
<b>Total comprehensive income for the year</b>		<b>18,497,798</b>	<b>3,127,722</b>

The notes on pages 97 to 147 are an integral part of these financial statements.



The Central Bank of the Republic of Turkey  
**Statement of Changes in Equity for the  
 Year Ended 31 December 2011**

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

	Paid-in share capital					Total
	Share capital	Adjustment to share capital	Total paid-in share capital	Other reserves	Retained earnings	
<b>Balance at 1 January 2010</b>	<b>25</b>	<b>47,439</b>	<b>47,464</b>	<b>335,811</b>	<b>10,437,717</b>	<b>10,820,992</b>
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
<b>Balance at 31 December 2010</b>	<b>25</b>	<b>47,439</b>	<b>47,464</b>	<b>364,130</b>	<b>11,695,995</b>	<b>12,107,589</b>
<b>Balance at 1 January 2011</b>	<b>25</b>	<b>47,439</b>	<b>47,464</b>	<b>364,130</b>	<b>11,695,995</b>	<b>12,107,589</b>
Cash dividends paid	-	-	-	-	(865,270)	(865,270)
Other	-	-	-	4,893	-	4,893
Total comprehensive income for the year ended 31 December 2011	-	-	-	110,950	18,381,955	18,492,905
<b>Balance at 31 December 2011</b>	<b>25</b>	<b>47,439</b>	<b>47,464</b>	<b>479,973</b>	<b>29,212,680</b>	<b>29,740,117</b>

The notes on pages 97 to 147 are an integral part of these financial statements.

# The Central Bank of the Republic of Turkey

## Statement of Cash Flow for the Year Ended 31 December 2011

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

	Notes	2011 Thousand TL	2010 Thousand TL (Restated – Note 3.1)
<b>Cash flows (used in)/from operating activities</b>			
<b>Net profit for the year</b>		<b>18,381,955</b>	<b>3,099,403</b>
<b>Adjustment for:</b>			
Depreciation of property and equipment	11	14,841	17,105
Amortization of intangible assets	12	960	539
Impairment losses on loans and advances	9	529,216	67,222
Foreign exchange gains/(losses) on provision for loan losses		(523,275)	(61,211)
Retirement benefit obligations	21	11,851	11,029
Interest income, net	22	(4,454,234)	(1,302,683)
Interest received		5,080,220	4,284,364
Interest paid		(698,164)	(2,859,054)
Dividend income	24	(1,446)	(18,955)
Commission income, net	23	(116,041)	(72,945)
Commission received, net		98,420	81,690
Commission paid		(13,347)	(10,455)
Income tax expense	20	3,901,065	672,536
Unrealized foreign exchange gains, net		(11,720,089)	(5,093,955)
(Increase)/decrease in value of financial assets, net		(364,620)	285,983
Gain on sale of property and equipment		(59,362)	-
Other		1,004	-
<b>Cash flows from operating profits before changes in operating assets and liabilities</b>		<b>10,068,954</b>	<b>(899,387)</b>
<b>Changes in operating assets and liabilities:</b>			
Net change in financial assets at fair value through profit or loss		776,116	(9,911,682)
Net change in loans and advances to customers		(2,054,445)	(199,242)
Net change in other assets		54,584	(35,432)
Net change in currency in circulation		6,170,507	10,597,282
Net change in due to banks		29,621,673	8,809,630
Net change in other deposits		1,134,792	(10,463,386)
Net change in other liabilities		(5,860)	(23,459)
Taxes paid		(725,472)	(222,089)
Retirement benefits paid	21	(2,458)	(5,192)
<b>Net cash (used in)/from operating activities</b>		<b>45,038,391</b>	<b>(2,352,957)</b>
<b>Cash flows (used in)/from investing activities</b>			
Purchase of property, equipment and intangible assets	11-12	(26,166)	(17,188)
Disposals of property, equipment and intangible assets		71,830	50
Dividends received		5,772	12,731
Purchase of available for sale financial assets	10	-	(15,200)
<b>Net cash (used in)/from investing activities</b>		<b>51,436</b>	<b>(19,607)</b>
<b>Cash flows (used in)/from financing activities</b>			
Repayments of borrowed funds and due to IMF		(583,991)	(13,231,022)
Dividends paid		(865,270)	(1,841,125)
<b>Net cash used in financing activities</b>		<b>(1,449,261)</b>	<b>(15,072,147)</b>
<b>Effects of exchange-rate changes on cash and cash equivalents</b>		<b>4,967,610</b>	<b>2,487,242</b>
<b>Change in cash and cash equivalents</b>		<b>48,608,176</b>	<b>(14,957,469)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	30	<b>34,848,978</b>	<b>49,806,447</b>
<b>Cash and cash equivalents at the end of the period</b>	30	<b>83,457,154</b>	<b>34,848,978</b>

The notes on pages 97 to 147 are an integral part of these financial statements.

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

### NOTE 1 - GENERAL INFORMATION

The Central Bank of the Republic of Turkey (the "Bank") was incorporated in Turkey in 1931. It was established as a joint stock company with the exclusive privilege of issuing banknotes in Turkey and is vested with the powers and duties set forth in the Central Bank of the Republic of Turkey Law No. 1211 (the "Central Bank Law"). The Head Office of the Bank is located in Ankara. The Bank's registered head office is located at the following address: İstiklal Cad. 10 Ulus, 06100 Ankara, Turkey. The Bank now operates a nationwide network of 21 branches and 4 foreign representatives. As of 31 December 2011, the Bank employed 4,398 people (31 December 2010: 4,396).

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

The fundamental duties of the Bank are;

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

# The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

### NOTE 2 – BASIS OF PRESENTATION

#### (a) Turkish Lira Financial Statements

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

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

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

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

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

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

#### New and Revised IFRSs affecting presentation and disclosure only

##### IAS 24 *Related Party Disclosures* (2009)

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

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

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

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

#### Amendments to IAS 1

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

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

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

### Amendments to IFRS 3 Business Combinations

#### Amendments to IAS 32

*Classification of Rights Issues*

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

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

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

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

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

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

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

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

### New and Revised IFRSs in issue but not yet effective

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

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

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

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

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

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

Key requirements of IFRS 9 are described as follows:

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

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

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

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

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

Key requirements of these five Standards are described below:

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

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

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

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

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

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

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



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# Notes to the Financial Statements as of 31 December 2011

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

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

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

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

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

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

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

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

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

# The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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### (c) Accounting for the effect of hyperinflation

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

### (d) USD translation

USD amounts shown in the balance sheets are translated from TL for convenience purposes only, at the official bid rates announced by the Bank on 31 December 2011 and 2010 of TL 1,8889 = USD 1 (31 December 2010: TL 1,5460 = USD 1) and USD amounts shown in the income statements are translated from TL for convenience purposes only, at the average USD bid rates calculated from the daily official bid rates announced by the Bank for the years ended 31 December 2011 and 2010 of TL 1,67135 = USD 1 (31 December 2010: TL 1,5001 = USD 1) and therefore, do not form part of these financial statements.

### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### (a) Foreign currency translation

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

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

#### Exchange rates

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

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

<sup>(\*)</sup> 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, USD). For accounting purposes, SDR is treated as a foreign currency.

#### (b) Interest income and expense

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

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

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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### (c) Fee and commission income

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

### (d) Income taxes

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

#### *Current tax*

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

#### *Deferred tax*

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

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

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

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

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

#### *Current and deferred tax for the period*

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

# The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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### (e) Gold reserves

#### *Gold bullion*

Gold bullion consists of the stocks of gold bars of international standard and non-international standard held at the Bank and held with correspondents. Gold is held by the Bank as part of its foreign currency reserves and represents 11.04% (31 December 2010: 6.3%) of aggregate foreign currency reserves. The Bank has no present intention to dispose of any of its existing gold reserve stocks as the Bank maintains the gold reserve as a part of its foreign currency reserve management. Gold bullion is recorded in physical weight in troy ounces.

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

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

The exchange rate of gold bullion to TL as of 31 December 2011 was TL 2,974 per troy ounce (31 December 2010: TL 2,180 per troy ounce).

#### *Gold coins*

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

### (f) Financial assets

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

#### *Financial assets at fair value through profit or loss*

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

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

#### *Investment securities held-to-maturity*

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

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

### *Loans and receivables*

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

### *Investment securities available-for-sale*

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

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

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

### *Effective interest method*

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

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

### *Impairment of financial assets*

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

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

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

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

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

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

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

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

### **(h) Financial liabilities**

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

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

#### ***Financial liabilities at fair value through profit or loss***

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

#### ***Other financial liabilities***

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

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

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

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

### (i) Sale and repurchase agreements

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

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

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

### (j) Money issuance

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

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

### (k) Property and equipment

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

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

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

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

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

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

Buildings	50 years
Equipment and motor vehicles	5 years

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

### (l) Intangible assets

#### *Intangible assets acquired separately*

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

#### *Trademarks and licenses*

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

#### *Computer software*

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

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

### (m) Banknotes in circulation

#### *Currency in Circulation - Turkish Lira*

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



## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

### *Demonetized Currency - Turkish Lira and New Turkish Lira*

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

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

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

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

As of 31 December 2011, the Bank has recorded gain of TL 4,893 thousand due to banknotes those have been take out of circulation and have expired but still outstanding. The Bank has no banknotes in circulation which were expired in the year 2010 (Note 14).

### **(n) Provisions**

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

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

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

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

### **(o) Retirement benefit obligations**

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

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

# The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

### (p) Related parties

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

### (r) Cash and cash equivalents

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

### (s) Profit distribution

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

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

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

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

### (t) Comparatives

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

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

	2010	Effect of Reclassification	After Reclassification 2010
Interest paid	(3,156,481)	297,427	(2,859,054)
(Increase)/decrease in value of financial assets,net	-	285,983	285,983
Net (increase)/decrease in financial assets at fair value through profit or loss	(9,328,272)	(583,410)	(9,911,682)
Net decrease in other liabilities	(250,740)	227,281	(23,459)
Taxes paid	-	(222,089)	(222,089)
Retirement benefits paid	-	(5,192)	(5,192)
Purchase of property, equipment and intangible assets	(17,138)	(50)	(17,188)
Disposals of property, equipment and intangible assets	-	50	50

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

### (u) Fiduciary activities

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

	31 December 2011	31 December 2010
Securities held in custody	314,880,654	341,418,083
<b>Total</b>	<b>314,880,654</b>	<b>341,418,083</b>

## NOTE 4 - FINANCIAL RISK MANAGEMENT

### (a) Strategy in using financial instruments

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

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

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

### (b) Credit risk

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

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

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

Total assets of the Bank exposed to the credit risk as of 31 December 2011 and 2010 are presented in the table below according to different asset classes (classification according to external credit ratings is done based on the credit ratings published by Moody's):

	31 December 2011		31 December 2010	
	TL	Share (%)	TL	Share (%)
<b>Due from banks</b>	<b>63,974,262</b>	<b>32</b>	<b>25,930,729</b>	<b>18</b>
- <b>Demand Deposits</b>	<b>6,908,815</b>	<b>3</b>	<b>5,142,868</b>	<b>4</b>
Central Banks	3,523,477	2	2,419,222	2
Supranational Institutions	3,121,675	2	2,528,098	2
Foreign Commercial Banks	263,663	<1	195,548	<1
- <b>Time Deposits</b>	<b>17,471,893</b>	<b>9</b>	<b>8,780,914</b>	<b>6</b>
Central Banks	5,325,220	3	2,865,356	2
Supranational Institutions	9,983,960	5	4,597,768	3
Foreign Commercial Banks	544,166	<1	1,317,790	1
Aaa	544,166	<1	1,317,790	1
Aa1	-	-	-	-
Aa2	-	-	-	-
Domestic Commercial Banks	1,618,547	1	-	-
- <b>Securities purchased under agreements to resell</b>	<b>39,593,554</b>	<b>20</b>	<b>12,006,947</b>	<b>8</b>
Domestic Commercial Banks	39,593,554	20	12,006,947	8
<b>Financial assets at fair value through profit or loss</b>	<b>132,421,605</b>	<b>66</b>	<b>118,165,968</b>	<b>81</b>
Foreign Country Treasuries	117,081,357	59	105,527,187	73
Aaa	117,081,357	59	100,011,927	69
Aa1	-	-	5,515,260	4
Supranational Institutions	7,523,716	4	4,615,803	3
Turkish Treasury	7,816,532	4	8,022,978	6
<b>Loans and advances to customers</b>	<b>3,039,303</b>	<b>2</b>	<b>711,370</b>	<b>&lt;1</b>
<b>Available-for-sale financial assets</b>	<b>534,382</b>	<b>&lt;1</b>	<b>418,052</b>	<b>&lt;1</b>
Supranational Institutions	534,382	<1	418,052	<1
<b>Other assets</b>	<b>11,621</b>	<b>&lt;1</b>	<b>16,947</b>	<b>&lt;1</b>
<b>Total</b>	<b>199,981,173</b>	<b>100</b>	<b>145,243,066</b>	<b>100</b>

## The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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Although the Turkish Government bonds issued by the Turkish Treasury are included in the above table, the Bank does not consider its receivables from the Turkish Treasury as risky in terms of credit risk and therefore does not take these assets into account when calculating its credit risk exposures. Similarly, the receivables from domestic commercial banks for the purpose of monetary policy implementations are also excluded when calculating credit risk exposures because of the fully collateralized nature of these transactions as previously explained. As of 31 December 2011, the Bank has receivables amounting to TL 39,593,554 thousand (31 December 2010: TL 12,006,947 thousand) placed with domestic commercial banks as part of securities purchased under agreements to resell. As of 31 December 2011, the Bank has foreign exchange market operations amounting to TL 1,618,547 thousand classified under "Due from banks" (31 December 2010: None). The fair value of the security collaterals obtained for the deposits placed under securities purchased under agreements to resell as of 31 December 2011 is TL 39,628,648 thousand (31 December 2010: TL 11,641,002 thousand). In addition, as of 31 December 2011, the Bank has security collaterals amounting to TL 1,618,547 thousand obtained for all foreign exchange markets operations including the placed deposits under foreign currency deposit market operations amounting to TL 8,629,041 thousand. As of 31 December 2011 and 2010, the security collaterals are the Turkish Government bonds issued by the Turkish Treasury.

The sectoral classifications of the Bank's credit exposure as of 31 December 2011 and 2010 are as follows:

	31 December 2011							Total
	Foreign Country Treasury	Foreign Central Banks	Supranational Financial Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Turkish Treasury		
Due from banks	-	9,092,442	13,105,592	41,212,101	564,127	-	63,974,262	
Financial assets at fair value through profit or loss	117,081,357	-	7,523,716	-	-	7,816,532	132,421,605	
Loans and advances to customer	-	20,646	-	3,018,657	-	-	3,039,303	
Available-for-sale financial assets	-	-	534,382	-	-	-	534,382	
Other assets	-	-	4,729	6,851	41	-	11,621	
<b>Total</b>	<b>117,081,357</b>	<b>9,113,088</b>	<b>21,168,419</b>	<b>44,237,609</b>	<b>564,168</b>	<b>7,816,532</b>	<b>199,981,173</b>	

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

As indicated above, the credit risk is mainly concentrated on foreign country treasury and central banks, supranational financial institutions, domestic financial institutions and Turkish Treasury as of 31 December 2011 and 2010.

# The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

Geographical concentrations of assets, liabilities and off-balance sheet items of the Bank as of 31 December 2011 and 2010 are as follows:

	31 December 2011					Total
	Turkey	Other European Countries	Canada and US	South - East Asia	Other Countries	
Cash and gold reserves	3,602,848	12,968,798	2,941,450	58	2,841	19,515,995
Due from banks	41,212,102	16,723,830	4,507,443	1,519,216	11,671	63,974,262
Financial assets at fair value through profit or loss	7,816,532	65,218,945	59,386,128	-	-	132,421,605
Loans and advances to customers	3,018,657	4,370	-	-	16,276	3,039,303
Available-for-sale financial assets	-	515,493	-	18,889	-	534,382
Property and equipment	234,747	-	-	-	-	234,747
Intangible assets	8,174	-	-	-	-	8,174
Other assets	77,456	4,729	42	-	-	82,227
<b>Total assets</b>	<b>55,970,516</b>	<b>95,436,165</b>	<b>66,835,063</b>	<b>1,538,163</b>	<b>30,788</b>	<b>219,810,695</b>
Currency in circulation	55,103,174	-	-	-	-	55,103,174
Due to banks	91,287,625	2	7,313	329	-	91,295,269
Other deposits	21,774,546	15,560,136	41,658	5,733	1,712	37,383,785
Due to IMF	-	-	10,127	-	-	10,127
Other borrowed funds	516,143	-	-	-	-	516,143
Other liabilities	780,921	159,874	833,885	-	-	1,774,680
Deferred income tax liability	3,895,923	-	-	-	-	3,895,923
Retirement benefit obligations	91,477	-	-	-	-	91,477
Equity	29,740,117	-	-	-	-	29,740,117
<b>Total liabilities and equity</b>	<b>203,189,926</b>	<b>15,720,012</b>	<b>892,983</b>	<b>6,062</b>	<b>1,712</b>	<b>219,810,695</b>
<b>Net balance sheet position</b>	<b>(147,219,410)</b>	<b>79,716,153</b>	<b>65,942,080</b>	<b>1,532,101</b>	<b>29,076</b>	<b>-</b>
<b>Off-balance sheet commitments</b>	<b>35,520,705</b>	<b>87,660</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,608,365</b>

	31 December 2010					Total
	Turkey	Other European Countries	Canada and US	South - East Asia	Other Countries	
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
<b>Total assets</b>	<b>23,751,551</b>	<b>77,806,530</b>	<b>51,908,334</b>	<b>1,017,270</b>	<b>25,175</b>	<b>154,508,860</b>
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
<b>Total liabilities and equity</b>	<b>135,585,581</b>	<b>18,314,568</b>	<b>606,952</b>	<b>593</b>	<b>1,166</b>	<b>154,508,860</b>
<b>Net balance sheet position</b>	<b>(111,834,030)</b>	<b>59,491,962</b>	<b>51,301,382</b>	<b>1,016,677</b>	<b>24,009</b>	<b>-</b>
<b>Off-balance sheet commitments</b>	<b>20,599,438</b>	<b>71,805</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,671,243</b>

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

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

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

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

### (c) Market risk

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

For the purpose of managing market risk, the Bank has adopted the "Asset/Liability Matching" approach in view of its policy targets and its objectives for holding reserves. Nevertheless, unlike the commercial banks, the liabilities addressed within the context of this approach contain estimated

off-balance sheet cash flows such as foreign debt payments to be effected on behalf of the Treasury, in addition to the foreign currency liabilities on the Bank's balance sheet. Within the framework of this approach, the SBP is set each year to reflect the Bank's risk tolerance. The Bank strives to minimize the market risk by setting targets for currency composition and duration which are the basic variables of the SBP and by setting limits to control deviations from these targets.

### (d) Currency risk

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

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

# The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

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

31 December 2011										
Foreign currency										
	USD	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	TOTAL
Cash and gold reserves	19,179,124	235,146	58	10,373	7,408	-	4,435	19,436,544	79,451	19,515,995
Due from banks	7,084,055	12,304,662	1,519,852	267,548	243,032	2,837,502	34,939	24,291,590	39,682,672	63,974,262
Financial assets at fair value through profit or loss	66,783,374	54,856,706	-	-	2,964,993	-	-	124,605,073	7,816,532	132,421,605
Loans and advances to customers	2,552,167	487,136	-	-	-	-	-	3,039,303	-	3,039,303
Available-for-sale financial assets	18,889	64	-	-	-	515,429	-	534,382	-	534,382
Property and equipment	-	-	-	-	-	-	-	-	234,747	234,747
Intangible assets	-	-	-	-	-	-	-	-	8,174	8,174
Other assets	87	390	934	-	115	4,771	518	6,815	75,412	82,227
<b>Total assets</b>	<b>95,617,696</b>	<b>67,884,104</b>	<b>1,520,844</b>	<b>277,921</b>	<b>3,215,548</b>	<b>3,357,702</b>	<b>39,892</b>	<b>171,913,707</b>	<b>47,896,988</b>	<b>219,810,695</b>
Currency in circulation	-	-	-	-	-	-	-	-	55,103,174	55,103,174
Due to banks	29,327,207	33,167,970	-	-	18,033	-	-	62,513,210	28,782,059	91,295,269
Other deposits	3,366,192	22,666,381	9,587	91,762	56,036	2,802,264	270	28,992,492	8,391,293	37,383,785
Due to IMF	-	-	-	-	-	10,127	-	10,127	-	10,127
Other borrowed funds	-	-	-	-	-	-	-	-	516,143	516,143
Other liabilities	833,885	136,877	-	2,178	6,950	-	13,867	993,757	780,923	1,774,680
Deferred income tax liability	-	-	-	-	-	-	-	-	3,895,923	3,895,923
Retirement benefit obligations	-	-	-	-	-	-	-	-	91,477	91,477
Equity	-	-	-	-	-	-	-	-	29,740,117	29,740,117
<b>Total liabilities and equity</b>	<b>33,527,284</b>	<b>55,971,228</b>	<b>9,587</b>	<b>93,940</b>	<b>81,019</b>	<b>2,812,391</b>	<b>14,137</b>	<b>92,509,586</b>	<b>127,301,109</b>	<b>219,810,695</b>
<b>Net balance sheet position</b>	<b>62,090,412</b>	<b>11,912,876</b>	<b>1,511,257</b>	<b>183,981</b>	<b>3,134,529</b>	<b>545,311</b>	<b>25,755</b>	<b>79,404,121</b>	<b>(79,404,121)</b>	<b>-</b>

31 December 2010										
Foreign currency										
	USD	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
<b>Total assets</b>	<b>66,290,489</b>	<b>62,015,102</b>	<b>1,003,030</b>	<b>201,543</b>	<b>1,674,371</b>	<b>2,736,272</b>	<b>26,230</b>	<b>133,947,037</b>	<b>20,561,823</b>	<b>154,508,860</b>
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
<b>Total liabilities and equity</b>	<b>16,513,879</b>	<b>39,086,767</b>	<b>6,772</b>	<b>83,851</b>	<b>107,886</b>	<b>2,303,736</b>	<b>66</b>	<b>58,102,957</b>	<b>96,405,903</b>	<b>154,508,860</b>
<b>Net balance sheet position</b>	<b>49,776,610</b>	<b>22,928,335</b>	<b>996,258</b>	<b>117,692</b>	<b>1,566,485</b>	<b>432,536</b>	<b>26,164</b>	<b>75,844,080</b>	<b>(75,844,080)</b>	<b>-</b>



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## Notes to the Financial Statements as of 31 December 2011

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

In order to measure the sensitivity of the foreign exchange gain/loss against volatility in exchange rates, foreign currency net position values were re-calculated under the assumption of the appreciation of the TL by 10% against all foreign currencies. The hypothetical loss that would occur in the total market value of the net foreign currency positions of the Bank as of 31 December 2011 and 2010 under such an assumption is presented in the tables below:

## Sensitivity of the net foreign currency position:

31 December 2011										
	Foreign currency							Total	TL	TOTAL
	USD	EUR	JPY	CHF	GBP	SDR	Other			
Total assets	95,617,696	67,884,104	1,520,844	277,921	3,215,548	3,357,702	39,892	171,913,707	47,896,988	219,810,695
Total liabilities	33,527,284	55,971,228	9,587	93,940	81,019	2,812,391	14,137	92,509,586	127,301,109	219,810,695
<b>Net balance sheet position</b>	<b>62,090,412</b>	<b>11,912,876</b>	<b>1,511,257</b>	<b>183,981</b>	<b>3,134,529</b>	<b>545,311</b>	<b>25,755</b>	<b>79,404,121</b>	<b>(79,404,121)</b>	<b>-</b>
<b>Scenario of 10% appreciation of TL</b>	<b>(6,209,041)</b>	<b>(1,191,288)</b>	<b>(151,126)</b>	<b>(18,398)</b>	<b>(313,453)</b>	<b>(54,531)</b>	<b>(2,576)</b>	<b>(7,940,412)</b>	<b>-</b>	<b>(7,940,412)</b>

31 December 2010										
	Foreign currency							Total	TL	TOTAL
	USD	EUR	JPY	CHF	GBP	SDR	Other			
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
<b>Net balance sheet position</b>	<b>49,776,610</b>	<b>22,928,335</b>	<b>996,258</b>	<b>117,692</b>	<b>1,566,485</b>	<b>432,536</b>	<b>26,164</b>	<b>75,844,080</b>	<b>(75,844,080)</b>	<b>-</b>
<b>Scenario of 10% appreciation of TL</b>	<b>(4,977,661)</b>	<b>(2,292,834)</b>	<b>(99,626)</b>	<b>(11,769)</b>	<b>(156,648)</b>	<b>(43,254)</b>	<b>(2,616)</b>	<b>(7,584,408)</b>	<b>-</b>	<b>(7,584,408)</b>

## (e) Interest rate risk

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

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

The tables below summarize the Bank's exposure to interest rate risk at 31 December 2011 and 2010, for TL and foreign currency denominated assets and liabilities. Presented in the tables are the Bank's assets and liabilities in carrying amounts classified in terms of time remaining to contractual re-pricing dates or maturity.

### 31 December 2011

	Foreign currency						FC 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	
Cash and gold reserves	-	-	-	-	-	19,436,544	19,436,544
Due from banks	20,766,026	-	-	-	-	3,525,564	24,291,590
Financial assets at fair value through profit or loss	12,174,425	22,676,475	89,754,173	-	-	-	124,605,073
Loans and advances to customers	359,073	1,684,609	979,690	14,315	1,616	-	3,039,303
Available-for-sale financial assets	-	-	-	-	-	534,382	534,382
Property and equipment	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-
Other assets	745	-	4,729	-	-	1,341	6,815
<b>Total assets</b>	<b>33,300,269</b>	<b>24,361,084</b>	<b>90,738,592</b>	<b>14,315</b>	<b>1,616</b>	<b>23,497,831</b>	<b>171,913,707</b>
Currency in circulation	-	-	-	-	-	-	-
Due to banks	928,715	-	-	-	-	61,584,495	62,513,210
Other deposits	8,497,632	1,060,772	7,799,746	8,338,788	-	3,295,554	28,992,492
Due to IMF	-	1,192	-	-	-	8,935	10,127
Other borrowed funds	-	-	-	-	-	-	-
Other liabilities	1,086	-	-	-	-	992,671	993,757
Deferred income tax liability	-	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
<b>Total liabilities and equity</b>	<b>9,427,433</b>	<b>1,061,964</b>	<b>7,799,746</b>	<b>8,338,788</b>	<b>-</b>	<b>65,881,655</b>	<b>92,509,586</b>
<b>Net repricing gap</b>	<b>23,872,836</b>	<b>23,299,120</b>	<b>82,938,846</b>	<b>(8,324,473)</b>	<b>1,616</b>	<b>(42,383,824)</b>	<b>79,404,121</b>

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## Notes to the Financial Statements as of 31 December 2011

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

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	TL Total	Total
-	-	-	-	-	79,451	79,451	19,515,995
39,593,554	-	-	-	-	89,118	39,682,672	63,974,262
3,294,055	1,271,148	2,286,559	964,770	-	-	7,816,532	132,421,605
-	-	-	-	-	-	-	3,039,303
-	-	-	-	-	-	-	534,382
-	-	-	-	-	234,747	234,747	234,747
-	-	-	-	-	8,174	8,174	8,174
6,926	-	-	-	-	68,486	75,412	82,227
<b>42,894,535</b>	<b>1,271,148</b>	<b>2,286,559</b>	<b>964,770</b>	-	<b>479,976</b>	<b>47,896,988</b>	<b>219,810,695</b>
-	-	-	-	-	55,103,174	55,103,174	55,103,174
-	-	-	-	-	28,782,059	28,782,059	91,295,269
8,195,538	-	-	-	-	195,755	8,391,293	37,383,785
-	-	-	-	-	-	-	10,127
516,143	-	-	-	-	-	516,143	516,143
-	-	-	-	-	780,923	780,923	1,774,680
-	-	-	-	-	3,895,923	3,895,923	3,895,923
-	-	-	-	-	91,477	91,477	91,477
-	-	-	-	-	29,740,117	29,740,117	29,740,117
<b>8,711,681</b>	-	-	-	-	<b>118,589,428</b>	<b>127,301,109</b>	<b>219,810,695</b>
<b>34,182,854</b>	<b>1,271,148</b>	<b>2,286,559</b>	<b>964,770</b>	-	<b>(118,109,452)</b>	<b>(79,404,121)</b>	-

## The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

## 31 December 2010

	Foreign currency						FC 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	
Cash and gold reserves	-	-	-	-	-	8,822,684	8,822,684
Due from banks	4,990,276	3,790,637	-	-	-	5,059,293	13,840,206
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
Loans and advances to customers	-	608,990	85,538	9,425	7,417	-	711,370
Available-for-sale financial assets	-	-	-	-	-	418,052	418,052
Property and equipment	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-
Other assets	-	-	10,723	-	-	1,012	11,735
<b>Total assets</b>	<b>15,750,211</b>	<b>28,506,939</b>	<b>49,736,805</b>	<b>25,269,750</b>	<b>382,291</b>	<b>14,301,041</b>	<b>133,947,037</b>
Currency in circulation	-	-	-	-	-	-	-
Due to banks	-	-	-	-	-	29,344,548	29,344,548
Other deposits	632,487	980,361	6,710,653	9,797,662	-	9,817,249	27,938,412
Due to IMF	-	1,628	-	-	-	6,687	8,315
Other borrowed funds	-	-	-	-	-	-	-
Other liabilities	4,409	-	754,907	-	-	52,366	811,682
Deferred income tax liability	-	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
<b>Total liabilities and equity</b>	<b>636,896</b>	<b>981,989</b>	<b>7,465,560</b>	<b>9,797,662</b>	<b>-</b>	<b>39,220,850</b>	<b>58,102,957</b>
<b>Net repricing gap</b>	<b>15,113,315</b>	<b>27,524,950</b>	<b>42,271,245</b>	<b>15,472,088</b>	<b>382,291</b>	<b>(24,919,809)</b>	<b>75,844,080</b>

## The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

TL							TL	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	
-	-	-	-	-	104,946	104,946	8,927,630	
12,006,947	9,283	-	-	-	74,293	12,090,523	25,930,729	
7,348,884	674,094	-	-	-	-	8,022,978	118,165,968	
-	-	-	-	-	-	-	711,370	
-	-	-	-	-	-	-	418,052	
-	-	-	-	-	239,494	239,494	239,494	
-	-	-	-	-	5,530	5,530	5,530	
5,077	1,477	57,665	1,534	-	32,599	98,352	110,087	
<b>19,360,908</b>	<b>684,854</b>	<b>57,665</b>	<b>1,534</b>	-	<b>456,862</b>	<b>20,561,823</b>	<b>154,508,860</b>	
-	-	-	-	-	48,937,560	48,937,560	48,937,560	
-	-	-	-	-	26,846,394	26,846,394	56,190,942	
-	-	-	-	-	5,780,161	5,780,161	33,718,573	
-	-	-	-	-	-	-	8,315	
1,101,946	-	-	-	-	-	1,101,946	1,101,946	
69,168	-	23,253	-	-	19,796	112,217	923,899	
-	-	-	-	-	1,437,952	1,437,952	1,437,952	
-	-	-	-	-	82,084	82,084	82,084	
-	-	-	-	-	12,107,589	12,107,589	12,107,589	
<b>1,171,114</b>	-	<b>23,253</b>	-	-	<b>95,211,536</b>	<b>96,405,903</b>	<b>154,508,860</b>	
<b>18,189,794</b>	<b>684,854</b>	<b>34,412</b>	<b>1,534</b>	-	<b>(94,754,674)</b>	<b>(75,844,080)</b>	-	

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

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

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

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

Within this framework, based on the average modified durations of foreign currency assets as of 31 December 2011 and 2010, the prospective decline in the market values of the assets in case of a 1% rise in the related interest rates are presented below. The 1% rise scenario is based on the assumption that the yield curves for the related currencies shift 1% upwards in all maturities simultaneously.

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

	31 December 2011			31 December 2010		
	USD	EUR	TOTAL	USD	EUR	TOTAL
Market value of the foreign currency assets	73,867,429	67,161,367	141,028,796	57,171,947	61,600,507	118,772,454
Effect of the scenario of 1% increase in interest rates	(617,815)	(532,525)	(1,150,340)	(350,242)	(455,882)	(806,124)

## The Central Bank of the Republic of Turkey

**Notes to the Financial Statements as of 31 December 2011**

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

The tables below set out the average effective interest rates by major currencies for monetary financial instruments at 31 December 2011 and 2010:

	31 December 2011		
	USD (%)	EUR (%)	TL (%)
<b>Assets</b>			
Due from banks	0.06	0.02	9.04
Financial assets at fair value through profit or loss	0.21	0.28	10.99
Loans and advances to customers	0.54	1.56	-
<b>Liabilities</b>			
Due to banks	3.91	3.59	-
Other deposits	1.52	1.97	5.75
Other borrowed funds	-	-	5.00
<b>31 December 2010</b>			
	USD (%)	EUR (%)	TL (%)
<b>Assets</b>			
Due from banks	0.19	0.16	6.5
Financial assets at fair value through profit or loss	0.30	0.75	7.49
Loans and advances to customers	0.34	1.06	-
<b>Liabilities</b>			
Due to banks	-	-	-
Other deposits	2.64	2.75	-
Other borrowed funds	-	-	1.5

**(f) Liquidity risk**

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

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

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

	31 December 2011							
		Foreign currency						
	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No Maturity	FC Total
Cash and gold reserves	19,436,544	-	-	-	-	-	-	19,436,544
Due from banks	6,819,697	17,471,893	-	-	-	-	-	24,291,590
Financial assets at fair value through profit or loss	-	5,119,402	13,254,201	69,627,506	36,409,017	194,947	-	124,605,073
Loans and advances to customers	-	359,073	1,684,609	979,690	14,315	1,616	-	3,039,303
Available-for-sale financial assets	-	-	-	-	-	-	534,382	534,382
Property and equipment	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Other assets	1,341	745	-	4,729	-	-	-	6,815
<b>Total assets</b>	<b>26,257,582</b>	<b>22,951,113</b>	<b>14,938,810</b>	<b>70,611,925</b>	<b>36,423,332</b>	<b>196,563</b>	<b>534,382</b>	<b>171,913,707</b>
Currency in circulation	-	-	-	-	-	-	-	-
Due to banks	-	62,513,210	-	-	-	-	-	62,513,210
Other deposits	11,101,365	691,821	1,060,772	7,799,746	8,338,788	-	-	28,992,492
Due to IMF	8,935	-	1,192	-	-	-	-	10,127
Other borrowed funds	-	-	-	-	-	-	-	-
Other liabilities	10,326	1,086	-	-	-	-	982,345	993,757
Deferred income tax liability	-	-	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-
<b>Total liabilities and equity</b>	<b>11,120,626</b>	<b>63,206,117</b>	<b>1,061,964</b>	<b>7,799,746</b>	<b>8,338,788</b>	<b>-</b>	<b>982,345</b>	<b>92,509,586</b>
<b>Net liquidity gap</b>	<b>15,136,956</b>	<b>(40,255,004)</b>	<b>13,876,846</b>	<b>62,812,179</b>	<b>28,084,544</b>	<b>196,563</b>	<b>(447,963)</b>	<b>79,404,121</b>



## The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

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	TL Total	Total
79,451	-	-	-	-	-	-	79,451	19,515,995
89,118	39,593,554	-	-	-	-	-	39,682,672	63,974,262
-	1,191,469	1,271,148	1,790,324	3,563,591	-	-	7,816,532	132,421,605
-	-	-	-	-	-	-	-	3,039,303
-	-	-	-	-	-	-	-	534,382
-	-	-	-	-	-	234,747	234,747	234,747
-	-	-	-	-	-	8,174	8,174	8,174
8,742	6,926	30,321	-	-	-	29,423	75,412	82,227
<b>177,311</b>	<b>40,791,949</b>	<b>1,301,469</b>	<b>1,790,324</b>	<b>3,563,591</b>	<b>-</b>	<b>272,344</b>	<b>47,896,988</b>	<b>219,810,695</b>
-	-	-	-	-	-	55,103,174	55,103,174	55,103,174
16,834	28,765,225	-	-	-	-	-	28,782,059	91,295,269
8,391,293	-	-	-	-	-	-	8,391,293	37,383,785
-	-	-	-	-	-	-	-	10,127
-	516,143	-	-	-	-	-	516,143	516,143
-	43,363	723,002	-	-	-	14,558	780,923	1,774,680
-	-	-	-	-	-	3,895,923	3,895,923	3,895,923
-	-	-	-	-	-	91,477	91,477	91,477
-	-	-	-	-	-	29,740,117	29,740,117	29,740,117
<b>8,408,127</b>	<b>29,324,731</b>	<b>723,002</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>88,845,249</b>	<b>127,301,109</b>	<b>219,810,695</b>
<b>(8,230,816)</b>	<b>11,467,218</b>	<b>578,467</b>	<b>1,790,324</b>	<b>3,563,591</b>	<b>-</b>	<b>(88,572,905)</b>	<b>(79,404,121)</b>	<b>-</b>

## The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

31 December 2010

	Foreign currency							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	
Cash and gold reserves	8,822,684	-	-	-	-	-	-	8,822,684
Due from banks	5,059,293	4,990,276	3,790,637	-	-	-	-	13,840,206
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
Loans and advances to customers	-	-	608,990	85,538	9,425	7,417	-	711,370
Available-for-sale financial assets	-	-	-	-	-	-	418,052	418,052
Property and equipment	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Other assets	-	-	-	10,723	-	-	1,012	11,735
<b>Total Assets</b>	<b>13,881,977</b>	<b>15,750,211</b>	<b>28,506,939</b>	<b>49,736,805</b>	<b>25,269,750</b>	<b>382,291</b>	<b>419,064</b>	<b>133,947,037</b>
Currency in circulation	-	-	-	-	-	-	-	-
Due to banks	-	29,344,548	-	-	-	-	-	29,344,548
Other deposits	9,817,249	632,487	980,361	6,710,653	9,797,662	-	-	27,938,412
Due to IMF	-	-	1,628	-	-	-	6,687	8,315
Other borrowed funds	-	-	-	-	-	-	-	-
Other liabilities	22,955	4,409	-	754,907	-	-	29,411	811,682
Deferred income tax liability	-	-	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-
<b>Total liabilities and equity</b>	<b>9,840,204</b>	<b>29,981,444</b>	<b>981,989</b>	<b>7,465,560</b>	<b>9,797,662</b>	<b>-</b>	<b>36,098</b>	<b>58,102,957</b>
<b>Net liquidity gap</b>	<b>4,041,773</b>	<b>(14,231,233)</b>	<b>27,524,950</b>	<b>42,271,245</b>	<b>15,472,088</b>	<b>382,291</b>	<b>382,966</b>	<b>75,844,080</b>

## The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

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	Total
104,946	-	-	-	-	-	-	104,946	8,927,630
74,293	12,006,947	9,283	-	-	-	-	12,090,523	25,930,729
-	-	674,094	1,727,694	5,621,190	-	-	8,022,978	118,165,968
-	-	-	-	-	-	-	-	711,370
-	-	-	-	-	-	-	-	418,052
-	-	-	-	-	-	239,494	239,494	239,494
-	-	-	-	-	-	5,530	5,530	5,530
3,009	5,077	1,477	48,382	1,534	-	38,873	98,352	110,087
<b>182,248</b>	<b>12,012,024</b>	<b>684,854</b>	<b>1,776,076</b>	<b>5,622,724</b>	-	<b>283,897</b>	<b>20,561,823</b>	<b>154,508,860</b>
-	-	-	-	-	-	48,937,560	48,937,560	48,937,560
7,975	26,838,175	-	-	-	-	244	26,846,394	56,190,942
5,138,601	-	-	-	-	-	641,560	5,780,161	33,718,573
-	-	-	-	-	-	-	-	8,315
-	1,101,946	-	-	-	-	-	1,101,946	1,101,946
6,657	69,168	-	23,253	-	-	13,139	112,217	923,899
-	-	-	-	-	-	1,437,952	1,437,952	1,437,952
-	-	-	-	-	-	82,084	82,084	82,084
-	-	-	-	-	-	12,107,589	12,107,589	12,107,589
<b>5,153,233</b>	<b>28,009,289</b>	-	<b>23,253</b>	-	-	<b>63,220,128</b>	<b>96,405,903</b>	<b>154,508,860</b>
<b>(4,970,985)</b>	<b>(15,997,265)</b>	<b>684,854</b>	<b>1,752,823</b>	<b>5,622,724</b>	-	<b>(62,936,231)</b>	<b>(75,844,080)</b>	-

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

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

	31 December 2011							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	
Currency in circulation	-	-	-	-	-	-	55,103,174	55,103,174
Due to banks	16,834	91,278,435	-	-	-	-	-	91,295,269
Other deposits	19,492,658	692,394	1,064,589	7,906,735	8,559,438	-	-	37,715,814
Due to IMF	8,935	-	1,192	-	-	-	-	10,127
Other borrowed funds	-	516,212	-	-	-	-	-	516,212
<b>Total financial liabilities</b>	<b>19,518,427</b>	<b>92,487,041</b>	<b>1,065,781</b>	<b>7,906,735</b>	<b>8,559,438</b>	<b>-</b>	<b>55,103,174</b>	<b>184,640,596</b>

	31 December 2010							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	
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
<b>Total financial liabilities</b>	<b>14,963,825</b>	<b>36,403,451</b>	<b>22,584,062</b>	<b>7,160,750</b>	<b>10,402,415</b>	<b>-</b>	<b>49,586,051</b>	<b>141,100,554</b>

### (g) Operational risk

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

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

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

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

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

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

In the second phase, in every audit assignment processes with higher risk are examined in more detail in terms of risks and controls. Risks that may arise due to human error, system failure, insufficient/ineffective procedures and/or sub-processes are determined. The audited business process is assessed with regard to business continuity procedures, physical safety, system safety, conformity to legal arrangements and written rules, sufficiency of human resources and information safety. In addition, the financial risk and reputation risk are also determined. Controls that are designed to reduce these risks to acceptable levels are assessed in terms of sufficiency and effectiveness; additional controls are proposed in order to increase effectiveness.

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

### (h) Fair value of financial instruments

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

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

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

	Carrying value		Fair value	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
<b>Financial assets</b>				
Cash and gold reserves	19,515,995	8,927,630	19,515,995	8,927,630
Due from banks	63,974,261	25,930,729	63,927,337	25,928,733
Loans and advances to customers	3,039,303	711,370	3,039,015	709,864
<b>Financial liabilities</b>				
Currency in circulation	55,103,174	48,937,560	55,103,174	48,937,560
Due to banks	91,295,269	56,190,942	91,295,269	56,190,942
Other deposits	37,383,785	33,718,573	36,957,435	33,925,556
Other borrowed funds	516,143	1,101,946	516,143	1,101,946

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

### (i) Financial assets

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

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

# The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

### (ii) Financial liabilities

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

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

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

The following table summarizes the fair values of those financial assets presented on the Bank's balance sheet based on the hierarchy of valuation technique as of 31 December 2011 and 2010.

31 December 2011	Level 1 <sup>(*)</sup>	Level 2 <sup>(**)</sup>	Level 3 <sup>(***)</sup>	Total
<b>Financial assets at fair value through profit and loss</b>				
Financial assets held for trading				
- Debt securities	132,421,605	-	-	132,421,605
<b>Available-for-sale financial assets</b>				
- Equity securities	-	-	534,382	534,382
<b>Total assets</b>	<b>132,421,605</b>	<b>-</b>	<b>534,382</b>	<b>132,955,987</b>

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

<sup>(\*\*)</sup> Other than quoted prices specified in Level 1, financial assets and liabilities are carried at inputs used to determine direct or indirect observable market prices.

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

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

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

<sup>(\*\*)</sup> Other than quoted prices specified in Level 1, financial assets and liabilities are carried at inputs used to determine direct or indirect observable market prices.

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

### (i) Capital management

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

	31 December 2011	31 December 2010
Paid-in capital	47,464	47,464
Retained earnings	29,212,680	11,695,995
Other reserves	479,973	364,130
<b>Total Equity</b>	<b>29,740,117</b>	<b>12,107,589</b>

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

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

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

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

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

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

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

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

#### (a) Impairment losses on loans and advances

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

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

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

### NOTE 6 - CASH AND GOLD RESERVES

	31 December 2011	31 December 2010
Gold bullion - International standards	18,677,555	8,138,467
Cash in hand	534,583	566,411
Gold bullion and coins - Non-International standards	303,857	222,752
<b>Total</b>	<b>19,515,995</b>	<b>8,927,630</b>

Gold coins and bullion in the amount of TL 33,043 thousand (31 December 2010: TL 24,224 thousand) are kept in the Bank's vaults on behalf of the Turkish Treasury. Additionally, Gold bullion - International standards include TL 7,575,877 thousand (31 December 2010: None) worth of gold kept by the Bank which belongs to the banks those deposited gold in order to meet their reserve requirement.

# The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

### NOTE 7 - DUE FROM BANKS

	31 December 2011	31 December 2010
Funds lent under securities purchased under agreements to resell	39,593,554	12,006,947
Time deposits	17,471,893	8,780,914
Demand deposits	6,908,815	5,142,868
<b>Total</b>	<b>63,974,262</b>	<b>25,930,729</b>

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

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

	31 December 2011		31 December 2010	
	Cost	Carrying Value	Cost	Carrying Value
Turkish government bonds and treasury bills	7,730,721	7,816,532	7,611,036	8,022,978
Foreign government bonds and treasury bills	116,350,547	117,081,357	105,301,315	105,527,187
Corporate bonds of supranational institutions	7,450,722	7,523,716	4,503,803	4,615,803
<b>Total</b>	<b>131,531,990</b>	<b>132,421,605</b>	<b>117,416,154</b>	<b>118,165,968</b>

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

### NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

	31 December 2011	31 December 2010
<b>Loans to corporate entities:</b>		
Foreign country loans	20,646	22,025
Domestic loans	3,018,657	689,345
<b>Total performing loans</b>	<b>3,039,303</b>	<b>711,370</b>
Impaired loans and advances	2,885,238	2,356,022
<b>Gross loans and advances to customers</b>	<b>5,924,541</b>	<b>3,067,392</b>
Less: Allowance for loan losses	(2,885,238)	(2,356,022)
<b>Net loans and advances to customers</b>	<b>3,039,303</b>	<b>711,370</b>

Movement in the allowance for loan losses is as follows:

	31 December 2011	31 December 2010
Balance at 1 January	2,356,022	2,288,800
Charge for the year <sup>(*)</sup>	529,216	67,222
<b>Balance at 31 December</b>	<b>2,885,238</b>	<b>2,356,022</b>

<sup>(\*)</sup> The balance mainly consists of the foreign exchange gain on the impaired loans and advances amounting to TL 521,659 thousand (31 December 2010: loss amounting to TL 61,211 thousand).

As of 31 December 2011, the restructured loans and advances of the Bank amounted to TL 16,276 thousand (31 December 2010: TL 17,680 thousand). In accordance with the restructuring agreement of the Bank regarding the above mentioned restructured loans, the Bank forwent TL 8,901 thousand (USD 4,712,512) (31 December 2010: TL 7,283 thousand (USD 4,712,512)) of its interest receivable which will accrue again if the counterparty fails to meet the conditions stated in the restructuring agreement. As of 31 December 2011 and 2010, the Bank provided allowance for such contingent interest receivable.



## The Central Bank of the Republic of Turkey

**Notes to the Financial Statements as of 31 December 2011**

(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 as of 31 December are as follows:

Name	Nature of business	Ownership (%)		Amount	
		31 December 2011	31 December 2010	31 December 2011	31 December 2010
BIS	Banking Supervision	1.43	1.49	515,428	402,541
International Islamic Liquidity Management Corporation	Liquidity Management	0.01	0.01	18,889	15,460
SWIFT	Electronic Fund Transfer Services	0.007	0.007	65	51
<b>Total</b>				<b>534,382</b>	<b>418,052</b>

The shares of BIS have a par value of SDR 5,000 each and are paid up to SDR 1,250 each. The balance of SDR 3,750 per share is callable at three months' notice by the decision of the BIS Board and the total amount of commitment is disclosed under contingencies and commitments as of 31 December 2011 and 2010 (Note 27).

As of 31 December 2011 and 2010, the Bank's investment in shares issued by the BIS is valued at fair value, which is calculated as being 70% of the Bank's interest in BIS's net asset value in SDR, as of 31 December 2011 and 2010, converted to TL at the year end TL/SDR exchange rate. This valuation method has previously been used to establish the appropriate price for purchase and repurchase transactions in BIS share.

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

	31 December 2011	31 December 2010
<b>Opening balance</b>	<b>418,052</b>	<b>373,071</b>
Purchases	-	15,200
Fair value changes	116,330	29,781
<b>Closing balance</b>	<b>534,382</b>	<b>418,052</b>

## The Central Bank of the Republic of Turkey

**Notes to the Financial Statements as of 31 December 2011**

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

**NOTE 11 - PROPERTY AND EQUIPMENT**

	Land and buildings	Equipment and vehicles	Construction in progress	Total
<b>At 31 December 2009</b>				
Cost	337,391	57,691	9,610	404,692
Accumulated depreciation	(130,005)	(34,120)	-	(164,125)
<b>Net book value</b>	<b>207,386</b>	<b>23,571</b>	<b>9,610</b>	<b>240,567</b>
<b>Year ended as of 31 December 2010</b>				
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)
<b>Closing net book value</b>	<b>203,564</b>	<b>26,641</b>	<b>9,289</b>	<b>239,494</b>
<b>At 31 December 2010</b>				
Cost	340,299	68,564	9,289	418,152
Accumulated depreciation	(136,735)	(41,923)	-	(178,658)
<b>Net book value</b>	<b>203,564</b>	<b>26,641</b>	<b>9,289</b>	<b>239,494</b>
<b>Year ended as of 31 December 2011</b>				
Opening net book value	203,564	26,641	9,289	239,494
Additions	4,930	10,150	7,453	22,533
Transfers	9,193	-	(9,193)	-
Disposals (net)	(12,292)	(147)	-	(12,439)
Depreciation charge (Note 26)	(6,078)	(8,763)	-	(14,841)
<b>Closing net book value</b>	<b>199,317</b>	<b>27,881</b>	<b>7,549</b>	<b>234,747</b>
<b>At 31 December 2011</b>				
Cost	328,412	66,927	7,549	402,888
Accumulated depreciation	(129,095)	(39,046)	-	(168,141)
<b>Net book value</b>	<b>199,317</b>	<b>27,881</b>	<b>7,549</b>	<b>234,747</b>

In the year 2011 the Bank has disposed property and equipment with net book value of TL 12,439 thousand for a proceeds of TL 71,830 thousand.

## The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

## NOTE 12 - INTANGIBLE ASSETS

	Cost	Accumulated amortisation	Net book value
Opening balance at 1 January 2010	12,086	(7,122)	4,964
Additions	1,105	(539)	566
<b>Balance at 31 December 2010</b>	<b>13,191</b>	<b>(7,661)</b>	<b>5,530</b>
Opening balance at 1 January 2011	13,191	(7,661)	5,530
Additions	3,633	(960)	2,673
Disposals	(2,835)	2,806	(29)
<b>Balance at 31 December 2011</b>	<b>13,989</b>	<b>(5,815)</b>	<b>8,174</b>

## NOTE 13 - OTHER ASSETS

	31 December 2011	31 December 2010
Charges and commissions due from Treasury <sup>(*)</sup>	30,321	-
Raw material and work-in-progress	22,011	24,079
Electronic Fund Transfer ("EFT") commission income accrual	6,851	6,204
Dividend income accrual	4,729	10,723
Prepaid expenses	799	2,483
Prepaid taxes	-	56,150
Other	17,516	10,448
<b>Total</b>	<b>82,227</b>	<b>110,087</b>

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

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

## NOTE 14 - CURRENCY IN CIRCULATION

	31 December 2011	31 December 2010
<b>Balance at 1 January</b>	<b>48,937,560</b>	<b>38,340,278</b>
Banknotes issued into circulation	26,769,916	25,055,217
Banknotes withdrawn from circulation and destroyed	(20,599,409)	(14,457,935)
Demonetized banknotes	(4,893)	-
<b>Balance at 31 December</b>	<b>55,103,174</b>	<b>48,937,560</b>

## The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

## NOTE 15 - DUE TO BANKS

	31 December 2011	31 December 2010
Deposits for reserve requirement obligations	79,398,446	48,343,564
Current accounts of banks	10,968,110	7,847,378
Deposits of banks for foreign currency deposit market	928,713	-
<b>Total</b>	<b>91,295,269</b>	<b>56,190,942</b>

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

## NOTE 16 - OTHER DEPOSITS

	31 December 2011	31 December 2010
Deposits by citizens abroad	17,923,515	18,121,162
Deposits of Turkish Treasury	18,284,265	14,732,497
Deposits of state owned entities	1,088,779	172,769
Deposits of state owned funds	87,226	692,145
<b>Total</b>	<b>37,383,785</b>	<b>33,718,573</b>

Deposits by citizens abroad are time deposits with maturities varying from one to three years; other deposits; including deposit of Turkish Treasury; held by government related institutions are interest-free deposits except for the demand deposits amounting to TL 10,430,619 thousand (31 December 2010: TL 353,505 thousand).

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

	31 December 2011		31 December 2010	
	Interest rate (%)	TL	Interest rate (%)	TL
EUR	0.25-3.25	17,031,890	0.25-3.25	17,166,408
USD	0.25-2.75	794,374	0.25-2.75	869,593
CHF	0.25-0.50	91,695	0.25-0.50	79,117
GBP	0.25-1.00	5,556	0.25-1.00	6,044
<b>Total</b>		<b>17,923,515</b>		<b>18,121,162</b>

## The Central Bank of the Republic of Turkey

**Notes to the Financial Statements as of 31 December 2011**

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

**NOTE 17 - DUE TO IMF**

Due to IMF is denominated in SDR. Due to IMF includes borrowings related to Turkey's IMF quota for the year ending 31 December 2011 and 2010. As of 31 December 2011 and 2010, borrowings related to Turkey's IMF quota are non-interest bearing with no stated maturity.

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

As of 8 June 2011, the country quota of Turkey increased by SDR 264,500,000 reaching SDR 1,455,800,000.

**NOTE 18 - OTHER BORROWED FUNDS**

	31 December 2011	31 December 2010
Funds borrowed from interbank money market	516,143	1,101,946
<b>Total</b>	<b>516,143</b>	<b>1,101,946</b>

**NOTE 19 - OTHER LIABILITIES**

	31 December 2011	31 December 2010
Import transfer orders and deposits	945,855	747,358
Taxes and withholdings payable	43,636	77,357
Non-guaranteed commercial debts	16,826	13,899
Expense accruals	7,083	25,031
Blocked accounts for pending court cases	4,246	14,816
Other	34,032	45,438
<b>Total</b>	<b>1,051,678</b>	<b>923,899</b>

**NOTE 20 - TAXATION**

	31 December 2011	31 December 2010
Taxes on income	1,448,474	222,089
Prepaid taxes	(725,472)	(276,705)
<b>Income taxes (receivable)/payable - net</b>	<b>723,002</b>	<b>(54,616)</b>

## The Central Bank of the Republic of Turkey

# Notes to the Financial Statements as of 31 December 2011

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

### Corporate Tax

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

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

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

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

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

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

	<b>31 December 2011</b>	<b>31 December 2010</b>
- Corporate tax	1,448,474	222,089
- Deferred tax	2,452,591	450,447
<b>Tax liabilities</b>	<b>3,901,065</b>	<b>672,536</b>

### Deferred income taxes

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

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

## The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

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

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Retirement benefit obligations	91,477	82,084	18,295	16,417
Net differences between carrying value and tax base of property and equipment	35,237	45,584	7,047	9,117
Other	10,483	31,086	2,097	6,217
<b>Total Assets</b>	<b>137,197</b>	<b>158,754</b>	<b>27,439</b>	<b>31,751</b>
Transfer of valuation account to income statement <sup>(*)</sup>	(19,489,213)	(7,245,849)	(3,897,843)	(1,449,170)
Fair value differences of financial assets	(486,208)	(378,606)	(24,310)	(18,931)
Difference in the calculated interest accrual of deposits using effective interest rate method	(6,044)	(8,012)	(1,209)	(1,602)
<b>Total Liabilities</b>	<b>(19,981,465)</b>	<b>(7,632,467)</b>	<b>(3,923,362)</b>	<b>(1,469,703)</b>
<b>Net Liability</b>	<b>(19,844,268)</b>	<b>(7,473,713)</b>	<b>(3,895,923)</b>	<b>(1,437,952)</b>

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

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

	31 December 2011	31 December 2010
<b>Balance at 1 January</b>	<b>1,437,952</b>	<b>986,043</b>
Deferred income tax charge to income statement, net	2,452,591	450,447
Deferred income tax charge to equity	5,380	1,462
<b>Balance at 31 December</b>	<b>3,895,923</b>	<b>1,437,952</b>

The reconciliation for taxation charge is stated below:

	31 December 2011	31 December 2010
<b>Profit before income taxes</b>	<b>22,283,020</b>	<b>3,771,939</b>
Tax charge calculated at a tax rate of 20%	4,456,604	754,388
Income exempt from taxation	(566,173)	(88,429)
Non-deductible expenses	10,634	6,577
<b>Income tax expense</b>	<b>3,901,065</b>	<b>672,536</b>

# The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

### NOTE 21 - RETIREMENT BENEFIT OBLIGATIONS

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

The amount payable consists of one month's salary limited to a maximum of TL 2,731.85 (2010: TL 2,517.01) for each year of service.

The liability is not funded, as there is no funding requirement. The reserve has been calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of its employees. IAS 19

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

	31 December 2011	31 December 2010
Discount rate (%)	4.66	4.66
Rate to estimate the probability of retirement (%)	99	99

Additionally, the principal actuarial assumption is that the maximum liability of TL 2,517.01 for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL 2,805.04 effective from 1 January 2012 (1 January 2011: TL 2,623.23), has been taken into consideration in calculating the reserve for the retirement benefit obligation of the Bank.

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

	2011	2010
<b>At 1 January</b>	<b>82,084</b>	<b>76,247</b>
Current year charge	11,851	11,029
Paid during the year	(2,458)	(5,192)
<b>Balance at 31 December</b>	<b>91,477</b>	<b>82,084</b>



## The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

## NOTE 22 - NET INTEREST INCOME

	2011	2010
<b>Interest income:</b>		
Securities purchased under agreements to resell	2,934,037	2,007,272
Financial assets at fair value through profit or loss	2,110,871	2,129,645
Due from banks	34,872	23,006
Loans and advances to customers	12,853	8,502
<b>Total</b>	<b>5,092,633</b>	<b>4,168,425</b>
<b>Interest expense:</b>		
Other deposits	505,817	432,281
Interest expense due to Treasury <sup>(*)</sup>	116,883	13
Due to IMF	11,604	7,174
Other borrowed funds	3,037	1,134,136
Due to banks	1,035	798,855
Securities sold under agreements to repurchase	23	493,283
<b>Total</b>	<b>638,399</b>	<b>2,865,742</b>
<b>Net interest income</b>	<b>4,454,234</b>	<b>1,302,683</b>

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

## NOTE 23 - NET FEE AND COMMISSION INCOME

	2011	2010
<b>Fee and commission income:</b>		
EFT commission income	89,111	72,208
Commissions due from Treasury <sup>(*)</sup>	29,010	-
Open market operations	4,320	4,036
Other fund transfer fees	654	604
Other	6,293	6,568
<b>Total</b>	<b>129,388</b>	<b>83,416</b>
<b>Fee and commission expense:</b>		
Correspondent bank accounts	4,209	3,311
Other	9,138	7,160
<b>Total</b>	<b>13,347</b>	<b>10,471</b>
<b>Net fee and commission income</b>	<b>116,041</b>	<b>72,945</b>

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

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**Notes to the Financial Statements as of 31 December 2011**

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**NOTE 24 - DIVIDEND INCOME**

	2011	2010
Available-for-sale securities	1,446	18,955
<b>Total</b>	<b>1,446</b>	<b>18,955</b>

**NOTE 25 - FOREIGN EXCHANGE GAINS, NET**

	2011	2010
Foreign exchange gains, net		
- translation gains/(losses), net	12,234,636	2,235,198
- transaction gains, net	7,079,543	722,771
<b>Total</b>	<b>19,314,179</b>	<b>2,957,969</b>

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

**NOTE 26 - OTHER OPERATING EXPENSES**

	2011	2010
Wages and salaries	455,220	399,670
Administrative expenses	125,704	106,140
Social security costs	39,855	37,302
Depreciation and amortization (Notes 11 and 12)	15,801	17,644
KOSGEB fund participation fee	-	22,055
Other	15,244	274
<b>Total</b>	<b>651,824</b>	<b>583,085</b>

The average number of personnel employed by the Bank during the year 2011 was 4,397 (2010: 4,427).

## The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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## NOTE 27 - COMMITMENTS AND CONTINGENT LIABILITIES

	31 December 2011	31 December 2010
Guarantees taken	33,520,705	20,599,438
Uncalled BIS shares (Note 10)	87,660	71,805
<b>Total</b>	<b>33,608,365</b>	<b>20,671,243</b>

As of 31 December 2011, there are a number of legal proceedings outstanding against the Bank amounting to TL 57,230 thousand, USD 64,214,366 and EUR 162,810 (31 December 2010: TL 64,748 thousand, USD 64,106,853 and EUR 174,473). No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise in relation with above mentioned legal proceedings.

## NOTE 28 - SHARE CAPITAL

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

	31 December 2011		31 December 2010	
	TL	Share %	TL	Share %
Turkish Treasury	14	55	14	55
T.C. Ziraat Bankası A.Ş.	5	19	5	19
T.C.M.B Mensupları Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı	1	5	1	5
Türkiye Garanti Bankası A.Ş.	1	3	1	3
Türkiye İş Bankası A.Ş.	1	2	1	2
Others	3	16	3	16
<b>Paid-in capital</b>	<b>25</b>	<b>100</b>	<b>25</b>	<b>100</b>
<b>Inflation adjustment on paid-in capital</b>	<b>47,439</b>		<b>47,439</b>	
<b>Total paid-in capital</b>	<b>47,464</b>		<b>47,464</b>	

According to 5<sup>th</sup> article of the Central Bank Law, the capital of the Bank is TL 25 thousand and is divided into 250,000 shares, with a value of TL 0.1 each. The capital may be increased with the approval of the Turkish Government. The shares are divided into (A), (B), (C), and (D) shares. The (A) group shares belongs solely to the Turkish Treasury while (B) shares belong to national banks, (C) shares belong to banks other than the national banks and to companies possessing certain privileges and (D) shares belong to Turkish commercial institutions and to legal and real persons of Turkish nationality.

# The Central Bank of the Republic of Turkey

## Notes to the Financial Statements as of 31 December 2011

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

### NOTE 29 - RETAINED EARNINGS AND LEGAL RESERVES

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

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

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

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

### NOTE 30 - CASH AND CASH EQUIVALENTS

	31 December 2011	31 December 2010
Cash and gold reserves	19,515,995	8,927,630
Due from banks (excluding accrued interest)	63,941,159	25,921,348
<b>Total</b>	<b>83,457,154</b>	<b>34,848,978</b>

### NOTE 31 - RELATED PARTY BALANCES AND TRANSACTIONS

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

#### (i) Balances with related parties

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

	31 December 2011	31 December 2010
<b>Assets:</b>		
Financial assets at fair value through profit or loss <sup>(1)</sup>	7,816,532	8,022,978
Due from banks <sup>(2)</sup>	28,888,360	9,162,282
<b>Liabilities:</b>		
Due to banks <sup>(3)</sup>	54,353,054	40,548,058
Other deposits <sup>(4)</sup>	19,460,270	15,597,411

<sup>(1)</sup> Includes government bonds issued by Turkish Treasury.

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

<sup>(3)</sup> Includes required reserve deposits of shareholders.

<sup>(4)</sup> Includes deposits of state controlled entities and Turkish Treasury.

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**(ii) Transactions with related parties**

	2011	2010
Salaries and other short-term benefits to key management	3,935	3,800
Interest income <sup>(1)</sup>	633,387	963,653
Interest expense <sup>(2)</sup>	116,883	589,567
Fee and commission income <sup>(3)</sup>	78,569	36,924
Dividends paid to shareholders	857,141	1,833,458

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

## 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 the Bank Law No 1211.

#### **Audits Conducted by the Internal Organs of the Bank**

In accordance with the 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 concludes the monitoring of the activities of the Bank 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 the operations and accounts of the Bank and submits a report to the General Assembly drawn upon operations and accounts of the Bank at the end of the year. 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 the Articles no 43 and 44 of the Main Regulation on Organization and Duties of the Bank, the authority of and responsibility for auditing the Bank's transactions are entrusted with the Audit Department.

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

The Audit Department is composed of 16 chief inspectors, 5 chief auditors, 13 inspectors, 2 auditors, 3 IT auditors and 9 assistant inspectors. Among those one chief inspector and one chief auditor are assigned to assist the Executive Director conduct his duties.

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

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

#### **Audits Conducted by External Auditors**

Article 42 of the Bank Law constitutes the legal basis of external auditing of the Bank. Accordingly, the Prime Minister may request the 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 furnishes information regarding its operations to the Planning and Budget Commission of the Grand National Assembly of Turkey twice a year.

In accordance with the second paragraph of the same Article, the Bank may assign external auditors to audit the balance sheet and profit and loss statement of the Bank. The independent external review of the Bank's accounts has been deemed vital to the corporate governance of the Bank, and was 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, the Turkish Court of Accounts, various 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 2011

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

AUDITING COMMITTEE REPORT  
FOR THE EIGHTIETH ACCOUNTING YEAR OF THE  
CENTRAL BANK OF THE REPUBLIC OF TURKEY  
2011

The Auditing Committee has thoroughly examined the activities and resulting statements of the 2011 Accounting Year of the Central Bank of the Republic of Turkey within the framework of provisions of the related legislation, and concluded that:

1. 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 are within the limits set forth,
3. The balance sheet, compiled by 31 December 2011 and "the Profit and Loss Statement" created for the period between 01/01/2011 and 31/12/2011 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. The financial tables compiled to present the financial situation of the Central Bank of the Republic of Turkey by 31 December 2011, and the results of activities relating to the year that ended on the same date are presented in an accurate, correct and clear manner pursuant to the Legislation in force in Turkey and the Central Bank Law,
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 31 December 2011 and the Profit and Loss Statement for approval of the General Assembly.

Ankara, 15/03/2012



Mustafa Saim UYSAL  
Auditing Committee Member



Abdullah YALÇIN  
Auditing Committee Member



Prof. Dr. Hasan TÜREDİ  
Auditing Committee Member



Yasin AYDIN  
Auditing Committee Member

#### 4.4.3 Independent Audit Report Drawn Up in Compliance with the Central Bank Law and Related Legislation

CONVENIENCE TRANSLATION OF THE AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH

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

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

##### **Bank Management's responsibility for the financial statements**

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

##### **Auditor's responsibility**

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

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

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

##### **Independent Auditor's Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2011 and the results of its operations and its cash flows for the year then ended in accordance with the Law of the Central Bank of the Republic of Turkey and related legislation.

##### **Other Matter**

The financial statements of the Bank as of and for the year ended 31 December 2010 were audited by another auditor who expressed an unmodified opinion on those statements on 25 February 2011.

##### **Additional Paragraph for English Translation**

The effect of the differences between the accounting principles summarized in Section I – A – (2) and the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified and reflected in the accompanying financial statements. The accounting principles used in the preparation of the accompanying financial statements differ materially from IFRS. Accordingly, the accompanying financial statements are not intended to present the Bank's financial position and results of its operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

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

Müjde Şehsuvaroğlu  
Partner  
İstanbul, 24 February 2012



#### 4.4.4 Independent Audit Report Drawn Up in Compliance with the Ifrs

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

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

##### The Bank Management's Responsibility for the Financial Statements

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

##### Auditor's Responsibility

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

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

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

##### Independent Auditor's Opinion

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

##### Other Matter

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

İstanbul, 5 March 2012

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

## 4.5. Turkey – IMF Monetary Relations

The Bank's liability to the IMF has no balance since 31 December 2005. While the direct use of credit by the Treasury from the IMF was SDR 3,654 million as of the end of 2010, it decreased to SDR 1,874 million due to the redemption of SDR 1,780 million as of 31 December 2011. All redemptions will be completed as of 14 May 2013.

As of 31 December 2011, the IMF's holdings of Turkish Lira amount to TL 7,888 million, the equivalent of SDR 3,217 million, converted at the rate of TL/SDR parity as determined by the IMF on 30 April 2011.

Account Name	TL	SDR
Number 1 account	8,925,025	3,639,500
Number 2 account	8,204	3,346
Securities account	7,879,339,278	3,213,084,246
	<b>7,888,272,507</b>	<b>3,216,727,092</b>

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.

On the Front Cover from left to right:

- 5 Turkish lira in Series 1 of the E-2 Emission Group, the first banknote printed in Turkey after the Alphabet Revolution,
- 100 Turkish lira in Series 3 of the E-5 Emission Group, printed in Turkey by the CBRT Banknote Printing Plant Department,
- 1000 Turkish lira in Series 1 of the E-5 Emission Group, known as the “Purple Thousand”,
- 100 Turkish lira in Series 1 of the E-8 Emission Group, the highest denomination note in circulation after removal of six zeros from the Turkish currency,
- 5 Turkish lira in Series 1 of the E-9 Emission Group, the lowest denomination note printed after the transition from “New Turkish lira” to “Turkish lira”

On the Back Cover:

Turkish lira coins currently in circulation, along with

- 10 kuruş, put into circulation in 1935,
- 50 kuruş, put into circulation in 1971,
- 100 kuruş, put into circulation in 1934,
- 1 kuruş, put into circulation in 1947,
- 1 kuruş, put into circulation in 1935,
- 2.5 kuruş, put into circulation in 1948,
- 5 kuruş, put into circulation in 1935

are displayed.



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