THE CENTRAL BANK OF
THE REPUBLIC OF TURKEY

FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2017
TOGETHER WITH AUDITOR'S REPORT

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the 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 2017, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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 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.

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

DRT BAĞIMSIZ DENETİM VE SMMM A.Ş.

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

Ankara, 5 March 2018

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

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STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017

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

	Notes	31 December 2017 Thousand TL	31 December 2016 Thousand TL	31 December 2017 Million US$(*)	31 December 2016 Million US$(*)
ASSETS					
Cash (foreign currency and coin)		10,642,850	6,391,396	2,822	1,816
Due from banks	6	211,536,187	126,796,152	56,082	36,030
Financial assets at fair value through profit or loss	7	266,373,523	300,360,047	70,621	85,349
Loans and advances to customers	8	47,696,901	37,605,769	12,645	10,686
Available-for-sale financial assets	9	1,064,813	917,956	282	261
Gold reserves	10	89,277,801	49,866,248	23,669	14,170
Property and equipment	11	694,898	681,885	184	194
Intangible assets	12	8,890	3,761	2	1
Other assets	13	990,682	241,037	263	68
Total assets		**628,286,545**	**522,864,251**	**166,570**	**148,575**
LIABILITIES					
Currency in circulation	14	131,457,662	122,959,913	34,852	34,940
Due to banks	15	323,504,240	285,089,599	85,767	81,011
Other deposits	16	54,649,855	30,009,096	14,488	8,527
Due to international organizations	17	77,651	53,354	21	15
Other borrowed funds	18	19,808,748	50,320	5,252	14
Other liabilities	19	994,386	2,065,647	264	587
Tax liabilities	20	791,534	-	210	-
Deferred tax liability	20	12,263,874	10,673,874	3,251	3,033
Retirement benefit obligations	21	143,395	194,805	38	55
Total liabilities		**543,691,345**	**451,096,608**	**144,143**	**128,182**
EQUITY					
Paid-in share capital	28	47,464	47,464	13	13
Retained earnings		74,954,342	64,915,649	19,910	18,446
Other reserves		9,593,394	6,804,530	2,504	1,934
Total equity		**84,595,200**	**71,767,643**	**22,427**	**20,393**
TOTAL LIABILITIES AND EQUITY		**628,286,545**	**522,864,251**	**166,570**	**148,575**

(*) US dollar ("US$") amounts presented above are translated from TL for convenience purposes only, at the official foreign currency bid rate announced by the Bank at 31 December 2017 and 2016, and therefore do not form part of these financial statements (Note 3.a.).

The notes on pages 6 to 50 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	2017 Thousand TL	2016 Thousand TL	2017 Million US$(*)	2016 Million US$(*)
Interest income	22	17,060,636	11,471,095	4,691	3,794
Interest expense	22	(6,924,814)	(3,119,710)	(1,912)	(1,032)
Net interest income	22	**10,135,822**	**8,351,385**	**2,779**	**2,762**
Fee and commission income	23	610,352	502,302	167	166
Fee and commission expense	23	(15,823)	(17,174)	(4)	(6)
Net fee and commission income	23	**594,529**	**485,128**	**163**	**160**
Dividend income	24	11,141	6,562	3	2
Impairment of financial assets at fair value through profit or loss		(1,358,859)	(932,835)	(373)	(309)
Foreign exchange gains/(losses), net	25	12,468,444	22,188,660	3,418	7,339
Other operating income	27	99,558	3,704	27	1
Impairment losses on loans and advances	8	(420,658)	(968,019)	(115)	(320)
Other operating expenses	26	(1,143,017)	(1,004,408)	(313)	(332)
Profit before income tax		**20,386,960**	**28,130,177**	**5,589**	**9,303**
Income tax expense	20	(3,927,344)	(5,014,201)	(1,037)	(1,659)
Net profit for the year		**16,459,616**	**23,115,976**	**4,552**	**7,644**

(*) US dollar ("US$") amounts presented above are translated from TL for convenience purposes only, at the average of daily official foreign currency bid rates announced by the Bank for the years ended 31 December 2017 and 2016, and therefore do not form part of these financial statements (Note 3.a.).

The notes on pages 6 to 50 are an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	2017 Thousand TL	2016 Thousand TL
Net profit for the year		**16,459,616**	**23.115.976**
Other comprehensive income			
Items those will not be reclassified subsequently to profit or loss			
Increase of fair value of gold reserves		3,396,031	3,787,576
Deferred tax related to increase on fair value of gold reserves	20	(747,127)	(757,515)
Items those may be reclassified subsequently to profit or loss			
Changes in fair values of available-for-sale securities	9	146,857	164,864
Deferred tax on changes in fair values of available-for-sale securities	20	(6,897)	(7,589)
Total comprehensive income for the year		**19,248,480**	**26,303,312**

The notes on pages 6 to 50 are an integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Share Capital			Other Reserves					
	Share capital	**Adjustment to share capital**	**Total paid-in share capital**	**Gain on revaluation of available for sale assets**	**Increase of fair value of gold reserves**	**Actuarial gain / (loss)**	**Other**	**Retained earnings**	**Total**
Balance at 1 January 2016	**25**	**47,439**	**47,464**	**682,436**	**2,778,740**	**2,490**	**6,382**	**51,111,838**	**54,629,350**
Cash dividends paid	-	-	-	-	-	-	-	(9,312,165)	**(9,312,165)**
Net profit/(loss) for the year	-	-	-	-	-	-	-	23,115,976	**23,115,976**
Other comprehensive income/(loss)	-	-	-	157,275	3,030,061	-	-	-	3,187,336
Total comprehensive income/(loss)	-	-	-	157,275	3,030,061	-	-	23,115,976	26,303,312
Other(*)	-	-	-	-	-	-	147,146	-	147,146
Balance at 1 January 2017	**25**	**47,439**	**47,464**	**839,711**	**5,808,801**	**2,490**	**153,528**	**64,915,649**	**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
Balance at 31 December 2017	**25**	**47,439**	**47,464**	**979,671**	**8,457,705**	**2,490**	**153,528**	**74,954,342**	**84,595,200**

(*) Other refers to banknotes that are subject to statute of limitations transferred to particular reserves within reserve funds in accordance with Article 59 of the CBRT Law.

The notes on pages 6 to 50 are an integral part of these financial statements.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	2017 Thousand TL	2016 Thousand TL
Cash flows (used in)/from operating activities			
Net profit for the year		**16,459,616**	**23,115,976**
Adjustment for:			
Depreciation of property and equipment	11	33,087	31,511
Amortization of intangible assets	12	7,478	2,629
Retirement benefit obligations	21	25,061	32,055
Interest income, net	22	(10,135,822)	(8,351,385)
Dividend income	24	(11,141)	(6,562)
Commission income, net	23	(594,529)	(485,127)
Income tax expense	20	3,927,344	5,014,201
Unrealized foreign exchange gains, net		(1,903,124)	(20,757,220)
(Increase)/decrease in value of financial assets, net		700,038	803,010
(Gain)/loss on sale of property and equipment	11	114	264
Cash flows from operating profits before changes in operating assets and liabilities		**8,508,122**	**(600,648)**
Changes in operating assets and liabilities:			
Net change in gold reserves		(33,276,549)	6,082,579
Net change in financial assets at fair value through profit or loss		58,325,455	(2,438,117)
Net change in loans and advances to customers		(7,194,015)	(11,791,427)
Net change in other assets		(154,402)	701,236
Net change in currency in circulation		8,496,453	20,062,434
Net change in due to banks		13,197,741	(3,027,523)
Net change in other deposits		24,224,055	(4,184,629)
Net change in other liabilities		(12,178,926)	3,966,507
Taxes paid	20	(2,299,834)	(2,066,541)
Retirement benefits paid	21	(76,471)	(9,441)
Interest received		14,767,759	11,164,471
Interest paid		(4,629,366)	(3,173,285)
Commission received, net		593,485	489,186
Commission paid		(15,823)	(14,925)
Net cash from operating activities		**68,287,684**	**15,159,877**
Cash flows related to investing activities			
Purchase of property, equipment and intangible assets	11-12	(58,821)	(35,858)
Dividends received	24	11,141	6,562
Net cash used in investing activities		**(47,680)**	**(29,296)**
Cash flows related to financing activities			
Borrowed/(paid) bank loans, net		19,747,866	63,074
Dividends paid		(6,420,923)	(9,312,165)
Cashflows regarding financing activities		**13,326,943**	**(9,249,091)**
Effects of exchange-rate changes on cash and cash equivalents		**7,314,584**	**3,662,947**
Change in cash and cash equivalents		**88,881,531**	**9,542,450**
Cash and cash equivalents at the beginning of the period	30	**133,119,392**	**123,576,943**
Cash and cash equivalents at the end of the period	30	**222,000,923**	**133,119,392**

The notes on pages 6 to 50 are an integral part of these financial statements.

NOTE 1 - GENERAL INFORMATION

The Central Bank of the Republic of Turkey (the "Bank") was incorporated in Turkey in 1931. It was established as a joint stock company with the exclusive privilege of issuing banknotes in Turkey and is vested with the powers and duties set forth in the Central Bank of the Republic of Turkey Law No. 1211 (the "Central Bank Law"). The Head Office of the Bank is located in Ankara. The Bank's registered head office is located at the following address: İstiklal Cad. 10 Ulus, 06100 Ankara, Turkey. The Bank now operates a nationwide network of 21 branches and has no branches abroad. As of 31 December 2017, the Bank employed 3,730 people (31 December 2016: 4,564).

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 Central Bank Law. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS issued by the IASB.

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

These financial statements will be submitted to General Assembly of the Bank in April 2018 after the approval of Board of the Bank on 1 March 2018.

NOTE 2 – BASIS OF PRESENTATION (Continued)

(b) Application of New and Revised International Financial Reporting

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

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

New and Revised Standards affecting presentation and disclosures

a) Amendments to IFRSs that are mandatorily effective for the current year

Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealized Losses*[1]
Amendments to IAS 7	*Disclosure Initiative*[1]
Annual Improvements to IFRS Standards 2014–2016 Cycle	*IFRS 12*[1]

[1] Effective for annual periods beginning on or after 1 January 2017.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify how an entity should recognize dereffed tax related to borrowing instruments at fair value.

The application of these amendments has no impact on the Bank's financial statements.

Amendments to IAS 7 Disclosure Initiative

This amendment clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Annual Improvements to IFRS Standards 2014–2016 Cycle

IFRS 12: Improvements states that an entity need not provide summarized financial information for IFRS 5, interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale.

The application of these amendments has had no effect on the Entity's financial statements as none of the Entity's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

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

NOTE 2 – BASIS OF PRESENTATION (Continued)

(b) Application of New and Revised International Financial Reporting Standards (Continued)

b) New and revised IFRSs in issue but not yet effective

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

IFRS 9	*Financial Instruments* [1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IFRS 2	*Classification and Measurement of Share-Based Payment Transactions* [1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration* [1]
Amendments to IAS 40	*Transfers of Investment Property* [1]
Annual Improvements to IFRS Standards 2014–2016 Cycle	*IFRS 1* [1], *IAS 28* [1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures* [2]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.

IFRS 9 *Financial Instruments*

IFRS 9 issued in new requirements for the classification and measurement of financial assets / liabilities and for derecognition and for general hedge accounting.

Key requirements of IFRS 9:

- all recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities 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) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

OTE 2 – BASIS OF PRESENTATION (Continued)

(b) Application of New and Revised International Financial Reporting Standards (Continued)

b) New and revised IFRSs in issue but not yet effective (continued)

IFRS 9 *Financial Instruments (continued)*

- in relation to te impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Bank's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the impact of IFRS 9 to the Bank's financial statements as follows:

Classification and measurement

Classification and measurement of financial assets according to IFRS 9 held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding.

Each of financial asset is classified as measured at amortized cost, or at fair value through profit or loss, or as measured at fair value through other comprehensive income shown in financial statements at first time.

All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment

Financial assets measured at amortized cost will be subject to the impairment provisions of IFRS 9.

The Bank expects to recognize lifetime expected credit losses with a facilitated approach as IFRS 9 mandates or permitions for the loans and advances to customers.

NOTE 2 – BASIS OF PRESENTATION (Continued)

(b) Application of New and Revised International Financial Reporting Standards (Continued)

b) New and revised IFRSs in issue but not yet effective (continued)

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture.

Amendments to IFRS 2 *Classification and Measurement of Share-Based Payment Transactions*

This amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include an allowance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity settled.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments to IAS 40 Investment Property:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Annual Improvements to IFRS Standards 2014–2016 Cycle

- **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

- **IAS 28:** Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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

NOTE 2 – BASIS OF PRESENTATION (Continued)

(b) Application of New and Revised International Financial Reporting Standards (Continued)

b) New and revised IFRSs in issue but not yet effective (continued)

Amendments to IAS 28 Long-term Interests in Associate or Joint Ventures

Amendments clarifies that IFRS 9 applies to long-term interests in an associate or joint venture in which the equity method is not applied, which consisting a part of the net investment of the associate or joint venture.

Other than effects on standards, amendments and improvements described above, financial position of Bank and the possible effects on its performance are assessed.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

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

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

Exchange rates

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

	31 December 2017	31 December 2016
US Dollar ("US$")	3.7719	3.5192
Euro ("EUR")	4.5155	3.7099
Swiss Franc ("CHF")	3.8548	3.4454
Great Britain Pound ("GBP")	5.0803	4.3189
Japanese Yen ("JPY")	0.0334	0.0300
Special Drawing Rights ("SDR") (*)	5.3738	4.7343

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

(b) Interest income and expense

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Fee and commission income

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

(d) Income taxes

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

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 22.00% (31 December 2016: 12.00%) of aggregate foreign currency reserves. The Bank has no present intention to dispose of any of its existing gold reserve stocks as the Bank maintains the gold reserve as a part of its foreign currency reserve management. Gold bullion is recorded in physical weight in troy ounces.

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

Gains and losses from the valuation of gold bullions arising as a result of the changes in the fair value are accounted for as other comprehensive income.

The exchange rate of gold bullion to TL as of 31 December 2017 was TL 4,890 per troy ounce (31 December 2016: TL 4,079 per troy ounce).

Gold coins

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

(f) Financial assets

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

Financial assets at fair value through profit or loss

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

Investment securities held-to-maturity

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

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method less any impairment.

Investment securities available-for-sale

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

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

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

Effective interest method

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

Impairment of financial assets

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

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

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

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

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

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

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

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

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

(i) Sale and repurchase agreements

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

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Money issuance

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

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

(k) Property and equipment

Land and buildings comprise mainly branches of the Bank.

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

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

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

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

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

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

(l) Intangible assets

Intangible assets acquired separately

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

Trademarks and licenses

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

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 favor of the holder. The liability for currency in circulation is recorded at face value in these financial statements.

Demonetized Currency - Turkish Lira and New Turkish Lira

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 thousand under the capital 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 thousand under the capital 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").

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation. 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 Central Bank Law, the distribution of the statutory net annual profit of the Bank is as follows:

i) 20% to the reserve fund,

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

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

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

The remaining balance shall be transferred to Prime Ministry Undersecretariat of Treasury ("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 Central Bank Law; according to the Central Bank 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.

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

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 2017 and 2016 is as follows:

	31 Aralık 2017	31 Aralık 2016
Securities held in custody	437,128,452	469,693,554
Total	**437,128,452**	**469,693,554**

NOTE 4 - FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

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

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

In this framework, almost all the financial risks to which the Bank is exposed arise while fulfilling its legal duties, such as implementing monetary and exchange rate policies, managing foreign currency reserves and rendering certain banking services to the banking sector and the Turkish Government. The Bank is exposed to credit, market and liquidity risks due to the aforementioned operations. The financial risks to which the Bank, as a monetary authority, is exposed in the process of the implementation of monetary and exchange rate policies are the consequences of the selected policy targets. On the other hand, financial risks that arise during the management of foreign currency reserves are the outcome of an investment choice. Nevertheless, the Bank endeavors to minimize such risks by managing them with a conservative approach. Foreign currency reserves are managed by observing the investment criteria defined in the Foreign Currency Reserve Management Guidelines ("the Guideline") approved by the Board of the Bank and in compliance with the targets and limits stipulated in the 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 fulfill its obligations arising from a financial transaction. The credit risk basically originates from the open market operations carried out in order to provide short-term liquidity to banks within the framework of monetary policy implementations, the funds extended to banks under the Intra-Day Limit Facility in order to ensure the proper functioning of payment systems, and the investments made during foreign currency reserve management. Although the credit risk faced during the implementation of monetary policy and Intra-Day Limit transactions is an inevitable risk, such risks are managed by securing the entire transaction amount, also including a certain amount of margin, by assets that have high credit quality and are tradable in secondary markets (foreign currency deposits, government securities and securities issued by the treasuries of developed countries), and through monitoring the existing risks regularly and requesting additional collateral, when necessary.

The management of the credit risk that the Bank is exposed to during the foreign currency reserve management is based on the principle of minimizing the default probabilities of the counterparties and the financial loss in case of default. In this framework, the Bank implements a three-stage risk management process in order to minimize the credit risk arising from foreign currency reserve management operations. In the first stage, the Bank confines its investments to the leading international financial institutions and debtors that meet the minimum credit rating criteria specified in the Guideline based on the credit ratings given by the international credit rating agencies. Accordingly, the Bank can take on exposure to banks having at least 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. In all transactions executed with these institutions, credit risk exposures that are calculated on the basis of transaction type are immediately reflected on their limits, and the use of these limits are regularly monitored and reported.

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

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (continued)

Total assets of the Bank exposed to the credit risk as of 31 December 2017 and 2016 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 2017		31 December 2016	
	TL	Share (%)	TL	Share (%)
Due from banks	**211,536,187**	**45**	**126,796,152**	**27**
- Demand Deposits	**32,520,576**	**7**	**6,847,399**	**1**
Central Banks	26,339,771	6	1,920,970	<1
International Institutions	5,211,165	1	4,594,742	1
Foreign Commercial Banks	969,640	<1	331,687	<1
- Time Deposits	**41,462,440**	**9**	**24,392,907**	**5**
Central Banks	9,365,109	2	7,497,232	2
International Institutions	11,917,866	3	11,523,497	2
Foreign Commercial Banks	712,447	<1	5,372,178	1
Aaa	-	<1	819,974	<1
Aa1	-	<1	3,357,316	1
Aa2	-	<1	1,142,138	<1
Aa3	712,447	<1	52,750	<1
Domestic Commercial Banks	19,467,018	4	-	-
- Securities purchased under agreements to resell	**34,295,896**	**7**	**71,355,625**	**15**
Domestic Commercial Banks	34,295,896	7	71,355,625	15
- Due from Interbank Money Market transactions	**103,257,275**	**22**	**24,200,221**	**5**
Financial assets at fair value through profit or loss	**266,373,523**	**57**	**300,360,047**	**64**
Foreign Country Treasuries	243,462,710	52	279,611,924	60
Aaa	*212,537,648*	46	227,733,179	49
Aa1	*2,138,663*	<1	8,210,804	2
Aa2	*11,368,915*	2	22,908,563	5
Aa3	*17,036,157*	4	20,759,378	4
A1	*381,327*	<1	-	-
A3	-	-	-	-
International Institutions	8,379,268	2	6,859,015	1
Turkish Treasury	14,531,545	3	13,889,108	3
Loans and advances to customers	**47,696,901**	**10**	**37,605,769**	**8**
Available-for-sale financial assets	**1,064,813**	**<1**	**917,956**	**<1**
International Institutions	1,064,644	<1	917,828	<1
Foreign Financial Institutions	169	<1	128	<1
Total	**526,671,424**		**465,679,924**	

Although the Turkish Government bonds issued by the Turkish Treasury are included in the above table, the Bank does not consider its receivables from the Turkish Treasury as risky in terms of credit risk and therefore does not take these assets into account when calculating its credit risk exposures. Similarly, the receivables from domestic commercial banks for the purpose of monetary policy implementations are also excluded when calculating credit risk exposures because of the fully collateralized nature of these transactions as previously explained. As of 31 December 2017, the Bank has receivables amounting to TL 34,295,896 thousand (31 December 2016: TL 71,355,625 thousand) 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 2017 is TL 34,403,522 thousand (31 December 2016: TL 72,870,843 thousand).

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (continued)

In addition, as of 31 December 2017, 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 4,496,364 thousand (31 December 2016: TL 987,882 thousand). As of 31 December 2017 and 2016, the security collaterals are the Turkish Government bonds issued by the Turkish Treasury.

The sectoral classifications of the Bank's credit exposure as of 31 December 2017 and 2016 are as follows:

	31 December 2017						
	Foreign Country Treasury	Foreign Central Banks	International Financial Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Turkish 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	-	-	14,531,545	**266,373,523**
Loans and advances to customer	-	16,404	-	47,680,497	-	-	**47,696,901**
Available-for-sale financial assets	-	-	1,064,644	-	169	-	**1,064,813**
Total	**243,462,710**	**29,125,504**	**14,661,282**	**204,700,687**	**20,189,696**	**14,531,545**	**526,671,424**

	31 December 2016						
	Foreign Country Treasury	Foreign Central Banks	International Financial Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Turkish Treasury	Total
Due from banks	-	9,418,201	16,118,239	95,555,846	5,703,866	-	126,796,152
Financial assets at fair value through profit or loss	279,611,924	-	6,859,015	-	-	13,889,108	300,360,047
Loans and advances to customer	-	15,304	-	37,590,465	-	-	37,605,769
Available-for-sale financial assets	-	-	917,828	-	128	-	917,956
Total	**279,611,924**	**9,433,506**	**23,895,082**	**133,146,311**	**5,703,994**	**13,889,108**	**465,679,924**

As indicated above, the credit risk is mainly concentrated on foreign country treasury and central banks, international financial institutions, domestic financial institutions and Turkish Treasury as of 31 December 2017 and 2016.

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

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 2017 and 2016 are as follows:

	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	14,531,546	55,675,528	195,785,122	381,327	-	266,373,523
Loans and advances to customers	47,680,497	-	-	-	16,404	47,696,901
Available-for-sale financial assets	-	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	982,593	449	866	3,591	3,183	990,682
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**

	31 December 2016					
	Turkey	**Other European Countries**	**Canada and US**	**South - East Asia**	**Other Countries**	**Total**
Cash	6,391,396	-	-	-	-	6,391,396
Due from banks	95,555,846	20,875,772	7,368,167	2,933,394	62,973	126,796,152
Financial assets at fair value through profit or loss	13,889,108	80,010,854	206,460,085	-	-	300,360,047
Loans and advances to customers	37,590,465	-	-	-	15,304	37,605,769
Available-for-sale financial assets	-	882,764	-	35,192	-	917,956
Gold reserves	9,203,838	36,899,903	3,762,507	-	-	49,866,248
Property and equipment	681,885	-	-	-	-	681,885
Intangible assets	3,761	-	-	-	-	3,761
Other assets	235,397	2,698	794	2,148	-	241,037
Total assets	**163,551,696**	**138,671,991**	**217,591,553**	**2,970,734**	**78,277**	**522,864,251**
Currency in circulation	122,959,913	-	-	-	-	122,959,913
Due to banks	284,528,656	-	-	560,943	-	285,089,599
Other deposits	27,422,033	2,582,082	3,429	252	1,300	30,009,096
Due to international organizations	-	-	53,354	-	-	53,354
Other borrowed funds	50,320	-	-	-	-	50,320
Other liabilities	111,260	333,085	1,619,203	624	1,475	2,065,647
Deferred income tax liability	10,673,874	-	-	-	-	10,673,874
Retirement benefit obligations	194,805	-	-	-	-	194,805
Equity	71,767,643	-	-	-	-	71,767,643
Total liabilities and equity	**517,708,504**	**2,915,167**	**1,675,986**	**561,819**	**2,775**	**522,864,251**
Net balance sheet position	**(354,156,807)**	**135,756,820**	**215,915,567**	**2,408,915**	**75,502**	**-**
Off-balance sheet commitments	**34,205,039**					**34,205,039**

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 2017 and 2016; therefore, there are no collaterals held against such past due financial assets.

As of 31 December 2017 and 2016, the Bank has no assets held for resale.

(c) Market risk

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

For the purpose of managing market risk, the Bank has adopted the "Asset/Liability Matching" approach in view of its policy targets and its objectives for holding reserves. Nevertheless, unlike the commercial banks, the liabilities addressed within the context of this approach contain estimated off-balance sheet cash flows such as foreign debt payments to be effected on behalf of the Treasury, in addition to the foreign currency liabilities on the Bank's balance sheet. Within the framework of this approach, the 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.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(d) Currency risk (Continued)

The net foreign currency position of the Bank as of 31 December 2017 and 2016 is summarized below. The table presented below provides the Bank's assets, liabilities, and equity at carrying amounts, categorized by currency:

	31 December 2017									
	Foreign currency									
	US$	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	14,531,546	266,373,523
Loans and advances to customers	25,452,170	22,094,378	-	-	137,052	-	13,301	47,696,901	-	47,696,901
Available-for-sale financial assets	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	985,511	990,682
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)**	**-**

	31 December 2016									
	Foreign currency									
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	TOTAL
Cash	2,972,289	3,095,178	633	81,549	64,484	-	45,678	6,259,811	131,585	6,391,396
Due from banks	24,541,015	154,649	737,252	15,328	112,277	4,575,247	1,104,183	31,239,951	95,556,201	126,796,152
Financial assets at fair value through profit or loss	215,665,498	62,592,460	-	-	3,820,390	-	4,392,591	286,470,939	13,889,108	300,360,047
Loans and advances to customers	21,410,893	16,160,714	-	-	34,162	-	-	37,605,769	-	37,605,769
Available-for-sale financial assets	870,485	128	-	-	-	47,343	-	917,956	-	917,956
Gold reserves	49,449,492	-	-	-	-	-	-	49,449,492	416,756	49,866,248
Property and equipment	-	-	-	-	-	-	-	-	681,885	681,885
Intangible assets	-	-	-	-	-	-	-	-	3,761	3,761
Other assets	206	983	357	1	159	-	1,536	3,242	237,795	241,037
Total assets	**314,909,878**	**82,004,112**	**738,242**	**96,878**	**4,031,472**	**4,622,590**	**5,543,988**	**411,947,160**	**110,917,091**	**522,864,251**
Currency in circulation	-	-	-	-	-	-	-	-	122,959,913	122,959,913
Due to banks	177,706,113	63,024,113	-	-	15,630	-	-	240,745,856	44,343,743	285,089,599
Other deposits	7,286,664	5,436,028	8,178	32,830	13,843	4,540,301	11	17,317,855	12,691,241	30,009,096
Due to international organizations	-	-	-	-	-	-	-	-	53,354	53,354
Other borrowed funds	-	-	-	-	-	-	-	-	50,320	50,320
Other liabilities	1,595,673	320,494	624	4,122	4,953	-	30,335	1,956,201	109,446	2,065,647
Deferred income tax liability	-	-	-	-	-	-	-	-	10,673,874	10,673,874
Retirement benefit obligations	-	-	-	-	-	-	-	-	194,805	194,805
Equity	-	-	-	-	-	-	-	-	71,767,643	71,767,643
Total liabilities and equity	**186,588,450**	**68,780,635**	**8,802**	**36,952**	**34,426**	**4,540,301**	**30,346**	**260,019,912**	**262,844,339**	**522,864,251**
Net balance sheet position	**128,321,428**	**13,223,477**	**729,440**	**59,926**	**3,997,046**	**82,289**	**5,513,642**	**151,927,248**	**(151,927,248)**	**-**

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

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 2017 and 2016 under such an assumption is presented in the tables below:

Sensitivity of the net foreign currency position:

	31 December 2017									
	Foreign currency									
	US$	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**	-

	31 December 2016									
	Foreign currency									
	US$	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	TOTAL
Total assets	314,909,878	82,004,112	738,242	96,878	4,031,472	4,622,590	5,543,988	411,947,160	110,917,091	522,864,251
Total liabilities	186,588,450	68,780,635	8,802	36,952	34,426	4,540,301	30,346	260,019,912	262,844,339	522,864,251
Net balance sheet position	**128,321,428**	**13,223,477**	**729,440**	**59,926**	**3,997,046**	**82,289**	**5,513,642**	**151,927,248**	**(151,927,248)**	-
Scenario of 10% appreciation of TL	**(12,832,143)**	**(1,322,348)**	**(72,944)**	**(5,993)**	**(399,705)**	**(8,229)**	**(551,364)**	**(15,192,725)**	**15,192,725**	-

(e) Interest rate risk

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

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

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

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 2017 and 2016, 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 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	4,411,395	5,879,487	4,240,664	-	-	-	14,531,546	266,373,523
Loans and advances to customers	6,800,498	12,233,369	28,646,630	-	-	16,404	47,696,901	-	-	-	-	-	-	-	47,696,901
Available-for-sale financial assets	-	-	-	-	-	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	-	-	-	-	-	985,511	985,511	990,682
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**	**81,996,152**	**(33,102,763)**	**4,240,664**	**-**	**-**	**(230,784,859)**	**(177,650,806)**	**-**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(e) Interest rate risk (Continued)

	31 December 2016														
	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	-	-	-	-	-	6,259,811	6,259,811	-	-	-	-	-	131,585	131,585	6,391,396
Due from banks	24,392,905	-	-	-	-	6,847,046	31,239,951	95,555,849	-	-	-	-	352	95,556,201	126,796,152
Financial assets at fair value through profit or loss	19,425,517	77,470,870	189,574,552	-	-	-	286,470,939	3,749,236	6,121,869	4,018,003	-	-	-	13,889,108	300,360,047
Loans and advances to customers	6,073,641	8,962,325	22,554,498	-	-	15,305	37,605,769	-	-	-	-	-	-	-	37,605,769
Available-for-sale financial assets	-	-	-	-	-	917,956	917,956	-	-	-	-	-	-	-	917,956
Gold reserves	-	-	-	-	-	49,449,492	49,449,492	-	-	-	-	-	416,756	416,756	49,866,248
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	681,885	681,885	681,885
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	3,761	3,761	3,761
Other assets	-	-	-	-	-	3,242	3,242	-	-	-	-	-	237,795	237,795	241,037
Total assets	**49,892,063**	**86,433,195**	**212,129,050**	**-**	**-**	**63,492,852**	**411,947,160**	**99,305,085**	**6,121,869**	**4,018,003**	**-**	**-**	**1,472,134**	**110,917,091**	**522,864,251**
Currency in circulation	-	-	-	-	-	-	-	-	-	-	-	-	122,959,913	122,959,913	122,959,913
Due to banks	-	-	-	-	-	240,745,856	240,745,856	-	43,275,200	-	-	-	1,068,543	44,343,743	285,089,599
Other deposits	12,076,677	43,530	399,349	9,174	-	4,789,125	17,317,855	12,015,092	444,644	-	-	-	231,505	12,691,241	30,009,096
Due to international organizations	-	-	-	-	-	-	-	-	-	-	-	-	53,354	53,354	53,354
Other borrowed funds	-	-	-	-	-	-	-	50,320	-	-	-	-	-	50,320	50,320
Other liabilities	-	-	-	-	-	1,956,201	1,956,201	-	-	-	-	-	109,446	109,446	2,065,647
Deferred income tax liability	-	-	-	-	-	-	-	-	-	-	-	-	10,673,874	10,673,874	10,673,874
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-	-	-	194,805	194,805	194,805
Equity	-	-	-	-	-	-	-	-	-	-	-	-	71,767,643	71,767,643	71,767,643
Total liabilities and equity	**12,076,677**	**43,530**	**399,349**	**9,174**	**-**	**247,491,182**	**260,019,912**	**12,065,412**	**43,719,844**	**-**	**-**	**-**	**207,059,083**	**262,844,339**	**522,864,251**
Net repricing gap	**37,815,386**	**86,389,665**	**211,729,702**	**(9,174)**	**-**	**(183,998,330)**	**151,927,248**	**87,239,673**	**(37,597,975)**	**4,018,003**	**-**	**-**	**(205,586,949)**	**(151,927,248)**	**-**

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

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, regulations on reserve requirements included financing companies in addition to banks as part of its efforts to better control loan growth as of 20 December 2013. However, it should be noted that similar to any other central bank, the Bank, which uses short-term interest rates as its main monetary policy tool, does not actively manage the interest rate risk stemming from TL assets and liabilities considering that it might contradict the monetary policy implementations of the Bank. Nevertheless, the tables are prepared using all assets and liabilities including asset and liabilities denominated in TL to show the overall interest rate risk that the Bank is exposed to regardless of whether such risk is actively managed or not.

The Bank controls the interest rate risk arising from foreign reserve assets by setting maturity targets for the major reserve currencies within the scope of the 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 reserves to interest rate risk, it is possible to forecast the effect of changes in the related interest rates on the market value of assets by using the average modified durations of assets denominated in major foreign reserve currencies (US$ and EUR).

Within this framework, based on the average modified durations of foreign currency assets as of 31 December 2017 and 2016, the prospective decline in the market values of the assets in case of a 1% rise in the related interest rates are presented below. The 1% rise scenario is based on the assumption that the yield curves for the related currencies shift 1% upwards in all maturities simultaneously.

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

	31 December 2017			31 December 2016		
	US$	EUR	TOTAL	US$	EUR	TOTAL
Market value of the foreign currency assets	206,270,951	35,524,123	241,795,074	215,665,498	62,592,460	278,257,958
Effect of the scenario of 1% increase in interest rates	(1,380,454)	(548,662)	(1,929,116)	(1,376,211)	(595,257)	(1,971,468)

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

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 2017 and 2016:

	31 December 2017		
	US$ (%)	**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

	31 December 2016		
	US$ (%)	**EUR (%)**	**TL (%)**
Assets			
Due from banks	0.70	-	8.31
Financial assets at fair value through profit or loss	0.70	(0.73)	9.09
Loans and advances to customers	1.06	-	-
Liabilities			
Due to banks	0.49	-	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.

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

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 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	-	-	1,802,885	3,904,518	7,528,948	1,295,195	-	14,531,546	266,373,523
Loans and advances to customers	16,404	6,800,498	12,233,369	28,646,630	-	-	-	47,696,901	-	-	-	-	-	-	-	-	47,696,901
Available-for-sale financial assets	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	921,205	-	-	-	-	-	64,306	985,511	990,682
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)**	**-**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity risk (Continued)

31 December 2016	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	6,259,811	-	-	-	-	-	-	6,259,811	131,585	-	-	-	-	-	-	131,585	6,391,396
Due from banks	6,847,046	24,392,905	-	-	-	-	-	31,239,951	352	95,555,849	-	-	-	-	-	95,556,201	126,796,152
Financial assets at fair value through profit or loss	-	10,707,663	54,380,389	167,273,945	53,442,032	666,910	-	286,470,939	-	-	1,485,440	308,405	12,095,263	-	-	13,889,108	300,360,047
Loans and advances to customers	15,305	6,073,641	8,962,325	22,554,498	-	-	-	37,605,769	-	-	-	-	-	-	-	-	37,605,769
Available-for-sale financial assets	917,956	-	-	-	-	-	-	917,956	-	-	-	-	-	-	-	-	917,956
Gold reserves	15,544,937	33,904,555	-	-	-	-	-	49,449,492	416,756	-	-	-	-	-	-	416,756	49,866,248
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	681,885	681,885	681,885
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,761	3,761	3,761
Other assets	3,242	-	-	-	-	-	-	3,242	173,488	-	-	-	-		64,307	237,795	241,037
Total assets	**29,588,297**	**75,078,764**	**63,342,714**	**189,828,443**	**53,442,032**	**666,910**	**-**	**411,947,160**	**722,181**	**95,555,849**	**1,485,440**	**308,405**	**12,095,263**	**-**	**749,953**	**110,917,091**	**522,864,251**
Currency in circulation	-	-	-	-	-	-	-	-	122,959,913	-	-	-	-	-	-	122,959,913	122,959,913
Due to banks	-	240,745,856	-	-	-	-	-	240,745,856	1,068,543	43,275,200	-	-	-	-	-	44,343,743	285,089,599
Other deposits	3,591,063	13,274,738	43,530	399,349	9,175	-	-	17,317,855	283,374	12,407,867	-	-	-	-	-	12,691,241	30,009,096
Due to international organizations	-	-	-	-	-	-	-	-	53,354	-	-	-	-	-	-	53,354	53,354
Other borrowed funds	-	-	-	-	-	-	-	-	-	50,320	-	-	-	-	-	50,320	50,320
Other liabilities	1,318	472,888	-	-	-	-	1,481,995	1,956,201	19,330	-	90,116	-	-	-	-	109,446	2,065,647
Deferred income tax liability	-	-	-	-	-	-	-	-	10,673,874	-	-	-	-	-	-	10,673,874	10,673,874
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	194,805	194,805	194,805
Equity	-	-	-	-	-	-	-	-	71,767,643	-	-	-	-	-	-	71,767,643	71,767,643
Total liabilities and equity	**3,592,381**	**254,493,482**	**43,530**	**399,349**	**9,175**	**-**	**1,481,995**	**260,019,912**	**206,826,031**	**55,733,387**	**90,116**	**-**	**-**	**-**	**194,805**	**262,844,339**	**522,864,251**
Net liquidity gap	**25,995,916**	**(179,414,718)**	**63,299,184**	**189,429,094**	**53,432,857**	**666,910**	**(1,481,995)**	**151,927,248**	**(206,103,850)**	**39,822,462**	**1,395,324**	**308,405**	**12,095,263**	**-**	**555,148**	**(151,927,248)**	**-**

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

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 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**

	31 December 2016							
	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	122,959,913	-	-	-	-	-	-	122,959,913
Due to banks	1,068,543	284,021,056	-	-	-	-	-	285,089,599
Other deposits	3,876,545	25,682,606	43,530	399,349	9,175	-	-	30,011,205
Due to international organizations	53,354	-	-	-	-	-	-	53,354
Other borrowed funds	-	50,320	-	-	-	-	-	50,320
Total financial liabilities	**127,958,355**	**309,753,982**	**43,530**	**399,349**	**9,175**	**-**	**-**	**438,164,391**

(g) Operational risk

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

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

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

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

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

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 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 2017	31 December 2016	31 December 2017	31 December 2016
Financial assets				
Gold reserves	89,277,801	49,866,248	89,277,801	49,866,248
Due from banks	211,536,187	126,796,152	211,643,813	128,311,369
Loans and advances to customers	47,696,901	37,605,769	47,727,891	37,620,253
Financial liabilities				
Currency in circulation	131,457,662	122,959,913	131,457,662	122,959,913
Due to banks	323,504,240	285,089,599	323,504,240	285,089,599
Other deposits	54,649,855	30,009,096	54,646,914	30,006,154
Other borrowed funds	19,808,748	50,320	19,808,748	50,320

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

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 2017 and 2016:

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
Available-for-sale financial assets				
- 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.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(h) Fair value of financial instruments (Continued)

31 December 2016	Level 1 (*)	Level 2 (**)	Level 3 (***)	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	300,360,047	-	-	300,360,047
Available-for-sale financial assets				
- Equity securities	-	917,956	-	917,956
Total assets	**300,360,047**	**917,956**		**301,278,003**

(*) 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 2017 and 2016 comprises:

	31 December 2017	31 December 2016
Paid-in capital	47,464	47,464
Retained earnings	74,954,342	64,915,649
Other reserves	9,593,394	6,804,530
Total Equity	**84,595,200**	**71,767,643**

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

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

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

The Bank's primary capital management objective is to maintain sufficient capital to absorb unexpected losses arising from the fulfillment of the responsibilities assigned to the Bank by the Central Bank Law. The most significant unexpected losses are likely to arise 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.

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

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

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

(a) Impairment losses on loans and advances

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

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

The equity investment classified for accounting purposes as available for sale, which is held by the Bank for the long term as part of its central banking activities is valued at fair value, which is calculated as being 70% of the Bank's interest in the net asset value of the equity investment. This valuation method has previously been used to establish the appropriate price for purchase and repurchase transactions in the equity investment (Note 9).

NOTE 6 - DUE FROM BANKS

	31 December 2017	31 December 2016
Funds lent under securities purchased under agreements to resell	34,295,896	71,355,625
Time deposits	21,995,422	24,392,907
Due from interbank money market operations	103,257,275	24,200,221
Demand deposits	32,520,576	6,847,399
Due from foreign exchange deposits against TL	19,467,018	-
Total	**211,536,187**	**126,796,152**

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

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

	31 December 2017		31 December 2016	
	Cost	Carrying Value	Cost	Carrying Value
Turkish government bonds and treasury bills	14,557,548	14,531,546	13,913,259	13,889,108
Foreign government bonds and treasury bills	244,040,108	243,462,709	279,899,351	279,611,924
Corporate bonds of international institutions(*)	8,416,187	8,379,268	6,885,068	6,859,015
Total	**267,013,843**	**266,373,523**	**300,697,678**	**300,360,047**

(*)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).

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

NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS

	31 December 2017	31 December 2016
Loans and advances to corporate entities:		
Foreign country loans	16,404	15,305
Domestic loans	47,680,497	37,590,464
Total performing loans	**47,696,901**	**37,605,769**
Impaired loans	5,861,224	5,440,566
Gross loans and advances to customers	**53,558,125**	**43,046,335**
Less: Allowance for loan losses	(5,861,224)	(5,440,566)
Net loans and advances to customers	**47,696,901**	**37,605,769**

Movement in the allowance for loan losses is as follows:

	2017	2016
Balance at 1 January	5,440,566	4,472,547
Provision charge/(cancellation) for the year (*)	420,658	968,019
Balance at 31 December	**5,861,224**	**5,440,566**

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

As of 31 December 2017, the restructured loans and advances of the Bank amounted to TL 16,402 thousand (31 December 2016: TL 15,625 thousand). In accordance with the restructuring agreement of the Bank regarding the above mentioned restructured loans, the Bank forwent TL 17,775 thousand (US$ 4,712,512) (31 December 2016: TL 16,585 thousand (US$ 4.712.512)) of its interest receivable which will accrue again if the counterparty fails to meet the conditions stated in the restructuring agreement. As of 31 December 2017 and 2016, the Bank provided allowance for such contingent interest receivable.

NOTE 9 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

The details of available-for-sale-securities as of 31 December 2017 and 2016 are as follows:

		Ownership (%)		Amount	
Name	**Nature of business**	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
BIS	Banking Supervision	1.43	1.43	1,026,926	882,636
International Islamic Liquidity Management Corporation	Liquidity Management	13.33	13.33	37,719	35,192
SWIFT	Electronic Fund Transfer Services	0.007	0.007	168	128
Total				**1,064,813**	**917,956**

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 2017 and 2016 (Note 27).

As of 31 December 2017 and 2016, 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 2017 and 2016, 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.

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

NOTE 9 - AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

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

	2017	2016
Opening balance, 1 January	**917,956**	**753,092**
Fair value changes	146,857	164,864
Closing balance, 31 December	**1,064,813**	**917,956**

NOTE 10 - GOLD RESERVES

	31 December 2017	31 December 2016
Gold bullion - International standards	88,778,170	49,449,492
Gold bullion and coins - Non-International standards	499,631	416,756
Total	**89,277,801**	**49,866,248**

Gold coins and bullion in the amount of TL 54,333 thousand (31 December 2016: TL 45,321 thousand) are kept in the Bank's vaults on behalf of the Turkish Treasury. Additionally, Gold bullion - International standards include TL 57,033,549 thousand (31 December 2016: TL 34,222,929 thousand) 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 Turkish Treasury in the amount of TL 387,444.

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

NOTE 11 - PROPERTY AND EQUIPMENT

	Land and buildings	Equipment and vehicles	Construction in progress	Total
At 31 December 2015				
Cost	729,296	221,943	10,148	961,387
Accumulated depreciation	(152,148)	(130,068)	-	(282,216)
Net book value	**577,148**	**91,875**	**10,148**	**679,171**
Year ended as of 31 December 2016				
Opening net book value	**577,148**	**91,875**	**10,148**	**679,171**
Additions	6,461	13,156	14,872	34,489
Disposals (net)(*)	(213)	(51)	-	(264)
Depreciation charge (Note 26)	(6,041)	(25,470)	-	(31,511)
Closing net book value	**577,355**	**79,510**	**25,020**	**681,885**
At 31 December 2016				
Cost	735,457	233,667	25,020	994,145
Accumulated depreciation	(158,102)	(154,157)	-	(312,259)
Net book value	**577,355**	**79,510**	**25,020**	**681,885**
Year ended as of 31 December 2017				
Opening net book value	**577,355**	**79,510**	**25,020**	**68,885**
Additions	17,394	28,820	-	46,214
Transfers	(353,905)	-	353,905	-
Disposals (net)(*)	-	(114)	-	(114)
Depreciation charge (Note 26)	(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**

(*) In the year 2017 the Bank has disposed property and equipment with net book value of TL 114 thousands at no charge. (In the year 2016 the Bank has disposed property and equipment with net book value of TL 264 thousand at no charge.)

NOTE 12 - INTANGIBLE ASSETS

	Cost	Accumulated amortisation	Net book value
Opening balance at 1 January 2016	**17,815**	**(12,794)**	**5,021**
Additions/(amortization charge for the period)	1,369	(2,629)	(1,260)
Disposals	1,198	(1,198)	-
Balance at 31 December 2016	**20,382**	**(16,621)**	**3,761**
Opening balance at 1 January 2017	**20,382**	**(16,621)**	**3,761**
Additions/(amortization charge for the period) (Note 26)	12,607	(7,478)	5,129
Disposals	86	(86)	-
Balance at 31 December 2017	**33,075**	**(24,185)**	**8,890**

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

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

NOTE 13 - OTHER ASSETS

	31 December 2017	31 December 2016
Prepaid expenses	70,246	71,747
Raw material and work-in-progress	52,040	50,983
Electronic Fund Transfer ("EFT") commission income accrual	18,508	15,601
Other materials and other stores	5,418	13,323
Letter of credit expenses of banknote printing office	690	352
Charges and commissions due from Treasury (*)	35,408	25,909
Increase in value of Turkish Lira-settled forward foreign exchange	404,313	-
Receivables from foreign exchange sales with future value date	326,315	-
Other	77,744	63,122
Total	**990,682**	**241,037**

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

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

NOTE 14 - CURRENCY IN CIRCULATION

	2017	2016
Balance at 1 January	**122,959,913**	**103.042.636**
Banknotes issued into circulation	50,964,983	55,309,941
Banknotes withdrawn from circulation and destroyed	(42,467,234)	(35,245,518)
Expired Banknotes	-	(147,146)
Balance at 31 December	**131,457,662**	**122,959,913**

NOTE 15 - DUE TO BANKS

	31 December 2017	31 December 2016
Deposits for reserve requirement obligations	226,247,657	184,905,999
Current accounts of banks	97,256,583	100,183,600
Total	**323,504,240**	**285,089,599**

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.

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

NOTE 16 - OTHER DEPOSITS

	31 December 2017	31 December 2016
Deposits by citizens abroad	2,522,439	2,941,203
Deposits of Turkish Treasury	49,793,192	25,067,320
Deposits of state owned funds	2,324,015	1,992,276
Deposits of state owned entities	10,209	8,297
Total	**54,649,855**	**30,009,096**

Deposits by citizens abroad are demand deposits and time deposits with maturities varying from one to three years; other deposits; including deposit of Turkish Treasury; held by government related institutions are interest-free deposits except for the deposits amounting to TL 41,924,608 thousand (31 December 2016: TL 19,360,336 thousand).

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

	31 December 2017		31 December 2016	
	Interest rate (%)	TL	Interest rate (%)	TL
EUR	0.00%-0.25%	2,395,025	0.00% - 0.25%	2,774,338
US$	0.00%-0.25%	98,722	0.00% - 0.25%	132,779
CHF	0.00%-0.25%	27,404	0.00% - 0.25%	32,831
GBP	0.00%-0.25%	1,288	0.00% - 0.25%	1,255
Total		**2,522,439**		**2,941,203**

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 2017 and 2016. The balance also includes amount due to Africa Development Bank. As of 31 December 2017 and 2016, borrowings related to Turkey's IMF quota are non-interest bearing with no stated maturity.

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

As of 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 2017	31 December 2016
Funds borrowed from interbank money market	77,347	50,320
Borrowings from TL deposits against foreign exchange deposits	19,731,401	-
Total	**19,808,748**	**50,320**

Borrowings from TL deposits against foreign exchange deposits are denominated in Turkish Lira with 11.95% average interest rate and accrued using "effective interest method" at the end of months (31 December 2016: None).

NOTE 19 - OTHER LIABILITIES

	31 December 2017	31 December 2016
Import transfer orders and deposits	274,759	1,493,912
Foreign money transfers with future value date	141,886	396,026
Taxes and withholdings payable	151,441	90,121
Bills and money transfer payables	18,983	12,674
Expense accruals	47,550	3,634
Foreign currency sales through Ziraat Bank	320,612	-
Other	39,155	69,280
Total	**994,186**	**2,065,647**

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

NOTE 20 - TAXATION

	31 December 2017	31 December 2016
Corporate tax	3,091,368	1,625,061
Prepaid taxes	(2,299,834)	(1,625,061)
Income taxes liability- net	791,534	-

Corporate Tax

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

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

The effective tax rate in 2017 is 20% (2016: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2017 is 20%. (2016: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

For the years ended 31 December 2017 and 2016, income taxes are summarized as follows;

	2017	2016
- Corporate tax	3,091,368	1,625,061
- Deferred tax expense / (income)	835,976	3,389,140
Tax expense/(income)	**3,927,344**	**5,014,201**

Deferred taxes

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

The law numbered 7061 on amendment on certain taxes and laws and other acts was published on the official gazzette 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.

For calculation of deferred tax asset and liabilities, the rate of 22% (2016: 20%) is used.

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

NOTE 20 - TAXATION (Continued)

The breakdown of such cumulative temporary differences and the resulting deferred income tax assets/(liabilities) at 31 December 2017 and 2016 using enacted tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Retirement benefit obligations	143,395	194,805	28,679	38,961
Net differences between carrying value and tax base of property and equipment and intangible assets	30,319	34,653	6,064	6,931
Other	20,675	18,982	4,135	3,796
Total Assets	**194,389**	**248,440**	**38,878**	**49,688**
Valuation account to income statement (*)	(55,296,111)	(53,408,966)	(12,165,144)	(10,681,797)
Fair value differences of financial assets	(973,188)	(835,293)	(48,659)	(41,765)
Turkish Lira-settled forward foreign exchange account	(404,313)	-	(88,949)	-
Total Liabilities	**(56,673,612)**	**(54,244,259)**	**(12,302,752)**	**(10,723,562)**
Net Liability	**(56,479,223)**	**(53,995,819)**	**(12,263,874)**	**(10,673,874)**

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

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

	2017	2016
Balance at 1 January	**10,673,874**	**6,519,630**
Deferred income tax charge to income statement, net	835,976	3,389,140
Deferred income tax charge to equity	754,024	765,104
Balance at 31 December	**12,263,874**	**10,673,874**

The reconciliation for taxation charge is stated below:

	2017	2016
Profit / (loss) before income taxes	**20,386,960**	**28,130,177**
Tax charge calculated at a tax rate of 20%	4,077,392	5,626,035
Income exempt from taxation	(151,920)	(629,749)
Non-deductible expenses	1,872	17,915
Income tax expense / (income)	**3,927,344**	**5,014,201**

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

NOTE 21 - RETIREMENT BENEFIT OBLIGATIONS

Under Turkish Labor Law, the Bank is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated. 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 4,732 (2016: TL 4,297) 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 2017	31 December 2016
Discount rate (%)	3.24	3.99
Rate to estimate the probability of retirement (%)	99	99

As the maximum liability is revised semi-annually, the maximum amount of TL 5,002 effective from 1 January 2018 (1 January 2017: TL 4,426), 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:

	2017	2016
At 1 January	**194,805**	**172,191**
Service cost	17,287	25,166
Interest cost	7,774	6,889
Paid during the year	(76,471)	(9,441)
Balance at 31 December	**143,395**	**194,805**

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

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

NOTE 22 - NET INTEREST INCOME

	2017	2016
Interest income on:		
Securities purchased under agreements to resell	3,249,405	7,131,918
Financial assets at fair value through profit or loss	3,986,373	2,744,355
Interest received from interbank money market transactions	8,936,681	1,246,627
Loans and advances to customers	324,285	164,674
Due from banks	563,892	183,521
Total	**17,060,636**	**11,471,095**
Interest expense on:		
Interest expense due to Treasury(*)	2,206,889	1,405,170
Due to banks (**)	4,681,120	1,705,172
Other deposits	777	2,655
Due to IMF	29,116	3,967
Interest paid to the interbank money market transactions	6,912	2,661
Securities sold under agreements to repurchase	-	85
Total	**6,924,814**	**3,119,710**
Net interest income	**10,135,822**	**8,351,385**

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

(**)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

	2017	2016
Fee and commission income:		
EFT commission income	297,976	250,810
Commissions due from Treasury (***)	213,806	154,092
Gold custody fee	83,878	81,989
Commissions charged from the bank teller operations centre	11,211	3,313
Commissions from foreign exchange and effective market transactions	183	136
Other	3,298	11,962
Total	**610,352**	**502,302**
Fee and commission expense:		
Correspondent bank accounts	4,722	4,315
Other	11,101	12,859
Total	**15,823**	**17,174**
Net fee and commission income	**594,529**	**485,128**

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

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

NOTE 24 - DIVIDEND INCOME

	2017	2016
Available-for-sale securities	11,141	6,562
Total	**11,141**	**6,562**

NOTE 25 - FOREIGN EXCHANGE GAINS/(LOSSES), NET

	2017	2016
Foreign exchange gains/(losses), net		
- translation gains/(losses), net	(1,097,545)	16,956,526
- transaction gains, net	13,565,989	5,232,134
Total	**12,468,444**	**22,188,660**

As of 31 December 2017 and 2016, translation gains/(losses) include the unrealized foreign exchange gains/(losses) and the unrealized gains on gold reserves. In the statutory financial statements of the Bank, the unrealized foreign exchange gains/(losses) and unrealized gains on gold reserves are excluded from the statutory net profit and corporate tax base and monitored in a temporary account on the balance sheet, namely "Valuation Account", in accordance with the Central Bank Law in Turkey.

NOTE 26 - OTHER OPERATING EXPENSES

	2017	2016
Wages and salaries	763,646	687,093
Administrative expenses	249,887	195,472
Social security costs	84,768	85,590
Depreciation and amortization (Notes 11 and 12)	40,565	34,140
Other	4,151	2,113
Total	**1,143,017**	**1,004,408**

The average number of personnel employed by the Bank during the year 2017 is 4,046 (2016: 4,687).

NOT 27 – OTHER OPERATING INCOME

	2017	2016
Gain in Turkish Lira-settled forward exchange	94,047	-
Other	5,511	3,704
Total	**99,558**	**3,704**

NOTE 28 - COMMITMENTS AND CONTINGENT LIABILITIES

	31 December 2017	31 December 2016
Guarantees taken	195,078,155	72,822,933
BIS shares call option (Note 9)	161,214	142,029
Total	**195,239,369**	**72,964,962**

As of 31 December 2017, there are a number of legal proceedings outstanding against the Bank amounting to TL 4,363 thousand, US$ 64,596,952 and EUR 222,397 (31 December 2016: TL 4,253 thousand, US$ 64,596,952 and EUR 222,397). No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise in relation with above mentioned legal proceedings.

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

NOTE 29 - SHARE CAPITAL

The shareholder structure of the Bank as at 31 December 2017 and 2016 is as follows:

	31 December 2017		31 December 2016	
	TL	Share %	TL	Share %
Turkish 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 Central Bank Law, the capital of the Bank is TL 25 thousand and is divided into 250,000 shares, with a value of TL 0.1 each. The capital may be increased with the approval of the Turkish Government. The shares are divided into (A), (B), (C), and (D) shares. The (A) group shares belongs solely to the Turkish Treasury while (B) shares belong to national banks, (C) shares belong to banks other than the national banks and to companies possessing certain privileges and (D) shares belong to Turkish commercial institutions and to legal and real persons of Turkish nationality.

NOTE 30 - RETAINED EARNINGS AND LEGAL RESERVES

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

The 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 Turkish Treasury after this allocation.

NOTE 31 - CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash	10,642,850	6,391,396
Due from banks (excluding accrued interest)	211,358,073	126,727,996
Total	**222,000,923**	**133,119,392**

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

NOTE 32 - RELATED PARTY BALANCES AND TRANSACTIONS

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

(i) Balances with related partis

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

	31 December 2017	31 December 2016
Assets:		
Financial assets at fair value through profit or loss [1]	14,531,545	13,889,108
Due from banks [2]	112,180,000	45,016,152
Liabilities:		
Due to banks [3]	214,620,780	188,248,332
Other deposits [4]	50,046,234	25,290,691

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

(ii) Transactions with related parties

	2017	2016
Salaries and other short-term benefits to key management	6,158	5,508
Interest income [1]	912,340	586,128
Interest expense [2]	4,177,295	2,696,755
Fee and commission income [3]	351,066	255,591
Dividends paid to shareholders	6,410,954	9,303,015
Dividends paid to employees	9,969	9,150

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

NOTE 33 – SUBSEQUENT EVENTS

None.