

**THE CENTRAL BANK OF  
THE REPUBLIC OF TURKEY**

**FINANCIAL STATEMENTS  
AT 31 DECEMBER 2016  
TOGETHER WITH AUDITOR'S REPORT**

## 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 2016, 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 2016, 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.

## 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 Bağımsız Denetim ve Serbest A.Ş.*

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Istanbul, 27 February 2017

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

CONTENT	PAGE
STATEMENT OF FINANCIAL POSITION.....	1
STATEMENT OF PROFIT OR LOSS .....	2
STATEMENT OF OTHER COMPREHENSIVE INCOME .....	3
STATEMENT OF CHANGES IN EQUITY .....	4
STATEMENT OF CASH FLOWS.....	5
NOTES TO THE FINANCIAL STATEMENTS .....	6-52
NOTE 1 GENERAL INFORMATION .....	6
NOTE 2 BASIS OF PRESENTATION.....	6-12
NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	13-22
NOTE 4 FINANCIAL RISK MANAGEMENT .....	22-39
NOTE 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES .....	40
NOTE 6 DUE FROM BANKS .....	40
NOTE 7 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS.....	40
NOTE 8 LOANS AND ADVANCES TO CUSTOMERS .....	41
NOTE 9 AVAILABLE-FOR-SALE FINANCIAL ASSETS .....	41-42
NOTE 10 GOLD RESERVES.....	42
NOTE 11 PROPERTY AND EQUIPMENT.....	43
NOTE 12 INTANGIBLE ASSETS.....	43
NOTE 13 OTHER ASSETS .....	44
NOTE 14 CURRENCY IN CIRCULATION .....	44
NOTE 15 DUE TO BANKS.....	44
NOTE 16 OTHER DEPOSITS .....	45
NOTE 17 DUE TO INTERNATIONAL ORGANIZATIONS .....	45
NOTE 18 OTHER BORROWED FUNDS.....	45
NOTE 19 OTHER LIABILITIES .....	45
NOTE 20 TAXATION.....	46-47
NOTE 21 RETIREMENT BENEFIT OBLIGATIONS .....	48
NOTE 22 NET INTEREST INCOME .....	49
NOTE 23 NET FEE AND COMMISSION INCOME .....	49
NOTE 24 DIVIDEND INCOME.....	50
NOTE 25 FOREIGN EXCHANGE GAINS, NET .....	50
NOTE 26 OTHER OPERATING EXPENSES.....	50
NOTE 27 COMMITMENTS AND CONTINGENT LIABILITIES .....	50
NOTE 28 SHARE CAPITAL .....	51
NOTE 29 RETAINED EARNINGS AND LEGAL RESERVES .....	51
NOTE 30 CASH AND CASH EQUIVALENTS.....	51
NOTE 31 RELATED PARTY BALANCES AND TRANSACTIONS.....	52
NOTE 32 SUBSEQUENT EVENTS .....	52

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016

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

		31 December 2016 Thousand TL	31 December 2015 Thousand TL	31 December 2016 Million US\$(*)	31 December 2015 Million US\$(*)
	Notes				
<b>ASSETS</b>					
Cash (foreign currency and coin)		6.391.396	4.288.758	1.816	1.475
Due from banks	6	126.796.152	119.358.618	36.030	41.051
Financial assets at fair value through profit or loss	7	300.360.047	250.621.667	85.349	86.195
Loans and advances to customers	8	37.605.769	22.732.701	10.686	7.818
Available-for-sale financial assets	9	917.956	753.092	261	259
Gold reserves	10	49.866.248	51.507.033	14.170	17.715
Property and equipment	11	681.885	679.171	194	234
Intangible assets	12	3.761	5.021	1	2
Other assets	13	241.037	193.003	68	66
<b>Total assets</b>		<b>522.864.251</b>	<b>450.139.064</b>	<b>148.575</b>	<b>154.815</b>
<b>LIABILITIES</b>					
Currency in circulation	14	122.959.913	103.042.636	34.940	35.439
Due to banks	15	285.089.599	249.463.369	81.011	85.797
Other deposits	16	30.009.096	34.247.313	8.527	11.779
Due to International Organizations	17	53.354	14.082	15	5
Other borrowed funds	18	50.320	26.505	14	9
Other liabilities	19	2.065.647	1.582.650	587	544
Tax liabilities	20	-	441.338	-	152
Deferred tax liability	20	10.673.874	6.519.630	3.033	2.242
Retirement benefit obligations	21	194.805	172.191	55	59
<b>Total liabilities</b>		<b>451.096.608</b>	<b>395.509.714</b>	<b>128.182</b>	<b>136.026</b>
<b>EQUITY</b>					
Paid-in share capital	28	47.464	47.464	13	16
Retained earnings		64.915.649	51.111.838	18.446	17.579
Other reserves		6.804.530	3.470.048	1.934	1.193
<b>Total equity</b>		<b>71.767.643</b>	<b>54.629.350</b>	<b>20.393</b>	<b>18.788</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>522.864.251</b>	<b>450.139.064</b>	<b>148.575</b>	<b>154.815</b>

(\*) 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 2015 and 2016, and therefore do not form part of these financial statements (Note 2.d.).

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

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	2016 Thousand TL	2015 Thousand TL	2016 Million US\$(*)	2015 Million US\$(*)
Interest income	22	11.471.095	8.358.772	3.794	3.074
Interest expense	22	(3.119.710)	(1.997.385)	(1.032)	(734)
<b>Net interest income</b>	22	<b>8.351.385</b>	<b>6.361.387</b>	<b>2.762</b>	<b>2.340</b>
Fee and commission income	23	502.302	477.292	166	175
Fee and commission expense	23	(17.174)	(14.535)	(6)	(5)
<b>Net fee and commission income</b>	23	<b>485.128</b>	<b>462.757</b>	<b>160</b>	<b>170</b>
Dividend income	24	6.562	6.355	2	2
Net income/(expense) from financial assets at fair value through profit or loss		(932.835)	(1.271.316)	(309)	(467)
Foreign exchange gains/(losses), net	25	22.188.660	21.077.977	7.339	7.749
Other operating income		3.704	3.877	1	1
Impairment losses on loans and advances	8	(968.019)	(911.958)	(320)	(335)
Other operating expenses	26	(1.004.408)	(923.896)	(332)	(340)
<b>Profit before income tax</b>		<b>28.130.177</b>	<b>24.805.183</b>	<b>9.303</b>	<b>9.120</b>
Income tax expense	20	(5.014.201)	(4.068.332)	(1.659)	(1.496)
<b>Net profit for the year</b>		<b>23.115.976</b>	<b>20.736.851</b>	<b>7.644</b>	<b>7.624</b>

(\*) 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 2016 and 2015, and therefore do not form part of these financial statements (Note 2.d.).

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

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED  
31 DECEMBER 2016

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

	Notes	2016 Thousand TL	2015 Thousand TL
Net profit for the year		23.115.976	20.736.851
Other comprehensive income			
<i>Items those will not be reclassified subsequently to profit or loss</i>			
Increase/(decrease) in the value of gold reserves		3.787.576	1.176.445
Deferred tax on increase/(decrease) in the value of gold reserves	20	(757.515)	(235.289)
Actuarial gains/(losses) on severance liability		-	-
Deferred tax on actuarial gains/(losses) on severance liability		-	-
<i>Items those may be reclassified subsequently to profit or loss</i>			
Changes in fair values of available-for-sale securities	9	164.864	124.662
Deferred tax on changes in fair values of available-for-sale securities	20	(7.589)	(5.600)
Total comprehensive income for the year		26.303.312	21.797.069

The notes on pages 6 to 52 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 2016**

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

	Paid-in Share Capital			Other Reserves				Total
	Share capital	Adjustment to share capital	Total paid-in share capital	Available for sale assets fair value increase / (decrease)	Gold reserves fair value increase / (decrease)	Actuarial gain / (loss)	Other	
<b>Balance at 1 January 2015</b>	<b>25</b>	<b>47.439</b>	<b>47.464</b>	<b>563.374</b>	<b>1.837.584</b>	<b>2.490</b>	<b>6.382</b>	<b>38.642.079</b>
Cash dividends paid	-	-	-	-	-	-	-	(5.809.798)
Net profit/(loss) for the year	-	-	-	-	-	-	-	20.736.851
Other comprehensive income/(loss)	-	-	-	119.062	941.156	-	-	1.060.218
Total comprehensive income/(loss)	-	-	-	119.062	941.156	-	-	21.797.069
<b>Balance at 1 January 2016</b>	<b>25</b>	<b>47.439</b>	<b>47.464</b>	<b>682.436</b>	<b>2.778.740</b>	<b>2.490</b>	<b>6.382</b>	<b>54.629.350</b>
Cash dividends paid	-	-	-	-	-	-	-	(9.312.165)
Net profit/(loss) for the year	-	-	-	-	-	-	-	23.115.976
Other comprehensive income/(loss)	-	-	-	157.275	3.030.061	-	-	3.187.336
Total comprehensive income/(loss)	-	-	-	157.275	3.030.061	-	-	26.303.312
Other (*)	-	-	-	-	-	-	147.146	147.146
<b>Balance at 31 December 2016</b>	<b>25</b>	<b>47.439</b>	<b>47.464</b>	<b>839.711</b>	<b>5.808.801</b>	<b>2.490</b>	<b>153.528</b>	<b>71.767.643</b>

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



# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	2016 Thousand TL	2015 Thousand TL
<b>Cash flows (used in)/from operating activities</b>			
Net profit for the year		23.115.976	20.736.851
Adjustment for:			
Depreciation of property and equipment	11	31.511	29.726
Amortization of intangible assets	12	2.629	1.437
Retirement benefit obligations	21	32.055	36.032
Interest income, net	22	(8.351.385)	(6.361.387)
Dividend income	24	(6.562)	(6.355)
Commission income, net	23	(485.127)	(462.757)
Income tax expense	20	5.014.201	4.068.332
Unrealized foreign exchange gains, net		(20.757.220)	(9.794.683)
(Increase)/decrease in value of financial assets, net		803.010	729.891
(Gain)/loss on sale of property and equipment		264	1.747
<b>Cash flows from operating profits before changes in operating assets and liabilities</b>		<b>(600.648)</b>	<b>8.978.834</b>
<b>Changes in operating assets and liabilities:</b>			
Net change in gold reserves		6.082.579	(1.562.841)
Net change in financial assets			
at fair value through profit or loss		(2.438.117)	34.257.337
Net change in loans and advances to customers		(11.791.427)	(1.405.789)
Net change in other assets		701.236	651.217
Net change in currency in circulation		20.062.434	17.924.414
Net change in due to banks		(3.027.523)	260.637
Net change in other deposits		(4.184.629)	4.352.053
Net change in other liabilities		3.966.507	(6.422.876)
Taxes paid		(2.066.541)	(2.060.693)
Retirement benefits paid	21	(9.441)	(6.032)
Interest received		11.164.471	8.112.997
Interest paid		(3.173.285)	(2.100.690)
Commission received, net		489.186	468.243
Commission paid		(14.925)	(14.510)
<b>Net cash (used in)/from operating activities</b>		<b>15.159.877</b>	<b>61.432.301</b>
<b>Cash flows related to investing activities</b>			
Purchase of property, equipment and intangible assets	11-12	(35.858)	(62.407)
Dividends received		6.562	6.355
<b>Net cash used in investing activities</b>		<b>(29.296)</b>	<b>(56.052)</b>
<b>Cash flows related to financing activities</b>			
Borrowed/(paid) bank loans, net		63.074	(47.965)
Dividends paid		(9.312.165)	(5.809.798)
<b>Net cash used in financing activities</b>		<b>(9.249.091)</b>	<b>(5.857.763)</b>
<b>Effects of exchange-rate changes on cash and cash equivalents</b>		<b>3.662.948</b>	<b>2.776.887</b>
<b>Change in cash and cash equivalents</b>		<b>9.542.450</b>	<b>58.295.373</b>
<b>Cash and cash equivalents at the beginning of the period</b>	30	<b>123.576.943</b>	<b>65.281.570</b>
<b>Cash and cash equivalents at the end of the period</b>	30	<b>133.119.393</b>	<b>123.576.943</b>

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

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

### NOTE 1 - GENERAL INFORMATION

The Central Bank of the Republic of Turkey (the "Bank") was incorporated in Turkey in 1931. It was established as a joint stock company with the exclusive privilege of issuing banknotes in Turkey and is vested with the powers and duties set forth in the Central Bank of the Republic of Turkey Law No. 1211 (the "Central Bank Law"). The Head Office of the Bank is located in Ankara. The Bank's registered head office is located at the following address: İstiklal Cad. 10 Ulus, 06100 Ankara, Turkey. The Bank now operates a nationwide network of 21 branches and has no branches abroad. As of 31 December 2016, the Bank employed 4.564 people (31 December 2015: 4.746).

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 2017 after the approval of Board of the Bank on 9 March 2017.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

### NOTE 2 – BASIS OF PRESENTATION (Continued)

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

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

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

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

##### a) Amendments to IFRSs affecting amounts reported and/or disclosures in the financial statements

None.

##### b) New and Revised IFRSs applied with no material effect on the financial statements

IFRS 14	<i>Regulatory Deferral Accounts</i> <sup>1</sup>
Amendments to IFRS 11	<i>Accounting for Acquisition of Interests in Joint Operations</i> <sup>1</sup>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>1</sup>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> <sup>1</sup>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> <sup>1</sup>
Annual Improvements to 2012-2014 Cycle	<i>IFRS 5, IFRS 7, IAS 19, IAS 34</i> <sup>1</sup>
Amendments to IAS 1	<i>Disclosure Initiative</i> <sup>1</sup>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016.

#### IFRS 14 Regulatory Deferral Accounts

IFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

IFRS 14 was issued by the IASB on 30 January 2014 and is applied to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

#### Amendments to IFRS 11 Accounting for Acquisition of Interests in Joint Operations

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11,
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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### NOTE 2 – BASIS OF PRESENTATION (Continued)

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

##### b) New and Revised IFRSs applied with no material effect on the financial statements (Continued)

#### **Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation***

This amendment clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

#### **Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants***

This amendment include 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of IAS 41.

#### **Amendments to IAS 27 *Equity Method in Separate Financial Statements***

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

#### **Annual Improvements 2012-2014 Cycle**

**IFRS 5:** Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

**IFRS 7:** Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

**IAS 19:** Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

**IAS 34:** Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

#### **Amendments to IAS 1 *Disclosure Initiative***

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

### NOTE 2 – BASIS OF PRESENTATION (Continued)

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

##### b) New and Revised IFRSs applied with no material effect on the financial statements (Continued)

##### **Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception***

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

##### c) New and revised IFRSs in issue but not yet effective

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

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealized Losses</i> <sup>1</sup>
Amendments to IAS 7	<i>Disclosure Initiative</i> <sup>1</sup>
IFRS 9	<i>Financial Instruments</i> <sup>2</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>2</sup>
Amendments to IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>2</sup>
Amendments to IFRS 2	<i>Classification and Measurement of Share-Based Payment Transactions</i> <sup>2</sup>
IFRS 16	<i>Leases</i> <sup>3</sup>
Amendments to IFRS 4	<i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> <sup>2</sup>
Amendments to IAS 40	<i>Transfers of Investment Property</i> <sup>2</sup>
Annual Improvements to IFRS Standards 2014–2016 Cycle	<i>IFRS 1</i> <sup>2</sup> , <i>IFRS 12</i> <sup>1</sup> , <i>IAS 28</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019.

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

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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### NOTE 2 – BASIS OF PRESENTATION (Continued)

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

#### c) New and revised IFRSs in issue but not yet effective (Continued)

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

This amendment clarifies the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

##### **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.

##### **IFRS 9 *Financial Instruments***

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income ("FVTOCI") measurement category for certain simple debt instruments.

##### **IFRS 15 *Revenue from Contracts with Customers***

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognise revenue when the entity satisfies a performance obligation.

##### **Amendments to IFRS 15 *Revenue from Contracts with Customers***

This amendment clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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### NOTE 2 – BASIS OF PRESENTATION (Continued)

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

#### c) New and revised IFRSs in issue but not yet effective (Continued)

##### ***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 a performance 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.

##### ***IFRS 16 Leases***

This new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 "Leases" and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

##### ***Amendments to IFRS 4 Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'***

This amendment provides optional approaches for entities that issue insurance contracts within the scope of IFRS 4, and the entities are permitted to stop applying them before the new insurance standard is applied.

##### ***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.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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### NOTE 2 – BASIS OF PRESENTATION (Continued)

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

##### c) New and revised IFRSs in issue but not yet effective (Continued)

#### 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.
- **IFRS 12:** Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
- **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.

The Bank evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

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

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

#### (d) US\$ translation

US\$ amounts shown in the balance sheets are translated from TL for convenience purposes only, at the official bid rates announced by the Bank on 31 December 2016 of TL 3,5192 = US\$ 1 (31 December 2015: TL 2,9076 = US\$ 1) and US\$ amounts shown in the income statements are translated from TL for convenience purposes only, at the average US\$ bid rates calculated from the daily official bid rates announced by the Bank for the year ended 31 December 2016 of TL 3,0232 = US\$ 1 (31 December 2015: TL 2,72002 = US\$ 1) and therefore, do not form part of these financial statements.

#### (e) Comparatives

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



# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

### 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.

	<u>31 December 2016</u>	<u>31 December 2015</u>
US Dollar ("US\$")	3,5192	2,9076
Euro ("EUR")	3,7099	3,1776
Swiss Franc ("CHF")	3,4454	2,9278
Great Britain Pound ("GBP")	4,3189	4,3007
Japanese Yen ("JPY")	0,0300	0,0240
Special Drawing Rights ("SDR") (*)	4,7343	4,0370

(\*) 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.

#### (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.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Income taxes

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

##### *Current tax*

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

##### *Deferred tax*

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

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

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

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

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

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

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

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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### 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 12,00% (31 December 2015: 14,86%) 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 2016 was TL 4.079 per troy ounce (31 December 2015: TL 3.089 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.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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### 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. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

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

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

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

##### *Effective interest method*

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

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

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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### 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.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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### 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.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

### 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.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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### 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*

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

With the Council of Ministers' decision issued in Official Gazette on 5 May 2007, it was decided that the phrase "New" on the New Turkish Lira and New Kuruş that were put into circulation on 1 January 2005, are removed as of 1 January 2009, and Turkish Lira banknotes have been put into circulation as of the same date. Accordingly, the legal circulation period of New Turkish Lira banknotes that were in circulation between 1 January 2009 and 31 December 2009 along with Turkish Lira banknotes are expired as of 31 December 2009. New Turkish Lira banknotes will be redeemed for a period of 10 years starting from 1 January 2010 to 31 December 2019 in the 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.



# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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### 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.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 2016 and 2015 is as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Securities held in custody	469.693.554	427.672.078
<b>Total</b>	<b>469.693.554</b>	<b>427.672.078</b>

### NOTE 4 - FINANCIAL RISK MANAGEMENT

#### (a) Strategy in using financial instruments

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

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

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

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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### 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.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 2016 and 2015 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 2016		31 December 2015	
	TL	Share (%)	TL	Share (%)
<b>Due from banks</b>	<b>126.796.152</b>	<b>27</b>	<b>119.358.618</b>	<b>30</b>
- <b>Demand Deposits</b>	<b>6.847.399</b>	<b>1</b>	<b>4.171.284</b>	<b>1</b>
Central Banks	1.920.970	<1	135.056	-
International Institutions	4.594.742	1	3.920.516	1
Foreign Commercial Banks	331.687	<1	115.712	<1
- <b>Time Deposits</b>	<b>24.392.907</b>	<b>5</b>	<b>19.712.264</b>	<b>5</b>
Central Banks	7.497.232	2	10.113.144	3
International Institutions	11.523.497	2	9.546.267	2
Foreign Commercial Banks	5.372.178	1	52.853	<1
Aaa	819.974	<1	-	-
Aa1	3.357.316	1	-	-
Aa2	1.142.138	<1	21.504	<1
Aa3	52.750	<1	31.349	<1
Domestic Commercial Banks	-	-	-	-
- <b>Securities purchased under agreements to resell</b>	<b>71.355.625</b>	<b>15</b>	<b>89.537.798</b>	<b>23</b>
Domestic Commercial Banks	71.355.625	15	89.537.798	23
- <b>Due from Interbank Money Market transactions</b>	<b>24.200.221</b>	<b>5</b>	<b>5.937.272</b>	<b>2</b>
<b>Financial assets at fair value</b>				
<b>through profit or loss</b>	<b>300.360.047</b>	<b>64</b>	<b>250.621.667</b>	<b>64</b>
Foreign Country Treasuries	279.611.924	60	235.077.334	60
Aaa	227.733.179	49	205.784.143	52
Aa1	8.210.804	2	3.836.893	1
Aa2	22.908.563	5	18.319.945	5
Aa3	20.759.378	4	6.602.986	2
A1	-	-	469.816	<1
A3	-	-	63.551	<1
International Institutions	6.859.015	1	6.586.815	2
Turkish Treasury	13.889.108	3	8.957.518	2
<b>Loans and advances to customers</b>	<b>37.605.769</b>	<b>8</b>	<b>22.732.701</b>	<b>6</b>
<b>Available-for-sale financial assets</b>	<b>917.956</b>	<b>&lt;1</b>	<b>753.092</b>	<b>&lt;1</b>
International Institutions	917.828	<1	753.000	<1
Foreign Financial Institutions	128	<1	92	<1
<b>Other assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>465.679.924</b>		<b>393.466.078</b>	<b>100</b>

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 2016, the Bank has receivables amounting to TL 71.355.625 thousand (31 December 2015: TL 89.537.798 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 2016 is TL 72.870.843 thousand (31 December 2015: TL : 90.812.272 thousand).

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 2016, 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 987.882 thousand (31 December 2015: TL 699.900 thousand). As of 31 December 2016 and 2015, 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 2016 and 2015 are as follows:

	31 December 2016						Total
	Foreign Country Treasury	Foreign Central Banks	International Financial Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Turkish Treasury	
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
<b>Total</b>	<b>279.611.924</b>	<b>9.433.506</b>	<b>23.895.082</b>	<b>133.146.311</b>	<b>5.703.994</b>	<b>13.889.108</b>	<b>465.679.924</b>

  

	31 December 2015						Total
	Foreign Country Treasury	Foreign Central Banks	International Financial Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Turkish Treasury	
Due from banks	-	10.248.200	13.466.783	95.475.070	168.565	-	119.358.618
Financial assets at fair value through profit or loss	235.077.334	-	6.586.815	-	-	8.957.518	250.621.667
Loans and advances to customer	-	13.392	-	22.719.309	-	-	22.732.701
Available-for-sale financial assets	-	-	753.000	-	92	-	753.092
Other assets	-	-	-	-	-	-	-
<b>Total</b>	<b>235.077.334</b>	<b>10.261.592</b>	<b>20.806.598</b>	<b>118.194.379</b>	<b>168.657</b>	<b>8.957.518</b>	<b>393.466.078</b>

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 2016 and 2015.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 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 2016 and 2015 are as follows:

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
<b>Total assets</b>	<b>163.551.696</b>	<b>138.671.991</b>	<b>217.591.553</b>	<b>2.970.734</b>	<b>78.277</b>	<b>522.864.251</b>
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
<b>Total liabilities and equity</b>	<b>517.708.504</b>	<b>2.915.167</b>	<b>1.675.986</b>	<b>561.819</b>	<b>2.775</b>	<b>522.864.251</b>
<b>Net balance sheet position</b>	<b>(354.156.807)</b>	<b>135.756.820</b>	<b>215.915.567</b>	<b>2.408.915</b>	<b>75.502</b>	<b>-</b>
<b>Off-balance sheet commitments</b>	<b>34.205.039</b>					<b>34.205.039</b>

  

31 December 2015						
	Turkey	Other European Countries	Canada and US	South - East Asia	Other Countries	Total
Cash	4.288.758	-	-	-	-	4.288.758
Due from banks	95.475.069	13.261.518	10.467.071	117.055	37.905	119.358.618
Financial assets at fair value through profit or loss	8.957.518	54.292.670	186.901.663	469.816	-	250.621.667
Loans and advances to customers	22.719.309	747	-	-	12.645	22.732.701
Available-for-sale financial assets	-	724.016	-	29.076	-	753.092
Gold reserves	9.333.007	39.325.149	2.848.877	-	-	51.507.033
Property and equipment	679.171	-	-	-	-	679.171
Intangible assets	5.021	-	-	-	-	5.021
Other assets	187.798	2.333	509	2.363	-	193.003
<b>Total assets</b>	<b>141.645.651</b>	<b>107.606.433</b>	<b>200.218.120</b>	<b>618.310</b>	<b>50.550</b>	<b>450.139.064</b>
Currency in circulation	103.042.636	-	-	-	-	103.042.636
Due to banks	249.452.729	-	-	10.640	-	249.463.369
Other deposits	30.807.913	3.433.030	4.426	336	1.608	34.247.313
Due to international organizations	-	-	14.082	-	-	14.082
Other borrowed funds	26.505	-	-	-	-	26.505
Other liabilities	546.775	417.022	1.057.251	1.639	1.301	2.023.988
Deferred income tax liability	6.519.630	-	-	-	-	6.519.630
Retirement benefit obligations	172.191	-	-	-	-	172.191
Equity	54.629.350	-	-	-	-	54.629.350
<b>Total liabilities and equity</b>	<b>445.197.729</b>	<b>3.850.052</b>	<b>1.075.759</b>	<b>12.615</b>	<b>2.909</b>	<b>450.139.064</b>
<b>Net balance sheet position</b>	<b>(303.552.078)</b>	<b>103.756.381</b>	<b>199.142.361</b>	<b>605.695</b>	<b>47.641</b>	<b>-</b>
<b>Off-balance sheet commitments</b>	<b>29.351.340</b>					<b>29.351.340</b>

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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### 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 2016 and 2015; therefore, there are no collaterals held against such past due financial assets.

As of 31 December 2016 and 2015, 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 policies implemented. However, the distribution of net positions in terms of currencies also affects the foreign exchange rate risk exposure of the Bank as a result of the volatilities in currency parties.

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

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 2016 and 2015 is summarized below. The table presented below provides the Bank's assets, liabilities, and equity at carrying amounts, categorized by currency:

	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
<b>Total assets</b>	<b>314.909.878</b>	<b>82.004.112</b>	<b>738.242</b>	<b>96.878</b>	<b>4.031.472</b>	<b>4.622.590</b>	<b>5.543.988</b>	<b>411.947.160</b>	<b>110.917.091</b>	<b>522.864.251</b>
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
<b>Total liabilities and equity</b>	<b>186.588.450</b>	<b>68.780.635</b>	<b>8.802</b>	<b>36.952</b>	<b>34.426</b>	<b>4.540.301</b>	<b>30.346</b>	<b>260.019.912</b>	<b>262.844.339</b>	<b>522.864.251</b>
<b>Net balance sheet position</b>	<b>128.321.428</b>	<b>13.223.477</b>	<b>729.440</b>	<b>59.926</b>	<b>3.997.046</b>	<b>82.289</b>	<b>5.513.642</b>	<b>151.927.248</b>	<b>(151.927.248)</b>	<b>-</b>

	31 December 2015									
	Foreign currency									
	US\$	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	TOTAL
Cash	443.386	3.654.161	159	40.074	24.733	-	20.886	4.183.399	105.359	4.288.758
Due from banks	19.677.844	69.222	117.684	9.845	39.081	3.900.538	63.808	23.878.022	95.480.596	119.358.618
Financial assets at fair value through profit or loss	194.356.816	39.451.944	469.816	-	3.836.893	-	3.548.680	241.664.149	8.957.518	250.621.667
Loans and advances to customers	15.410.300	7.307.346	-	-	15.055	-	-	22.732.701	-	22.732.701
Available-for-sale financial assets	712.630	92	-	-	-	40.370	-	753.092	-	753.092
Gold reserves	51.191.476	-	-	-	-	-	-	51.191.476	315.557	51.507.033
Property and equipment	-	-	-	-	-	-	-	-	679.171	679.171
Intangible assets	-	-	-	-	-	-	-	-	5.021	5.021
Other assets	146	1.503	689	-	163	-	643	3.144	189.859	193.003
<b>Total assets</b>	<b>281.792.598</b>	<b>50.484.268</b>	<b>588.348</b>	<b>49.919</b>	<b>3.915.925</b>	<b>3.940.908</b>	<b>3.634.017</b>	<b>344.405.983</b>	<b>105.733.081</b>	<b>450.139.064</b>
Currency in circulation	-	-	-	-	-	-	-	-	103.042.636	103.042.636
Due to banks	192.548.414	38.095.856	-	-	19.992	-	-	230.664.262	18.799.107	249.463.369
Other deposits	2.706.356	4.919.879	2.966	39.750	9.591	3.871.575	6	11.550.123	22.697.190	34.247.313
Due to international organizations	-	-	-	-	-	-	-	-	14.082	14.082
Other borrowed funds	-	-	-	-	-	-	-	-	26.505	26.505
Other liabilities	1.036.672	400.030	1.639	2.916	11.357	-	24.960	1.477.574	546.414	2.023.988
Deferred income tax liability	-	-	-	-	-	-	-	-	6.519.630	6.519.630
Retirement benefit obligations	-	-	-	-	-	-	-	-	172.191	172.191
Equity	-	-	-	-	-	-	-	-	54.629.350	54.629.350
<b>Total liabilities and equity</b>	<b>196.291.442</b>	<b>43.415.765</b>	<b>4.605</b>	<b>42.666</b>	<b>40.940</b>	<b>3.871.575</b>	<b>24.966</b>	<b>243.691.959</b>	<b>206.447.105</b>	<b>450.139.064</b>
<b>Net balance sheet position</b>	<b>85.501.156</b>	<b>7.068.503</b>	<b>583.743</b>	<b>7.253</b>	<b>3.874.985</b>	<b>69.333</b>	<b>3.609.051</b>	<b>100.714.024</b>	<b>(100.714.024)</b>	<b>-</b>



# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 2016 and 2015 under such an assumption is presented in the tables below:

#### Sensitivity of the net foreign currency position:

	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	-	

	31 December 2015										
	Foreign currency										
	US\$	EUR	JPY	CHF	GBP	SDR	Other	Total	TL	TOTAL	
Total assets	281.792.598	50.484.268	588.348	49.919	3.915.925	3.940.908	3.634.017	344.405.983	105.733.081	450.139.064	
Total liabilities	196.291.442	43.415.765	4.605	42.666	40.940	3.871.575	24.966	243.691.959	206.447.105	450.139.064	
Net balance sheet position	85.501.156	7.068.503	583.743	7.253	3.874.985	69.333	3.609.051	100.714.024	(100.714.024)	-	
Scenario of 10% appreciation of TL	(8.550.116)	(706.850)	(58.374)	(725)	(387.499)	(6.933)	(360.905)	(10.071.402)	10.071.402	-	

#### (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 2016

**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

The tables below summarize the Bank's exposure to interest rate risk at 31 December 2016 and 2015, 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.

30

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

## 31 December 2015

31

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 2016 and 2015, 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 2016			31 December 2015		
	US\$	EUR	TOTAL	US\$	EUR	TOTAL
Market value of the foreign currency assets	215.665.498	62.592.460	278.257.958	194.356.816	39.451.944	233.808.760
Effect of the scenario of 1% increase in interest rates	(1.376.211)	(595.257)	(1.971.468)	(1.086.881)	(787.076)	(1.873.957)

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 2016 and 2015:

	31 December 2016		
	US\$ (%)	EUR (%)	TL (%)
<b>Assets</b>			
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	-	-
<b>Liabilities</b>			
Due to banks	0,49	-	7,25
Other deposits	0,25	0,25	7,55

  

	31 December 2015		
	US\$ (%)	EUR (%)	TL (%)
<b>Assets</b>			
Due from banks	0,26	-	8,81
Financial assets at fair value through profit or loss	0,44	(0,24)	8,69
Loans and advances to customers	0,49	0,23	-
<b>Liabilities</b>			
Due to banks	0,18	-	7,25
Other deposits	0,25	0,25	7,50

(\*) Weighted average cost of the CBRT funding as of 31 December 2016.

#### (f) Liquidity risk

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

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 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
Cash	6,259,811	-	-	-	-	-	-	6,259,811	131,585	-	-	-	-	-	-	131,585
Due from banks	6,847,046	24,392,905	-	-	-	-	-	31,239,951	352	95,555,849	-	-	-	-	-	95,556,201
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
Loans and advances to customers	15,305	6,073,641	8,962,325	22,554,498	-	-	-	37,605,769	-	-	-	-	-	-	-	-
Available-for-sale financial assets	917,956	-	-	-	-	-	-	917,956	-	-	-	-	-	-	-	-
Gold reserves	15,544,937	33,904,555	-	-	-	-	-	49,449,492	416,756	-	-	-	-	-	-	416,756
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	681,885	681,885
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,761	3,761
Other assets	3,242	-	-	-	-	-	-	3,242	173,488	-	-	-	-	-	64,307	237,795
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
Current in circulation	-	-	-	-	-	-	-	-	122,959,913	-	-	-	-	-	-	122,959,913
Due to banks	-	240,745,856	-	-	-	-	-	240,745,856	1,068,543	43,275,200	-	-	-	-	-	44,343,743
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
Due to international organizations	-	-	-	-	-	-	-	-	53,354	-	-	-	-	-	-	53,354
Other borrowed funds	-	-	-	-	-	-	-	-	-	50,320	-	-	-	-	-	50,320
Other liabilities	1,318	472,888	-	-	-	-	-	1,956,201	19,330	-	90,116	-	-	-	-	109,446
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	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
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)

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

### NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

#### (f) Liquidity risk (Continued)

	31 December 2015																
	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	
Cash	4,183,399	19,712,265	-	-	-	-	-	4,183,399	105,359	-	-	-	-	-	-	105,359	4,288,758
Due from banks	4,165,757	-	-	-	-	-	-	23,878,022	5,527	95,475,069	-	-	-	-	-	95,480,596	119,358,618
Financial assets at fair value through profit or loss	-	13,284,266	37,239,386	129,499,327	61,631,123	10,047	-	241,664,149	-	1,244,664	1,112,072	418,193	6,182,589	-	-	8,957,518	250,621,667
Loans and advances to customers	12,645	3,094,317	6,255,259	13,370,480	-	-	-	22,732,701	-	-	-	-	-	-	-	22,732,701	-
Available-for-sale financial assets	753,092	-	-	-	-	-	-	753,092	-	-	-	-	-	-	-	-	753,092
Gold reserves	11,705,156	39,486,320	-	-	-	-	-	51,191,476	315,557	-	-	-	-	-	-	315,557	51,507,033
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	679,171	679,171	
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,021	5,021	
Other assets	3,144	-	-	-	-	-	-	3,144	128,447	-	-	-	-	-	61,412	189,859	193,003
Total assets	20,823,193	75,577,168	43,494,645	142,869,807	61,631,123	10,047	-	344,405,983	554,890	96,719,733	1,112,072	418,193	6,182,589	-	745,604	105,733,081	450,139,064
Currency in circulation	-	-	-	-	-	-	-	-	103,042,636	-	-	-	-	-	-	103,042,636	103,042,636
Due to banks	-	230,664,262	-	-	-	-	-	230,664,262	283,405	18,515,702	-	-	-	-	-	18,799,107	249,463,369
Other deposits	2,915,835	6,807,428	183,508	1,083,253	560,099	-	-	11,550,123	302,108	22,395,082	-	-	-	-	-	22,697,190	34,247,313
Due to international organizations	-	-	-	-	-	-	-	-	14,082	-	-	-	-	-	-	14,082	14,082
Other borrowed funds	-	-	-	-	-	-	-	-	-	26,505	-	-	-	-	-	26,505	26,505
Other liabilities	-	393,470	-	-	-	-	-	-	24,584	-	-	-	-	-	-	546,414	2,023,988
Deferred income tax liability	1,088	-	-	-	-	-	-	1,477,574	6,519,630	-	-	-	-	-	-	6,519,630	6,519,630
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	172,191	172,191
Equity	-	-	-	-	-	-	-	-	54,629,350	-	-	-	-	-	-	54,629,350	54,629,350
Total liabilities and equity	2,916,923	237,865,160	183,508	1,083,253	560,099	-	1,083,016	243,691,959	164,815,795	40,937,289	521,830	-	-	-	172,191	206,447,105	450,139,064
Net liquidity gap	17,906,270	(162,287,992)	43,311,137	141,786,554	61,071,024	10,047	(1,083,016)	100,714,024	(164,260,905)	55,782,444	590,242	418,193	6,182,589	-	573,413	(100,714,024)	-

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 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	9.174	-	-	30.011.204
Due to international organizations	53.354	-	-	-	-	-	-	53.354
Other borrowed funds	-	50.320	-	-	-	-	-	50.320
<b>Total financial liabilities</b>	<b>127.958.355</b>	<b>309.753.981</b>	<b>43.530</b>	<b>399.349</b>	<b>9.174</b>	<b>-</b>	<b>-</b>	<b>438.164.390</b>

  

31 December 2015								
	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	103.042.636	-	-	-	-	-	-	103.042.636
Due to banks	283.405	249.179.964	-	-	-	-	-	249.463.369
Other deposits	3.221.897	29.202.510	183.508	1.083.253	560.099	-	-	34.251.267
Due to international organizations	14.082	-	-	-	-	-	-	14.082
Other borrowed funds	-	26.505	-	-	-	-	-	26.505
<b>Total financial liabilities</b>	<b>106.562.020</b>	<b>278.408.979</b>	<b>183.508</b>	<b>1.083.253</b>	<b>560.099</b>	<b>-</b>	<b>-</b>	<b>386.797.859</b>

#### (g) Operational risk

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

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

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

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



# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 2016	31 December 2015	31 December 2016	31 December 2015
<b>Financial assets</b>				
Gold reserves	49.866.248	51.507.033	49.866.248	51.507.033
Due from banks	126.796.152	119.358.618	128.311.369	120.633.091
Loans and advances to customers	37.605.769	22.732.701	37.620.253	22.735.696
<b>Financial liabilities</b>				
Currency in circulation	122.959.913	103.042.636	122.959.913	103.042.636
Due to banks	285.089.599	249.463.369	285.089.599	249.463.369
Other deposits	30.009.096	34.247.313	30.006.154	34.237.451
Other borrowed funds	50.320	26.505	50.320	26.505

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 2016 and 2015.

31 December 2016	Level 1 (*)	Level 2 (**)	Level 3 (***)	Total
<b>Financial assets at fair value</b>				
<b>through profit and loss</b>				
Financial assets held for trading				
- Debt securities	300.360.047	-	-	300.360.047
<b>Available-for-sale financial assets</b>				
- Equity securities	-	917.956	-	917.956
<b>Total assets</b>	<b>300.360.047</b>	<b>917.956</b>		<b>301.278.003</b>

(\*) 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.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 2015	Level 1 (*)	Level 2 (**)	Level 3 (***)	Total
<b>Financial assets at fair value through profit and loss</b>				
Financial assets held for trading				
- Debt securities	250.621.667	-	-	250.621.667
<b>Available-for-sale financial assets</b>				
- Equity securities	-	753.092	-	753.092
<b>Total assets</b>	<b>250.621.667</b>	<b>753.092</b>		<b>251.374.759</b>

(\*) 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 2016 and 2015 comprises:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Paid-in capital	47.464	47.464
Retained earnings	64.915.649	51.111.838
Other reserves	6.804.530	3.470.048
<b>Total Equity</b>	<b>71.767.643</b>	<b>54.629.350</b>

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.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Funds lent under securities purchased under agreements to resell	71.355.625	89.537.798
Time deposits	24.392.907	19.712.264
Due from interbank money market operations	24.200.221	5.937.272
Demand deposits	6.847.399	4.171.284
<b>Total</b>	<b>126.796.152</b>	<b>119.358.618</b>

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

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	<u>Cost</u>	<u>Carrying Value</u>	<u>Cost</u>	<u>Carrying Value</u>
Turkish government bonds and treasury bills	13.913.259	13.889.108	9.096.149	8.957.518
Foreign government bonds and treasury bills	279.899.351	279.611.924	235.283.647	235.077.334
Corporate bonds of international institutions(*)	6.885.068	6.859.015	6.559.338	6.586.815
<b>Total</b>	<b>300.697.678</b>	<b>300.360.047</b>	<b>250.939.134</b>	<b>250.621.667</b>

(\*)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).

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

### NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS

	<u>31 December 2016</u>	<u>31 December 2015</u>
<b>Loans and advances to corporate entities:</b>		
Foreign country loans	15.305	13.392
Domestic loans	37.590.464	22.719.309
<b>Total performing loans</b>	<b>37.605.769</b>	<b>22.732.701</b>
Impaired loans	5.440.566	4.472.547
<b>Gross loans and advances to customers</b>	<b>43.046.335</b>	<b>27.205.248</b>
Less: Allowance for loan losses	(5.440.566)	(4.472.547)
<b>Net loans and advances to customers</b>	<b>37.605.769</b>	<b>22.732.701</b>

Movement in the allowance for loan losses is as follows:

	<u>2016</u>	<u>2015</u>
Balance at 1 January	4.472.547	3.560.589
Provision charge/(cancellation) for the year (*)	968.019	911.958
<b>Balance at 31 December</b>	<b>5.440.566</b>	<b>4.472.547</b>

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

As of 31 December 2016, the restructured loans and advances of the Bank amounted to TL 15.625 thousand (31 December 2015: TL 13.657 thousand). In accordance with the restructuring agreement of the Bank regarding the above mentioned restructured loans, the Bank forwent TL 16.585 thousand (US\$ 4.712.512) (31 December 2015: TL 13.702 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 2016 and 2015, 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 2016 and 2015 are as follows:

Name	Nature of business	<u>Ownership (%)</u>		<u>Amount</u>	
		<u>31 December 2016</u>	<u>31 December 2015</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
BIS	Banking Supervision	1,43	1,43	882.636	723.924
International Islamic Liquidity Management Corporation	Liquidity Management	13,33	13,33	35.192	29.076
SWIFT	Electronic Fund Transfer Services	0,007	0,007	128	92
<b>Total</b>				<b>917.956</b>	<b>753.092</b>

The shares of BIS have a par value of SDR 5.000 each and are paid up to SDR 1.250 each. The balance of SDR 3.750 per share is callable at three months' notice by the decision of the BIS Board and the total amount of commitment is disclosed under contingencies and commitments as of 31 December 2016 and 2015 (Note 27).

As of 31 December 2016 and 2015, 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 2016 and 2015, converted to TL at the year-end TL/SDR exchange rate. This valuation method has previously been used to establish the appropriate price for purchase and repurchase transactions in BIS share.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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:

	<u>2016</u>	<u>2015</u>
Opening balance, 1 January	753.092	628.430
Purchases	-	-
Fair value changes	164.864	124.662
Closing balance, 31 December	917.956	753.092

### NOTE 10 - GOLD RESERVES

	<u>31 December 2016</u>	<u>31 December 2015</u>
Gold bullion - International standards	49.449.492	51.191.476
Gold bullion and coins - Non-International standards	416.756	315.557
<b>Total</b>	<b>49.866.248</b>	<b>51.507.033</b>

Gold coins and bullion in the amount of TL 45.321 thousand (31 December 2015: TL 34.316 thousand) are kept in the Bank's vaults on behalf of the Turkish Treasury. Additionally, Gold bullion - International standards include TL 34.222.929 thousand (31 December 2015: TL 39.662.295 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.

### NOTE 11 - PROPERTY AND EQUIPMENT

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

	Land and buildings	Equipment and vehicles	Construction in progress	Total
<b>At 31 December 2014</b>				
Cost	704.307	200.705	5.235	910.247
Accumulated depreciation	(148.543)	(108.404)	-	(256.947)
<b>Net book value</b>	<b>555.764</b>	<b>92.301</b>	<b>5.235</b>	<b>653.300</b>
<b>Year ended as of 31 December 2015</b>				
Opening net book value	555.764	92.301	5.235	653.300
Additions	28.064	24.367	4.913	57.344
Disposals (net)(*)	(1.718)	(29)	-	(1.747)
Depreciation charge (Note 26)	(4.963)	(24.763)	-	(29.726)
<b>Closing net book value</b>	<b>577.148</b>	<b>91.876</b>	<b>10.148</b>	<b>679.171</b>
<b>At 31 December 2015</b>				
Cost	729.296	221.943	10.148	961.387
Accumulated depreciation	(152.148)	(130.068)	-	(282.216)
<b>Net book value</b>	<b>577.148</b>	<b>91.875</b>	<b>10.148</b>	<b>679.171</b>
<b>Year ended as of 31 December 2016</b>				
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)
<b>Closing net book value</b>	<b>577.355</b>	<b>79.510</b>	<b>25.020</b>	<b>681.885</b>
<b>At 31 December 2016</b>				
Cost	735.457	233.667	25.020	994.145
Accumulated depreciation	(158.102)	(154.157)	-	(312.259)
<b>Net book value</b>	<b>577.355</b>	<b>79.510</b>	<b>25.020</b>	<b>681.885</b>

(\*) In the year 2016 the Bank has disposed property and equipment with net book value of TL 264 thousands at no charge. (In the year 2015 the Bank has disposed property and equipment with net book value of TL 1.747 thousand at no charge.)

### NOTE 12 - INTANGIBLE ASSETS

	Cost	Accumulated amortisation	Net book value
Opening balance at 1 January 2015	12.752	(11.357)	1.395
Additions/(amortization charge for the period)	5.063	(1.437)	3.626
Disposals	-	-	-
<b>Balance at 31 December 2015</b>	<b>17.815</b>	<b>(12.794)</b>	<b>5.021</b>
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)	-
<b>Balance at 31 December 2016</b>	<b>20.382</b>	<b>(16.621)</b>	<b>3.761</b>

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

### NOTE 13 - OTHER ASSETS

	<u>31 December 2016</u>	<u>31 December 2015</u>
Prepaid expenses	71.747	71.620
Raw material and work-in-progress	50.983	48.379
Electronic Fund Transfer ("EFT") commission income accrual	15.601	14.045
Other materials and other stores	13.323	9.302
Letter of credit expenses of banknote printing office	352	5.527
Charges and commissions due from Treasury (*)	25.909	21.607
Other (**)	63.122	22.523
<b>Total</b>	<b>241.037</b>	<b>193.003</b>

(\*) 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.

(\*\*) As at 31 December 2016 there are prepaid taxes of TL 45.646.

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

	<u>2016</u>	<u>2015</u>
Balance at 1 January	103.042.636	85.118.222
Banknotes issued into circulation	55.309.941	45.739.890
Banknotes withdrawn from circulation and destroyed	(35.245.518)	(27.815.476)
Expired Banknotes	(147.146)	-
<b>Balance at 31 December</b>	<b>122.959.913</b>	<b>103.042.636</b>

### NOTE 15 - DUE TO BANKS

	<u>31 December 2016</u>	<u>31 December 2015</u>
Deposits for reserve requirement obligations	184.905.999	207.708.761
Current accounts of banks	100.183.600	41.754.608
<b>Total</b>	<b>285.089.599</b>	<b>249.463.369</b>

Required reserves are calculated over total domestic liabilities of banks according to the banking legislation effective in Turkey, after deductions determined in the Communiqué, No. 2005/1 on Required Reserves and deposit/participation funds accepted by banks in Turkey on behalf of foreign branches and loan amounts provided by banks and followed up in foreign branches and are deposited to the Bank. 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.



# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

### NOTE 16 - OTHER DEPOSITS

	<u>31 December 2016</u>	<u>31 December 2015</u>
Deposits by citizens abroad	2.941.203	3.911.127
Deposits of Turkish Treasury	25.067.320	28.660.279
Deposits of state owned funds	1.992.276	1.667.907
Deposits of state owned entities	8.297	8.000
<b>Total</b>	<b>30.009.096</b>	<b>34.247.313</b>

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 19.360.336 thousand (31 December 2015: TL 23.479.905 thousand).

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

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	Interest rate (%)	TL	Interest rate (%)	TL
EUR	0,00% - 0,25%	2.774.338	0,25%	3.699.238
US\$	0,00% - 0,25%	132.779	0,25%	170.571
CHF	0,00% - 0,25%	32.831	0,25%	39.739
GBP	0,00% - 0,25%	1.255	0,25%	1.579
<b>Total</b>		<b>2.941.203</b>		<b>3.911.127</b>

### 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 2016 and 2015. The balance also includes amount due to Africa Development Bank. As of 31 December 2016 and 2015, 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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Funds borrowed from interbank money market	50.320	26.505
<b>Total</b>	<b>50.320</b>	<b>26.505</b>

Funds borrowed from interbank money market are denominated in Turkish Lira with 7,25% interest rate and maturity at 2 January 2017. (31 December 2015: Funds borrowed from interbank money market are denominated in Turkish Lira with 7,5% interest rate and maturity at 4 January 2016.)

### NOTE 19 - OTHER LIABILITIES

	<u>31 December 2016</u>	<u>31 December 2015</u>
Import transfer orders and deposits	1.493.912	1.093.229
Foreign money transfers with future value date	396.026	341.029
Taxes and withholdings payable	90.121	80.494
Bills and money transfer payables	12.674	4.307
Expense accruals	3.634	2.863
Other	69.280	60.728
<b>Total</b>	<b>2.065.647</b>	<b>1.582.650</b>

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

### NOTE 20 - TAXATION

	<u>31 December 2016</u>	<u>31 December 2015</u>
Corporate tax	1.625.061	2.350.351
Prepaid taxes	(1.625.061)	(1.909.013)
<b>Income taxes liability- net</b>	<b>-</b>	<b>441.338</b>

#### 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 2016 is 20% (2015: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2016 is 20%. (2015: 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 2016 and 2015, income taxes are summarized as follows;

	<u>2016</u>	<u>2015</u>
- Corporate tax	1.625.061	2.350.351
- Deferred tax expense / (income)	3.389.140	1.717.981
<b>Tax expense/(income)</b>	<b>5.014.201</b>	<b>4.068.332</b>

#### 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.

For calculation of deferred tax asset and liabilities, the rate of 20% (2015: 20%) is used.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 2016 and 2015 using enacted tax rates are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Retirement benefit obligations	194.805	172.191	38.961	34.438
Net differences between carrying value and tax base of property and equipment and intangible assets	34.653	36.559	6.931	7.312
Other	18.982	15.745	3.796	3.149
<b>Total Assets</b>	<b>248.440</b>	<b>224.495</b>	<b>49.688</b>	<b>44.899</b>
Valuation account to income statement (*)	(53.408.966)	(32.651.757)	(10.681.797)	(6.530.351)
Fair value differences of financial assets	(835.293)	(683.558)	(41.765)	(34.178)
<b>Total Liabilities</b>	<b>(54.244.259)</b>	<b>(33.335.315)</b>	<b>(10.723.562)</b>	<b>(6.564.529)</b>
<b>Net Liability</b>	<b>(53.995.819)</b>	<b>(33.110.820)</b>	<b>(10.673.874)</b>	<b>(6.519.630)</b>

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

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

	<u>2016</u>	<u>2015</u>
<b>Balance at 1 January</b>	<b>6.519.630</b>	<b>4.560.760</b>
Deferred income tax charge to income statement, net	3.389.140	1.717.981
Deferred income tax charge to equity	765.104	240.889
<b>Balance at 31 December</b>	<b>10.673.874</b>	<b>6.519.630</b>

The reconciliation for taxation charge is stated below:

	<u>2016</u>	<u>2015</u>
<b>Profit / (loss) before income taxes</b>	<b>28.130.177</b>	<b>24.805.183</b>
Tax charge calculated at a tax rate of 20%	5.626.035	4.961.037
Income exempt from taxation	(629.749)	(913.070)
Non-deductible expenses	17.915	20.365
<b>Income tax expense / (income)</b>	<b>5.014.201</b>	<b>4.068.332</b>

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

(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 4.297 (2015: TL 3.828) 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:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Discount rate (%)	3,99	3,99
Rate to estimate the probability of retirement (%)	99	99

Additionally, the principal actuarial assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL 4.426 effective from 1 January 2017 (1 January 2016: TL 4.093), 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:

	<u>2016</u>	<u>2015</u>
<b>At 1 January</b>	<b>172.191</b>	<b>142.191</b>
Service cost	25.166	30.359
Interest cost	6.889	5.673
Paid during the year	(9.441)	(6.032)
<b>Balance at 31 December</b>	<b>194.805</b>	<b>172.191</b>

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

### NOTE 22 - NET INTEREST INCOME

	<u>2016</u>	<u>2015</u>
<b>Interest income on:</b>		
Securities purchased under agreements to resell	7.131.918	5.841.938
Financial assets at fair value through profit or loss	2.744.355	2.238.649
Interest received from interbank money market transactions	1.246.627	176.933
Loans and advances to customers	164.674	74.837
Due from banks	183.521	26.415
<b>Total</b>	<b>11.471.095</b>	<b>8.358.772</b>
<b>Interest expense on:</b>		
Interest expense due to Treasury(*)	1.405.170	1.402.705
Due to banks (**)	1.705.172	577.122
Other deposits	2.655	13.652
Due to IMF	3.967	2.098
Interest paid to the interbank money market transactions	2.661	1.808
Securities sold under agreements to repurchase	85	-
<b>Total</b>	<b>3.119.710</b>	<b>1.997.385</b>

<b>Net interest income</b>	<b>8.351.385</b>	<b>6.361.387</b>
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(\*)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

	<u>2016</u>	<u>2015</u>
<b>Fee and commission income:</b>		
EFT commission income	250.810	228.088
Commissions due from Treasury (***)	154.092	136.098
Gold custody fee	81.989	72.245
Commissions charged from the bank teller operations centre	3.313	5.399
Commissions from foreign exchange and effective market transactions	136	22
Other	11.962	35.440
<b>Total</b>	<b>502.302</b>	<b>477.292</b>
<b>Fee and commission expense:</b>		
Correspondent bank accounts	4.315	3.341
Other	12.859	11.194
<b>Total</b>	<b>17.174</b>	<b>14.535</b>

<b>Net fee and commission income</b>	<b>485.128</b>	<b>462.757</b>
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(\*\*\*) 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.

### NOTE 24 - DIVIDEND INCOME

	<u>2016</u>	<u>2015</u>
Available-for-sale securities	6.562	6.355
<b>Total</b>	<b>6.562</b>	<b>6.355</b>

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

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

	<u>2016</u>	<u>2015</u>
Foreign exchange gains/(losses), net		
- translation gains/(losses), net	16.956.526	8.605.583
- transaction gains, net	5.232.134	12.472.394
<b>Total</b>	<b>22.188.660</b>	<b>21.077.977</b>

As of 31 December 2016 and 2015, 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

	<u>2016</u>	<u>2015</u>
Wages and salaries	687.093	631.546
Administrative expenses	195.472	177.377
Social security costs	85.590	81.422
Depreciation and amortization (Notes 11 and 12)	34.140	31.163
Other	2.113	2.388
<b>Total</b>	<b>1.004.408</b>	<b>923.896</b>

The average number of personnel employed by the Bank during the year 2016 was 4.687 (2015: 4.764).

### NOTE 27 - COMMITMENTS AND CONTINGENT LIABILITIES

	<u>31 December 2016</u>	<u>31 December 2015</u>
Guarantees taken	72.822.933	50.663.534
BIS shares call option (Note 9)	142.029	121.110
<b>Total</b>	<b>72.964.962</b>	<b>50.784.644</b>

As of 31 December 2016, there are a number of legal proceedings outstanding against the Bank amounting to TL 4.253 thousand, US\$ 64.596.952 and EUR 222.397 (31 December 2015: TL 4.369 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.

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

### NOTE 28 - SHARE CAPITAL

The shareholder structure of the Bank as at 31 December 2016 and 2015 is as follows:

	31 December 2016		31 December 2015	
	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
<b>Paid-in capital</b>	<b>25</b>	<b>100</b>	<b>25</b>	<b>100</b>
<b>Inflation adjustment on paid-in capital</b>	<b>47.439</b>		<b>47.439</b>	
<b>Total paid-in capital</b>	<b>47.464</b>		<b>47.464</b>	

According to 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 29 - RETAINED EARNINGS AND LEGAL RESERVES

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

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

- 20% to the reserve fund,
- 6% over the nominal value of the equity shares to the shareholders as an initial dividend,
- 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,
- Subject to the decision of the General Assembly a maximum of 6% over the nominal value of the equity shares to the shareholders as the secondary dividend.

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

### NOTE 30 - CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash	6.391.397	4.288.758
Due from banks (excluding accrued interest)	126.727.996	119.288.185
<b>Total</b>	<b>133.119.393</b>	<b>123.576.943</b>

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

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

### NOTE 31 - RELATED PARTY BALANCES AND TRANSACTIONS

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

#### (i) Balances with related parties

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
<b>Assets:</b>		
Financial assets at fair value through profit or loss <sup>(1)</sup>	13.889.108	8.957.518
Due from banks <sup>(2)</sup>	45.016.152	44.254.099
<b>Liabilities:</b>		
Due to banks <sup>(3)</sup>	188.248.332	173.017.372
Other deposits <sup>(4)</sup>	25.290.691	28.879.112

<sup>(1)</sup> Includes government bonds issued by Turkish Treasury.

<sup>(2)</sup> Includes receivables from shareholders as part of securities purchased under agreements to resell and interbank foreign currency transactions.

<sup>(3)</sup> Includes required reserve deposits of shareholders.

<sup>(4)</sup> Includes deposits of state controlled entities and Turkish Treasury.

#### (ii) Transactions with related parties

	<u>2016</u>	<u>2015</u>
Salaries and other short-term benefits to key management	5.508	5.402
Interest income <sup>(1)</sup>	586.128	521.901
Interest expense <sup>(2)</sup>	2.696.755	1.648.178
Fee and commission income <sup>(3)</sup>	255.591	232.841
Dividends paid to shareholders	9.303.015	5.801.441
Dividends paid to employees	9.150	8.357

<sup>(1)</sup> Includes interest income of government bonds issued by Turkish Treasury.

<sup>(2)</sup> Includes interest expense paid on deposits of shareholders.

<sup>(3)</sup> Includes Electronic Fund Transfer commissions from shareholders of the Bank and commission and charges due from Treasury and state controlled entities.

### NOTE 32 - SUBSEQUENT EVENTS

None.