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THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2018 TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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Independent Auditors' Report

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

Ankara

Audit of the Financial Statements

Opinion

We have audited the financial statements of the Central Bank of the Republic of Turkey ("the Bank"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and 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 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We declare that we are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a Turkish corporation and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity.

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Other Matters

The financial statements of the Bank for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on 5 March 2018.

As mentioned in Note 3.a, US Dollar amounts presented in the accompanying financial statements are translated from TL at the official US Dollar bid rates announced by the Bank at 31 December 2018 and 2017 for the statement of financial position; and the average of daily official US Dollar bid rates announced by the Bank for the years ended 31 December 2018 and 2017 for the statement of profit or loss, and they do not form part of these financial statements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Bank management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of the 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.

Auditors' Responsibilities for the Audit of 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 auditors' 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.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member firm of KPMG International Cooperative

Erdal Tikmak, SMMM
Partner

Istanbul, 22 February 2019

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

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

	Notes	31 December 2018 TL	(Restated)** 31 December 2017 TL	31 December 2018 Million US Dollar(*)	(Restated)** 31 December 2017 Million US Dollar(*)
ASSETS					
Cash (foreign currency and coin)		18,152,956	10,642,850	3,451	2,822
Due from banks	6	350,371,323	211,536,187	66,599	56,082
Financial assets at fair value through profit or loss	7	143,724,892	266,777,836	27,319	70,731
Loans and advances to customers	8	80,957,498	47,696,901	15,389	12,645
Financial assets at fair value through other comprehensive income	9	1,468,827	1,064,813	279	282
Gold reserves	10	106,592,904	89,277,801	20,261	23,669
Property and equipment	11	1,634,695	694,898	311	184
Intangible assets	12	27,832	8,890	5	2
Other assets	13	2,118,244	586,369	403	155
Total assets		**705,049,171**	**628,286,545**	**134,017**	**166,571**
LIABILITIES					
Currency in circulation	14	132,261,722	131,457,662	25,141	34,852
Due to banks	15	379,192,965	323,504,240	72,077	85,767
Other deposits	16	43,741,335	54,649,855	8,314	14,488
Due to international organizations	17	105,109	77,651	20	21
Other borrowed funds	18	13,597,426	19,808,748	2,585	5,252
Other liabilities	19	2,397,046	994,386	456	264
Tax liabilities	20	2,885,545	791,534	548	210
Deferred tax liability	20	9,896,596	12,263,874	1,881	3,251
Retirement benefit obligations	21	173,605	143,395	33	38
Total liabilities		**584,251,349**	**543,691,345**	**111,056**	**144,144**
EQUITY					
Paid-in share capital	29	47,464	47,464	9	13
Retained earnings		66,649,652	47,449,330	12,669	19,910
Reserves		54,100,706	37,098,406	10,283	2,504
Total equity		**120,797,822**	**84,595,200**	**22,961**	**22,427**
TOTAL LIABILITIES AND EQUITY		**705,049,171**	**628,286,545**	**134,017**	**166,571**

(*) US dollar amounts presented above are translated from TL for convenience purposes only, at the official US Dollar bid rates announced by the Bank at 31 December 2018 and 2017, and they do not form part of these financial statements (Note 3.a.).

(**) See Note 2.c.

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

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	2018 TL	2017 TL	2018 Million US Dollar(*)	2017 Million US Dollar(*)
Interest income	22	30,135,305	17,060,636	6,261	4,691
Interest expense	22	(12,042,123)	(6,924,814)	(2,502)	(1,912)
Net interest income	22	**18,093,182**	**10,135,822**	**3,759**	**2,779**
Fee and commission income	23	713,449	610,352	148	167
Fee and commission expense	23	(37,264)	(15,823)	(8)	(4)
Net fee and commission income	23	**676,185**	**594,529**	**140**	**163**
Dividend income	24	11,632	11,141	2	3
Profit/loss from financial assets at fair value through profit or loss	25	(15,053,058)	(1,264,812)	(3,127)	(348)
Foreign exchange gain/(loss), net	26	42,434,649	12,468,444	8,816	3,418
Other operating income		12,524	5,511	3	2
Impairment losses on loans and advances	8	(2,352,380)	(420,658)	(489)	(115)
Other operating expenses	27	(1,276,432)	(1,143,017)	(265)	(313)
Profit before income tax		**42,546,302**	**20,386,960**	**8,839**	**5,589**
Income tax expense	20	(5,166,387)	(3,927,344)	(1,073)	(1,037)
Net profit for the year		**37,379,915**	**16,459,616**	**7,766**	**4,552**

(*) US dollar amounts presented above are translated from TL for convenience purposes only. at the average of daily official US Dollar bid rates announced by the Bank for the years ended 31 December 2018 and 2017. and they do not form part of these financial statements (Note 3.a.).

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	2018 TL	2017 TL
Net profit for the year		**37,379,915**	**16,459,616**
Other comprehensive income			
Items those will not be reclassified subsequently to profit or loss			
Increase of fair value of gold reserves		13,871,317	3,396,031
Deferred tax related to increase on fair value of gold reserves	20	(3,051,690)	(747,127)
Items those may be reclassified subsequently to profit or loss			
Changes in fair values of financial assets at fair value through other comprehensive income	9	404,014	146,857
Deferred tax on changes in fair values of financial assets at fair value through other comprehensive income	20	(25,192)	(6,897)
Total comprehensive income for the year		**48,578,364**	**19,248,480**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Share Capital			Reserves					
				Items those may be reclassified subsequently to profit or loss	Items those will not be reclassified subsequently to profit or loss				
	Share capital	Adjustment to share capital	Total paid-in share capital	Changes in Fair Values of Financial Assets At Fair Value Through Other Comprehensive Income	Increase of fair value of gold reserves	Actuarial gain / (loss)	Other Reserves	Retained earnings	Total
Balance reported at 1 January 2017	**25**	**47,439**	**47,464**	**839,711**	**5,808,801**	**2,490**	**153,528**	**64,915,649**	**71,767,643**
Restatement effect (note 2)	-	-	-	-	6,117,600	-	18,258,418	(24,376,018)	-
Restated balances at 1 January 2017	**25**	**47,439**	**47,464**	**839,711**	**11,926,401**	**2,490**	**18,411,946**	**40,539,631**	**71,767,643**
Cash dividends paid	-	-	-	-		-	-	(6,420,923)	**(6,420,923)**
Net profit/(loss) for the year	-	-	-	-		-	-	16,459,616	**16,459,616**
Other comprehensive income/(loss)	-	-	-	139,960	2,648,904	-	-	-	2,788,864
Total comprehensive income/(loss)	-	-	-	139,960	2,648,904	-	-	16,459,616	19,248,480
Transfer	-	-	-	-	-	-	3,128,994	(3,128,994)	-
Balance at 31 December 2017	**25**	**47,439**	**47,464**	**979,671**	**14,575,305**	**2,490**	**21,540,940**	**47,449,330**	**84,595,200**
Balance at 1 January 2018	-	-	-	-		-	-	-	-
Cash dividends paid	-	-	-	-		-	-	(12,375,742)	**(12,375,742)**
Net profit/(loss) for the year	-	-	-	-		-	-	37,379,915	**37,379,915**
Other comprehensive income/(loss)	-	-	-	378,822	10,819,627	-	-	-	**11,198,449**
Total comprehensive income/(loss)	-	-	-	378,822	10,819,627	-	-	37,379,915	**48,578,364**
Other	-	-	-	-	(211,136)	-	-	211,136	-
Transfer							6,014,987	(6,014,987)	-
Balance at 31 December 2018	**25**	**47,439**	**47,464**	**1,358,493**	**25,183,796**	**2,490**	**27,555,927**	**66,649,652**	**120,797,822**

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	2018 TL	(Restated) (**) 2017 TL
Cash flows (used in)/from operating activities			
Net profit for the year		**37,379,915**	**16,459,616**
Adjustment for:			
Depreciation of property and equipment	11	38,349	33,087
Amortization of intangible assets	12	16,671	7,478
Provision for retirement benefit obligations	21	30,210	25,061
Interest income, net	22	(17,832,804)	(10,135,822)
Dividend income	24	(11,632)	(11,141)
Commission income, net	23	(676,185)	(594,529)
Income tax expense	20	5,166,387	3,927,344
Unrealized foreign exchange gain, net		23,639,102	(1,903,124)
(Increase)/decrease in value of financial assets, net		819,255	700,038
(Gain)/loss on sale of property and equipment	11	(20)	114
Cash flows from operating profits before changes in operating assets and liabilities		**48,569,248**	**8,508,122**
Changes in operating assets and liabilities:			
Net change in gold reserves		(3,714,469)	(33,276,549)
Net change in financial assets at fair value through profit or loss		186,849,082	58,325,455
Net change in loans and advances to customers		(22,198,969)	(7,194,015)
Net change in other assets		(1,151,972)	(154,402)
Net change in currency in circulation		804,060	8,496,453
Net change in due to banks		(92,992,809)	13,197,741
Net change in other deposits		(10,744,872)	24,224,055
Net change in other liabilities		1,397,562	(12,178,926)
Used/ (Paid) bank loans, net		(6,172,265)	19,747,866
Taxes paid	20	(8,456,985)	(2,299,834)
Retirement benefits paid	21	(2,342)	(76,471)
Interest received		30,060,186	14,767,759
Interest paid		(12,399,033)	(4,629,366)
Commission received		705,133	593,485
Commission paid		(37,264)	(15,823)
Net cash from operating activities		**110,514,290**	**88,035,550**
Cash flows related to investing activities			
Purchase of property, equipment and intangible assets	11-12	(958,115)	(58,821)
Proceeds from sale of property, equipment and intangible assets		2,842	-
Dividends received	24	11,632	11,141
Net cash used in investing activities		**(943,641)**	**(47,680)**
Cash flows related to financing activities			
Dividends paid		(12,375,742)	(6,420,923)
Cash flows used in financing activities		**(12,375,742)**	**(6,420,923)**
Effects of exchange-rate changes on cash and cash equivalents		**48,936,759**	**7,314,584**
Change in cash and cash equivalents		**146,131,666**	**88,881,531**
Cash and cash equivalents at the beginning of the year	30	**222,000,923**	**133,119,392**
Cash and cash equivalents at the end of the year	30	**368,132,589**	**222,000,923**

(**) See note 2.c

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

NOTE 1 - GENERAL INFORMATION

The Central Bank of the Republic of Turkey (the "Bank" or "CBRT") was incorporated in Turkey in 1931. It was established as a joint stock company with the exclusive privilege of issuing banknotes in Turkey and is vested with the powers and duties set forth in the CBRT Law No. 1211 (the "CBRT Law"). The Head Office of the Bank is located in Ankara. The Bank's registered head office is located at the following address: Hacıbayram District İstiklal Street 10 Ulus, 06100 Ankara, Turkey. The Bank now operates a nationwide network of 21 branches and has no branches abroad. As of 31 December 2018, the Bank employed 3,805 people (31 December 2017: 3,730).

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

The fundamental duties of the Bank are:

a) to carry out open market operations,

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

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

d) to conduct rediscount and advance transactions,

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

f) to regulate the volume and circulation of the TL, to establish payment, securities transfer and settlement systems and to set forth regulations to ensure the uninterrupted operation and supervision of the existing or future systems, to determine the methods and instruments including electronic environment for payments,

g) to take precautions for enhancing the stability in the financial system and to take regulatory measures with respect to money and foreign exchange markets,

h) to monitor the financial markets,

i) to determine the terms and types of deposits in banks and the terms of participation funds in special finance houses.

NOTE 2 – BASIS OF PRESENTATION

(a) Turkish Lira Financial Statements

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

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

These financial statements will be submitted to General Assembly of the Bank in March 2019 after the approval of Board of the Bank on 22 February 2019.

NOTE 2 – BASIS OF PRESENTATION (Continued)

(b) Changes in Accounting Policies

Significant changes in accounting policy are applied retrospectively and prior period financial statements are restated. There is no significant accounting change in accounting policy in current year other than the change indicated in section 2.e.

(c) Change in Accounting Estimates and Errors

If changes in accounting estimates are related to only one period, they are applied in the period when changes in estimates are made. If the changes are related to future periods, they are applied both in the period when changes in estimates are made and future periods prospectively. Principles applied in the preparation of the financial statements ,which include evaluation and complexity, estimations and assumptions are explained in Note 5. There is no significant change in accounting estimates of Bank in current year.

Significant accounting errors are applied retrospectively and prior period financial statements are restated. In the current year, regarding valuation of gold reserves, the bank has made reclassification between increase of fair value of gold reserves in items those will not be reclassified subsequently to profit or loss and retained earnings, presented below. This reclassification is made in prior period financial statements and have not caused any change in shareholders' equity.

1 January 2017	Previously Reported	Reclassification Effect	Reclassified
Retained earnings	64,915,649	(6,117,600)	58,798,049
Increase in the value of gold reserves	5,808,801	6,117,600	11,926,401

(d) Comparative Information and Restatement of Prior Year Financial Statements

In order to allow 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. For the purpose of convenience with current year financial statements, reclassifications made in financial statements as of 31 December 2017 are as below:

	Previously Reported	**Reclassification Effect**	**Reclassified**
Financial assets at fair value through profit or loss	266,373,523	404,313	266,777,836
Other assets	990,682	(404,313)	586,369
Increase/(decrease) in value of Financial assets at fair value through profit or loss	(1,358,859)	94,047	(1,264,812)
Other operating income	99,558	(94,047)	5,511
Retained earnings	64,915,649	(18,258,418)	46,657,231
Legal reserves	153,528	18,258,418	18,411,946
Net cash from operating activities	68,287,684	19,747,866	88,035,550
Net cash from/(used in) financing activities	13,326,943	(19,747,866)	(6,420,923)

NOTE 2 – BASIS OF PRESENTATION (Continued)

(e) New and revised International Financial Reporting Standards

As of 1 January 2018, the Bank has started to apply IFRS 9 standard that replaces IAS 39 Financial Instruments: Recognition and Measurement for the first time. Accounting policies and principles of valuation used in preparation of financial statements are explained in Note 3. Except for equity instruments and derivatives, classification and measurement of financial assets according to IFRS 9, is based on the contractual cash flow characteristics and business models. By application of IFRS 9, IAS 39 financial instruments categories which are financial assets at fair value through profit/loss, financial assets available for sale and financial assets held to maturity are replaced with financial assets at fair value through profit/loss, financial assets at fair value through other comprehensive income and financial assets measured at amortized cost, respectively. IFRS 9 retains the existing requirements in IAS 39 for the classification of financial liabilities, except for the recognition of fair value changes of liabilities designated under the fair value option in other comprehensive income, when the change in fair value is attributable to changes in the credit risk of liability. For impairment, IFRS 9 replaces the incurred loss model in IAS 39 with "expected credit loss" model. IFRS 9 is in effect as of 1 January 2018 and have not significant impact on Bank's financial statements, thus prior period financial statements are not restated.

IFRS 15 Revenue from Contracts with Customers standard provides single and comprehensive model and guidance regarding recognition of revenue, and replaces IAS 18: Revenue Standard. The standard is in effect as of 1 January 2018 and does not have significant impact on the Bank's financial statements.

(f) Standards issued but not yet effective and not early adopted

New standards, interpretations and amendments to existing standards are not effective at reporting date and earlier application is permitted; however, the Bank has not early adopted are as follows.

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and consequently changes to IAS 40 Investment Properties. IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.
The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

IFRIC 23 – Uncertainty over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

NOTE 2 – BASIS OF PRESENTATION (Continued)

(f) Standards issued but not yet effective and not early adopted (Continued)

IFRS 17 – Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. Consequently, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing information that is more useful to users of financial statements. IFRS 17 has an effective for annual periods beginning or after 1 January 2021 with earlier application permitted.

The Bank does not expect any significant impact on its financial statements resulting from the application of IFRS 17.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 4 has been amended by IASB to reduce the impact of the differing effective dates of the new insurance contracts standard and IFRS 9. These amendments to IFRS 4 provide two optional solutions for insurers to reduce concerns about implementations: i) when applying IFRS 9 by insurers to its financial assets, an insurer will be permitted to reclassify the difference between profit or loss and other comprehensive income and the amounts recognized in profit or loss under IFRS 9 and those that would have been reported under IAS 39; or ii) an optional temporary exemption from applying IFRS 9 for companies whose activities are predominantly connected with insurance before 1 January, 2021. These companies will be permitted to continue to apply existing requirements for financial instruments in IAS 39.

The Bank does not expect any significant impact on its financial statements resulting from the application of the amendments to IFRS 4.

Conceptual Framework (Revised)

The revised Conceptual Framework issued on 27 October 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the IASB in developing IFRS . It helps to ensure that the standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the POA with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020.

Improvements to IFRS's 2015-2017 Cycle

Improvements to IFRS

IASB issued "Annual Improvements to IFRSs - 2015–2017 Cycle" for applicable standards. The amendments are effective beginning from 1 January 2019, with earlier application permitted. The Bank does not expect that application of these improvements to IFRSs will have significant impact on its financial statements.

NOTE 2 – BASIS OF PRESENTATION (Continued)

(f) Standards issued but not yet effective and not early adopted (continued)

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party re-measures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not re-measured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take into account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
It is not expected that there will be a significant impact on the Bank's financial statements resulting from the application of the amendments to IAS 28.

Amendments to IFRS 9 – Prepayment features with negative compensation

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortized cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for the annual periods beginning on or after 1 January 2019, with earlier application permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments to IFRS 9.

NOTE 2 – BASIS OF PRESENTATION (Continued)

(f) Standards issued but not yet effective and not early adopted (continued)

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments to IAS 19.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018, the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments to IAS 1 and IAS 8.

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgment. The IASB has issued amendments to IFRS 3 Business Combinations that seek to clarify this matter. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020, with earlier application is permitted.

It is not expected that there will be a significant impact on the Bank's financial statements resulting from the application of the amendments to IFRS 3.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Exchange rates

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

	31 December 2018	31 December 2017
US Dollar ("USD)	5.2609	3.7719
Euro ("EUR")	6.0280	4.5155
Swiss Franc ("CHF")	5.3352	3.8548
Great Britain Pound ("GBP")	6.6528	5.0803
Japanese Yen ("JPY")	0.0048	0.0334
Special Drawing Rights ("SDR") (*)	7.3219	5.3738

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

US Dollar Amounts Presented in Financial Statements

For US Dollar amounts in statement of financial position prepared according to IFRS, the Bank used official buying exchange rates at 31 December 2018 and 2017 which are 1 USD = 5.2609 and 1 USD = 3.7719, respectively and for the USD amounts in statement of profit or loss the Bank used daily official buying exchange rates at 2018 and 2017 which are 4.8134 TL = 1 USD and 3.64744 TL = 1 USD on average, and they are not part of these financial tables.

(b) Interest income and expense

Interest income and expenses are recognized on an accrual basis, by using effective interest rate method.

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

(c) Fee and commission income

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

(d) Income taxes

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

Current tax

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

Deferred tax

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income taxes (continued)

Deferred tax liabilities are recognized for taxable temporary differences, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

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

(e) Gold reserves

Gold bullion

Gold bullion consists of the stocks of gold bars of international standard and non-international standard held at the Bank, at BIST and held with correspondents. Gold is held by the Bank as part of its foreign currency reserves and represents 22.12% (31 December 2017: 21.85 %) of aggregate foreign currency reserves. Related to reserve management, Bank performs direct purchase and sales transactions, gold custody accounts, gold depot transactions with maturity, gold against foreign exchange or foreign exchange against gold swap transactions, location swaps and physical transportation of gold.

Except for the gold held for required reserve establishment and gold kept on behalf of Treasury, gold is initially recognized at the prevailing prices on the purchase date and subsequently measured at fair value by using revaluation method according to IAS 16 Property, Plant and Equipment. Fair value, which is the sale price agreed upon by a willing buyer and seller, assuming both parties enter the transaction freely and knowledgeably, reached by translating the fixed price in terms of US Dollars determined by London Bullion Market, with nominal exchange rate of US Dollar. Profit or loss arising from changes in fair value of gold, is recognized in other comprehensive income that will not be reclassified to profit or loss.

Gold deposited for reserve requirement establishment by banks and finance companies are kept in foreign correspondents and BIST. Gold held for required reserve establishment and gold kept on behalf of Treasury, is recognized at gold accounts in assets and due to banks and other reserves account in liabilities. Since there is no clear IFRS standard about recognition of gold, the Bank carries gold at fair value and reflects to profit or loss according to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The exchange rate of gold bullion to TL as of 31 December 2018 was TL 6,743 per troy ounce (31 December 2017: TL 4,890 per troy ounce).

Gold coin

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial Assets

Initial recognition of financial instruments

A financial asset or a financial liability is recognized in the statement of financial position only when it is a party to the contractual provisions of the financial instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted at the settlement date.

Initial measurement of financial instrument

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. Except for the assets in the scope of IFRS 15 Revenue from contracts with customers, at initial recognition, the Bank measures financial asset or financial liabilities at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit/loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification of financial instruments

On which category a financial instruments shall be classified at initial recognition depends on both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Thus, the Bank has classified all financial assets beginning from 1 January 2018 on the basis of the business model used for the management of these assets and the contractual cash flows.

In accordance with IFRS 9, financial asset is classified on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgment and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set. When the contractual conditions are exposed to the risks, which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at fair value through profit or loss. The Bank has tested the "Solely Payments of Principal and Interest" test for all financial assets within the scope of IFRS 9 transition and evaluated asset classifications within the business model.

The Bank's business models are divided into three categories.

A business model whose objective is to hold assets in order to collect contractual cash flows

The business model which Bank aims to hold financial assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortised cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

The business model in which which the Bank aims to hold financial assets both for the collection of contractual cash flows and for the sale of financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank does not hold any securities within this model as of 31 December 2018.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial Assets (continued)

Other business model

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Measurement categories of financial assets and liabilities

The Bank's financial assets are classified as listed below:

- Financial assets measured at amortized cost
- Financial assets measured at fair value through other comprehensive income and
- Financial assets measured at fair value through profit/loss

Financial Assets Measured at Fair Value through Profit/Loss

Financial assets measured at fair value through profit/loss, are assets acquired for liquidity and reserve management. They reflect the changes in prices and other elements in the market. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in profit /loss. Interest income and interest discounts, are recorded in interest income while trading profit and fair value measurement surplus are carried at profit or loss from financial assets measured at fair value through profit/loss.

Financial Assets Measured at Fair Value Through Other Comprehensive Income:

In addition to financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income. Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. "Unrealized gains and losses" arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity. When these securities are collected or disposed of, the accumulated fair value differences reflected in the equity are reflected to the income statement.

At initial recognition, the Bank may make an irrevocable election to present subsequent changes in the fair value of an equity investment that is not held for trading nor contingent consideration recognized by an acquirer in a business combination which IFRS 3 Business Combinations in other comprehensive income, with only dividend income generally recognized in profit or loss. Such election is made on an instrument by instrument basis.

Changes in fair value recognized in other comprehensive income, may be transferred to retained earnings but not profit or loss in the future periods. Dividends from these kind of investments, may be carried at financial statements as profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Equity instruments at fair value through other comprehensive income is not subjected to impairment.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial Assets (continued)

Financial Assets Measured at Amortized Cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost. Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at "amortized cost" by using "effective interest rate method". Interest income obtained from financial assets measured at amortized cost is accounted in statement of profit or loss.

Loans

Loans granted by the Bank, are financial assets generated by lending money to the borrower. At the initial recognition, they are measured at cost. After the initial recognition, they are measured at amortized cost using the "effective interest rate" method. All loans and advances given, are recognized when cash is transferred to the debtor.

Loans that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost.

Interest income from loans measured at amortized cost is recognized in the statement of profit or loss.

TL Settled Forward Foreign Exchange Sales

At transaction date, TL receivables and foreign exchange sales commitment is recognized under the off-balance sheet items and at the end of months, appreciation and depreciation are recorded in the statement of profit or loss.

For Turkish Lira settled forward foreign exchange buy-sell transactions at BIST VIOP, appreciation and depreciation of contracts are reflected daily in the statement of profit or loss.

Swap Transactions

In Turkish Lira/foreign currency swap operations foreign currency buy/sell is realized at effective date. At effective date, foreign currency buy/sell commitments and TL loans/receivables are recognized at off-balance sheet items. At the end of the months, change in value is reflected to statement of profit or loss. Collected and paid interest are recognized by using "effective interest rate method" at the end of the months.

Impairment

As of 31 December 2017, the Bank, has applied incurred loss model in the calculation of provision for impairment. However, beginning from 1 January 2018, the Bank has changes its accounting policy and started to adopt expected credit loss model in the calculation of provision for impairment. Expected credit loss model is probability-weighted and includes reasonable and supportable information on past events, current conditions and forecast of future economic conditions.

The expected credit loss model includes instruments that are recorded financial assets measured at at amortized cost or financial assets measured at fair value through other comprehensive income and, debt securities, contract assets, credit commitments and financial guarantee contracts.
Expected credit loss is an estimate of the expected credit losses over the life of a financial instrument also the following aspects are important for the measurement.

1) Probability-weighted and neutral amount determined by taking into account possible outcomes,
2) Time value of money
3) Reasonable and supportable information on past events, current conditions and forecast of future economic conditions, at the time of reporting, without excessive cost and effort.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial Assets (continued)

The expected 12 month loss values (within 12 months after the reporting date or within a shorter period if the life of a financial instrument is shorter than 12 months) are part of the estimation of loss of life expectancy.

The main principle of the expected credit loss model is to reflect the general outlook of deterioration or improvement in the credit quality of financial instruments. The amount of expected credit losses known as loss provision or provision varies according to the degree of increase in credit risk. There are two measurements according to the general approach:

-12 Month Expected Credit Losses (Stage 1), applies to all assets unless there is a significant deterioration in credit quality.

-Lifetime Expected Credit Losses (Stage 2 and 3), is applied when a significant increase in credit risk.

In the calculation of the expected credit loss, parameters used are presented below:

Probability of Default: It refers to the likelihood that a loan will default at the related maturity. In the calculation of probability of default, transition matrix data of credit rating agencies are used.

Loss Given Default: It refers to the ratio of loss resulting from the default of a loan.

Exposure at Default: It represents amount of risk for cash loans

Definition of Default

The Bank considers a debt as default on the conditions stated below (Stage 3), and defaulted loans are subjected to lifetime impairment and classified as Stage 3 by the Bank.

1) Deterioration of financial position of counterparty and economic conditions

2) Other objective criteria approved by management

3) Loans are more than 90 days past due

Definition of Significant Increase in Credit Risk

Loans that are not expected to have default risk in the future and that do not have a significant increase in credit risk are subject to 12 month expected credit loss and classified as Stage 1.

Loans which debtors have deterioration in their solvency and cash flows, problems in fulfilling the contract conditions (principal and/or interest payments delaying more than 30 days) and there is significant increase in credit risk of the debtor, are subjected to lifetime credit loss and classified as Stage 2.

Since, the change in accounting policy explained above has no significant effect on financial statements, prior period financial statements have not been restated.

Provision provided in a period are recorded in statement of profit or loss of the related period. At the date when legal actions are completed and receivables are identified as uncollectible, loans are removed from financial statements. If loans and advances, which provision had been provided in the prior periods, are collected, the amount of collection is recognized by decreasing provision provided in the period.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial liabilities

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

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are initially recognized at fair value and re-valued at the date of statement every reporting period. Change in fair values are recognized at statement of profit or loss. The net profit or loss recognized in income statement includes amount of interest paid for the financial liability. The bank does not have any financial liabilities at fair value through profit or loss.

Other financial liabilities

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

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

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

(h) Sale and repurchase agreements

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Money issuance

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

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

(j) Property and equipment

Land and buildings comprise mainly branches of the Bank.

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

Properties in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

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

Buildings	25-50 years
Equipment and motor vehicles	2-50 years

(k) Intangible assets

Intangible assets acquired

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

Trademarks and licenses

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Intangible assets (continued)

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (3-15 years).

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

(m) Banknotes in circulation

Currency in Circulation - Turkish Lira

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

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

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

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

The Bank has accounted for TL 4,893 under the other reserves due to banknotes those have been taken out of circulation and have expired but still outstanding as of 31 December 2011.

The Bank has accounted for TL 147,146 under the other reserves in year 2016 due to banknotes those have been taken out of circulation and have expired but still outstanding as of 31 December 2015.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Provisions

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

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

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

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

(o) Retirement benefit obligations

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

Allowance for retirement benefit obligation, which is carried at statement of financial position, is calculated according to the present value of the expected liability arising from all employees' retirement and reflected to financial statements. All the actuarial gains and losses are accounted for as other comprehensive income that will not be subsequently reclassified to profit or loss.

(p) Related parties

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

(r) Cash and cash equivalents

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

(s) Profit distribution

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

i) 20% to the reserve fund,

ii) 6% over the nominal value of the equity shares to the shareholders as an initial dividend,

iii) After deducting the above-stated percentages a maximum of 5% of the remaining amount; so as not to exceed two months salaries; to the Bank personnel and 10% percent to the extraordinary reserves,

iv) Subject to the decision of the General Assembly a maximum of 6% over the nominal value of the equity shares to the shareholders as the secondary dividend.

The remaining balance shall be transferred to Republic of Turkey Ministry of Treasury and Finance ("Turkish Treasury") after this allocation.

As the Bank maintains its books of account and prepares its statutory financial statements in accordance with Turkish Commercial Code, tax legislation and the CBRT Law; according to the CBRT Law the profit of the Bank which is subject to the profit distribution is the net period profit in the statutory books of the Bank prepared in accordance with the Tax Law numbered 213.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Fiduciary activities

The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals and financial institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets or income of the Bank. Fiduciary capacity at 31 December 2018 and 2017 is as follows:

	31 December 2018	31 December 2017
Securities held in custody	520,021,161	437,128,452
Total	**520,021,161**	**437,128,452**

NOTE 4 - FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

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

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

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

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

The management of the credit risk that the Bank is exposed to during the foreign currency reserve management is based on the principle of minimizing the default probabilities of the counterparties and the financial loss in case of default. In this framework, the Bank implements a three essential management process in order to minimize the credit risk arising from foreign currency reserve management operations. First, the Bank confines its investments to the leading international financial institutions and debtors that meet the minimum credit rating criteria specified in the Guideline based on the credit ratings given by the international credit rating agencies. Accordingly, the Bank can take on exposure to banks having at least A2 or an equivalent credit rating, with a maturity of up to one year; while it can invest in securities issued or directly guaranteed by foreign governments which have at least A1 or an equivalent credit rating, in their domestic currencies as long as the remaining maturity is 10 years at the most. The Bank can also invest in securities issued by the World Bank, the Bank for International Settlements ("BIS"), European Investment Bank, International Monetary Fund ("IMF"), Islamic Development Bank Group and International Islamic Liquidity Management Corporation ("IILM"), regardless of the credit rating criteria. In the second stage, the total transaction limit, expressed as a percentage of total reserves, is specified in order to control overall credit risk including settlement risk arising from transactions with financial institutions. By setting this overall credit risk limit within the scope of the BP set each year, the Bank aims to prevent non-sovereign credit risk from exceeding its risk tolerance. In the third stage, the institutions eligible for transactions are chosen among those institutions meeting the minimum credit rating criteria set in the Guideline, using the fundamental and the financial analysis methods each institution is granted a certain credit risk limit in view of their capital size and credit quality. Related limits are restricted to a portion of foreign currency reserves. With this respect, credit risk exposures of all counterparties are monitored regulary and reported to top management.

In conclusion, the credit risk assumed during reserve management remains at quite low levels as a great portion of reserves are invested in assets issued or directly guaranteed by foreign governments as well as by international institutions.

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (continued)

The maximum credit risk exposure of the Bank as of 31 December 2018 and 2017 are presented in the table below according to different asset classes (classification according to external credit ratings is done based on the credit ratings published by Moody's):

	31 December 2018		31 December 2017	
	TL	Share (%)	TL	Share (%)
Due from banks	**350,371,323**	**61**	**211,536,187**	**45**
- Demand Deposits	**185,506,837**	**32**	**32,520,576**	**7**
Central Banks	177,395,325	31	26,339,771	6
International Institutions	7,098,121	1	5,211,165	1
Foreign Commercial Banks	1,013,391	<1	969,640	<1
- Time Deposits	**55,567,389**	10	**41,462,440**	**9**
Central Banks	24,448,777	4	9,365,109	2
International Institutions	17,505,176	3	11,917,866	3
Foreign Commercial Banks	7,382,937	1	712,447	<1
Aaa		<1	-	<1
Aa1		<1	-	<1
Aa2		<1	-	<1
Aa3	7,382,937	1	712,447	<1
Domestic Commercial Banks	6,230,499	1	19,467,018	4
- Securities purchased under agreements to resell	**34,940,725**	**6**	**34,295,896**	**7**
Domestic Commercial Banks	34,940,725	6	34,295,896	7
- Due from Interbank Money Market	**74,356,372**	**13**	**103,257,275**	**22**
Financial assets at fair value through profit or loss	**143,724,892**	**25**	**266,777,836**	**57**
Foreign Country Treasuries	117,485,031	20	243,462,710	52
Aaa	74,737,708	13	212,537,648	46
Aa1	6,958,132	1	2,138,663	<1
Aa2	18,871,259	3	11,368,915	2
Aa3	6,960,390	1	17,036,157	4
A1	9,957,542	2	381,327	<1
A3	-	-	-	-
International Institutions	12,232,451	2	8,379,268	2
Treasury	13,703,785	2	14,531,545	3
Domestic Commercial Banks	303,625	<1	404,313	10
Loans and advances to customers	**80,957,498**	**14**	**47,696,901**	**<1**
Financial assets at fair value through other comprehensive income	**1,468,827**	<1	**1,064,813**	**<1**
International Institutions	1,468,578	<1	1,064,644	
Foreign Financial Institutions	249	<1	169	<1
Total	**576,522,540**		**527,075,737**	

As of 31 December 2018, the Bank has receivables amounting to TL 34,940,725 (31 December 2017: TL 34,295,896) placed with domestic commercial banks as part of securities purchased under agreements to resell. The fair value of the security collaterals obtained for the deposits placed under securities purchased under agreements to resell as of 31 December 2018 is TL 34,917,975 (31 December 2017: TL 34,403,522).

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (continued)

In addition, as of 31 December 2018, the Bank has security collaterals obtained for all foreign exchange markets operations including the placed deposits under foreign currency deposit market operations amounting to TL 5,796,134 (31 December 2017: TL 4,496,364). As of 31 December 2018 and 2017, the security collaterals are the Turkish Government bonds issued by the Treasury.

The sectorial classifications of the Bank's credit exposure as of 31 December 2018 and 2017 are as follows:

	31 December 2018						
	Foreign Country Treasury	Foreign Central Banks	International Financial Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Treasury	Total
Due from banks	-	201.844.102	24.603.297	115.527.596	8.396.328	-	**350,371,323**
Financial assets at fair value through profit or loss	117.485.031	-	12.232.451	303.625	-	13.703.785	**143,724,892**
Loans and advances to customer	-	22.879	-	80.934.619	-	-	**80,957,498**
Financial assets at fair value through other comprehensive income	-	-	1.468.578	-	249	-	**1,468,827**
Total	**117,485,031**	**201,866,981**	**38,304,326**	**196,765,840**	**8,396,577**	**13,703,785**	**576,522,540**

	31 December 2017						
	Foreign Country Treasury	Foreign Central Banks	International Financial Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Treasury	Total
Due from banks	-	29.109.100	5.217.370	157.020.190	20.189.527	-	**211,536,187**
Financial assets at fair value through profit or loss	243.462.710	-	8.379.268	404.313	-	14.531.545	**266,777,836**
Loans and advances to customer	-	16.404	-	47.680.497	-	-	**47,696,901**
Financial assets at fair value through other comprehensive income	-	-	1.064.644	-	169	-	**1,064,813**
Total	**243,462,710**	**29,125,504**	**14,661,282**	**205,105,000**	**20,189,696**	**14,531,545**	**527,075,737**

As indicated above, the credit risk is mainly concentrated on foreign country treasury and central banks, international financial institutions, domestic financial institutions and Treasury as of 31 December 2018 and 2017.

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (continued)

Geographical concentrations of assets, liabilities and off-balance sheet items of the Bank as of 31 December 2018 and 2017 are as follows:

	31 December 2018					
	Turkey	Other European Countries	Canada and US	South - East Asia	Other Countries	Total
Cash	18,152,956	-	-	-	-	18,152,956
Due from banks	115,527,597	187,537,789	20,933,534	6,850,892	19,521,511	350,371,323
Financial assets at fair value through profit or loss	14,007,410	84,012,599	35,747,341	9,957,542	-	143,724,892
Loans and advances to customers	80,934,619	-	-	-	22,879	80,957,498
Financial assets at fair value through other comprehensive income	-	1,416,218	-	52,609	-	1,468,827
Gold reserves	85,650,251	20,942,653	-	-	-	106,592,904
Property and equipment	1,634,695	-	-	-	-	1,634,695
Intangible assets	27,832	-	-	-	-	27,832
Other assets	740,713	4,418	1,315,709	57,001	403	2,118,244
Total assets	**316,676,073**	**293,913,677**	**57,996,584**	**16,918,044**	**19,544,793**	**705,049,171**
Currency in circulation	132,261,722	-	-	-	-	132,261,722
Due to banks	348,264,052	2	-	443,369	30,485,542	379,192,965
Other deposits	41,576,668	2,161,364	2,993	207	103	43,741,335
Due to international organizations	-	-	105,109	-	-	105,109
Other borrowed funds	13,597,426	-	-	-	-	13,597,426
Other liabilities	2,397,046	-	-	-	-	2,397,046
Tax liabilities	2,885,545	-	-	-	-	2,885,545
Deferred income tax liability	9,896,596	-	-	-	-	9,896,596
Retirement benefit obligations	173,605	-	-	-	-	173,605
Equity	120,797,822	-	-	-	-	120,797,822
Total liabilities and equity	**671,850,482**	**2,161,366**	**108,102**	**443,576**	**30,485,645**	**705,049,171**
Net balance sheet position	**(355,174,409)**	**291,752,311**	**57,888,482**	**16,474,468**	**(10,940,852)**	**-**
Off-balance sheet commitments	**202,535,827**	-	-	-	-	**202,535,827**

	31 December 2017					
	Turkey	Other European Countries	Canada and US	South - East Asia	Other Countries	Total
Cash	10,642,850	-	-	-	-	10,642,850
Due from banks	157,020,190	43,113,884	5,235,963	6,153,327	12,823	211,536,187
Financial assets at fair value through profit or loss	14,935,859	55,675,528	195,785,122	381,327	-	266,777,836
Loans and advances to customers	47,680,497	-	-	-	16,404	47,696,901
Financial assets at fair value through other comprehensive income	-	1,027,094	-	37,719	-	1,064,813
Gold reserves	27,308,540	61,969,261	-	-	-	89,277,801
Property and equipment	694,898	-	-	-	-	694,898
Intangible assets	8,890	-	-	-	-	8,890
Other assets	578,280	449	866	3,591	3,183	586,369
Total assets	**258,870,004**	**161,786,216**	**201,021,951**	**6,575,964**	**32,410**	**628,286,545**
Currency in circulation	131,457,662	-	-	-	-	131,457,662
Due to banks	321,074,278	-	-	2,429,962	-	323,504,240
Other deposits	52,043,541	2,602,349	2,995	216	754	54,649,855
Due to international organizations	-	-	77,651	-	-	77,651
Other borrowed funds	19,808,748	-	-	-	-	19,808,748
Other liabilities	212,034	237,090	542,447	815	2,000	994,386
Tax liabilities	791,534	-	-	-	-	791,534
Deferred income tax liability	12,263,874	-	-	-	-	12,263,874
Retirement benefit obligations	143,395	-	-	-	-	143,395
Equity	84,595,200	-	-	-	-	84,595,200
Total liabilities and equity	**622,390,266**	**2,839,439**	**623,093**	**2,430,993**	**2,754**	**628,286,545**
Net balance sheet position	**(363,520,262)**	**158,946,777**	**200,398,858**	**4,144,971**	**29,656**	**-**
Off-balance sheet commitments	**141,645,821**					**141,645,821**

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (continued)

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

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

There are no financial assets that are past due but not impaired at 31 December 2018 and 2017; therefore, there are no collaterals held against such past due financial assets.

As of 31 December 2018 and 2017, the Bank has no assets held for resale.

(c) Market risk

Market risk signifies the probability of incurring a loss as a result of fluctuations in financial market prices. The most significant sources of the market risk, from the Bank's perspective are interest rates pertaining to TL and reserve currencies, foreign exchange rates and gold prices. The Bank, in its capacity as the monetary authority of Turkey, does actively manage TL interest rate risk stemming from government domestic borrowing securities, which the Bank utilizes mainly for open market operations. Putting aside this TL interest rate risk, it is possible to say that the remaining market risk faced by the Bank arises essentially from the foreign currency assets and liabilities on its balance sheet.

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

(d) Currency risk

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

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(d) Currency risk (continued)

The net foreign currency position of the Bank as of 31 December 2018 and 2017 is summarized at table below. The table presented below provides the Bank's assets, liabilities, and equity at carrying amounts, categorized by currency:

	31 December 2018									
	Foreign currency									
	US Dollar	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	TOTAL
Cash	10.082.190	7.551.139	2.846	136.508	257.805	-	38.798	18.069.286	83.670	18.152.956
Due from banks	51.351.656	161.176.256	2.213.959	30.173	279.679	7.082.719	18.939.569	241.074.011	109.297.312	350.371.323
Financial assets at fair value through profit or loss	54.117.740	44.629.946	-	-	14.373.282	-	16.596.514	129.717.482	14.007.410	143.724.892
Loans and advances to customers	35.841.406	44.886.628	3.596	-	198.441	-	27.427	80.957.498	-	80.957.498
Financial assets at fair value through other comprehensive income	1.395.359	249	-	-	-	73.219	-	1.468.827	-	1.468.827
Gold reserves	106.592.904	-	-	-	-	-	-	106.592.904	-	106.592.904
Property and equipment	-	-	-	-	-	-	-	-	1.634.695	1.634.695
Intangible assets								-	27.832	27.832
Other assets	1.315.911	56.500	599	--	227	-	397	1.373.634	744.610	2.118.244
Total assets	**260,697,166**	**258,300,718**	**2,221,000**	**166,681**	**15,109,434**	**7,155,938**	**35,602,705**	**579,253,642**	**125,795,529**	**705,049,171**
Currency in circulation	-	-	-		-	-	-	-	132.261.722	132.261.722
Due to banks	181.813.667	137.914.593	-		135.474	-	-	319.863.734	59.329.231	379.192.965
Other deposits	3.593.912	14.479.257	527.334	28.352	2.670	7.021.869	10	25.653.404	18.087.931	43.741.335
Due to international organizations	-	-	-		-	-	-	-	105.109	105.109
Other borrowed funds	-	-	-		-	-	-	-	13.597.426	13.597.426
Other liabilities	635.600	213.627	1.291	3.730	6.177	0	6.254	866.679	1.530.367	2.397.046
Tax Liabilities	-	-	-		-	-	-	-	2.885.545	2.885.545
Deferred income tax liability	-	-	-		-	-	-	-	9.896.596	9.896.596
Retirement benefit obligations	-	-	-		-	-	-	-	173.605	173.605
Equity	-	-	-		-	-	-	-	120.797.822	120.797.822
Total liabilities and equity	**186,043,179**	**152,607,477**	**528,625**	**32,082**	**144,321**	**7,021,869**	**6,264**	**346,383,817**	**358,665,354**	**705,049,171**
Net balance sheet position	**74,653,987**	**105,693,241**	**1,692,375**	**134,599**	**14,965,113**	**134,069**	**35,596,441**	**232,869,825**	**(232,869,825)**	**-**

	31 December 2017									
	Foreign currency									
	US Dollar	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	TOTAL
Cash	5.612.368	4.393.783	262	78.991	459.869	-	36.085	10.581.358	61.492	10.642.850
Due from banks	41.082.700	21.397.197	2.044.364	27.033	28.203	5.196.704	4.206.124	73.982.325	137.553.862	211.536.187
Financial assets at fair value through profit or loss	206.270.951	35.524.123	-	-	4.575.127	-	5.471.776	251.841.977	14.935.859	266.777.836
Loans and advances to customers	25.452.170	22.094.378	-	-	137.052	-	13.301	47.696.901	-	47.696.901
Financial assets at fair value through other comprehensive income	1.010.907	168	-	-	-	53.738	-	1.064.813	-	1.064.813
Gold reserves	88.778.170	-	-	-	-	-	-	88.778.170	499.631	89.277.801
Property and equipment	-	-	-	-	-	-	-	-	694.898	694.898
Intangible assets	-	-	-	-	-	-	-	-	8.890	8.890
Other assets	426	3.590	398	88	173	-	496	5.171	581.198	586.369
Total assets	**368,207,692**	**83,413,239**	**2,045,024**	**106,112**	**5,200,424**	**5,250,442**	**9,727,782**	**473,950,715**	**154,335,830**	**628,286,545**
Currency in circulation	-	-	-	-	-	-	-	-	131.457.662	131.457.662
Due to banks	215.164.473	66.507.825	-	-	18.673	-	-	281.690.971	41.813.269	323.504.240
Other deposits	2.857.068	3.791.789	1.960.984	27.403	28.718	5.153.596	11	13.819.569	40.830.286	54.649.855
Due to international organizations	-	-	-	-	-	-	-	-	77.651	77.651
Other borrowed funds	-	-	-	-	-	-	-	-	19.808.748	19.808.748
Other liabilities	548.677	227.539	815	3.037	4.087	-	5.214	789.369	205.017	994.386
Tax Liabilities	-	-	-	-	-	-	-	-	791.534	791.534
Deferred income tax liability	-	-	-	-	-	-	-	-	12.263.874	12.263.874
Retirement benefit obligations	-	-	-	-	-	-	-	-	143.395	143.395
Equity	-	-	-	-	-	-	-	-	84.595.200	84.595.200
Total liabilities and equity	**218,570,218**	**70,527,153**	**1,961,799**	**30,440**	**51,478**	**5,153,596**	**5,225**	**296,299,909**	**331,986,636**	**628,286,545**
Net balance sheet position	**149,637,474**	**12,886,086**	**83,225**	**75,672**	**5,148,946**	**96,846**	**9,722,557**	**177,650,806**	**(177,650,806)**	**-**

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(d) Currency risk (continued)

In order to measure the sensitivity of the foreign exchange gain/loss against volatility in exchange rates, foreign currency net position values were re-calculated under the assumption of the appreciation of the TL by 10% against all foreign currencies. The hypothetic loss that would occur in the total market value of the net foreign currency positions of the Bank as of 31 December 2018 and 2017 under such an assumption is presented in the tables below:

Sensitivity of the net foreign currency position:

	31 December 2018									
	Foreign currency									
	US Dollar	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	TOTAL
Total assets	260,697,166	258,300,718	2,221,000	166,681	15,109,434	7,155,938	35,602,705	579,253,642	125,795,529	705,049,171
Total liabilities	186,043,179	152,607,477	528,625	32,082	144,321	7,021,869	6,264	346,383,817	358,665,354	705,049,171
Net balance sheet position	74,653,987	105,693,241	1,692,375	134,599	14,965,113	134,069	35,596,441	232,869,825	(232,869,825)	-
Scenario of 10% appreciation of TL	(74,654)	(105,693)	(1,692)	(135)	(14,965)	(134)	(35,596)	(232,870)	232,869	-

	31 December 2016									
	Foreign currency									
	US Dollar	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	TOTAL
Total assets	368,207,692	83,413,239	2,045,024	106,112	5,200,424	5,250,442	9,727,782	473,950,715	154,335,830	628,286,545
Total liabilities	218,570,218	70,527,153	1,961,799	30,440	51,478	5,153,596	5,225	296,299,909	331,986,636	628,286,545
Net balance sheet position	149,637,474	12,886,086	83,225	75,672	5,148,946	96,846	9,722,557	177,650,806	(177,650,806)	-
Scenario of 10% appreciation of TL	(14,963,747)	(1,288,609)	(8,323)	(7,567)	(514,895)	(9,685)	(972,256)	(17,765,081)	17,765,081	-

(e) Interest rate risk

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(e) Interest rate risk (continued)

The tables below summarize the Bank's exposure to interest rate risk at 31 December 2018 and 2017, for TL and foreign currency denominated assets and liabilities. Presented in the tables are the Bank's assets and liabilities in carrying amounts classified in terms of time remaining to contractual re-pricing dates or maturity.

	31 December 2018													
	Foreign currency							TL						
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing	FC Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing	TL Total	Total
Cash	-	-	-	-	-	18,069,286	18,069,286	-	-	-	-	-	83,670	83,670	18,152,956
Due from banks	55,567,389	-	-	-	-	185,506,622	241,074,011	109,297,096	-	-	-	-	265	109,297,312	350,371,323
Financial assets at fair value through profit or loss	22,193,405	48,306,006	59,218,071	-	-	-	129,717,482	5,625,432	7,392,266	636,087	-	-	303,625	14,007,410	143,724,892
Loans and advances to customers	7,844,815	17,537,738	55,552,066	-	-	22,879	80,957,498	-	-	-	-	-	-	-	80,957,498
Financial assets at fair value through other comprehensive income	-	-	-	-	-	1,468,827	1,468,827	-	-	-	-	-	-	-	1,468,827
Gold reserves	-	-	-	-	-	105,904,019	105,904,019	-	-	-	-	-	688,885	688,885	106,592,904
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	1,634,695	1,634,695	1,634,695
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	27,832	27,832	27,832
Other assets	-	-	-	-	-	1,346,861	1,346,861	-	-	-	-	-	771,383	771,383	2,118,244
Total assets	**85,605,609**	**65,843,744**	**114,770,137**	**-**	**-**	**312,318,494**	**578,537,984**	**114,972,528**	**7,392,266**	**636,087**	**-**	**-**	**3,510,315**	**126,511,187**	**705,049,171**
Currency in circulation	-	-	-	-	-	-	-	-	-	-	-	-	132,261,722	132,261,722	132,261,722
Due to banks	-	-	-	-	-	319,863,734	319,863,734	-	37,187,201	-	-	-	22,142,030	59,329,231	379,192,965
Other deposits	18,242,759	-	-	-	-	7,410,645	25,653,404	17,491,287	296,241	-	-	-	300,403	18,087,931	43,741,335
Due to international organizations	-	-	-	-	-	-	-	-	-	-	-	-	105,109	105,109	105,109
Other borrowed funds	-	-	-	-	-	-	-	13,597,426	-	-	-	-	-	13,597,426	13,597,426
Other liabilities	-	-	-	-	-	866,679	866,679	-	-	-	-	-	1,530,367	1,530,367	2,397,046
Tax liabilities										-	-	-	2,885,545	2,885,545	2,885,545
Deferred income tax liability	-	-	-	-	-	-	-	-	-	-	-	-	9,896,596	9,896,596	9,896,596
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-	-	-	173,605	173,605	173,605
Equity	-	-	-	-	-	-	-	-	-	-	-	-	120,797,822	120,797,822	120,797,822
Total liabilities and equity	**18,242,759**	**-**	**-**	**-**	**-**	**328,141,058**	**346,383,817**	**31,088,713**	**37,483,442**	**-**	**-**	**-**	**290,093,199**	**358,665,354**	**705,049,171**
Net repricing gap	**67,362,850**	**65,843,744**	**114,770,137**	**-**	**-**	**(15,822,564)**	**232,154,167**	**83,883,815**	**(30,091,176)**	**636,087**	**-**	**-**	**(286,582,894)**	**(111,182,741)**	**-**

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(e) Interest rate risk (continued)

	31 December 2017													
	Foreign currency							TL						
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing	FC Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing	TL Total	Total
Cash	-	-	-	-	-	10,581,358	10,581,358	-	-		-	-	61,492	61,492	10,642,850
Due from banks	41,462,440	-	-	-	-	32,519,885	73,982,325	137,553,172	-		-	-	690	137,553,862	211,536,187
Financial assets at fair value through profit or loss	19,704,019	94,023,534	138,114,424	-	-	-	251,841,977	4,815,708	5,879,487	4,240,664	-	-	-	14,935,859	266,777,836
Loans and advances to customers	6,800,498	12,233,369	28,646,630	-	-	16,404	47,696,901	-	-	-	-	-	-	-	47,696,901
Financial assets at fair value through other comprehensive income	-	-	-	-	-	1,064,813	1,064,813	-	-	-	-	-	-	-	1,064,813
Gold reserves	-	-	-	-	-	88,778,170	88,778,170	-	-	-	-	-	499,631	499,631	89,277,801
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	694,898	694,898	694,898
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	8,890	8,890	8,890
Other assets	-	-	-	-	-	5,171	5,171	-	-	-	-	-	581,198	581,198	586,369
Total assets	**67,966,957**	**106,256,903**	**166,761,054**	**-**	**-**	**132,965,801**	**473,950,715**	**141,964,567**	**5,879,487**	**4,240,664**	**-**	**-**	**2,251,112**	**154,335,830**	**628,286,545**
Currency in circulation	-	-	-	-	-	-	-	-	-	-	-	-	131,457,662	131,457,662	131,457,662
Due to banks	-	-	-	-	-	281,690,971	281,690,971	-	38,552,297	-	-	-	3,260,972	41,813,269	323,504,240
Other deposits	7,631,503	-	-	2,260	-	6,185,806	13,819,569	40,159,667	429,953	-	-	-	240,666	40,830,286	54,649,855
Due to international organizations	-	-	-	-	-	-	-	-	-	-	-	-	77,651	77,651	77,651
Other borrowed funds	-	-	-	-	-	-	-	19,808,748	-	-	-	-	-	19,808,748	19,808,748
Other liabilities	-	-	-	-	-	789,369	789,369	-	-	-	-	-	205,017	205,017	994,386
Tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	791,534	791,534	791,534
Deferred income tax liability	-	-	-	-	-	-	-	-	-	-	-	-	12,263,874	12,263,874	12,263,874
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-	-	-	143,395	143,395	143,395
Equity	-	-	-	-	-	-	-	-	-	-	-	-	84,595,200	84,595,200	84,595,200
Total liabilities and equity	**7,631,503**	**-**	**-**	**2,260**	**-**	**288,666,146**	**296,299,909**	**59,968,415**	**38,982,250**	**-**	**-**	**-**	**233,035,971**	**331,986,636**	**628,286,545**
Net repricing gap	**60,335,454**	**106,256,903**	**166,761,054**	**(2,260)**	**-**	**(155,700,345)**	**177,650,806**	**82,400,465**	**(33,102,763)**	**4,240,664**	**-**	**-**	**(231,189,172)**	**(177,650,806)**	**-**

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(e) Interest rate risk (continued)

As the Bank is the monetary authority in Turkey, the interest rate sensitive balance sheet positions in the tables should be interpreted carefully. Required reserves are calculated over total domestic liabilities of banks according to the banking legislation effective in Turkey, after deductions determined in the Communiqué, No. 2005/1 on Required Reserves and deposit/participation funds accepted by banks in Turkey on behalf of foreign branches and loan amounts provided by banks and followed up in foreign branches and are deposited to the Bank. On the other hand, financing companies were included in the regulations on reserve requirements in addition to banks as part of its efforts to better control loan growth beginning from 20 December 2013. Similar to other central banks, the Bank, which uses short-term interest rates as its main monetary policy tool, actively manage the interest rate risk stemming from TL assets and liabilities considering that it will be in line with the monetary policy implementations of the Bank. Nevertheless, the tables are prepared using all assets and liabilities including asset and liabilities denominated in TL to show the overall interest rate risk that the Bank is exposed to regardless of whether such risk is actively managed or not.

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

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

Within this framework, based on the average modified durations of foreign currency assets as of 31 December 2018 and 2017, the prospective decline in the market values of the assets in case of a 1% rise in the related interest rates are presented below. The 1% increase scenario is based on the assumption that the yield curves for the related currencies shift 1% upwards in all maturities simultaneously.

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

	31 December 2018			31 December 2017		
	US Dollar	EUR	TOTAL	US Dollar	EUR	TOTAL
Market value of the foreign currency assets	54,117,740	44,629,946	98,747,686	206,270,951	35,524,123	241,795,074
Effect of the scenario of 1% increase in interest rates	**(650,371)**	**(1,203,485)**	**(1,853,856)**	(1,380,454)	(548,662)	(1,929,116)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(e) Interest rate risk (continued)

The tables below set out the average effective interest rates by major currencies for monetary financial instruments at 31 December 2018 and 2017:

	31 December 2018		
	US Dollar (%)	EUR (%)	TL (%)
Assets			
Due from banks	2.62	(0.41)	24.06
Financial assets at fair value through profit or loss	2.58	(0.31)	9.96
Loans and advances to customers	1.90	-	-
Liabilities			
Due to banks	1.60	-	19.06
Other deposits	-	-	15.44

	31 December 2017		
	US Dollar (%)	EUR (%)	TL (%)
Assets			
Due from banks	1.41	0.30	12.75(*)
Financial assets at fair value through profit or loss	1.55	(0.54)	9.7
Loans and advances to customers	1.06	-	-
Liabilities			
Due to banks	1.08	-	7.25
Other deposits	0.25	0.25	7.55

(*) Weighted average cost of the CBRT funding as of 31 December 2017.

(f) Liquidity risk

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity risk (continued)

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

	31 December 2018															
	Foreign currency								TL							
	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No Maturity	FC Total	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No Maturity	TL Total	Total
Cash	18,069,286	-	-	-	-	-	-	18,069,286	83,670	-	-	-	-	-	-	83,670	18,152,956
Due from banks	185,506,622	55,567,389	-	-	-	-	-	241,074,011	214	109,297,098	-	-	-	-	-	109,297,312	350,371,323
Financial assets at fair value through profit or loss	-	3,355,963	4,673,619	32,298,912	88,722,781	666,207	-	129,717,482	-	-	1,455,914	1,454,692	8,653,673	2,443,131	-	14,007,410	143,724,892
Loans and advances to customers	22,879	7,844,815	17,537,737	55,552,067	-	-	-	80,957,498	-	-	-	-	-	-	-	-	80,957,498
Financial assets at fair value through other comprehensive income	1,468,827	-	-	-	-	-	-	1,468,827	-	-	-	-	-	-	-	-	1,468,827
Gold reserves	105,904,019	-	-	-	-	-	-	105,904,019	688,885	-	-	-	-	-	-	688,885	106,592,904
Property and equipment	-	-	-	-	-	-	-	0	-	-	-	-	-	-	1,634,695	1,634,695	1,634,695
Intangible assets	-	-	-	-	-	-	-	0	-	-	-	-	-	-	27,832	27,832	27,832
Other assets	1,373,634	-	-	-	-	-	-	1,373,634	680,304	-	-	-	-	-	64,306	744,610	2,118,244
Total assets	**312,345,267**	**66,768,167**	**22,211,356**	**87,850,979**	**88,722,781**	**666,207**		**578,564,757**	**1,453,073**	**109,297,098**	**1,455,914**	**1,454,692**	**8,653,673**	**2,443,131**	**1,726,833**	**126,484,414**	**705,049,171**
Currency in circulation	-	-	-	-	-	-	-		132,261,722	-	-	-	-	-	-	132,261,722	132,261,722
Due to banks	-	319,863,734	-	-	-	-	-	319,863,734	22,142,030	37,187,201	-	-	-	-	-	59,329,231	379,192,965
Other deposits	6,430,797	19,222,607	-	-	-	-	-	25,653,404	281,184	17,806,747	-	-	-	-	-	18,087,931	43,741,335
Due to international organizations	-	-	-	-	-	-	-	-	105,109	-	-	-	-	-	-	105,109	105,109
Other borrowed funds	-	-	-	-	-	-	-		-	13,597,426	-	-	-	-	-	13,597,426	13,597,426
Other liabilities	1,990	568,048	-	-	-	-		570,038	1,680,932	-	146,076	-	-	-		1,827,008	2,397,046
Tax liabilities	-	-	-	-	-	-	-		2,885,545	-	-	-	-	-	-	2,885,545	2,885,545
Deferred income tax liability	-	-	-	-	-	-	-		9,896,596	-	-	-	-	-	-	9,896,596	9,896,596
Retirement benefit obligations	-	-	-	-	-	-	-		173,605	-	-	-	-	-	-	173,605	173,605
Equity	-	-	-	-	-	-	-		120,797,822	-	-	-	-	-	-	120,797,822	120,797,822
Total liabilities and equity	**6,432,787**	**339,654,389**	**-**	**-**	**-**	**-**	**-**	**346,087,176**	**290,224,545**	**68,591,374**	**146,076**		**-**	**-**	**-**	**358,961,995**	**705,049,171**
Net liquidity gap	**305,912,480**	**(272,886,222)**	**22,211,356**	**87,850,979**	**88,722,781**	**666,207**	**-**	**232,477,581**	**(288,771,472)**	**40,705,724**	**1,309,838**	**1,454,692**	**8,653,673**	**2,443,131**	**1,726,833**	**(225,477,581)**	**-**

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity risk (continued)

31 December 2017

	Foreign currency								TL								
	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No Maturity	FC Total	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No Maturity	TL Total	Total
Cash	10,581,358	-	-	-	-	-	-	10,581,358	61,492	-	-	-	-	-	-	61,492	10,642,850
Due from banks	32,519,885	41,462,440	-	-	-	-	-	73,982,325	690	137,553,172	-	-	-	-	-	137,553,862	211,536,187
Financial assets at fair value through profit or loss	-	8,508,240	57,480,883	127,536,811	57,707,913	608,130	-	251,841,977	404,313	-	1,802,885	3,904,518	7,528,948	1,295,195	-	14,935,859	266,777,836
Loans and advances to customers	16,404	6,800,498	12,233,369	28,646,630	-	-	-	47,696,901	-	-	-	-	-	-	-	-	47,696,901
Financial assets at fair value through other comprehensive income	1,064,813	-	-	-	-	-	-	1,064,813	-	-	-	-	-	-	-	-	1,064,813
Gold reserves	32,900,776	55,877,394	-	-	-	-	-	88,778,170	499,631	-	-	-	-	-	-	499,631	89,277,801
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	694,898	694,898	694,898
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,890	8,890	8,890
Other assets	5,171	-	-	-	-	-	-	5,171	516,892	-	-	-	-	-	64,306	581,198	586,369
Total assets	**77,088,407**	**112,648,572**	**69,714,252**	**156,183,441**	**57,707,913**	**608,130**	**-**	**473,950,715**	**1,483,018**	**137,553,172**	**1,802,885**	**3,904,518**	**7,528,948**	**1,295,195**	**768,094**	**154,335,830**	**628,286,545**
Currency in circulation	-	-	-	-	-	-	-	-	131,457,662	-	-	-	-	-	-	131,457,662	131,457,662
Due to banks	-	281,690,971	-	-	-	-	-	281,690,971	3,260,972	38,552,297	-	-	-	-	-	41,813,269	323,504,240
Other deposits	5,037,543	8,779,766	-	-	2,260	-	-	13,819,569	-	40,830,286	-	-	-	-	-	40,830,286	54,649,855
Due to international organizations	-	-	-	-	-	-	-	-	77,651	-	-	-	-	-	-	77,651	77,651
Other borrowed funds	-	-	-	-	-	-	-	-	-	19,808,748	-	-	-	-	-	19,808,748	19,808,748
Other liabilities	2,842	526,199	-	-	-	-	260,328	789,369	53,331	-	151,686	-	-	-	-	205,017	994,386
Tax liabilities	-	-	-	-	-	-	-	-	-	-	793,454	-	-	-	-	791,534	791,534
Deferred income tax liability	-	-	-	-	-	-	-	-	12,263,874	-	-	-	-	-	-	12,263,874	12,263,874
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	143,395	143,395	143,395
Equity	-	-	-	-	-	-	-	-	84,593,280	-	-	-	-	-	-	84,595,200	84,595,200
Total liabilities and equity	**5,040,385**	**290,996,936**	**-**	**-**	**2,260**	**-**	**260,328**	**296,299,909**	**232,500,224**	**99,191,331**	**151,686**	**-**	**-**	**-**	**143,395**	**331,986,636**	**628,286,545**
Net liquidity gap	**72,048,022**	**(178,348,364)**	**69,714,252**	**156,183,441**	**57,705,653**	**608,130**	**(260,328)**	**177,650,806**	**(231,017,206)**	**38,361,841**	**1,651,199**	**3,904,518**	**7,528,948**	**1,295,195**	**624,699**	**(177,650,806)**	**-**

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity risk (continued)

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

	31 December 2018							
	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undistributed	Total
Currency in circulation	132,261,722	-	-	-	-	-	-	132,261,722
Due to banks	22,142,030	357,050,935	-	-	-	-	-	379,192,965
Other deposits	6,711,982	37,029,353	-	-	-	-	-	43,741,335
Due to international organizations	105,109	-	-	-	-	-	-	105,109
Other borrowed funds	-	13,597,426	-	-	-	-	-	13,597,426
Total financial liabilities	**161,220,843**	**407,677,714**	-	-	-	-	-	**568,898,557**

	31 December 2017							
	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undistributed	Total
Currency in circulation	131,457,662	-	-	-	-	-	-	131,457,662
Due to banks	3,260,972	320,243,268	-	-	-	-	-	323,504,240
Other deposits	5,030,521	49,617,074	-	-	2,260	-	-	54,649,855
Due to international organizations	77,651	-	-	-	-	-	-	77,651
Other borrowed funds	-	19,808,748	-	-	-	-	-	19,808,748
Total financial liabilities	**139,826,806**	**389,669,090**	-	-	**2,260**	-	-	**529,498,156**

(g) Operational risk

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

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

The Bank has left management of operational risk to the departments own responsibility. However, for the purpose of management of operational and regulatory compliance risks with an institutional scale and integrative point of view, General Directorate of Corporate Risk Management ("GDCRM") which is established in 2018, operates in coordination with other departments. GDCRM compiles risk calculations and analysis of departments and reports by following operations of departments in this framework. In the frame of decision of Board of the Bank, in the case of any financial loss arising from operational risks, it is reported to different levels of management depending on the size of loss. Limits for the mentioned losses, are updated by Board of the Bank when an update is regarded as necessary. As a result of the examination financial loss is recorded at nonallowable expenses after convenient opinion of the management level authorized. These losses are submitted for information of Board of the Bank, quarterly.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(g) Operational risk (continued)

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

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

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

(h) Fair value of financial instruments

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

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

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

	Carrying value		Fair value	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Financial assets				
Gold reserves	106,592,904	89,277,801	106,592,904	89,277,801
Due from banks	350,371,323	211,536,187	350,348,572	211,643,813
Loans and advances	80,957,498	47,696,901	81,001,898	47,727,891
Financial liabilities				
Currency in circulation	132,261,722	131,457,662	132,261,722	131,457,662
Due to banks	379,192,965	323,504,240	379,192,965	323,504,240
Other deposits	43,741,335	54,649,855	43,741,335	54,646,914
Other borrowed funds	13,597,426	19,808,748	13,597,426	19,808,748

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(h) Fair value of financial instruments (continued)

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

(i) Financial assets

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

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

(ii) Financial liabilities

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

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

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

The following table summarizes the fair values of those financial assets presented on the Bank's balance sheet based on the hierarchy of valuation technique as of 31 December 2018 and 2017:

31 December 2018	Level 1 (*)	Level 2 (**)	Level 3 (***)	Total
Financial assets at fair value through profit and loss				
Debt securities	143,421,267	-	-	143,421,267
Turkish Lira-settled forward foreign exchange transactions appreciation	-	296,641	-	296,641
TL equivalent foreign exchange swap transactions appreciation	-	6,984	-	6,984
Financial assets at fair value through other comprehensive income				
Equity securities	-	-	1,468,827	1,468,827
Total assets	**143,421,267**	**303,625**	**1,468,827**	**145,193,719**

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

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

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(h) Fair value of financial instruments (continued)

31 December 2017	Level 1 (*)	Level 2 (**)	Level 3 (***)	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	266,373,523	-	-	266,373,523
Financial assets at fair value through other comprehensive income				
- Equity securities	-	1,064,813	-	1,064,813
Total assets	**266,373,523**	**1,064,813**	**-**	**267,438,336**

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

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

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

(i) Capital management

The Bank's shareholders' equity as at 31 December 2018 and 2017 comprises:

	31 December 2018	31 December 2017
Paid-in capital	47,464	47,464
Retained earnings	66,649,652	47,449,330
Reserves	54,100,706	37,098,406
Total Equity	**120,797,822**	**84,595,200**

Movements in shareholders' equity during the year are explained in the statement of changes in equity in the financial statements.

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

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

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

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

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

Preparation of financial statements according to IAS/IFRS requires management to make estimations, assumptions and decisions that effect amounts of assets liabilities, income and expenses and application of policies. Realized results may differ from these estimations. Estimations and assumptions underlying estimations, are considered continuously. Updates in accounting estimations, are recorded at the period which estimation is made and following periods which are effected from these updates.

Information on estimations and significant decisions applied to accounting policies which has the significant effects financial statements are explained in notes indicated below.

Note 3 (f) , Note 3 (e) and 8 – Classification of loans and advances and impairment

NOTE 6 - DUE FROM BANKS

	31 December 2018	31 December 2017
Funds lent under securities purchased under agreements to resell	34,940,725	34,295,896
Time deposits	49,336,890	21,995,422
Due from interbank money market operations	74,356,372	103,257,275
Demand deposits	185,506,837	32,520,576
Due from foreign exchange deposits against TL	6,230,499	19,467,018
Total	**350,371,323**	**211,536,187**

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

As of 31 December 2018, analysis of quality of due from banks is below:

	Stage 1	Stage 2	Stage 3
Stage 1 - low credit risk	350,371,323	-	-
Stage 2 - under close monitoring	-	-	-
Stage 3 - non performing	-	-	-
Total	**350,371,323**	-	-

NOTE 7 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018		31 December 2017	
	Cost	Carrying Amount	Cost	Carrying Amount
Turkish government bonds, treasury bills and lease certificates	14,210,833	13,703,785	14,557,548	14,531,546
Foreign government bonds	118,138,637	117,485,031	244,040,108	243,462,709
Corporate bonds of international institutions(*)	12,397,331	12,232,451	8,416,187	8,379,268
Turkish Lira-settled forward foreign exchange transactions	-	296,641	-	404,313
TL equivalent foreign exchange swap transactions	-	6,984		-
Total	**144,746,801**	**143,724,892**	**267,013,843**	**266,777,836**

(*) Corporate bonds of international institutions are coupon and discount securities mainly issued by the European Investment Bank, International Islamic Liquidity Management (IILM), Islamic Development Bank (IDB) and International Bank of Reconstruction and Development (IBRD, World Bank Group).

NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS

	31 December 2018	31 December 2017
Loans and advances to corporate entities:		
Foreign country loans	22,879	16,404
Domestic loans	80,934,619	47,680,497
Total performing loans	**80,957,498**	**47,696,901**
Impaired loans	8,213,603	5,861,224
Loans and advances to customers (gross)	**89,171,101**	**53,558,125**
Less: Allowance for loan losses	(8,213,603)	(5,861,224)
Net loans and advances to customers	**80,957,498**	**47,696,901**

As of 31 December 2018, analysis of quality of credits of loans and advances given is below:

	Stage 1	Stage 2	Stage 3
Stage 1 - Low credit risk	80,394,619	-	-
Stage 2 - Under close monitoring	-	47,671	-
Stage 3 - Non performing	-	-	8,188,811
Total	80,934,619	47,671	8,188,811
Expected credit loss	-	(24,792)	(8,188,811)
Net loans and advances given	80,934,619	22,879	-

Movement of allowance for loan losses is as follows:

	2018	2017
Balance at 1 January	5,861,224	5,440,566
Provision charge/(reversal) for the year (*)	2,352,379	420,658
Balance at 31 December	**8,213,603**	**5,861,224**

(*) The balance mainly consists of the foreign exchange valuation of impaired loans.

As of 31 December 2018, the restructured loans and advances of the Bank amounted to TL 22,879 (31 December 2017: TL 16,404). In accordance with the restructuring agreement of the Bank regarding the above mentioned restructured loans, the Bank forwent TL 24,792 (US$ 4,712,512) (31 December 2017: TL 17,775 (US$ 4,712,512)) of its interest receivable which will accrue again if the counterparty fails to meet the conditions stated in the restructuring agreement. As of 31 December 2018 and 2017, the Bank provided allowance for such contingent interest receivable.

NOTE 9 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The details of financial assets measured at fair value through other comprehensive income as of 31 December 2018 and 2017 are as follows:

		Ownership (%)		Amount	
Name	**Nature of business**	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
BIS	Banking Supervision	1.43	1.43	1,415,969	1,026,926
International Islamic Liquidity Management Corporation	Liquidity Management	13.33	13.33	52,609	37,719
SWIFT	Electronic Fund Transfer Services	0.007	0.007	249	168
Total				**1,468,827**	**1,064,813**

NOTE 9 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

The shares of BIS have a par value of SDR 5,000 each and are paid up to SDR 1,250 each. The balance of SDR 3,750 per share is callable at three months' notice by the decision of the BIS Board and the total amount of commitment is disclosed under contingencies and commitments as of 31 December 2018 and 2017 (Note 28).

As of 31 December 2018 and 2017, the Bank's investment in shares issued by the BIS is valued at fair value, which is calculated as being 70% of the Bank's interest in BIS's net asset value in SDR, as of 31 December 2018 and 2017, converted to TL at the year-end TL/SDR exchange rate. This valuation method has previously been used to establish the appropriate price for purchase and repurchase transactions in BIS share.

The movement of financial assets at fair value through other comprehensive income is as follows:

	2018	2017
Opening balance, 1 January	**1,064,813**	**917,956**
Fair value changes	404,014	146,857
Closing balance, 31 December	**1,468,827**	**1,064,813**

NOTE 10 - GOLD RESERVES

	31 December 2018	31 December 2017
Gold bullion - International standards	105,904,019	88,778,170
Gold bullion and coins - Non-International standards	688,885	499,631
Total	**106,592,904**	**89,277,801**

Gold coins and bullion in the amount of TL 74,914 (31 December 2017: TL 54,333) are kept in the Bank's vaults on behalf of the Treasury. Additionally, Gold bullion at International standards include TL 50,956,272 (31 December 2017: TL 57,033,549) worth of gold kept by the Bank which belongs to the banks and financing companies those deposited gold in order to meet their reserve requirement and on behalf of the Treasury amounting to TL 39,401 (31 December 2017: TL 387,444)

31 December 2018	Level 1 (*)	Level 2 (**)	Level 3 (***)	Total
-Gold	106,592,904	-	-	106,592,904
Total	**106,592,904**	-	-	**106,592,904**

31 December 2017	Level 1 (*)	Level 2 (**)	Level 3 (***)	Total
-Gold	89,277,801	-	-	89,277,801
Total	**89,277,801**	-	-	**89,277,801**

(*) Financial assets and liabilities are valued by an active stock market prices.
(**) Financial assets and liabilities are valued by a price that is direct or indirectly observable price in a market, other than stock market price indicated as first level.
(***) Financial assets and liabilities are valued by a price that is the market used for calculation of fair value, there is no observable data.

NOTE 11 - PROPERTY AND EQUIPMENT

	Land and Buildings	Machines and Equipment	Construction in Progress	Total
Year ended as of 31 December 2017				
Opening net book value	**577,355**	**79,510**	**25,020**	**681,885**
Additions	17,394	28,820	-	46,214
Transfers	(353,905)	-	353,905	-
Disposals (net)(*)	-	(114)	-	(114)
Depreciation charge (Note 27)	(5,333)	(27,754)	-	(33,087)
Closing net book value	**235,511**	**80,462**	**378,925**	**694,898**
At 31 December 2017				
Cost	398,247	251,960	378,925	1,029,132
Accumulated depreciation	(162,736)	(171,498)	-	(334,234)
Net book value	**235,511**	**80,462**	**378,925**	**694,898**
Year ended as of 31 December 2018				
Opening net book value	**235,511**	**80,461**	**378,926**	**694,898**
Additions	148,907	90,439	741,622	980,968
Disposals (net)(*)	(2,772)	(50)	-	(2,822)
Depreciation charge (Note 27)	(4,561)	(33,788)	-	(38,349)
Closing net book value	**377,085**	**137,062**	**1,120,548**	**1,634,695**
At 31 December 2018				
Cost	542,838	323,882	1,120,548	1,987,268
Accumulated depreciation	(165,753)	(186,820)	-	(352,573)
Net book value	**377,085**	**137,062**	**1,120,548**	**1,634,695**

(*) During 2018 the Bank has disposed property and equipment with net book value of TL 139 at no charge. (During 2017 the Bank has disposed property and equipment with net book value of TL 114 at no charge.)

NOTE 12 - INTANGIBLE ASSETS

	Cost	Accumulated amortisation	Net book value
Opening balance at 1 January 2017	**20,382**	**(16,621)**	**3,761**
Additions/(amortization charge for the period)	12,607	(7,478)	5,129
Disposals	86	(86)	-
Balance at 31 December 2017	**33,075**	**(24,185)**	**8,890**
Opening balance at 1 January 2018	**33,075**	**(24,185)**	**8,890**
Additions/(amortization charge for the period) (Note 26)	35,613	(16,671)	18,942
Balance at 31 December 2018	**68,688**	**(40,856)**	**27,832**

NOTE 13 - OTHER ASSETS

	31 December 2018	31 December 2017
Receivables from foreign exchange sales with future value date	1,844,115	326,315
Raw material and work-in-progress of banknote printing office	66,861	52,040
Charges and commissions due from Treasury (*)	32,608	35,408
Electronic Fund Transfer ("EFT") commission income accrual	20,678	18,508
Other materials and other depots	-	5,418
Prepaid expenses	3,890	70,246
Other	150,092	78,434
Total	**2,118,244**	**586,369**

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

NOTE 14 - CURRENCY IN CIRCULATION

	2018	2017
Balance at 1 January	**131,457,662**	**122,959,913**
Banknotes issued into circulation	48,951,300	50,964,983
Banknotes withdrawn from circulation and destroyed	(48,147,240)	(42,467,234)
Balance at 31 December	**132,261,722**	**131,457,662**

NOTE 15 - DUE TO BANKS

	31 December 2018	31 December 2017
Deposits for reserve requirement obligations	158,680,891	226,247,657
Current accounts of banks	220,512,074	97,256,583
Total	**379,192,965**	**323,504,240**

Required reserves are calculated over total domestic liabilities of banks according to the banking legislation effective in Turkey, after deductions determined in the Communiqué, No. 2005/1 on Required Reserves and deposit/participation funds accepted by banks in Turkey on behalf of foreign branches and loan amounts provided by banks and followed up in foreign branches and are deposited to the Bank. Furthermore, the same rates determined in accordance with the same Communiqué have been used. On the other hand, regulations on reserve requirements included financing companies in addition to banks as part of its efforts to better control loan growth. Interest has been started to be paid for the required reserves denominated in Turkish Lira as of 3 November 2014 and for the required reserve denominated in foreign currency as of 5 May 2015.

31 December 2018	Level 1 (*)	Level 2 (**)	Level 3 (***)	Total
-Gold	50.956.272	-	-	50.956.272
Total	**50.956.272**	-	-	**50.956.272**

31 December 2017	Level 1 (*)	Level 2 (**)	Level 3 (***)	Total
-Gold	57.033.549	-	-	57.033.549
Total	**57.033.549**	-	-	**57.033.549**

(*) Financial assets and liabilities are valued by an active stock market prices.
(**) Financial assets and liabilities are valued by a price that is direct or indirectly observable price in a market, other than stock market price indicated as first level.
(***) Financial assets and liabilities are valued by a price that is the market used for calculation of fair value, there is no observable data.

NOTE 16 - OTHER DEPOSITS

	31 December 2018	31 December 2017
Deposits by citizens abroad	2,415,979	2,522,439
Deposits of Turkish Treasury and public	39,706,003	49,803,401
Deposits of state owned funds and financing institutions	1,619,353	2,324,015
Total	**43,741,335**	**54,649,855**

Deposits by citizens abroad are demand deposits. TL 36,030,287 (31 December 2017: TL 41,924,608) of deposits of government related institutions including Treasury are interest bearing and remaining is non-interest bearing.

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

	31 December 2018		31 December 2017	
	Interest rate (%)	TL	Interest rate (%)	TL
EUR	-	2.282.297	0.00%-0.25%	2,395,025
US$	-	103.670	-	98,722
CHF	-	28.352	-	27,404
GBP	-	1.652	-	1,288
Other	-	8		
Total		**2,415,979**		**2,522,439**

NOTE 17 - DUE TO INTERNATIONAL ORGANIZATIONS

Due to IMF denominated in SDR is included under due to international organizations. Due to international organizations includes borrowings related to Turkey's IMF quota for the year ending 31 December 2018 and 2017. The balance also includes amount due to Africa Development Bank. As of 31 December 2018 and 2017, borrowings related to Turkey's IMF quota are non-interest bearing with no stated maturity.

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

As of 18 February 2016, the country quota of Turkey increased by SDR 3,202,800,000 reaching SDR 4,658,600,000.

NOTE 18 - OTHER BORROWED FUNDS

	31 December 2018	31 December 2017
Funds borrowed from interbank money market	7,306,262	77,347
Borrowings from TL deposits against foreign exchange deposits	6,291,164	19,731,401
Total	**13,597,426**	**19,808,748**

Borrowings from TL deposits against foreign exchange deposits are denominated in Turkish Lira with 22.5% average interest rate and interest accrued by using "effective interest method" at the end of months (31 December 2017:11.95 %).

NOTE 19 - OTHER LIABILITIES

	31 December 2018	31 December 2017
Import transfer orders and deposits	115,917	274,759
Foreign money transfers with future value date	182,046	141,886
Taxes and withholdings payable	166,326	151,441
Bills and money transfer payables	313	18,983
Expense accruals	35,395	47,550
Payables due to foreign exchange sales with future value date	1,819,640	320,612
Other	77,412	39,155
Total	**2,397,049**	**994,386**

NOTE 20 - TAXATION

	31 December 2018	31 December 2017
Corporate tax (*)	10,610,547	3,091,368
Prepaid taxes	(7,725,002)	(2,299,834)
Income taxes liability- net	**2,885,545**	**791,534**

(*) Corporate tax payable amounting to TL 59,551 is recognized under retained earnings.

Corporate Tax

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

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

The prevailing tax rate in 2018 is 22% (2017: 20%).

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 5% in case of carrying amount of properties recovered through sales.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2018 is 22%. (2017: 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.

For the years ended 31 December 2018 and 2017, income taxes are summarized as follows;

	2018	2017
- Corporate tax	10,550,996	3,091,368
- Deferred tax expense / (income)	(5,384,609)	835,976
Tax expense/(income)	**5,166,387**	**3,927,344**

Deferred tax

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

For calculation of deferred tax asset and liabilities, the rate of 22% (2017: 22%) is used.

NOTE 20 - TAXATION (Continued)

The breakdown of such cumulative temporary differences and deferred tax assets/(liabilities) at 31 December 2018 and 2017 by using enacted tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Retirement benefit obligations	173,605	143,395	38,193	28,679
Net differences between carrying value and tax base of property and equipment and intangible assets	23,562	30,319	5,184	6,064
Turkish Lira-settled foreign exchange deposits and valuation difference of swap transactions	129,982	-	28,596	-
Other	28,689	20,675	6,311	4,135
Total Assets	**355,838**	**194,389**	**78,284**	**38,878**
Valuation account (*)	(45,004,664)	(55,296,111)	(9,901,028)	(12,165,144)
Fair value differences of financial assets	(1,342,750)	(973,188)	(73,852)	(48,659)
Turkish Lira-settled forward foreign exchange account	-	(404,313)	-	(88,949)
Total Liabilities	**(46,347,414)**	**(56,673,612)**	**(9,974,880)**	**(12,302,752)**
Net Liability	**(45,991,576)**	**(56,479,223)**	**(9,896,596)**	**(12,263,874)**

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

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

	2018	2017
Balance at 1 January	**12,263,874**	**10,673,874**
Deferred tax recognized in statement of profit or loss, net	(5,384,609)	835,976
Deferred tax recognized in the equity	3,017,331	754,024
Balance at 31 December	**9,896,596**	**12,263,874**

The reconciliation for taxation charge is stated below:

	%	2018	%	2017
Profit / (loss) before income taxes		**42,546,302**		**20,386,960**
Tax charge calculated at the prevailing tax rate	22	9,360,186	20	4,077,392
Tax exempt income	(10)	(4,124,329)	(1)	(151,920)
Non-deductible expenses	-	22,436	-	1,872
Other	-	(91,906)	-	
Income tax expense / (income)	**12**	**5,166,387**	**19**	**3,927,344**

NOTE 21 - RETIREMENT BENEFIT OBLIGATIONS

Under Turkish Labour Law, the Bank is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated. In addition, according to the 60.Article that has been changed and the laws numbered 4447, dated 25 August 1999 and numbered 2422, dated 6 March 1981 of the Social Security Law still in force, numbered 506, the employees who are entitled to leave the work by receiving termination benefits are required to pay statutory termination benefits. Some transitional provisions related to the pre-conditions of the retirement were removed from the law with the amendment on 23 May 2002.

The amount payable consists of one month's salary limited to a maximum of TL 5,434 (full) (2017: TL 4,732 (full)) for each year of service.

The liability is not funded, as there is no funding requirement. The reserve has been calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of its employees. IAS 19 ("Employee Benefits") states that, the Bank's obligations are developed within the framework of defined benefit plans by using the actuarial valuation method. The provisions at the respective balance sheet dates have been calculated based on the following actuarial assumptions:

	31 December 2018	31 December 2017
Discount rate (%)	1.28	3.24
Rate to estimate the probability of retirement (%)	99	99

As the maximum liability is revised semi-annually, the maximum amount of TL 6,017 (full) effective from 1 January 2019 (1 January 2018: TL 5,002 (full)), has been taken into consideration in calculating the reserve for the retirement benefit obligation of the Bank.

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

	2018	2017
At 1 January	**143,395**	**194,805**
Interest and service cost	32,552	25,061
Paid during the year	(2,342)	(76,471)
Balance at 31 December	**173,605**	**143,395**

NOTE 22 - NET INTEREST INCOME

	2018	2017
Interest income		
Interest from securities purchased under agreements to resell	11,713,015	3,249,405
Interest from financial assets at fair value through profit or loss	5,070,791	3,986,373
Interest from interbank money market transactions	11,356,862	8,936,681
Interest from loans and advances to customers	605,205	324,285
Interest from banks	1,389,432	563,892
Total	**30,135,305**	**17,060,636**
Interest expense		
Interest paid to Treasury(*)	4,296,485	2,206,889
Interest paid to banks (**)	7,277,465	4,681,120
Interest paid to citizens abroad	7	777
Interest paid to IMF	68,391	29,116
Interest paid to the interbank money market transactions	381,566	6,912
Interest paid to securities sold under agreements to repurchase	18,209	-
Total	**12,042,123**	**6,924,814**
Net interest income	**18,093,182**	**10,135,822**

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

(**) Interest has been started to be paid for the required reserves denominated in Turkish Lira as of 3 November 2014 and for the required reserve denominated in foreign currency as of 5 May 2015.

NOTE 23 - NET FEE AND COMMISSION INCOME

	2018	2017
Fee and commission income:		
EFT commission income	353,691	297,976
Commissions accrual due from Treasury (***)	237,906	213,806
Gold custody fee	80,593	83,878
Commissions charged from the bank teller operations center	32,664	11,211
Commissions from foreign exchange and effective market transactions	5,050	183
Other	3,545	3,298
Total	**713,449**	**610,352**
Fee and commission expense:		
Correspondent bank accounts	6,014	4,722
Other	31,250	11,101
Total	**37,264**	**15,823**
Net fee and commission income	**676,185**	**594,529**

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

NOTE 24 - DIVIDEND INCOME

	2018	2017
From financial assets at fair value through profit or loss	11,632	11,141
Total	**11,632**	**11,141**

NOT 25 – PROFIT/ (LOSS) FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT/LOSS

	2018	2017
Profit / (loss) from Turkish Lira-settled forward foreign exchange	(14,110,427)	94,047
Profits from Futures and swap operations	535,003	-
Loss from trading securities and decrease in value	(1,477,634)	(1,358,859)
Total	**(15,053,058)**	**(1,264,812)**

NOTE 26 - FOREIGN EXCHANGE GAINS/(LOSSES), NET

	2018	2017
Foreign exchange gain/(loss), net		
- translation gain/(loss), net	(23,639,102)	(1,097,545)
- transaction gain, net	66,073,751	13,565,989
Total	**42,434,649**	**12,468,444**

As of 31 December 2018 and 2017, translation gain/(loss) include the unrealized foreign exchange gain/(loss).

NOTE 27 - OTHER OPERATING EXPENSES

	2018	2017
Wages and salaries	766,355	763,646
Administrative expenses	326,181	249,887
Social security costs	93,889	84,768
Depreciation and amortization (Notes 11 and 12)	55,020	40,565
Other	34,987	4,151
Total	**1,276,432**	**1,143,017**

The average number of personnel employed by the Bank during the year 2018 is 3,796 (2017: 4,046).

NOTE 28 - COMMITMENTS AND CONTINGENT LIABILITIES

	31 December 2018	31 December 2017
Guarantees received	202,535,570	195,078,155
BIS shares call option (Note 9)	219,657	161,214
Total	**202,755,227**	**195,239,369**

As of 31 December 2018, there are a number of legal proceedings outstanding against the Bank amounting to TL 6,025, US Dollar 64,578,582 and EUR 114,600 (31 December 2017: TL 4,363, US Dollar 64,596,952 and EUR 222,397). The bank has not provided any provision in financial tables since the professional opinion states that probability of a significant loss from mentioned litigations.

NOTE 29 - SHARE CAPITAL

The shareholder structure of the Bank as at 31 December 2018 and 2017 is as follows:

	31 December 2018		31 December 2017	
	TL	Share %	TL	Share %
Treasury	14	55	14	55
T.C. Ziraat Bankası A.Ş.	5	19	5	19
MERVAK İç ve Dış Ticaret A.Ş.	1	5	1	5
Türkiye Garanti Bankası A.Ş.	1	3	1	3
Türkiye İş Bankası A.Ş.	1	2	1	2
Other	3	16	3	16
Paid-in capital	**25**	**100**	**25**	**100**
Inflation adjustment on paid-in capital	**47,439**		**47,439**	
Total paid-in capital	**47,464**		**47,464**	

According to 5th article of the CBRT Law, the capital of the Bank is TL 25 thousand and is divided into 250,000 shares, with a value of TL 0.1 each. The capital may be increased with the approval of the Turkish Government. The shares are divided into (A), (B), (C), and (D) shares. The (A) group shares belongs solely to the Turkish Treasury while (B) shares belong to national banks, (C) shares belong to banks other than the national banks and to companies possessing certain privileges and (D) shares belong to Turkish commercial institutions and to legal and real persons of Turkish nationality.

NOTE 30 - RETAINED EARNINGS AND OTHER RESERVES

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

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

i) 20% to the reserve fund,

ii) 6% over the nominal value of the equity shares to the shareholders as an initial dividend,

iii) After deducting the above-stated percentages a maximum of 5% of the remaining amount; so as not to exceed two months salaries; to the Bank personnel and 10% percent to the extraordinary reserves,

iv) Subject to the decision of the General Assembly a maximum of 6% over the nominal value of the equity shares to the shareholders as the secondary dividend.

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

Banks' other reserves consists of reserve fund amounting to TL 27,402,399 (31 December 2017: TL 21,387,412) and out of date banknotes amounting to TL 153,528 (31 December 2017: TL 153,528).

NOTE 31 - CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash	18,152,956	10,642,850
Due from banks (excluding accrued interest)	349,979,633	211,358,073
Total	**368,132,589**	**222,000,923**

NOTE 32 - RELATED PARTY BALANCES AND TRANSACTIONS

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

(i) Balances with related parties

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

	31 December 2018	31 December 2017
Assets:		
Financial assets measured at fair value through profit or loss [1]	13,703,785	14,531,545
Due from banks [2]	80,499,064	112,180,000
Liabilities:		
Due to banks [3]	225,393,588	214,620,780
Other deposits [4]	39,918,342	50,046,234

[1] Includes government bonds and lease certificates issued by Treasury.
[2] Includes receivables from shareholders as part of securities purchased under agreements to resell and interbank foreign currency transactions.
[3] Includes required reserve deposits of shareholders.
[4] Includes deposits of state controlled entities and Treasury.

(ii) Transactions with related parties

	2018	2017
Salaries and other benefits to key management	7,903	6,158
Interest income [1]	896,353	912,340
Interest expense [2]	8,082,028	4,177,295
Fee and commission income [3]	404,562	351,066
Dividends paid to shareholders	12,363,928	6,410,954
Dividends paid to employees	19,198	9,969

[1] Includes interest income of government bonds issued by Treasury.
[2] Includes interest expense paid on deposits of shareholders.
[3] Includes Electronic Fund Transfer commissions from shareholders of the Bank and commission and charges due from Treasury and state controlled entities.

NOTE 33 – SUBSEQUENT EVENTS

Advance dividend payment is approved in the Extraordinary General Assembly of the CBRT held on 18 January 2019, it is decided to pay dividends in advance and TL 33.7 billion is distributed to shareholders with respect to legislation.