

**THE CENTRAL BANK OF THE
REPUBLIC OF TURKEY
FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2017
TOGETHER WITH AUDITOR'S REPORT**

CONVENIENCE TRANSLATION OF THE INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH

INDEPENDENT AUDITOR'S REPORT

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

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the financial statements of Türkiye Cumhuriyet Merkez Bankası A.Ş. ("the Bank"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance 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 (Note I.A.(2)).

2) Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

3) Responsibilities of Management and Those Charged with Governance for the Financial Statement

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 (Note I.A.(2)), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

4) Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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



Erdem Taş
Partner

Ankara, 5 March 2018

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 2016

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

	Note (Section II)	Audited 31 December 2017	Audited 31 December 2016
1. GOLD RESERVES	1	88,778,170	49,449,492
1.1 International Standards		88,778,170	49,449,492
2. FOREIGN CURRENCY BANKNOTES		10,581,358	6,259,811
3. FOREIGN CORRESPONDENTS	2	306,351,078	317,709,256
3.1 Foreign Currency Securities		251,841,977	286,470,939
3.2 Deposit		21,989,216	24,391,271
3.3 Other		32,519,885	6,847,046
4. RESERVE TRANCHE POSITION	10	606,030	533,911
5. SECURITIES PORTFOLIO	3	14,531,545	13,889,108
5.1 Government Domestic Debt Securities		14,531,545	13,636,436
5.2 Other		-	252,672
6. RECEIVABLES DUE TO MONETARY POLICY OPERATIONS	3	137,553,171	95,555,846
6.1 Open Market Operations		34,295,896	71,355,625
6.2 Interbank Money Market Operations		103,257,275	24,200,221
7. DOMESTIC CORRESPONDENTS	4	19,467,018	-
8. LOANS	5	47,714,676	37,622,354
8.1 Domestic Loans		47,680,497	37,590,465
8.1.1 Discount Loans		47,680,497	37,590,465
8.1.2 Other Loans		-	-
8.2 Foreign Loans		34,179	31,889
9. EQUITY PARTICIPATIONS	6	1,064,813	917,956
10. TREASURY LIABILITIES DUE TO SDR ALLOCATION	10	5,757,112	5,071,996
11. FIXED ASSETS (Net)	7	324,862	660,625
12. LOANS UNDER LEGAL FOLLOW-UP (Net)	5	-	-
12.1 Loans Under Legal Follow-Up		5,843,448	5,423,981
12.2 Provision of Loans Under Legal Follow-Up (-)		(5,843,448)	(5,423,981)
13. DEFERRED TAX ASSETS	14	-	4,128
14. OTHER ASSETS	8	4,240,651	2,444,113
14.1 Gold Reserve in Non-International Standards	1	499,631	416,756
14.2 Coins		61,492	131,585
14.3 Income Accruals		60,177	43,309
14.4 Other		3,619,351	1,852,463
TOTAL ASSETS		636,970,484	530,118,596

The accompanying notes from an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 2016

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

	Note (Section II)	Audited 31 December 2017	Audited 31 December 2016
1. CURRENCY IN CIRCULATION	9	131,457,662	122,959,913
2. PAYABLES DUE TO MONETARY POLICY OPERATIONS	3	19,808,749	50,320
2.1 Open Market Operations		-	-
2.2 Interbank Money Market Operations		77,347	50,320
2.3 Liquidity Bills		-	-
2.4 Other		19,731,402	-
3. DEPOSITS	11	377,768,522	315,092,997
3.1 Public Sector		49,361,625	25,030,296
3.1.1 Treasury, General and Annexed Budget Administrations		49,351,416	25,021,999
3.1.2 Other		10,209	8,297
3.2 Banking Sector		323,504,239	285,089,599
3.2.1 Domestic Banks		94,825,686	99,621,925
3.2.2 Foreign Banks		2,429,962	560,943
3.2.3 Reserve Requirements		226,247,656	184,905,999
3.2.3.1 Cash		169,214,107	150,683,070
3.2.3.2 Gold		57,033,549	34,222,929
3.2.4 Other		935	732
3.3 Other Deposits		4,902,658	4,973,102
3.3.1 Foreign Exchange Deposits By Citizens Abroad		2,508,008	2,929,286
3.3.2 International Institutions		70,635	51,540
3.3.3 Funds		242,834	215,074
3.3.4 Other		2,081,181	1,777,202
4. FOREIGN CORRESPONDENTS		2,842	1,318
5. RESERVE TRANCHE POSITION	10	606,030	533,911
6. SDR ALLOCATION	10	5,757,112	5,071,996
7. TAX LIABILITY	14	3,256,769	1,715,182
7.1 Taxes Payable		3,242,852	1,715,182
7.2 Deferred Tax Liabilities		13,917	-
8. PROVISIONS	13	386,451	437,861
9. SHARE CAPITAL AND LEGAL RESERVES	12	21,587,174	18,458,180
9.1 Paid-in Share Capital		25	25
9.2 Adjustment to Paid-in Share Capital		46,209	46,209
9.3 Legal Reserves		21,540,940	18,411,946
10. VALUATION ACCOUNT	15	55,296,111	53,408,966
11. PROFIT FOR THE YEAR		18,383,903	9,555,947
12. OTHER LIABILITIES	16	2,659,159	2,832,005
12.1 Treasury Gold		441,776	45,321
12.2 Letter of Credits		274,759	1,493,912
12.3 Expense Accruals		54,566	5,448
12.4 Other		1,888,058	1,287,324
TOTAL LIABILITIES		636,970,484	530,118,596

The accompanying notes from an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY**STATEMENT OF PROFIT OR LOSS
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

	Note	Audited 1 January - 31 December 2017	Audited 1 January - 31 December 2016
	(Section III)		
I - INTEREST INCOME	1	17,060,636	11,471,095
II - INTEREST EXPENSE	2	(6,924,814)	(3,119,710)
III - NET INTEREST INCOME / (EXPENSE)		10,135,822	8,351,385
IV - NET COMMISSION AND SERVICE INCOME		594,529	485,128
- Commission and Service Income		610,352	502,302
- Commission and Service Expenses		(15,823)	(17,174)
V - NON-INTEREST INCOME	3	14,697,522	5,429,687
VI - NON-INTEREST EXPENSES	4	(3,941,454)	(3,089,334)
VII- PROFIT BEFORE TAXATION {III+IV+V-VI}		21,486,419	11,176,866
	Section II		
VIII - TAXATION	Note 14	(3,102,516)	1,620,919
-Tax Provision		(3,091,368)	1,625,061
-Deferred Tax Income/(Expense)		(11,148)	(4,142)
IX - NET PROFIT FOR THE YEAR {VII-VIII}		18,383,903	9,555,947

The accompanying notes from an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

OFF-BALANCE SHEET COMMITMENTS AS OF 31 DECEMBER 2017 AND 2016

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

	Audited 31 December 2017	Audited 31 December 2016
OFF - BALANCE SHEET COMMITMENTS		
A. Securities in Custody	115,674,241	138,424,146
1. Marketable Securities in Custody - Free (*)	103,217,943	119,713,167
2. Deal Securities (*)	68	202,131
3. Marketable Security Exchange Market Banks Guarantee Letters Depot	16,370	410,594
4. Government Debt Security Depot of Savings Deposits Insurance Fund, Exempt From Income Tax	11,040,707	16,586,714
5. Other (*)	1,399,153	1,511,540
B. Guarantees Received	141,645,821	34,205,039
1. Government Debt Security Depots of Banks under Foreign Exchange Market Guarantee (*)	4,496,364	987,882
2. Bonds as Interbank Money Market Operations Guarantee	116,492,677	15,785,437
3. Government Debt Security Depots Accepted as Guarantee for Open Market Operations	4,707,426	3,280,841
4. Other (*)	15,949,354	14,150,879
C. Obsolete and Reserve Banknotes	97,829,312	87,546,886
1. Reserve Banknotes - Head Office	39,949,062	37,530,662
2. Reserve Banknotes - Branches, Banknotes Depots and Other Units	57,323,324	49,694,669
3. Obsolete Banknotes - Head Office	94	74,085
4. Obsolete Banknotes - Branches	556,832	247,470
D. Other	347,136,435	335,691,276
1. Bank Treasury Bonds Portfolio and Security Depots Received Through Repo Transactions	43,197,563	79,442,699
2. Customer Transactions Portfolio - Takasbank and MKK (*)	278,237,677	251,748,648
3. BIST Members' Treasury Bond Depot	520	30,626
4. Other (*)	25,700,675	4,469,303
E. Unpublished Marketable Securities Depots in Electronic Marketable Security Transfer Recording	526,678,666	452,087,081
TOTAL	1,228,964,475	1,047,954,427

- (*) The balances presented in the Off Balance Sheet Commitments table consist of the total of TL, foreign currency and units of securities. TL and foreign currency securities presented in the total balances are expressed in terms of the original amount of currency over their nominal values; blank letter of credits, letter of credits that account owners entrust for maintenance, gold and silver medallions and badges of service award, banknote samples, specimen catalogues, cheques with unknown costs are expressed in terms of units.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

	Share Capital	Capital Reserves Due to Inflation	Legal Reserves	Equity Participations Value Increase Fund(*)	Retirement Pay Actuarial Gains / (Losses) (*)	Retained Earnings/ (Accumulated Deficit) (*)	Net Profit For the Year	Total Shareholders' Equity
Balance at 1 January 2016	25	46,209	13,729,378	649,385	2,490	13,850,280	-	28,277,767
Fair Value Increase / (Decrease) in Equity Participations	-	-	-	144,160	-	-	-	144,160
Profit Distribution:								
Dividends	-	-	-	-	-	(9,312,165)	-	(9,312,165)
- Treasury	-	-	-	-	-	(9,303,012)	-	(9,303,012)
- Other Shareholders	-	-	-	-	-	(3)	-	(3)
- Employees	-	-	-	-	-	(9,150)	-	(9,150)
Transferred to Equity Reserves	-	-	4,535,422	-	-	(4,535,422)	-	-
Other(**)	-	-	147,146	-	-	-	-	147,146
Net Profit for the Year	-	-	-	-	-	-	9,555,947	9,555,947
Balance at 31 December 2016	25	46,209	18,411,946	793,545	2,490	2,693	9,555,947	28,812,855
Balance at 1 January 2017	25	46,209	18,411,946	793,545	2,490	9,558,640	-	28,812,855
Fair Value Increase / (Decrease) in Equity Participations	-	-	-	130,995	-	-	-	130,995
Actuarial Gain/Loss	-	-	-	-	-	-	-	-
Profit Distribution:								
Dividends	-	-	-	-	-	(6,420,923)	-	(6,420,923)
- Treasury	-	-	-	-	-	(6,410,951)	-	(6,410,951)
- Other Shareholders	-	-	-	-	-	(3)	-	(3)
- Employees	-	-	-	-	-	(9,969)	-	(9,969)
Transferred to Equity Reserves	-	-	3,128,994	-	-	(3,128,994)	-	-
Net Profit for the Year	-	-	-	-	-	-	18,383,903	18,383,903
Balance at 31 December 2017	25	46,209	21,540,940	924,540	2,490	8,723	18,383,903	40,906,830

(*) Presented within other liabilities (Refer to Note II.16).

(**) Refers to banknotes that are subject to statute of limitations transferred to reserves in the reserve fund in accordance with Article 59 of the CBRT Law.

The accompanying notes form an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

PROFIT DISTRIBUTION TABLES FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

	Audited 1 January - 31 December 2017 (*)	Audited 1 January - 31 December 2016(**)
A. DISTRIBUTION OF PROFIT FOR THE YEAR		
1. Profit for the year	21,486,419	11,176,866
2. Taxes Payable and Legal Liabilities	(3,102,516)	(1,620,919)
- Corporate Tax (Income Tax)	(3,091,368)	(1,625,061)
- Income Tax	-	-
- Other Taxes and Legal Liabilities	(11,148)	4,142
NET PROFIT FOR THE YEAR	18,383,903	9,555,947
3. Prior Year Profits	8,723	2,693
4. Legal Reserves	-	(3,128,994)
5. Other Legal Funds	-	-
DISTRIBUTABLE PROFIT FOR THE YEAR	-	-
6. Dividends to Shareholders	-	(3)
7. Dividends to Employees	-	(9,969)
DUE TO REPUBLIC OF TURKEY, PRIME MINISTRY UNDERSECRETARIAT OF TREASURY ("TURKISH TREASURY") ACCORDING TO THE CENTRAL BANK LAW NO. 1211	-	(6,410,951)

(*) As of the date of these financial statements, the Board of the Bank has declared its decision on 1 March 2018 related to the distribution of the profit for the employees to be paid 2 months of salary as dividend for the year 2017. The corporate tax provision is calculated based on the assumption that employees will be paid 2 months of salary as dividend. The profit appropriation of the Bank for the year 2017 will be decided based on the resolution of the General Assembly to be held in April 2018.

(**) In accordance with the resolution of the General Assembly, dated 24 April 2017, the Bank allocated reserves according to Article 60 of the CBRT Law, and the remaining amount was transferred to Turkish Treasury after distribution of dividends to shareholders and employees.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

**STATEMENT OF CASH FLOWS FOR THE
YEARS ENDED 31 DECEMBER 2017 AND 2016**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

	Note (Section II, III, IV)	Audited 1 January – 31 December 2017	Audited 1 January – 31 December 2016
Cash flows (used in) / from operations			
Net profit/ (loss) for the year		18,383,903	9,555,947
Adjustments:			
Depreciation of fixed assets and amortization expenses	III, 4	40,183	32,825
Retirement pay provision	II,13	25,061	32,055
Net interest income		(10,135,822)	(8,351,385)
Dividend income	III, 3	(11,141)	(6,562)
Net commission income		(594,529)	(485,128)
Taxation income/expense	II,14	3,102,516	1,620,919
Increase/decrease in value of financial assets, net		700,038	73,119
(Profit) / loss resulting from fixed asset sales		(30)	(40)
Other		(370,348)	(953,286)
Cash flows from operating income before changes in operating assets and liabilities		11,139,831	1,518,464
Changes in operating assets and liabilities:			
Changes in gold reserves		(36,030,622)	2,817,229
Changes in marketable securities		58,324,579	(1,926,328)
Net change in loans and advances given		(7,302,022)	(11,889,817)
Net change in other assets		(1,429,859)	232,741
Net change in currency in circulation		8,497,750	19,917,277
Changes in liabilities due to money market operations		19,723,568	23,800
Net change in deposits		37,041,921	(7,290,343)
Net change in other liabilities		(10,813,091)	3,958,629
Taxes paid		(2,113,149)	(1,889,310)
Retirement payments made	II,13	(76,471)	(9,441)
Interest received		14,767,759	11,492,346
Interest paid		(4,629,366)	(3,096,479)
Commissions received, net		593,485	495,014
Commissions paid		(15,823)	(17,174)
Cash flows from / (used in) operations		87,678,490	14,336,608
Cash flows related to investments activities			
Fixed asset purchases		(47,707)	(20,981)
Cash generated from fixed asset sales		7,554	1,615
Dividend received	III,3	11,141	6,562
Cash flows used in investments activities		(29,012)	(12,804)
Cash flows related to financing activities			
Dividends paid		(6,420,923)	(9,312,165)
Net cash used in financing activities		(6,420,923)	(9,312,165)
Effect of changes in exchange rates on cash and cash equivalents		7,652,976	4,536,338
Changes in cash and cash equivalents		88,881,531	9,547,977
Cash and cash equivalents at the beginning of the year	IV,1	133,119,392	123,571,415
Cash and cash equivalents at the end of the year	IV,2	222,000,923	133,119,392

The accompanying notes from an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE

A. Notes and explanations related to current year

(1) The financial statements of the Central Bank of the Republic of Turkey ("the Bank") as of 31 December 2017 have been approved by the Board of the Bank on 1 March 2018.

(2) Detailed explanations of principal accounting policies applied by the Bank:

The basis of presentation of the financial statements and other accounting policies which are integral part of the accompanying financial statements are as follows:

i. Basis of Presentation of the Financial Statements

The Bank maintains its books of account and prepares its financial statements in accordance with the Turkish Commercial Code numbered 6102 and Tax Legislation and Law of the Central Bank of the Republic of Turkey numbered 1211 ("Central Bank Law"). According to the 57th and 58th articles of the Central Bank Law, the accounting period of the Bank is the calendar year. At the end of each calendar year, the Bank submits its balance sheet and income statement to the Prime Ministry along with the annual report prior to the General Assembly meeting and publishes the balance sheet in the Official Gazette.

ii. Accounting Principles

Significant accounting principles applied in the preparation of the financial statements are as follows:

a. Accounting of Income and Expenses

Interest income and expense that are calculated by using the effective interest rate method are accounted for on an accrual basis.

The effective interest rate 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.

Commissions and service fees collected or paid due to the transaction of CBRT with the domestic and foreign banks, Treasury, public entities and various persons or entities are recognized as income or expense in the period in which they are paid or collected. Income or expense accruals are recognized for those which will be collected or paid in the subsequent period. Commission and service income and expenses are accounted for on an accrual basis or recognized as income and expenses in the income statement in the period in which they are paid or collected depending on their nature.

In accordance with the article 61 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 exchange 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 considered as income and expense during computation of corporate tax base. Realized foreign exchange gains and losses from foreign currency sales and purchase transactions are reflected to the income statement at the date of transaction.

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

b. Foreign Currency Transactions

The Bank's foreign currency transactions are converted into Turkish Lira over the foreign exchange rates on the date of the transaction. During the preparation of the financial statements, the assets and liabilities in foreign currency accounts are converted into Turkish Lira based on the foreign exchange rates and effective buying rates as of the balance sheet date.

As described in article a. above, according to Article 61 of the Central Bank Law, unrealized foreign exchange gains and losses are presented in "Valuation Account". In case of realization such gains and losses are transferred to profit or loss accounts.

c. Gold Reserves

Gold reserves of the Bank consists of international standards of gold held in the Bank vault, in overseas banks and in Istanbul Stock Exchange ("BIST") and non-international standard of gold held in the Bank Vault. Gold reserves held abroad for the purpose of reserve management policy are kept in free depots. In addition, gold deposited by banks as the reserve requirement are deposited abroad or at BIST.

Gold is initially recorded with the prices prevailing at the date of acquisition and is valued with fair value in subsequent periods. Fair value is determined on the last business day of the week and monthly based on the average of the gold price quoted at the London Bullion market exchange at 10:30 and 15:00 (2017: 1,296.50 US Dollars/2016: 1,159.10 US Dollars) on the basis of 1 ounce being equal to 31.1035 grams and presented on the balance sheet after being converted to Turkish Lira. Fair value changes of gold reserves both arising from changes in price and exchange rates are accounted for as unrealized gains or losses under "Valuation Account" in accordance with the Article 61 of the Central Bank Law.

As of the end of year 2017, gold rate used in the valuation is TL/ounce 4,890 (2016: TL/ounce 4,079).

d. Financial Instruments

Securities Portfolio

The securities portfolio consists of directly purchased government bonds and securities purchased under agreements to resell in order to regulate the money supply and liquidity in the economy in line with the monetary policy targets based on the 52nd article of the Central Bank Law related with the open market operations. The securities purchased by the Bank on its own account are measured at their fair values. The marketable security portfolio account represents the fair values of these securities. Valuation differences between cost and revalued amount are included in the "3.Foreign Correspondents/3.1 Foreign Currency Securities" and "5.Securities Portfolio" in the balance sheet.

**NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2017**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

d. Financial Instruments (Continued)

Securities Portfolio (continued)

Fair value of the securities is determined with reference to quoted market prices in BIST; in case the quoted prices are not available fair value is determined using prices declared daily by the Bank and published in the Official Gazette. Foreign securities are valued with fair values determined with reference to quoted market prices in the international markets. Interest accrued during the holding of the securities, are shown as interest income.

Open Market Operations - Securities Purchased Under Agreements to Resell

The transactions of domestic currency securities purchased under agreements to resell are carried out by the Bank within the framework of open market operations.

Securities purchased under agreements to resell are accounted for as collateralized loans. Cash receivables originated from the transaction are classified as "6. Receivables Due to Monetary Policy Operations / 6.1 Open Market Operations" in the asset side where the securities received as collateral are classified under the off balance sheet accounts. Interest income is calculated on an accrual basis using the effective interest method at the end of each month. Interest income generated from the securities purchased under agreements to resell operations at maturity is recorded in the statement of profit or loss.

Open Market Operations - Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are accounted for as collateralized deposits received by the Bank. Securities given as collateral are classified under "5. Securities Portfolio" in the asset side where the cash that will be paid at the maturity is classified under "2. Payables Due to Monetary Policy Operations / 2.1 Open Market Operations" in the liability side. Interest amount to be paid to the banks are accrued at the end of each month using effective interest method. Interest expense for the securities sold under agreements to repurchase operations at maturity is recorded in the statement of profit or loss.

Foreign Exchange Deposits Operations Against Turkish Lira Deposits

Exchange deposits given is classified under "7. Domestic Correspondents" in the asset side and TL deposits received is classified under "2. Payables Due to Monetary Policy Transactions/ 2.3 Other" in the liability side. Interest amount collected from exchange deposits and paid to the TL deposits are accrued at the end of each month using effective interest method. Interest income arising from the operations at maturity and interest expense paid for the related operations are recorded in the statement of profit or loss.

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
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(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

d. Financial Instruments (Continued)

TL Based Forward Foreign Exchange Sales

At effective date, TL receivables with foreign exchange sales commitment is recognized under the off-balance sheet items. At the end of months, gains from the increase in value and loss decrease in value are classified under "12. Other Liabilities / 12.4 Other" in the liability side and "14. Other Assets / 14.4 Other" in the asset side respectively. TL payments/collections related to foreign currency exchange rate difference arising from the operations at maturity are recorded in the statement of profit or loss.

Money Exchange Transactions

FC debts and TL receivables subjected to the money exchange agreement are recognized under the off-balance sheet items at effective date and classified under "3. Foreign Correspondents / 3.3. Other" in the asset side and "3. Deposits at Bank / 3.2 Banking Sector Deposits / 3.2.2 Foreign Banks in the liability side respectively. Interest collected/paid in the framework of money exchange agreement is accrued at the end of each month using effective interest method. Interest collected/paid within the maturity date is recorded in the statement of profit or loss.

Loans and Provision for Losses

Loans granted by the Bank, are financial assets generated by lending money to the borrower. These loans are initially recorded as credit risk provision deducted from the cost. Loans and advances are reflected to the records by cash transfers by the debtor.

In case of objective evidence of payment of the amounts that cannot be charged, risk provision is created that is related to fair value of a credit. This amount of the provision is the difference between the carrying value of the loan and the recoverable amounts. The recoverable amount, the amounts recoverable from guarantees and collateral, including cash flows of loans based on the original effective interest rate is the present value discounted.

Provisions made during the period, are recorded in the income statement of the related period. When the date of legal action is completed, the receivables are net-offed by the risks provisions and removed from the financial statements. In the situation where there is a collection of a loan that the Bank has reserved provision for, the collected amount are deducted from the loan risk provision amount and recorded.

Equity Participations

The Bank classified its investments in the Bank for International Settlements ("BIS"), Society for Worldwide Interbank Financial Telecommunication ("SWIFT"), International Islamic Liquidity Management ("IILM") as equity participations.

Equity participations are initially recorded with their acquisition costs. In subsequent periods to initial recognition, investments in BIS and SWIFT are presented with their fair value, where, IILM investments are presented with its initial cost because of the fact that the fair value of the IILM is not reliably measured.

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
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(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

d. Financial Instruments (Continued)

Equity Participations(continued)

The fair value of BIS's shares that Bank holds are calculated as 70% the Bank's net asset on the BIS shares and converted to Turkish Lira with TL/SDR exchange rate at the end of the year. This valuation method is the method that determines purchase and sales prices of BIS shares.

The fair value of SWIFT's shares is determined by using the per share value announced by SWIFT.

Income and expenses arising from changes in fair value are recognized under other liabilities. In case of any disposals or impairment of equity participations, gain or loss that is recognized in equity participations value increase fund account under other liabilities is accounted for in the statement of profit or loss.

A dividend related to investments in equity participations are recorded to the statement of profit or loss in the period when the right to receive dividend occurs.

Financial Liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Foreign exchange deposits by citizens abroad accounts are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

e. Banknotes in Circulation

According to the article 4 of Central Bank Law, the Bank has the exclusive privilege of issuing banknotes in Turkey. According to the article 36 of Central Bank Law, banknotes in circulation are recognized in "1.Banknotes in Circulation" under liabilities. The Bank may change the banknotes in circulation with the new banknotes, if necessary. Banknotes in circulation are presented at nominal value in the financial statements.

The Bank's semi-finished banknote inventory produced in banknote printing office are presented under "15.Other Assets" at cost. The expenses related to banknotes are capitalized and the banknotes are recorded as expense when the banknotes are transferred to reserve depot. Cost of finished and semi-finished goods consist of general expenses such as; direct cost, depreciation expense, payroll expense, banknote transportation cost and other production cost.

Demonetized Currency - Turkish Lira and New Turkish Lira

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 expired as of 31 December 2009. New Turkish Lira banknotes will be redeemed during the period of 10 years starting from 1 January 2010 to 31 December 2019 at the Bank and the branches of T.C. Ziraat Bankası A.Ş.

It is most unlikely that significant amounts of demonetized currency will be returned for redemption.

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
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(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

f. Fixed Assets

Fixed assets consist of land, buildings, fixtures, vehicles and software products.

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

Properties in the course of construction for production, supply or administrative purposes 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 recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant 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 depreciation rates of the fixed assets are as follows:

Buildings	2 - 4%
Vehicles, Furniture and Fixture	2 - 50%
Leasehold Improvements	10 - 20%
Software	7-33%

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
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(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

g. Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the 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 end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provisions include amounts provided for future probable losses in accordance with the article 59 of the Central Bank Law for insurance, money in transit, retirement pay and taxation.

h. Employment Termination Benefits

According to the Turkish legislation and labor union agreements, employment termination benefits are paid upon the retirement of employees or in the case of layoff. The retirement benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation. The actuarial gains and losses are recognized under actuarial gain/loss account in other liabilities.

i. Taxes

The Bank is subject to corporation tax in accordance with the Turkish tax legislation. In addition, the Bank is liable for income withholding tax of third parties.

The Corporate Tax Law No.5520 has come into effect with the announcement at the Official Gazette No: 26205 dated 21 June 2007. Most of the articles of the Corporate Tax Law are effective from 1 January 2006. Accordingly, in accordance with No:32 corporation tax is payable, at a rate of 20% effective from 1 January 2006, on the total income of the Bank after adjusting for certain disallowable expenses and exempt income in accordance with tax legislation and Central Bank Law No:1211.

The law numbered 7061 on amendment on certain taxes and laws and other acts was published on the official gazette dated 5 December 2017 and numbered 30261, the 20% corporate tax rate, will be applied as 22% for entities' corporate income belonging to the taxation periods of 2018, 2019 and 2020 as amended in the provisional clause of article 10 of the Law.

Except changes on corporate tax rate, the exemption of 75% applied to gains from the sales of properties held by the entities has been reduced to rate of 50% with deferred tax rate to be applied on temporary differences arising on the revaluation of assets will be considered 10% instead of 15% in case of carrying amount of properties recovered through sales.

**NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
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(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

i. Taxes (continued)

Income taxes stated in the financial statements include the change in the current tax and deferred tax.

Deferred tax liability or asset is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. 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.

Deferred tax liability or asset are indicated at financial statements considering their estimated effects on increase or decrease rate of tax amount that will pay future period which no temporary differences. Deferred tax asset are accounted when the probability of providing tax advantages are occurred in future period. When it is understood as being utilized that deducting from related assets made provision. 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 intends to settle its current tax assets and liabilities on a net basis.

j. Custody Operations

The assets belonging to several individuals and organizations are classified in the off balance sheet accounts, since these assets are held for custody purposes only.

k. Comparative Information and Restatement of Prior Year Financial Statements

In order to allow the determination of the financial position and performance trends, the financial statements of the Bank are prepared comparatively with the prior period. Certain classifications are made in the previous year financial statements and the significant differences are disclosed in order to maintain comparability with the current year financial statement. The Bank hasn't made any reclassification on the previous year's financial statements.

(3) Changes in accounting policies in the current period and their financial effects:

There are no changes in accounting policies in the current period.

(4) Compliance of the Bank with the fundamental accounting principles of going concern, matching and consistency:

These financial statements have been prepared based on the fundamental principles of accounting; going concern assumption and matching principle; assuming that the Bank will continue its operations without interruption in the future.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

**NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
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(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

- (5) The US dollar ("US Dollar") and Euro ("EUR") bid rates used in the preparation of the balance sheet at year-end and the US\$ and EUR bid rates announced by the Bank for the last five working days prior to balance sheet date are as follows:**

a. The Bank's "Exchange Rate for the Translation of Foreign Currency Items"

	31 December 2017	31 December 2016
(1 Euro = TL)	4.5155 TL	3.7099 TL
(1 US Dollar = TL)	3.7719 TL	3.5192 TL

- b. EUR and US Dollar bid rates announced by the Bank as of the balance sheet date and for the last five working days prior to balance sheet date are as follows:**

EUR and US Dollar bid rates as of the balance sheet date:

	31 December 2017	31 December 2016
Euro	4.5155 TL	3.7099 TL
US Dollar	3.7719 TL	3.5192 TL

Prior to Balance Sheet Date (Euro)

	31 December 2017	31 December 2016
Bid rate of the 1st Day	4.5155 TL	3.7099 TL
Bid rate of the 2nd Day	4.5155 TL	3.6939 TL
Bid rate of the 3rd Day	4.5478 TL	3.6901 TL
Bid rate of the 4th Day	4.5385 TL	3.6711 TL
Bid rate of the 5th Day	4.5116 TL	3.6639 TL

Prior to Balance Sheet Date (US Dollar)

	31 December 2017	31 December 2016
Bid rate of the 1st Day	3.7719 TL	3.5192 TL
Bid rate of the 2nd Day	3.7719 TL	3.5318 TL
Bid rate of the 3rd Day	3.8104 TL	3.5329 TL
Bid rate of the 4th Day	3.8197 TL	3.5135 TL
Bid rate of the 5th Day	3.8029 TL	3.5041 TL

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1. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (continued)

(6) Information on assets and liabilities denominated in foreign currencies, their US Dollar and TL equivalents and the foreign currency position are as follows:

	<u>31 December 2017</u>		<u>31 December 2016</u>	
	Thousand TL	Million USD Dollar	Thousand TL	Million USD Dollar
I- Foreign Currency Assets				
1) Gold Reserves	88,778,170	23,537	49,449,492	14,051
2) Foreign Currency Banknotes	10,581,358	2,805	6,259,811	1,779
3) Foreign Correspondents	306,351,078	81,219	317,709,256	90,279
4) Reserve Tranche Position	606,030	161	533,911	152
5) Securities Portfolio	-	-	-	-
6) Receivables Due to Monetary Policy Operations	-	-	-	-
7) Domestic Correspondents	19,467,018	5,161	-	-
8) Loans	47,714,676	12,650	37,622,354	10,691
9) Equity Participations	1,064,814	282	917,956	261
10) Treasury Liabilities Due to SDR Allocation	5,757,112	1,526	5,071,996	1,441
11) Fixed Assets (Net)	-	-	-	-
12) Loans Under Legal Follow-Up (Net)	-	-	-	-
13) Deferred Tax Assets	-	-	-	-
14) Other Assets	8,090	2	5,640	2
Total Foreign Currency Assets	480,328,345	127,343	417,570,416	118,656
II- Foreign Currency Liabilities				
1) Currency in Circulation	-	-	-	-
2) Payables Due to Monetary Policy Operations	-	-	-	-
3) Deposits	295,108,667	78,238	258,051,793	73,327
a) Public Sector	9,197,732	2,438	13,013,336	3,698
b) Banking Sector	281,690,971	74,681	240,745,855	68,409
c) Other Deposits	4,219,964	1,119	4,292,602	1,220
4) Foreign Correspondents	2,842	1	1,318	-
5) Reserve Tranche Position	606,030	161	533,911	152
6) SDR Allocation	5,757,112	1,526	5,071,996	1,441
7) Tax Liability	-	-	-	-
8) Provisions	-	-	-	-
9) Share Capital and Legal Reserves	-	-	-	-
10) Valuation Account	-	-	-	-
11) Profit for the Year	-	-	-	-
12) Other Liabilities	1,188,401	315	1,966,799	559
Total Foreign Currency Liabilities	302,663,052	80,241	265,625,817	75,479
Net Foreign Currency Position	177,665,293	47,102	151,944,599	43,177

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

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

(7) Book value of property and equipment, accumulated depreciation and their insurance coverage:

	31 December 2017				31 December 2016			
	Cost	Accumulated depreciation	Net book value	Insurance coverage	Cost	Accumulated depreciation	Net book value	Insurance Coverage
Furniture								
And Fixture	287,780	198,429	89,351	241,833	256,968	173,699	83,269	235,301
Property	398,247	162,736	235,511	308,312	735,457	158,101	577,356	302,152
	686,027	361,165	324,862	550,145	992,425	331,800	660,625	537,453

(8) Information on significant contingent losses and gains that cannot be quantified:

As of 31 December 2017, there is a number of legal proceedings outstanding against the Bank amounting to TL 4,363 thousand, US Dollar 64,596,952 and EUR 222,397 (31 December 2016: TL 4,253 thousand, US Dollar 64,596,952 and EUR 222,397). No provisions are provided in the accompanying financial statements for such legal proceedings based on the views of legal counsel.

(9) Other matters which may have a material impact on the financial statements, or which should be explained for facilitating a better understanding of the financial statements:

Valuation Account

As explained in the article 2-ii-b, Section "A. Notes and Explanations related to Current Year" of the Section - I "Notes and Explanations related to the Bank and its Financial Structure", the "Valuation Account" in the balance sheet represents the unrealized foreign exchange gains and losses as at the balance sheet date. Realized foreign exchange gains and losses are recognized in the income statement during the period.

B. Other notes and explanations

(1) Events occurred after the balance sheet date, affecting the financial activities and/or financial structure significantly and therefore require explanation:

In the meeting of the General Assembly of the Bank that will be held in April 2018, taking into consideration the articles 56 and 60 of Central Bank Law numbered 1211 and in Turkish Commercial Code No. 6102, with the law no 6335, article 64; dividend payment to employees; limited to either two month salary per employee or 5% of the distributable amount after the deductions calculated based on the ratios stated in the paragraphs (a) and (b) of the article 60 of the Central Bank Law; over the Bank's net income of the year 2016 amounting to TL 21,482,097 thousand stated in the legal books kept by the Bank in accordance with the Tax Procedure Law, numbered 213, and allocation of extraordinary reserves at a rate of 10% will be resolved.

(2) Information on the Bank's foreign branches:

There are no foreign branches; however the Bank has representatives working in Turkish Representations in Frankfurt, London, New York, Beijing, Tokyo, Washington and Doha.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

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

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

C. The Independent audit Organization that controls the financial tables:

The financial statements for the year ended 31 December 2017 have been audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. ("A member of Deloitte Touche Tohmatsu Limited"). The independent auditor's report is presented in front of the financial statements and notes to the financial statements.

II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS

(1) Gold Reserves

In accordance with the article 53 of the Central Bank Law, the Bank manages gold and foreign exchange reserves of the Country in the context of the monetary policy targets and applications. For this purpose the Bank performs banking operations in domestic and foreign markets including forward or spot purchase/sale of gold, foreign currency, marketable securities, derivative instruments and lending/borrowing transactions in accordance with the procedures and rules determined by its own safe investment, liquidity and yield priorities.

As of 31 December 2017, the Bank owns 199,440,583 (31 December 2016: 116,103,765) net grams of gold in international standards and 3,177,798 (31 December 2016: 3,177,798) net grams of gold in non-international standards, and 362,749,624 net grams of gold which belongs to the banks and financing companies those deposited gold in order to meet their reserve requirements (31 December 2016: 260,952,572) and 2,464,247 net grams of gold which belongs to the Turkish treasury. 375,405,864 (31 December 2016: 310,054,133) grams of the gold in international standards is kept at the Bank of England ("BOE"), 136,841,651 (31 December 2016: 33,331,558) grams of gold is kept in Istanbul Stock Exchange and 18,736,294 (31 December 2016: None) is kept at Bank of International Settlements ("BIS") and the remaining 33,670,645 (31 December 2016: 33,670,645) grams is kept at the Head Office of the Bank. As of 31 December 2017, there is no gold which belongs to the bank in the care of the FED (31 December 2016: 28,689,413). The total amount of gold in non-international standards is kept at the Head Office of the Bank; 345,575 (31 December 2016: 345,575) grams of gold in non-international standards belongs to the Turkish Treasury and the related liability is presented in the balance sheet under the "Other Liabilities" account.

The gold reserve as of 31 December 2017 and 31 December 2016 is valued with the gold prices quoted in the London Bullion Market at 10:30 a.m. and on the basis of 1 ounce being equal to 31.1035 grams.

Gold Reserves	31 December 2017	31 December 2016
Gold in International Standards	88,778,170	49,449,492
CBRT's own gold	31,357,177	15,226,563
Care of the BOE	17,257,057	7,048,281
Care of the FED	-	3,762,506
Care of BIS	2,945,826	-
Domestic gold	11,154,294	4,415,776
Required reserves of the banks	57,033,549	34,222,929
Care of the BOE	41,766,378	29,851,623
Care of BIST	15,267,171	4,371,306
Turkish Treasury's own gold	387,444	-
Gold in Non-International Standard	499,631	416,756
CBRT	445,298	371,435
Treasury	54,333	45,321

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NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

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

II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS (Continued)

(2) Foreign Correspondents

	31 December 2017		31 December 2016	
	Thousand TL	Million USD Dollar	Thousand TL	Million USD Dollar
Foreign Currency Securities	251,841,977	66,768	286,470,939	81,402
Deposit	21,989,216	5,830	24,391,271	6,931
Other	32,519,885	8,621	6,847,046	1,946
- Demand deposits	27,326,773	7,244	2,272,455	646
- SDR holdings account	5,190,498	1,376	4,573,611	1,300
- Other	2,614	1	980	-
Total	306,351,078	81,219	317,709,256	90,279

Foreign Correspondents account consists of foreign currency securities held as foreign currency reserves and the current accounts of the Bank held on its foreign correspondents. Foreign currency securities consist of government bonds and treasury bills issued by foreign government and kept in custody at foreign banks.

As of 31 December 2017, foreign currency securities held for reserve purpose amounting to TL 251,841,977 thousand (31 December 2016: TL 286,470,939 thousand) are valued with the prices quoted in the international markets where they are traded at the balance sheet date.

(3) Securities Portfolio and Receivables Due to Monetary Policy Operations

(a) Information on Securities Portfolio

As of 31 December 2017, securities portfolio amounting to TL 14,531,545 thousand consists of government bonds with outright purchase. (As of 31 December 2016: The securities portfolio amounting to TL 13,889,108 thousand consists of government bonds with outright purchase.)

Breakdown of securities portfolio as of 31 December 2017 are as follows:

	31 December 2017			
	Acquisition Cost	Accrual (net)	Carrying Amount	Fair Value
<u>Purchases under Agreements to Resell:</u>				
Treasury Bills and Government Bonds	-	-	-	-
1. Fixed Income	-	-	-	-
2. Indexed to Inflation	-	-	-	-
3. Indexed to Foreign Currency	-	-	-	-
4. Foreign Currency	-	-	-	-
5. Floating Rate	-	-	-	-
<u>Outright Purchases:</u>				
Treasury Bills and Government Bonds	14,557,548	(26,003)	14,531,545	14,531,545
1. Fixed Income	-	-	-	-
2. Indexed to Inflation	-	-	-	-
3. Indexed to Foreign Currency	-	-	-	-
4. Foreign Currency	-	-	-	-
5. Floating Rate	-	-	-	-
TOTAL	14,557,548	(26,003)	14,531,545	14,531,545

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**NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS (Continued)

(3) Securities Portfolio and Receivables Due to Monetary Policy Operations (continued)

(a) Information on Securities Portfolio (continued)

As of 31 December 2017 the nominal values of TL securities acquired by outright purchases amounts to TL 14,956,000 thousand. (31 December 2016: 13,945,000 thousand TL)

Breakdown of securities portfolio as of 31 December 2016 are as follows:

	31 December 2016			
	Acquisition Cost	Accrual (net)	Carrying Amount	Fair Value
<u>Purchases under Agreements to Resell:</u>				
Treasury Bills and Government Bonds				
1. Fixed Income	-	-	-	-
2. Indexed to Inflation	-	-	-	-
3. Indexed to Foreign Currency	-	-	-	-
4. Foreign Currency	-	-	-	-
5. Floating Rate	-	-	-	-
<u>Outright Purchases:</u>				
Treasury Bills and Government Bonds				
1. Fixed Income	13,913,259	(24,151)	13,889,108	13,889,108
2. Indexed to Inflation	-	-	-	-
3. Indexed to Foreign Currency	-	-	-	-
4. Foreign Currency	-	-	-	-
5. Floating Rate	-	-	-	-
TOTAL	13,913,259	(24,151)	13,889,108	13,889,108

(b) Receivables Due to Monetary Policy Operations

As of 31 December 2017, breakdown of the securities purchased under agreement to resell recognized in off-balance sheet is as follows:

	31 December 2017	
	Nominal	Fair value
<u>Purchases under Agreements to Resell:</u>		
Treasury Bills and Government Bonds		
1 Fixed Income	28,241,563	34,403,522
2 Inflation-Indexed	-	-
3 Indexed	-	-
4 Foreign Currency	-	-
5 Floating Rate	-	-
TOTAL	28,241,563	34,403,522
	31 December 2016	
	Nominal	Fair value
<u>Purchases under Agreements to Resell:</u>		
Treasury Bills and Government Bonds		
1 Fixed Income	65,497,699	72,870,843
2 Inflation-Indexed	-	-
3 Indexed	-	-
4 Foreign Currency	-	-
5 Floating Rate	-	-
TOTAL	65,497,699	72,870,843

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NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS (Continued)

(3) Securities Portfolio and Receivables Due to Monetary Policy Operations (continued)

(b) Receivables Due to Monetary Policy Operations (continued)

Receivables Due to Monetary Policy- Open Market Operations at the asset side of the balance sheet as of 31 December 2017 – Securities purchased under agreements to resell presented under Open Market Operations consists of TL 34,295,896 thousand of capital paid and the accrued interest income (31 December 2016: TL 71,355,625 thousand). As of 31 December 2017, the accrued interest on securities purchased under agreements to resell amounting to TL 35,896 thousand (31 December 2016: TL 48,626 thousand) is presented in the Receivables due to Monetary Policy Operations - Open Market Operations.

In addition, as of 31 December 2017, there is TL 103,257,275 thousand of Money Market receivable including income accruals due from the transactions the Bank entered into on its behalf (31 December 2016: TL 24,200,221 thousand). Interest income accrual amounting to TL 109,575 thousand (31 December 2016: TL 11,421 thousand) are accounted for in the same account.

In addition, as of 31 December 2017, TL 19,808,749 thousand the Bank received from Interbank Money Market including expense accruals (31 December 2016: TL 50,320 thousand) as the counterparty of the transaction was presented as Liabilities due Monetary Policy Operations - Interbank Money Market Operations and Foreign exchange deposits transactions against Turkish Lira. Accrued interest expense of this liability; TL 47 thousand; (31 December 2016: TL 20 thousand) and TL 34,834 thousand (31 December 2016: None) for the counterparty of transactions and foreign exchange deposits transactions against Turkish was also accounted in the same account respectively.

(4) Domestic Correspondents

Interbank Money Market transactions where the Bank acts as an intermediary are recognized in the domestic correspondents account under assets and in the bank deposits accounts under liabilities. The Bank carries the default risk of the borrower counterparty in these transactions against the collaterals taken from these counter parties.

Foreign exchange deposits against Turkish Lira deposits that started on 18 January 2017, is shown under the domestic correspondent account. As of 31 December 2017, the amount of domestic correspondents account is TL 19,467,018 (31 December 2016: None). Accrued income of foreign exchange deposits against Turkish Lira deposits is TL 4,052 thousand (31 December 2016: None)

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS (Continued)

5) Loans

(a) Information on domestic loans:

As of 31 December 2017 loans to domestic banks; TL 47,680,497 thousand (31 December 2016: TL 37,590,465 thousand) consists of the discount loans.

(b) Information on loans and advances given to shareholders and employees

None. (31 December 2016: None).

(c) Information on Foreign Loans:

Foreign loans represent the receivables initially originated from the commercial transactions made under treaties with the foreign central banks and subsequently converted to loans.

(d) Information on loans under legal follow-up (net):

The total balance consists of receivables related with the trading transactions with Iraq and became uncollectible due to the Gulf Crisis. The balance is classified as loans under legal follow-up and it is fully provisioned.

Movements in the allowance for loans and receivables under legal follow-up:

	31 December 2017		31 December 2016	
	Thousand TL	Thousand USD Dollar	Thousand TL	Thousand USD Dollar
Opening balance	5,423,981	1,541,254	4,458,845	1,534,859
- Increases during the Period (+) (*)	28,976	7,951	22,506	6,395
- Transfers from Other Follow-up Accounts (+)	-	-	-	-
- Transfers to Other Follow-up Accounts (-)	-	-	-	-
- Collections during the Period (-)	-	-	-	-
- Write-offs (-)	-	-	-	-
- Foreign Exchange Differences	390,491	-	942,630	-
Closing balance	5,843,448	1,549,205	5,423,981	1,541,254
- Allowance (-)	(5,843,448)	(1,549,205)	(5,423,981)	(1,541,254)
Net balance after allowance	-	-	-	-

(*) As of 31 December 2017, TL 28,976 thousand of increase during the period (31 December 2016: TL 22,506 thousand) represents accrued interest on the loans and receivables under follow-up.

According to the article 61 of the Central Bank Law, foreign currency denominated loans under follow-up are revalued at period ends and unrealized gains and losses arising from the revaluation are classified into the "Valuation Differences" which is a transitory account. Allowances for the related receivables including foreign currency valuation differences are recognized in the income statement according to the article 59 of the Central Bank Law.

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS (Continued)

6) Equity Participations

As of 31 December 2017 and 2016, the Bank's equity participations are as follows:

Title	Share rate (%)	Total Paid-in Share Capital	31 December 2017 Acquisition Cost	31 December 2016 Acquisition Cost	31 December 2017 Carrying Value	31 December 2016 Carrying Value
Bank for International Settlements (BIS) (*) (**)	1.43	698,9 million SDR	(*) SDR 10,000,000	(*) SDR 10,000,000	1,026,926	882,636
International Islamic Liquidity Management Corporation (IILM)	13.33	US Dollar 75 million	US Dollar 10,000,000	US Dollar 10,000,000	37,719	35,192
S.W.I.F.T.	0.007	Euro 13,8 million	Euro 18,320	Euro 18,320	168	128
Total Affiliates					1,064,813	917,956

(*) In BIS, against 8,000 shares of Bank, paid is SDR 10,000,000, unpaid is SDR 30,000,000.

(**) Its fair value is calculated as 70% of Bank's right on net worths.

Until 1 January 2013 the Bank accounted for its equity participations at cost and converted them to Turkish Lira with the exchange rate as of the balance sheet date. The Bank has changed its accounting policy on 1 January 2013 and chose to fair value its equity participations in BIS and SWIFT whose fair values can be reliably measured. The Bank's equity participation in IILM whose fair value could not be reliably measured continues to be accounted for at cost. In current year, TL 146,857 thousand of valuation increase; which is TL 8,965 thousand the foreign currency valuation difference; was accounted for in the "Valuation Account"; and the remaining TL 137,892 thousand (TL 130,995 thousand after deducting deferred tax effect TL 6,897 thousand) was accounted for as "Fair value increase/(decrease) in equity participations" under "Other Liabilities". (Refer to Not II. 16)

Movement of equity participations	2017	2016
Opening balance (1 January)	917,956	753,092
Change in fair value for the year	137,892	151,747
The effect of foreign currency valuation for the year	8,965	13,117
Ending Balance (31 December)	1,064,813	917,956

In the year ended 31 December 2017, there isn't any purchased or disposed equity participation.

In 2017 the profit share was collected from Bank for International Settlements is TL 11,141 thousand. (2016: TL 6,562 thousand).

(7) Fixed Assets

As of 31 December 2017, the cost of property and related accumulated depreciation amounts to TL 398,247 thousand (31 December 2016: TL 735,457 thousand) and TL 162,736 thousand (31 December 2016: TL 158,101 thousand) respectively, whereas the cost of furniture and fixture and related accumulated depreciation amounts to TL 287,780 thousand (31 December 2016: TL 256,968 thousand) and TL 198,429 thousand (31 December 2016: TL 173,699 thousand) respectively.

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

II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS (Continued)

(8) Other Assets

Other assets- The list of other account is presented below:

	31 December 2017	31 December 2016
Temporary tax to be deducted from corporate tax	2,158,795	1,447,972
Taxes to be deducted from income tax withholding	141,039	222,735
Printing plant inventory	52,040	50,983
Construction in progress expenses	450,044	25,021
Other materials and warehouses	5,418	9,647
Letter of credit expenses of banknote printing office	690	352
Collection banknote depot	3,668	3,183
Medallion depot	112	493
Difference on increase in value of Turkish Lira-settled forward foreign exchange	404,313	-
Receivables from foreign exchange sales with future value date	326,315	-
Other	76,917	92,077
Total	3,619,351	1,852,463

Other assets- The breakdown of accrued income account is presented in the following:

	31 December 2017	31 December 2016
Commissions and expenses to be collected from Treasury(*)	35,408	25,909
EFT commission income accrual	18,508	15,601
Other	6,261	1,799
Total Interest and Income Accruals	60,177	43,309

(*) With the decision of the Board of the Bank numbered 9525/19124 dated 4 October 2011, Regulation on Tariffs has been amended. According to the amendment, starting from 12 October 2011, commissions and fees are charged to the Prime Ministry Undersecretariat of Treasury due to the transactions with the public administrations within the scope of overall budget.

(9) Currency in circulation

According to the article 1 of Central Bank Law, the Bank has the exclusive privilege of issuing banknotes in Turkey. As of 31 December 2017, the banknotes in circulation amount to TL 131,457,662 thousand (31 December 2016: TL 122,959,913 thousand).

Movement of banknotes in circulation	2017	2016
1 January Balance	122,959,913	103,042,636
Banknotes issued into circulation	50,964,983	55,309,941
Banknotes withdrawn from circulation and destroyed	(42,467,234)	(35,245,518)
Expired banknotes	-	(147,146)
31 December Balance	131,457,662	122,959,913

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS (Continued)

(10) Reserve Tranche Position

As of 18 February 2016, under the scope of the membership to the International Monetary Fund ("IMF"), the country quota of Turkey was increased by SDR 3,202,800,000, reaching SDR 4,658,600,000.

As of 31 December 2017, Reserve Tranche Position represents the prepayment of SDR 112,775,000 for the total IMF quota of SDR 4,658,600,000 and is recorded in the "Foreign Currency Reserves - Reserve Tranche Position" under the assets and in the "Reserve Tranche Position" under liabilities. As of 31 December 2017, the balance of the account amounts to TL 606,030 thousand (31 December 2016: TL 533,911 thousand).

SDR 112,307,000 (31 December 2016: SDR 112,307,000) allocated to Turkey in accordance with the protocol signed with the IMF has been used by the Turkish Treasury and is classified as "Treasury Liabilities due to SDR Allocation" under "Assets" and as "SDR Allocation" under "Liabilities". Additionally, as of 28 August 2009 and 9 September 2009, the amounts of SDR 883,122,365 and SDR 75,900,364 have been allocated as General SDR allocation and Special SDR allocation respectively to the Turkish Treasury by IMF where the Bank act as an intermediary institution and are accounted for as explained. As of 31 December 2017, the balance is TL 5,757,112 thousand (31 December 2016: 5,071,996 thousand TL).

(11) Deposits

The deposits balance is composed of deposits from the Turkish Treasury, public institutions, the banking sector, citizens abroad, international institutions and funds.

Public Sector and Banking Sector Deposits

According to article 41 of the Central Bank Law, deposits of the public institutions are non-interest bearing except for the deposits of the Turkish Treasury. With the amendment in article 41 of Central Bank Law numbered 1211 as of 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 Turkish 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. Public sector deposits other than the deposits of the Turkish Treasury are demand deposits.

The deposits of the banking sector consist of two-day notice foreign currency deposits, TL demand deposits and reserve deposits. Interest has been paid for the required reserves since 3 November 2014. Also, interest has been started to be paid for the foreign currency required reserves since 5 May 2015.

Deposits by citizens abroad

As of 31 December 2017, deposits by citizens abroad amounting to TL 2,508,008 thousand (31 December 2016: TL 2,929,286 thousand) consist of deposits by Turkish citizens living abroad.

The term of Deposits by Citizens Abroad account is 3 years. There is no newly opened account due to liquidation process of worker remittances. The maturity date of expired accounts are not renewed as of January 1, 2015. These accounts are monitored on a zero-interest checking account with accrued interest.

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS (Continued)

(11) Deposits (Continued)

Deposits by citizens abroad (continued)

Distribution of deposits by citizens abroad accounts according to type of currency is presented in the following:

Foreign Currency	31 December 2017			31 December 2016		
	Foreign Currency Balance (000)	Thousand TL Equivalent	Interest rates (*)	Foreign Currency Balance (000)	Thousand TL Equivalent	Interest rates (*)
Euro	527,205	2,380,594	0.00% - 0.25%	744,608	2,762,421	0.00% - 0.25%
USD Dollar	26,173	98,722	0.00%	37,730	132,779	0.00% - 0.25%
CHF	7,109	27,404	0.00%	9,529	32,831	0.00% - 0.25%
Other	259	1,288	0.00%	295	1,255	0.00% - 0.25%
Total		2,508,008			2,929,286	

(*) Minimum interest rates of the deposit accounts other than the ones mentioned above are 0.00%, 0.00%, 0.00% and 0.00% for EUR, US Dollar, CHF and GBP respectively as of 31 December 2017 (31 December 2016: 0.00%, 0.00%, 0.00% and 0.00% for EUR, US Dollar, CHF and GBP respectively).

Deposits by International Institutions

Deposits by the international institutions represents the TL thousand equivalent of the balance transferred to the Bank by the IMF as "special drawing rights" ("SDR"). The Bank is designated as "the depositor" to regulate the relations of the Turkish Treasury and the IMF. As of 31 December 2017, TL 56,869 thousand (31 December 2016: TL 46,509 thousand) which represents the minimum quota amount denominated in SDR is recorded as the deposit balance of IMF. In addition to this, the balance of the amount of TL 18 thousand is used for tracking revenues such as IMF's sales revenues of publication and administrative expenses which took place within the limits of a member country and used only in the currency of the member country (31 December 2016: TL 15 thousand). In addition, as of 31 December 2017, there is TL 13,381 thousand of deposit belonging to African Development Bank (AfKB) within the Bank's deposits by international institutions account. (31 December 2016: TL 5,016 thousand)

Deposits of Funds

Deposits of funds consist of the demand accounts of various funds controlled by the Prime Ministry of the Republic of Turkey.

(12) Share Capital and Legal Reserves

According to the article 5 of the Central Bank Law, the nominal capital of the Bank is TL 25,000 (full TL basis) and it is divided into 250,000 shares, with a par value of Kr 10 (TL 0.1) each. The capital may be increased with the approval of the Government. The shares are divided into (A), (B), (C) and (D) classes. The (A) group shares belong solely to the Turkish Treasury and cannot be lower than 51% of the capital.

The representation of Bank's capital between 31 December 2017 and 2016:

	31 December 2017	31 December 2016
Nominal capital	25	25
Inflation adjustment to share capital	46,209	46,209
Total capital	46,234	46,234

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS (Continued)

(12) Share Capital and Legal Reserves (continued)

The list of Bank's shareholders is presented below:

	31 December 2017		31 December 2016	
	Share Amount TL (*)	Share Rate %	Share Amount TL (*)	Share Rate %
Turkish Treasury	13,780	55	13,780	55
T.C. Ziraat Bankası A.Ş.	4,806	19	4,806	19
Mervak İç ve Dış Ticaret A.Ş.	1,280	5	1,280	5
Türkiye Garanti Bankası A.Ş.	621	3	621	3
Türkiye İş Bankası A.Ş.	582	2	582	2
T.C. Sosyal Güvenlik Kurumu	350	2	350	2
Türkiye Kızılay Derneği	301	1	301	1
Türkiye Halk Bankası A.Ş.	277	1	277	1
Other	3,003	12	3,003	12
Total nominal capital	25,000	100	25,000	100

(*) Share amounts are stated in full TL basis.

20% of the annual gross profit of the Bank is allocated as legal reserves each year. Additionally, after the deduction of legal reserves on gross profit and first dividends to shareholders, 10% of the remaining balance is allocated as extraordinary reserves.

In accordance with the decision of the General Assembly dated 24 April 2017 and Tax Procedure Law numbered 213, the Bank distributed TL 9,969 thousand to its employees from the net total profit of year 2016 amounting TL 9,549,916 thousand, TL 3 thousand to shareholders as dividend out of the profit and TL 3,128,994 thousand was transferred to reserves. The remaining amount of TL 6,410,951 thousand was transferred to Turkish Treasury.

(13) Provisions

Retirement Pay Provision

As of 31 December 2017, the Bank calculated retirement pay provision amounting to TL 143,395 thousand (31 December 2016: TL 194,805 thousand) and recorded the full provision under the provision account.

Movement of retirement pay provision is presented below:	2017	2016
1 January Balance	194,805	172,191
Service cost	17,287	25,166
Interest cost	7,774	6,889
Paid during the current year	(76,471)	(9,441)
31 December Balance	143,395	194,805

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS (Continued)

(13) Provisions (continued)

Insurance Provision for Money in Transit

As of 31 December 2017, the Bank, calculated provision for the transfer insurance of banknotes, cash and securities amounting to TL 243,056 thousand (31 December 2016: TL 243,056 thousand) and recorded the provision amount under the provision account.

(14) Tax Liability

Corporate Tax Provision

	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2016</u>
Corporate tax	3,091,368	1,625,061
Other taxes (*)	151,484	90,121
Tax obligation – net	3,242,852	1,715,182

(*)It consists of income tax, bank insurance transactions tax, stamp duty and value added 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 years and periods.

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 is 20% (2016: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2017 is 20%. (2016: 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.

Tax expense for the years 2017 and 2016 is as follows:

	<u>1 January –</u> <u>31 December</u> <u>2017</u>	<u>1 January –</u> <u>31 December</u> <u>2016</u>
- Corporate tax provision	(3,091,368)	(1,625,061)
- Deferred tax income/(expense)	(11,148)	4,142
Tax expense	(3,102,516)	(1,620,919)

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS (Continued)

(14) Tax Liability (Continued)

Deferred Tax

As of 31 December 2017 and 31 December 2016, the details of temporary differences and calculated deferred tax assets/ (liabilities) are presented below:

	Total temporary differences	Deferred Tax Assets/(Liabilities)
	31 December 2017	31 December 2017
Retirement pay provision	143,395	28,679
Fixed asset depreciation adjustment	30,319	6,063
Fair value increase/(decrease) of equity participations	(973,188)	(48,659)
Net Liability	(799,474)	(13,917)

	Total temporary differences	Deferred Tax Assets/(Liabilities)
	31 December 2016	31 December 2016
Retirement pay provision	194,805	38,961
Fixed asset depreciation adjustment	34,653	6,932
Fair value increase/(decrease) of equity participations	(835,293)	(41,765)
Net Assets	(605,835)	4,128

As of 31 December 2017 and 2016, movement of deferred tax assets is presented below:

	2017	2016
1 January Balance	4,128	7,572
Deferred tax associated with the income statement, net	(11,148)	4,142
Deferred tax associated with other liabilities (*)	(6,897)	(7,586)
31 December Balance	(13,917)	4,128

(*)Associated with the fair value increase/ (decrease) in equity participations and actuarial gain.

Reconciliation of tax expense is presented below:

	2017	2016
Profit/(loss) before tax	21,486,419	11,176,866
Provision calculated over the corporate tax rate (20 %)	4,297,284	2,235,373
Tax allowance	(1,196,431)	(632,369)
Undeductible expenses	1,663	17,915
Tax expense/(income)	3,102,516	1,620,919

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS (Continued)

(15) Valuation Account

As explained in the article 2-ii-a, Section "A. Notes and Explanations related to the Current Year" of the section - I "Notes and Explanations related to the Bank and its Financial Structure", the "Valuation Account" in the balance sheet represents the unrealized foreign exchange gains and losses as at the balance sheet date. Foreign exchange gains and losses realized during the period are recognized in the income statement.

(16) Other Liabilities

As of 31 December 2017, TL 54,333 thousand (31 December 2016: TL 45,321 thousand) of other liabilities is the gold reserve in non-international standard kept in bank on behalf of Treasury and TL 387,443 thousand (31 December 2016: None) is the gold reserve in international standard kept in BIST on behalf of Treasury.

Other liabilities – other is presented below:

	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2016</u>
Increase/(decrease) in equity participations	924,540	793,545
Account transactions with subsequent dates	141,886	396,026
Withholding tax belongs to repo interest written as income via rediscount	5,385	7,295
Seized and prudent money	637	698
Amounts waiting for the application of beneficiaries	784	552
Debts from bonds waiting for court decisions	4,025	4,116
Bills and money orders to be paid	18,983	12,674
Retirement pay provision actuarial gain	2,490	2,490
Payments to heirs as a result of death	10,733	10,405
Interests waiting because of its being under the limit	14,431	11,917
Money to be liquidated to the following period	10,441	412
Prior year's gains / (losses)	8,723	2,693
Increase in value of Turkish Lira-settled forward foreign exchange	404,313	-
Payables due to foreign exchange sales with future value date	320,612	-
Other	20,075	44,501
Total	1,888,058	1,287,324

Other liabilities –Breakdown of accrual expenses are shown below:

	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2016</u>
Interest accrual expense of IMF periodic payments	6,884	1,814
Exchange difference from foreign exchange sale with future value date	37,221	-
Other	10,461	3,634
Total Accrual Expenses	54,566	5,448

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET COMMITMENTS (Continued)

As of 31 December 2017 and 2016, TL and foreign currency denominated securities expressed in TL thousand over their nominal values; blank letter of credits, letter of credits that account owners entrust for maintenance, gold and silver medallions and badges of service award, banknote samples, specimen catalogues, cheques with unknown costs are expressed in units:

	31 December 2017				31 December 2016					
	A	B	C	D	A+B+D	E	F	G	H	E+F+H
OFF-BALANCE SHEET LIABILITIES	TL	FC	FC	Number	Total	TL(Original Money)	FC	FC	Number	Total
	(Original Money)	(TL Equivalent)	(TL Equivalent)					(TL Equivalent)		
A. Securities in Custody	115,658,943	15,223	33,749	75	115,674,241	138,401,892	22,182	69,689	72	138,424,146
1. Marketable Securities in Custody – Free	103,212,804	5,139	25,993	-	103,217,943	119,699,771	13,396	62,180	-	119,713,167
2. Deal Securities	13	-	-	55	68	202,078	-	-	53	202,131
3. Marketable Security Exchange Market Banks' Guarantee Letters	16,370	-	-	-	16,370	410,594	-	-	-	410,594
4. Government Debt Security Depot of Savings Deposits Insurance Fund, Exempt from Income Tax	11,040,707	-	-	-	11,040,707	16,586,714	-	-	-	16,586,714
5. Other	1,389,049	10,084	7,756	20	1,399,153	1,502,735	8,786	7,509	19	1,511,540
B. Guarantees Received	124,258,279	17,387,333	71,782,697	209	141,645,821	19,378,775	14,826,053	53,444,158	211	34,205,039
1. Government Debt Security Deposits of Bank under Foreign Exchange Market Guarantee	4,496,364	-	-	-	4,496,364	987,882	-	-	-	987,882
2. Bonds as Interbank Money Market Operations Guarantees	115,153,148	1,339,529	5,118,750	-	116,492,677	15,366,762	418,675	1,484,847	-	15,785,437
3. Government Debt Security Deposits Accepted as Guarantee for Open Market Operations	4,602,426	105,000	396,050	-	4,707,426	3,020,841	260,000	910,429	-	3,280,841
4. Intermediary Institutions' Pledged Government Debt Security Deposits	-	-	-	-	-	-	-	-	-	-
5. Other	6,341	15,942,804	65,267,897	209	15,949,354	3,290	14,147,378	51,048,882	211	14,150,879
C. Obsolete and Reserve Banknotes	97,829,312	-	-	-	97,829,312	87,546,886	-	-	-	87,546,886
1. Reserve Banknotes – Head Office	39,949,062	-	-	-	39,949,062	37,530,662	-	-	-	37,530,662
2. Reserve Banknotes – Branches, Banknotes Deposits and Other Units	57,323,324	-	-	-	57,323,324	49,694,669	-	-	-	49,694,669
3. Obsolete Banknotes – Head Office and Branches	94	-	-	-	94	74,085	-	-	-	74,085
4. Obsolete Banknotes – Branches, Banknotes deposits and Other Units	556,832	-	-	-	556,832	247,470	-	-	-	247,470
D. Other	336,686,213	10,126,409	15,343,739	323,813	347,136,435	332,233,986	2,122,459	1,419,265	1,334,831	335,691,276
1. Repurchase Agreements Pledge Account	-	-	-	-	-	-	-	-	-	-
2. Bank Treasury Bonds Portfolio and Security Deposits Received Through Repo Transactions	43,197,563	-	-	-	43,197,563	79,442,699	-	-	-	79,442,699
3. Customer Transactions Portfolio – Takasbank and MKK	278,237,677	-	-	-	278,237,677	251,748,648	-	-	-	251,748,648
4. Marketable Security Portfolio in Electronic Security Fund Transfer System	-	-	-	-	-	-	-	-	-	-
5. BIST Members' Treasury Bond Depot	520	-	-	-	520	30,626	-	-	-	30,626
6. Other	15,250,453	10,126,409	15,343,739	323,813	25,700,675	1,012,013	2,122,459	1,419,265	1,334,831	4,469,303
E. Unpublished Marketable Securities Deposits in Electronic Marketable Security Transfer Recording	526,678,666	-	-	-	526,678,666	452,087,080	-	-	-	452,087,081
TOTAL (A+B+C+D+E)	1,201,111,413	27,528,965	87,168,156	324,097	1,228,964,475	1,029,648,619	16,970,694	54,933,112	1,335,114	1,047,954,427

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

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

III. NOTES AND EXPLANATIONS TO THE STATEMENT OF PROFIT OR LOSS

(1) Interest Income

	<u>1 January –</u> <u>31 December 2017</u>	<u>1 January –</u> <u>31 December 2016</u>
Interests received from transactions of purchases under agreements to resell	3,249,405	7,131,918
Interests received from TL and FC securities	3,986,373	2,744,355
Interest received from interbank monetary policy operations	8,936,681	1,246,627
Interest received from loans	324,285	164,674
Interest received from banks	563,892	183,521
Total	17,060,636	11,471,095

(2) Interest Expense

	<u>1 January –</u> <u>31 December 2017</u>	<u>1 January –</u> <u>31 December 2016</u>
Interest paid to banks	4,681,120	1,705,172
Interest paid to Undersecretariat of Treasury accounts	2,206,889	1,405,170
Interest paid to IMF general use of resources	29,116	3,967
Interest paid to deposits by citizens abroad	777	2,655
Interest paid to interbank monetary policy operations	6,912	2,661
Interest paid to open market operations	-	85
Total	6,924,814	3,119,710

(3) Non-Interest Income

	<u>1 January –</u> <u>31 December 2017</u>	<u>1 January –</u> <u>31 December 2016</u>
Foreign exchange gains	14,585,539	5,364,040
Gains on purchase and sale of securities	-	54,148
Income on equity participations	11,141	6,562
Other non-interest income	100,842	4,937
Total	14,697,522	5,429,687

"Foreign Exchange Gains" consists of realized gains on foreign currency trading transactions during the current year.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

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

III. NOTES AND EXPLANATIONS TO THE STATEMENT OF PROFIT OR LOSS (Continued)

(4) Non-interest Expenses

	<u>1 January – 31 December 2017</u>	<u>1 January – 31 December 2016</u>
Losses on purchase and sale of securities and fair value decreases	1,761,302	986,984
Provision for non-performing loans	419,467	965,136
Wages and salaries	763,646	687,093
General administrative and banknote expenses	249,887	195,471
Foreign exchange transaction losses	617,108	131,906
Depreciation expense	40,183	32,825
Social security expenses	84,768	85,590
Other non-interest expenses	5,093	4,329
Total	3,941,454	3,089,334

"Foreign Exchange Losses" consists of realized losses on foreign currency trading transactions during the current.

Provisions for non-performing loans consists of the provisions provided for the accrued interest income on non-performing loans amounting to TL 14,323 thousand (2016: TL 22,506 thousand) and for the foreign exchange difference on non-performing loans amounting to TL 405,144 thousand occurred due to fluctuations in foreign exchange rates during the year (2016: TL 942,630 thousand).

IV. NOTES AND EXPLANATIONS TO CASH FLOW STATEMENT

(1) Cash and Cash equivalents at the beginning of the period:

	<u>1 January 2017</u>	<u>1 January 2016</u>
Foreign Currency Banknotes	6,259,811	4,183,399
Coins	131,585	105,359
Foreign Correspondents / Deposit	24,385,360	19,708,519
Foreign Correspondents / Other	6,846,836	4,165,639
Receivables due to Money Market Operations	95,495,800	95,408,500
Cash and Cash equivalents	133,119,392	123,571,416

(2) Cash and Cash equivalents at the end of the period:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Foreign Currency Banknotes	10,581,358	6,259,811
Coins	61,492	131,585
Foreign Correspondents / Deposit	21,967,858	24,385,360
Foreign Correspondents / Other	32,519,549	6,846,836
Receivables due to Money Market Operations	137,407,700	95,495,800
Domestic Correspondents	19,462,966	-
Cash and Cash equivalents	222,000,923	133,119,392

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY
NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2017

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

V. SUPPLEMENTARY FINANCIAL STATEMENTS

Presentation of Assets and Liabilities according to their remaining maturities

CURRENT PERIOD(31 December 2017)	On Demand	In 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 years	5 years and over	Retained	Total
ASSET								
Gold Reserves	32,900,777	55,877,393	-	-	-	-	-	88,778,170
Foreign Currency Banknotes	10,581,358	-	-	-	-	-	-	10,581,358
Foreign Correspondents	32,519,886	30,497,455	57,480,883	127,536,811	57,707,913	608,130	-	306,351,078
Reserve Tranche Position	606,030	-	-	-	-	-	-	606,030
Securities Portfolio	-	-	1,802,885	3,904,518	7,528,948	1,295,194	-	14,531,545
Receivables due to Money Market Operations	-	137,553,171	-	-	-	-	-	137,553,171
Domestic Correspondents	-	19,467,018	-	-	-	-	-	19,467,018
Loans	34,179	6,800,498	12,233,369	28,646,630	-	-	-	47,714,676
Equity Participations	1,064,813	-	-	-	-	-	-	1,064,813
Treasury Liability due to SDR Allocation	5,757,112	-	-	-	-	-	-	5,757,112
Fixed Assets (Net)	-	-	-	-	-	-	-	-
Loans Under Legal Follow-up	-	-	-	-	-	-	324,862	324,862
Deferred Tax Asset	-	-	-	-	-	-	-	-
Other Assets	4,170,137	-	6,206	-	-	-	-	-
Total assets	87,634,292	250,195,535	71,523,343	160,087,959	65,236,861	1,903,324	389,170	636,970,484
LIABILITY								
Currency in Circulation	131,457,662	-	-	-	-	-	-	131,457,662
Payables due to Money Market Operations	-	19,808,749	-	-	-	-	-	19,808,749
Deposits	7,905,920	369,860,342	-	-	2,260	-	-	377,768,522
Foreign Correspondents	2,842	-	-	-	-	-	-	2,842
Reserve Tranche Position	606,030	-	-	-	-	-	-	606,030
SDR Allocation	5,757,112	-	-	-	-	-	-	5,757,112
Tax Liability	-	-	3,256,769	-	-	-	-	3,256,769
Provisions	-	-	-	-	-	-	-	-
Share Capital and Legal Reserves	-	-	-	-	-	-	386,451	386,451
Valuation Account	-	-	-	-	-	-	21,587,174	21,587,174
Profit for the Year	-	-	-	-	-	-	55,296,111	55,296,111
Other Liabilities	922,421	526,199	-	-	-	-	18,383,903	18,383,903
Total Liabilities	146,651,987	390,195,290	3,256,769	160,087,959	2,260	-	96,864,178	636,970,484
Net Liquidity Position	(59,017,694)	(139,999,755)	68,266,574	160,087,959	65,234,601	1,903,324	(96,475,008)	-

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY
NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2017

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

V. SUPPLEMENTARY FINANCIAL STATEMENTS (Continued)
Presentation of Assets and Liabilities according to their remaining maturities

PREVIOUS PERIOD(31 December 2016)	On Demand	In 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 years	5 years and over	Retained	Total
ASSET								
Gold Reserves	15,544,937	33,904,555	-	-	-	-	-	49,449,492
Foreign Currency Banknotes	6,259,811	-	-	-	-	-	-	6,259,811
Foreign Correspondents	6,847,046	35,098,933	54,380,390	167,273,945	53,442,032	666,910	-	317,709,256
Reserve Tranche Position	533,911	-	-	-	-	-	-	533,911
Securities Portfolio	-	-	1,485,441	308,405	12,095,262	-	-	13,889,108
Receivables due to Money Market Operations	-	95,555,846	-	-	-	-	-	95,555,846
Domestic Correspondents	-	-	-	-	-	-	-	-
Loans	31,889	6,073,641	8,962,325	22,554,499	-	-	-	37,622,354
Equity Participations	917,956	-	-	-	-	-	-	917,956
Treasury Liability due to SDR Allocation	5,071,996	-	-	-	-	-	-	5,071,996
Fixed Assets (Net)	-	-	-	-	-	-	660,625	660,625
Loans Under Legal Follow-up	-	-	-	-	-	-	-	-
Deferred Tax Asset	-	-	-	-	-	-	4,128	4,128
Other Assets	2,378,171	-	1,636	-	-	-	64,306	2,444,113
Total Assets	37,585,717	170,632,975	64,829,792	190,136,849	65,537,294	666,910	729,059	530,118,596
LIABILITY								
Currency in Circulation	122,959,913	-	-	-	-	-	-	122,959,913
Payables due to Money Market Operations	-	50,320	-	-	-	-	-	50,320
Deposits	4,937,282	309,703,662	43,530	399,349	9,174	-	-	315,092,997
Foreign Correspondents	1,318	-	-	-	-	-	-	1,318
Reserve Tranche Position	533,911	-	-	-	-	-	-	533,911
SDR Allocation	5,071,996	-	-	-	-	-	-	5,071,996
Tax Liability	-	-	1,715,182	-	-	-	-	1,715,182
Provisions	-	-	-	-	-	-	437,861	437,861
Share Capital and Legal Reserves	-	-	-	-	-	-	18,458,180	18,458,180
Valuation Account	-	-	-	-	-	-	53,408,966	53,408,966
Profit for the Year	-	-	-	-	-	-	9,555,947	9,555,947
Other Liabilities	66,469	472,887	-	-	-	-	2,292,649	2,832,005
Total Liabilities	133,570,889	310,226,869	1,758,712	399,349	9,174	-	84,153,603	530,118,596
Net Liquidity Position	(95,985,172)	(139,593,894)	63,071,080	18,737,500	65,528,120	666,910	(83,424,544)	-