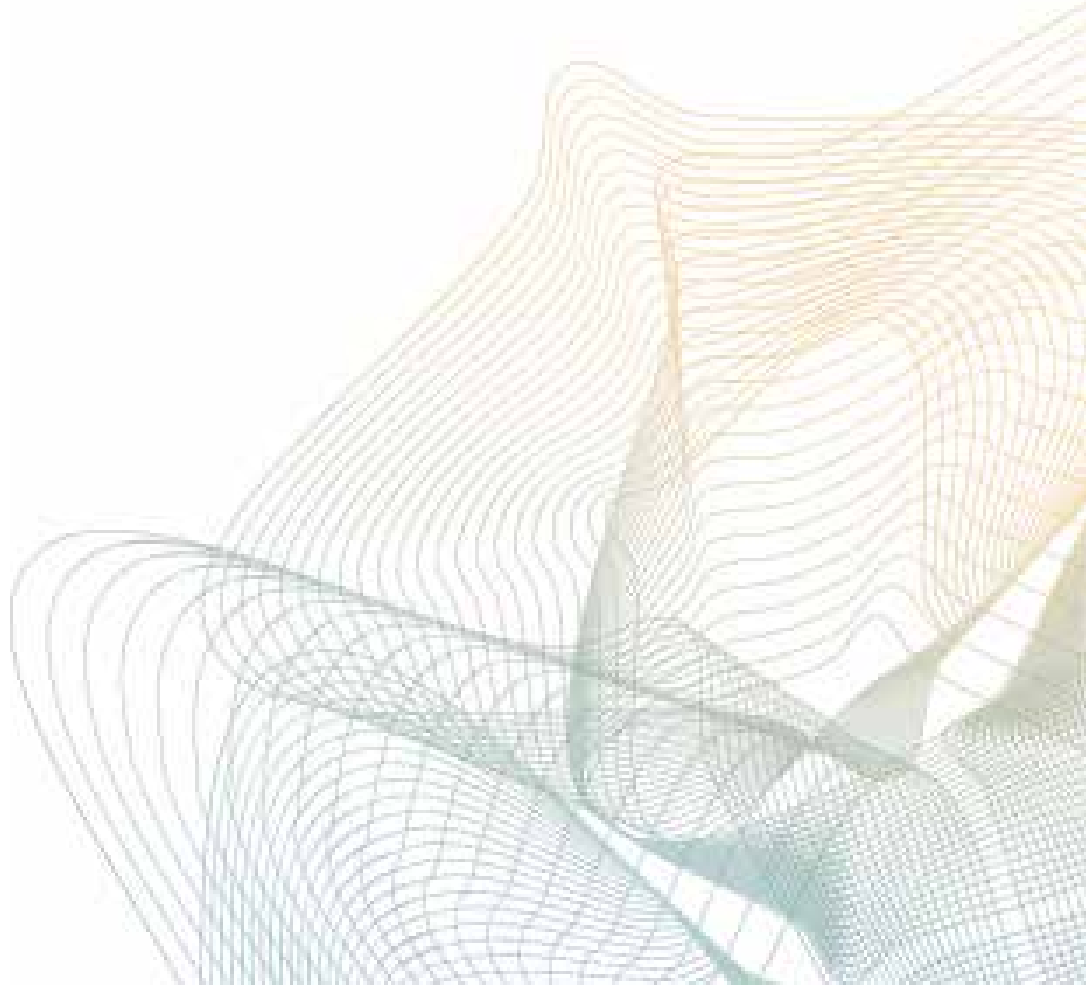




Annual Report 2017



Held for the first time in 2017, the CBRT's "Economy and the Human Being" international photography contest attracted great attention.

Three award-winning entries from the contest are included in our 2017 Annual Report:

- "Strawberries" by Seyit Konyali
- "Dream Fisherman Song" by Xinghua Chen
- "Data" by Merve Arslan

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Trade Registry Number: 269

2017 Annual Report Drawn up by the Board for the
Eighty-Sixth Accounting Year Submitted to the General
Assembly of Shareholders on 12 April 2018
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2018

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[Türkiye Cumhuriyet Merkez Bankası](#)



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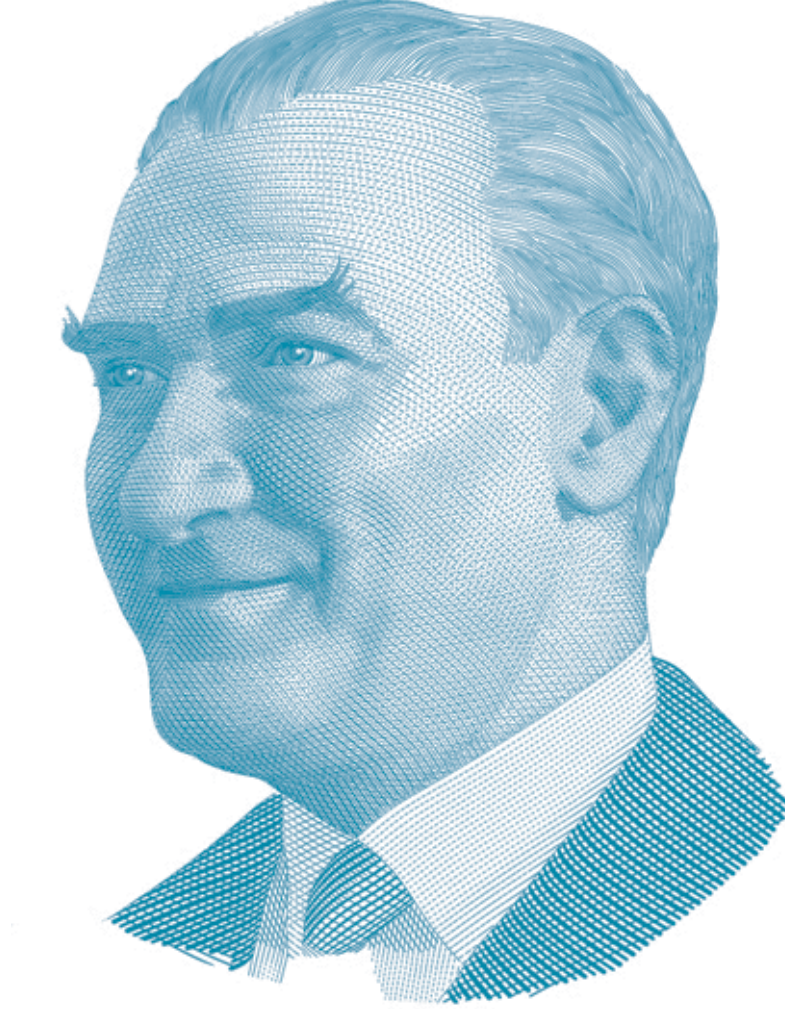
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Portrait, E-9 Emission Group
Designs for the obverses of Series I, TL 20 and TL 50 denomination notes
are portrayed.

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Abbreviations

BCBS	Basel Committee on Banking Supervision	IFRS	International Financial Reporting Standards
BIS	Bank for International Settlements	IILM	International Islamic Liquidity Management Corporation
BIST	Borsa Istanbul	İMB	Istanbul School of Central Banking
BKM	Interbank Card Center	IMF	International Monetary Fund
BoE	Bank of England	IMM	Interbank Money Market
BPS	Banknote Processing Systems	IOSCO	International Organization of Securities Commissions
CBRT	Central Bank of the Republic of Turkey	ISAs	International Standards on Auditing
CCP	Central Counterparty	IT	Information Technology
CMS	Cash Management System	KBA	Koenig & Bauer
CPI	Consumer Price Index	KGF	Credit Guarantee Fund
CPMI	Committee on Payments and Market Infrastructures	LLW	Late Liquidity Window
CRAs	Credit Rating Agencies	MENA	Middle East and North Africa
e-BDS	The Electronic Board of Director System	MKK	Central Securities Depository of Turkey
EC	European Commission	MoU	Memorandum of Understanding
ECB	European Central Bank	MPC	Monetary Policy Committee
ECCBSO	European Committee of Central Balance-Sheet Data Offices	MPTS	Mastercard Payment Transaction Services Turkey
EDDS	Electronic Data Delivery System	OIC	Organization of Islamic Cooperation
EFC	Economic & Financial Committee	ROM	Reserve Options Mechanism
EFT	Electronic Funds Transfer System	RRR	Reserve Requirement Ratio
EU	European Union	SDR	Special Drawing Right
Fed	Federal Reserve	SG	Strategic Goal
Food Committee	Food and Agricultural Product Markets Monitoring & Evaluation Committee	SWIFT	Society for Worldwide Interbank Financial Telecommunication
FSB	Financial Stability Board	Takasbank	Istanbul Clearing & Custody Bank
FSC	Financial Stability Committee	TCC	Turkish Commercial Code
FX	Foreign Exchange	TL	Turkish Lira
FXRIC	Foreign Exchange Risk Management and Investment Committee	Treasury	Republic of Turkey Prime Ministry Undersecretariat of Treasury
G&D	Giesecke & Devrient	TSE	Turkish Standards Institution
GDP	Gross Domestic Product	Turk Eximbank	Export Credit Bank of Turkey
GRA	General Resource Account	TurkStat	Turkish Statistical Institute
IBAN	International Bank Account Number	TÜYİD	Turkish Investor Relations Society
ICH	Interbank Clearing Houses Center	USA	United States of America
IDLF	Intraday Liquidity Facility	YtD	Year to Date
IESBA Code	International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants		

Foreword



Murat Çetinkaya
Governor

For the Central Bank of the Republic of Turkey (CBRT), 2017 was a year in which comprehensive efforts were made to fulfill the bank's statutorily-mandated duty of achieving price stability and maintaining financial stability. To achieve lasting price stability, an integrated strategy was formulated taking structural elements into account as well. In line with this strategy, which was publicly announced, the CBRT proactively deployed monetary policy tools in its efforts to combat inflation, and sought to mitigate risks by increasing stakeholder awareness of economic structural elements and by also involving them in the effort.

Mindful of the effects of global and domestic developments on the national economy and taking steps to safeguard stability, the CBRT markedly tightened its monetary policy stance in order to contain upside risks to price stability. The predictability of the Bank's monetary policy framework was substantially increased. Supportive practices were introduced in order to head off unsound market price formations that were deemed to be inconsistent with economic fundamentals. The establishment of a "Foreign Exchange Deposits Against Turkish Lira Deposits" market and the facility allowing export rediscount credits to be repaid in Turkish liras in certain periods have been realized within this context.

To achieve price stability, the CBRT continued coordinated work on structural issues. The positive effects of the measures taken by the Food and Agricultural Product Markets Monitoring & Evaluation Committee (Food Committee), for which the CBRT began providing the secretariat, in effective collaboration with stakeholders began to manifest themselves in 2017. These measures, which focus on pricing behavior, market mechanisms, supply chain, and productivity, are expected to contribute to price stability in the medium term.

Through the guidance of the Financial Stability Committee, the CBRT carried out work to more effectively manage the real sector's exchange rate risk, which is a matter of significant concern from the standpoint of price stability and financial stability. A Systemic Risk Data Monitoring Model was formulated to permit firms' FX assets and liabilities to be monitored in a timely and continuous manner. The first-stage objective of this was an arrangement establishing linkages between firms' foreign currency earnings and their debts. Work is currently in progress to make rule and regulatory changes that will improve the risk-management framework.

Proactive use was made of communication channels in order to increase the effectiveness and public awareness of monetary policy. Meetings continued to be held with firms to strengthen communication ties with real-sector representatives. Meetings focusing on technical issues were also regularly held with investors and analysts. Memorandums of understanding were signed to strengthen communication with global and regional stakeholders. Within the framework of steps taken to reinforce institutional knowledge and experience, various conferences, seminars, panel discussions, and workshops were conducted at both the national and the international level.

For the CBRT, 2017 was also a year in which a number of corporate transformation projects were carried out. In line with its basic goal of becoming an exemplary central bank that adheres to the best globally-recognized standards and is open to continuous development, steps were taken to increase competency and productivity with the aims of improving business processes, strengthening the technological infrastructure, and raising the standards of human resources practices.

In line with its statutorily-mandated duty of achieving and maintaining price stability, the CBRT continues to support the balanced and sustainable growth of the Turkish economy. In keeping with the consensus arrived at with the government in the process of laying out the country's Medium-Term Program, annual inflation for the 2018-2020 period is targeted to converge at the 5 percent level towards the latter year. The CBRT will continue to make effective use of all available policy tools to gradually achieve that target. The most important duty incumbent upon us is to continue moving in the direction of our fundamental goals. I am fully confident that, with the additional support of structural measures to be taken in the period ahead, we will continue to advance gradually but surefootedly on the path of price stability.

Central Bank of the Republic of Turkey 2014-2018 Strategic Plan

OUR VISION

To be one of the World's leading central banks, with its independence, sound organizational structure, highly qualified employees, technological advantages and capacity to achieve effective results.

OUR MISSION

To design and implement policies to achieve price stability and contribute to financial stability for the sound functioning of money, credit and capital markets along with all other sectors of the economy; manage foreign exchange and gold reserves; issue the country's banknotes; ensure continuity of the safe circulation of banknotes; steer the development of payment and securities settlement systems, supervise them and also establish and operate systems when necessary; increase the effectiveness of the CBRT on a regional and global scale by strengthening international relations; add value to its employees, stakeholders and the community as called for by its corporate governance structure and the values of transparency and accountability.

OUR VALUES

1. Independence

2. Transparency and Accountability

3. Credibility

4. Public Interest

5. Effectiveness and Efficiency

Strategic Areas and Strategic Goals

The strategic goals of the CBRT are defined under three areas: public, global and corporate.

Public Area

SG-1. Achieve price stability.

SG-2. Contribute to financial stability.

Global Area

SG-1. Play an influential role in the international scene.

SG-2. Increase prestige in the international arena through research and capacity building activities.

Corporate Area

SG-1. Execute the primary tasks on the basis of the efficiency and effectiveness principles and ensure corporate development.

SG-2. Strengthen corporate identity and internal communication.

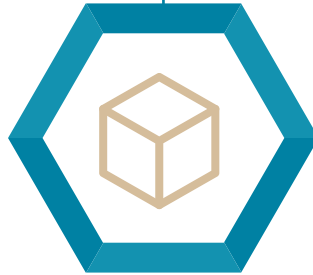
An Overview of 2017



FOCUSING ON PRICE STABILITY

In line with its primary objective of achieving price stability, the CBRT continued to make use of an appropriate mix of monetary policy and liquidity tools in such a way as to support the predictability of monetary policy.

- Exchange rate volatilities at the beginning of 2017 and their impact on the inflation outlook set the tone of monetary policy decisions early in the year. In January 2017, interest rates were raised.
- One-week repo auctions ceased to be held as of 12 January 2017.
- In order to make Turkish lira and foreign currency liquidity management more flexible and to increase the variety of tools available for it, a “Foreign Exchange Deposits Against Turkish Lira Deposits Market” was launched on 17 January 2017.
- The Late Liquidity Window (LLW) lending interest rate, which was 10 percent at the beginning of 2017, was raised to 11.75 percent in March and to 12.25 percent in April. The LLW became an increasingly greater component of the CBRT’s funding composition as the year progressed.
- Turkish Lira (TL)-Settled Forward Foreign Exchange Auctions were initiated on 20 November 2017 in order to effectively manage the real sector’s exchange rate risk.
- In December, a decision was made to further tighten the bank’s monetary stance and the cost of funding was raised to 12.75 percent.
- The predictability of monetary policy was significantly enhanced by consistently directing much of the Bank’s funding through a single channel all year long in 2017.
- Export rediscount credit borrowers were given the opportunity to repay specified portions of their obligations in Turkish liras that were converted at fixed rates.



BEING STRAIGHTFORWARD, PLAIN, AND UNDERSTANDABLE

- More effective use was made of the CBRT Blog in 2017.
- The blog seeks to provide clear, simple, and straightforward information about policy measures, and about published reports and data that is understandable not just to experts but to everybody. To accomplish this, active use is made of multimedia tools such as infographics, visual summaries, and videos as well as of social media accounts.
- An initiative called Herkes İçin Ekonomi [Economics For All] was launched to reach out to different target audiences through financial literacy and economics education activities.
- In the scope of financial education, information meetings were held for university students, schools were visited, and various other associated activities were carried out.
- Face-to-face and technical-level meetings were held with domestic and international investors, analysts, and economists in order to contribute to the understandability of CBRT policies.



BEING ACCESSIBLE & DIRECTLY ENGAGED

- As a part of its efforts to understand and keep track of the real sector, the CBRT engaged in close communication with real-sector actors. The Bank got first-hand information from firms through face-to-face discussions with their representatives.
- In line with its goal of maintaining effective communication channels with the real sector, the CBRT founded regional offices in Adana, Ankara, Istanbul (Asian side), Istanbul (European side), and Izmir.
- The efforts of the Food Committee, for which the CBRT serves as the secretariat, have begun to have a positive impact.
- The CBRT has been statutorily authorized to demand any and all manner of information and documents that will help it to monitor transactions that affect the foreign currency positions of real persons and legal entities.



INCREASING EFFICIENCY BY USING TECHNOLOGY MORE EFFECTIVELY

- The CBRT's Electronic Data Delivery System (EDDS) was put into service on 20 October after undergoing a makeover. One of the improvements includes a feature that allows users to generate reports according to their particular requirements.
- In order to make more active use of state-of-the-art communication tools, preparations were completed for the installation of the technical infrastructure needed for webcasts. Two webcasts introducing the new EDDS were presented in 2017.
- The CBRT Information Technologies Department carried out a large number of infrastructure and other projects.
- Project-based R&D work was carried out at the CBRT Banknote Printing Plant in order to contribute to improvements in the Bank's banknote production processes.
- The Cash Management System ensured increased automation and reduced costs and risks through the use of more effective information flows in the CBRT's banknote collection and disbursement transactions with banks.
- The CBRT's registered email address (merkezbankasi@hs02.kep.tr) was made generally available for sending and receiving all email messages and documents that bear electronic signatures.
- All documents and files dating back to the establishment of the CBRT in 1931 that were previously maintained in separate Head Office and branch archives have been recorded in electronic format and are now being kept in the corporate archives of the now operational CBRT Archive Management System.



BEING EFFECTIVE IN THE INTERNATIONAL ARENA

- International conferences and meetings were organized and attention was given to regional cooperation efforts.
- The CBRT played an active role in international gatherings such as the Organization of Islamic Cooperation's Meeting of Central Banks and Monetary Authorities, and the Governors' Club Meeting.
- Attention was given to increasing communication and bilateral cooperation with other central banks.
- The scope of the CBRT's international collaboration network was expanded with the signing of new memorandums of understanding.



HAVING CULTURAL, ARTISTIC, AND SOCIAL AWARENESS

- Exhibitions of outstanding works selected from the CBRT Art Collection were held abroad.
- An international photography contest, "Economy and the Human Being", was organized, attracting a large number of submissions from thirty countries.
- The CBRT engaged in social responsibility activities and continued to contribute to academic studies by providing grants and support.
- The seventh in the series of "Central Bank of the Republic of Turkey Research Awards" was handed out in support of the Bank's efforts to fund academic work in the areas of the Turkish economy, emerging economies, and central banking and to make such studies accessible to wider audiences.
- The Bank organized a variety of sport and social events in Turkey while also participating in activities that were conducted abroad.

2017 by the Numbers



3,730
Employees



TL **131.4** billion
Amount of banknotes in
circulation



1.9 billion
Number of banknotes in
circulation



55.4%
Share of TL 50 and TL 100
banknotes in the total number
of banknotes in circulation



565.1 tons
Gold holdings



21.9%
Share of gold holdings in total
reserves



USD **12.5** billion
Rediscount credits' contribution
to CBRT's net FX reserves



TL **77** trillion
Total amount of transactions
through payment systems



10
Memorandums of
understanding signed



1,800

Students participated in
CBRT University Gatherings



21

Working papers



5,428

People attended training
programs



15

Research Notes in Economics



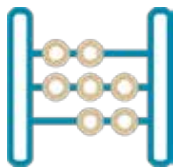
51

Press releases



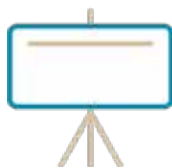
1,418

Students took part in
the CBRT's introductory/
internship programs



27

Academic programs
financially supported by the
CBRT



96

Students received CBRT
scholarships



1,581

Firms met with in the course
of CBRT real sector research

PART 1 GENERAL INFORMATION



Photograph: Seyit Konyalı - Strawberries



Established as a joint-stock company on 30 June 1930, the CBRT commenced operations on 3 October 1931 in Ankara.

CBRT's share capital amounts to TL 25,000 and is divided into four classes of shares designated as "A", "B", "C", and "D". Class A shares belong to the Turkish Treasury and by law cannot amount to less than 51 percent of the Bank's total capital. Class B shares are held by nationally-owned banks with operations in Turkey. Class C shares are held by non-national banks and by privileged companies. Class D shares are held by Turkish commercial enterprises and by real persons and legal entities that qualify as Turkish citizens. As of end-2017, these shareholding interests corresponded to 55.12 percent (A), 25.74 percent (B), 0.02 percent (C), and 19.12 percent (D) of CBRT's capital.

The Turkish Grand National Assembly delegated its constitutionally-mandated authority to print banknotes to the CBRT indefinitely. For this reason, the CBRT is the sole entity in Turkey that is allowed to print and issue banknotes.

Under an amendment to CBRT's governing law (Law No. 1211) that was passed by Turkey's parliament on 25 April 2001, the Bank's primary objective was defined as "achieving and maintaining price stability". The law also grants the CBRT the authority to set and manage monetary policy on its own and similarly to decide what tools it will use for that purpose. These provisions effectively give the CBRT instrument independence. In addition, the Bank introduces regulatory measures concerning money and FX markets that will ensure stability in the financial system. The CBRT is also charged with supporting the government's growth and employment policies insofar as doing so does not conflict with its own primary objective of price stability.

As of end-2017, the CBRT was conducting its operations through 18 departments and 21 branches located in various provinces, and had economic consultants and attaches who had been assigned to Turkish Ministry of Foreign Affairs representative offices in Frankfurt, London, New York, Tokyo, and Doha. Employing a total of 3,730 people within a dynamically changing structure in order to keep a close watch on developments taking place in Turkey and abroad, the CBRT defines and implements policies while also conducting its operations within the framework of its governing law and of the duties and authorities with which it is charged.

1.1. Governing Bodies

1.1.1 Board



Murat Çetinkaya
Governor



Mehmet Vehbi Çıtak
Member



Prof. Necdet Şensoy
Member



Prof. Sabri Orman
Member



Fatih GÜldamlasıoğlu
Member



Ömer Duman
Member



Prof. Nurullah Genç
Member

The CBRT Board consists of the Governor and six members elected by the Bank's General Assembly. Board members serve three-year terms, with one-third of them being replaced every year. The Governor is also chairman of the Board, which must convene at least once a month upon the Governor's call for a meeting. A quorum of at least two-thirds of the membership is required for a meeting to take place, and decisions are made by a majority of those present and voting.

The duties and authorities of the Board include making decisions concerning what monetary policies are to be implemented and what monetary policy instruments are to be utilized in line with monetary policy strategies and inflation targets; setting rules and making decisions on matters pertaining to banknotes in circulation; determining principles and procedures and setting rules pertaining to open market operations and foreign exchange and foreign currency transactions, to rediscount and advance transactions and respective interest rates, and to reserve requirements and the management of national gold and foreign currency reserves; preparing CBRT's budgets, annual reports, balance sheets, profit & loss statements, and General Assembly agendas; and approving staffing decisions and actions involving the Bank's administration, organization, services, and personnel.

The Board met 24 times and passed 172 resolutions in 2017.

At the annual meeting of the CBRT General Assembly held on 24 April 2017: Mehmet Vehbi Çıtak, whose term of office was due to expire at the end of the day on 30 April 2017, was re-elected to serve a three-year period beginning on 1 May 2017 and concluding at the end of the day on 30 April 2020; Ömer Duman was similarly elected to replace Lokman Gündüz, whose seat would be vacated by the end of the day on 30 April 2017, to serve a three-year period.

Fatih Güldamlaşoğlu was elected to fill a Board seat that had been vacated by the departure of Ahmet Faruk Aysan; he will hold that seat for the remainder of the former member's term of office, which expires at the end of the day on 30 April 2019.

As of 31 December 2017, the Board's membership consisted of Governor Murat Çetinkaya and of Mehmet Vehbi Çıtak, Necdet Şensoy, Sabri Orman, Fatih Güldamlaşoğlu, Nurullah Genç, and Ömer Duman.

1.1.2 Monetary Policy Committee



Murat Çetinkaya
Governor



Erkan Kilimci
Member



Murat Uysal
Member



Dr. Emrah Şener
Member



Ömer Duman
Member



Prof. Abdullah Yavaş
Member

The CBRT Monetary Policy Committee (MPC) consists of the Governor (who serves as its chairman), the deputy governors, one person chosen by the Board from among its own membership, and one person who is recommended by the Governor and appointed by a joint decision. The Treasury Undersecretary or a Deputy Undersecretary designated by him/her may attend MPC meetings but may not take part in voting.

The MPC's duties and authorities consist of determining monetary policy principles and strategies aimed at ensuring price stability; working together with the government to set inflation targets within the framework of monetary policy strategies; preparing reports at regular intervals concerning monetary policy objectives and practices, submitting these to the government, and in line with principles that it may determine, publishing them as well; and working together with the government in order to take such measures as may be needed to protect the domestic and international value of the Turkish lira and to define the exchange rate regime according to which the value of the lira against gold and foreign currencies is determined.

The MPC met 8 times in 2017. All of its decisions were published on the CBRT's main website.

At a meeting of the Board held on 25 July 2017, Board member Ömer Duman was elected to a seat on the MPC.

As of 31 December 2017, the MPC's membership consisted of Governor Murat Çetinkaya, of Board member Ömer Duman, of deputy governors Erkan Kilimci, Murat Uysal, and Emrah Şener, and of jointly-appointed Abdullah Yavaş.

1.1.3 Auditing Committee



Mehmet Ziya Gökalp
Member



Assoc. Prof. Mehmet Babacan
Member



Mehmet Kaya
Member



Zekeriya Kaya
Member

The CBRT Auditing Committee consists of four members elected by the General Assembly. They serve two-year terms of office.

The Auditing Committee is charged with overseeing all CBRT operations and accounts. The Committee submits its findings to the Board and also sends one copy of them to the Prime Ministry. Upon the conclusion of each year, the Committee prepares a report concerning the year's operations and accounts that it submits to the CBRT General Assembly.

At the annual meeting of the General Assembly held on 24 April 2017, the following elections were held for the seats that would be vacated at the end of the day on 30 April 2017: Mehmet Babacan was re-elected to serve for another two-year period beginning on 1 May 2017 and concluding at the end of the day on 30 April 2019; Mehmet Kaya and Zekeriya Kaya were similarly elected to replace Osman Çelik and Ömer Duman.

As of 31 December 2017, the Auditing Committee's membership consisted of Mehmet Ziya Gökalp, Mehmet Babacan, Mehmet Kaya, and Zekeriya Kaya.

1.1.4 Executive Committee



Murat Çetinkaya
Governor



Erkan Kilimci
Member



Murat Uysal
Member



Dr. Emrah Şener
Member

The CBRT Executive Committee consists of the Governor and deputy governors. The Governor is appointed by a Council of Ministers resolution and serves for a five-year term of office. Deputy governors, who are recommended by the Governor, are appointed by joint decision to serve for five-year terms. Executive Committee decisions require a majority of all members.

In situations where it is deemed necessary, the Executive Committee examines issues that require a CBRT Board resolution, and prepares proposals for action that are submitted to the Board. The Committee also draws up regulations pertaining to the CBRT's administration, organization, and services. The Executive Committee's other duties and authorities include ensuring coordination in the conduct of the Bank's affairs and making decisions on such matters as the appointment, remuneration, dismissal, and retirement of officers and employees other than those personnel who are appointed by the Board itself.

As of 31 December 2017, the Executive Committee's membership consisted of Governor Murat Çetinkaya and deputy governors Erkan Kilimci, Murat Uysal, and Emrah Şener.

1.1.5 Financial Benefits Provided to Senior Management

Pursuant to articles 19, 22/A, 24, and 33 of the CBRT Law No. 1211, the Council of Ministers has the authority to determine the monthly salaries and representation allowances that are paid to CBRT governors and deputy governors, the monthly salaries and duty compensations that are paid to CBRT Board and Monetary Policy Committee members, and the salaries that are paid to Auditing Committee members. The gross amount paid to all these members of CBRT's senior management amounted to TL 6,158,298 in 2017.

1.1.6 Head Office Departments

By 31 December 2017		
Accounting	Executive Director	İrfan Yanar
Audit	Executive Director	Mehmet Düzgün
Banking and Financial Institutions	Executive Director	Yavuz Yeter
Banknote Printing Plant	Executive Director	Selahattin Akkaş
Communications and Foreign Relations	Executive Director	Hakan Atasoy
Human Resources	Executive Director	Dr. Sinan Binbir
Information Technologies	Executive Director	Ayşe Gül Sayın
Issue	Executive Director*	Dr. Emrah Ekşi
Istanbul School of Central Banking	Executive Director	Ergün Meriç
Legal	Chief Legal Counsel and Executive Director *	Sıtkı Eroğlu
Logistics	Executive Director	Memet Taşkın
Markets	Executive Director	Orhan Kandar
Operations and Support Services Coordinator	Operations and Support Services Coordinator	Erol Göncü
Payment Systems	Executive Director	Mustafa Ömer Okay
Research and Monetary Policy	Executive Director	Dr. Pınar Özlü
Statistics	Executive Director	Gülbin Şahinbeyoğlu
Strategy and Corporate Governance	Executive Director*	Dr. İbrahim Ethem Güney
Structural Economic Research	Executive Director	Assoc. Prof. Semih Tümen
Workers' Remittances	Executive Director	Dr. Ali Çufadar

* Acting

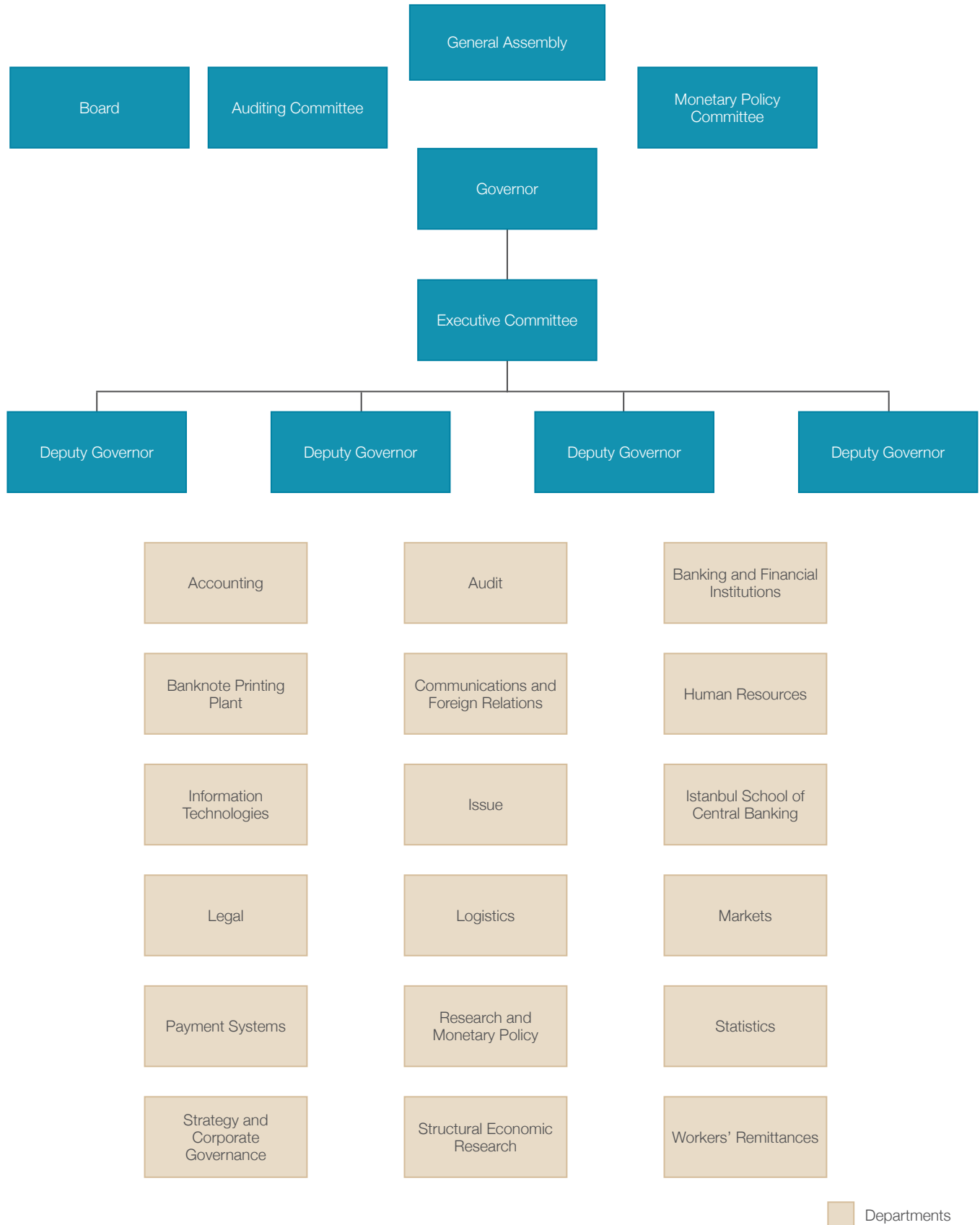
1.1.7 Branches

By 31 December 2017

Branch Coordinator	Branch Coordinator	Ayhan Aydın
Adana Branch	Director*	Emel Aksoy
Ankara Branch	Director	Dr. Yusuf Bora Enhoş
Antalya Branch	Director*	Sibel Nilüfer Erim
Bursa Branch	Director*	Lütfi Soylu
Denizli Branch	Director	Mustafa Alpar
Diyarbakır Branch	Director	Cihat Yücel
Edirne Branch	Director*	Ayşen İşcan
Erzurum Branch	Director*	Ali Bakır
Eskişehir Branch	Director	Nilüfer Aydemir
Gaziantep Branch	Director	Oğuzhan Saçkan
İskenderun Branch	Director*	Mehmet Yıldırım
İstanbul Branch	Director	İsmail Fehmi Ergüder
İzmir Branch	Director	Halil Yeşilbursa
İzmit Branch	Director	Aysel Beycar
Kayseri Branch	Director*	Vasviye Kahramanlar
Konya Branch	Director	Nezihe Filiz Baysal
Malatya Branch	Director*	Emel Altay
Mersin Branch	Director*	Sevim Sağlamyaşar
Samsun Branch	Director	Mehmet Ünal Kekevi
Trabzon Branch	Director	Özgür Aydın
Van Branch	Director	İzzettin Uluat

* Acting

1.1.8 Organization Chart



1.2 Staff

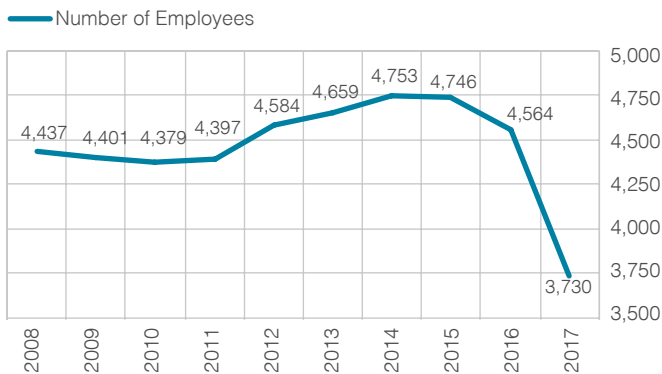
In keeping with the strategic role that it plays in the Turkish economy as well as with the various duties that it undertakes, the CBRT employs highly-qualified human resources comprised of different professions. As of 31 December 2017, the Bank had 3,730 people on its payroll.

During 2017, 908 people left the Bank's employment for such reasons as retirement, resignation, dismissal, military service obligations, and death while 74 people were hired. As a result of this, the number of people on the Bank's payroll at year-end was 3,730, which was 834 fewer than was the case twelve months earlier (Graph 1.2.1).

General administrative services accounted for the biggest (78.66 percent) share of the Bank's staffing positions. This was followed in turn by technical services (12.06 percent), auxiliary services (8.53 percent), health services (0.40 percent), and legal services (0.35 percent). Of the Bank's personnel, 79.44 percent are permanent staff and 20.56 percent are employed under contracts.

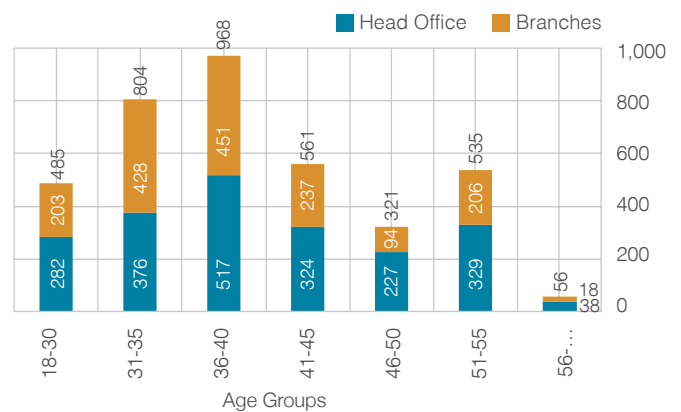
Of the CBRT's personnel, 56.11 percent are employed at the Bank's Head Office and 43.89 percent of them in its branches. A breakdown of personnel by age shows that 47.51 percent of them are in the 31-40 age group (Graph 1.2.2). On the other hand, 79.44 percent of them hold at least one associate, bachelor's, master's, or doctoral degree (Graph 1.2.3).

Graph 1.2.1: Number of Employees between 2008-2017



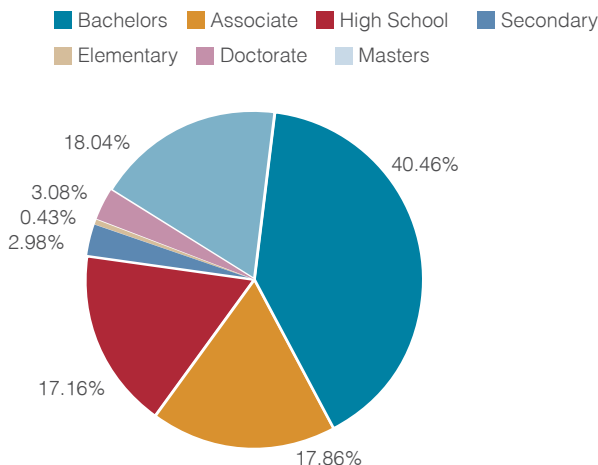
Source: CBRT

Graph 1.2.2: Age Distribution of Employees



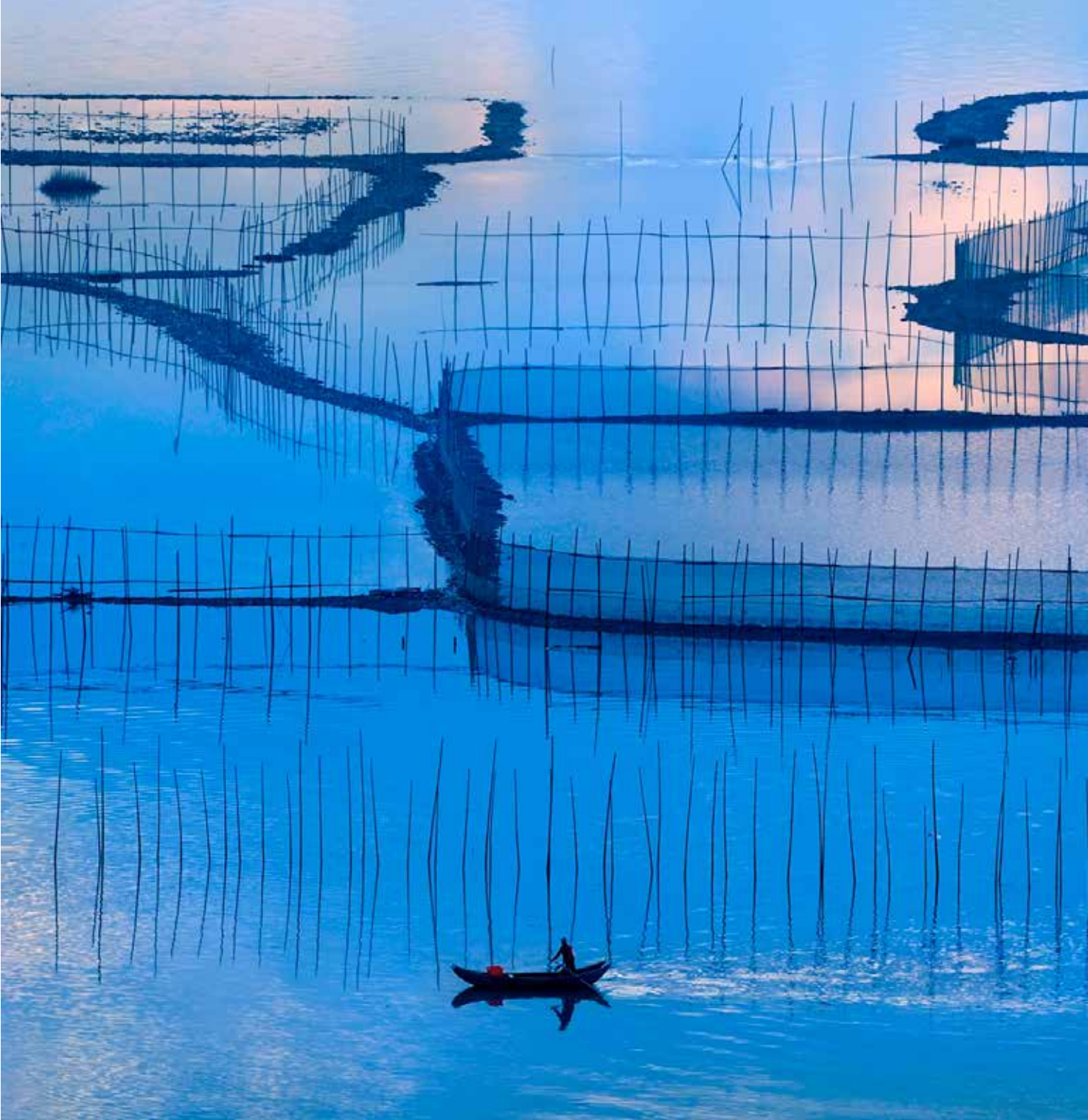
Source: CBRT

Graphs 1.2.3: Educational Distribution of Employees



Source: CBRT

PART 2 ACTIVITIES AND MAJOR DEVELOPMENTS



Photograph: Xinghua Chen - Dream Fisherman Song



2.1 Price Stability, Financial Stability and Monetary Policy

2.1.1 Overview

Despite the string of adverse shocks that it experienced in recent years, Turkey's economy has been performing better than those of other developing countries. 2017 was a year in which the economic losses suffered in 2016 were recouped. During the first nine months of 2017, the country's gross domestic product (GDP) increased by 7.4 percent as compared with the same period of the previous year. Among the principal factors supporting growth were the increased lending and improvements in domestic demand thanks to Treasury-backed Credit Guarantee Fund (KGF) guarantees and supportive macroprudential policies, the recovery in tourism revenues due to subdued geopolitical tensions, and the rise in goods exports owing especially to increased demand from European Union (EU) countries.

Annual inflation as of end-2017 was 11.92 percent, a figure that is outside the uncertainty band. The depreciation in the Turkish lira, developments in import prices and unprocessed food prices, and vigorous economic activity were the determinants of this inflation performance. Tax adjustments and real unit wages contributed less to inflation in 2017 than they did in 2016.

In the conduct of monetary policy in 2017, the CBRT sought to play a counter-balancing role all year long. Early in the year, the Bank tightened the monetary policy in order to curtail the upward risks to pricing behavior posed by volatilities in the exchange rate market. High levels of inflation and inflation expectations as well as developments in the core inflation outlook posed risks to pricing behavior, making it necessary to maintain this tight monetary policy stance for the rest of the year. Therefore, having gradually tightened monetary policy during the first four months of 2017, the CBRT subsequently maintained the same stance during the remaining eight. Nevertheless, the need for additional measures made itself felt towards the end of the year. The predictability of CBRT's monetary policy was significantly enhanced by consistently directing much of the Bank's funding through a single channel all year long in 2017.

2.1.2 Developments in 2017

Monetary Policy Developments

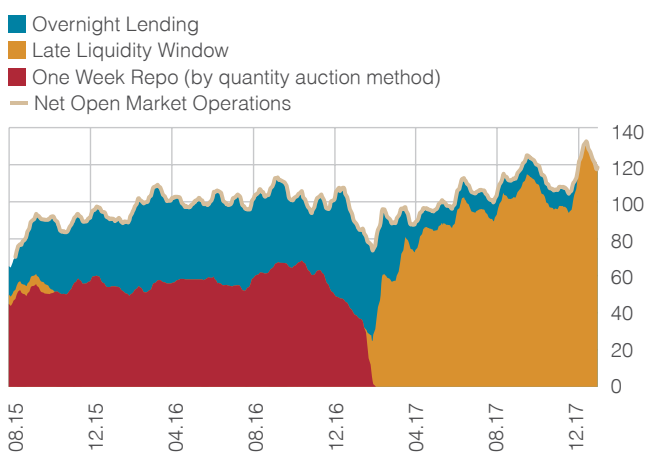
Exchange rate volatilities at the beginning of 2017 and their impact on the inflation outlook set the tone of monetary policy decisions in the first quarter of the year. Accordingly, at its January MPC meeting, the CBRT delivered a significant monetary tightening in order to curtail the deterioration in the inflation outlook. To this end, the CBRT raised its overnight lending rate to 9.25 percent from 8.5 percent and its Late Liquidity Window (LLW) lending rate to 11 percent from 10 percent. A variety of liquidity measures were also introduced in order to counter the adverse impact that the volatilities in the exchange rate market might have on price stability and financial stability. For example, the CBRT ceased to conduct its one-week repo auctions as of 12 January 2017; it began limiting the amounts of funding that it supplied via the Borsa Istanbul (BIST) Interbank Repo/Reverse Repo Market; it gradually reduced the borrowing limits that it assigned to banks taking part in its own Interbank Money Market (IMM); and it began meeting an increasingly greater portion of the system's funding need through the LLW (Graph 2.1.2.1).

In addition, the CBRT also took measures that would give it more flexibility in the management of foreign currency liquidity. Accordingly, it lowered the FX reserve requirement ratios; it launched a Foreign Exchange Deposits against Turkish Lira Deposits market; and it allowed export rediscount credits to be repaid in Turkish liras for a specific period.

By March, however, the cost-side pressures exerted by the cumulative depreciation of the Turkish lira were fueling a palpable rise in inflation notwithstanding the moderate trend in economic activity. Moreover, it was also anticipated that inflation would continue to rise in the short term owing especially to the base effect in unprocessed food prices. In view of these developments, at the March MPC meeting, the CBRT raised its LLW lending rate to 11.75 percent from 11.0 percent. Coordinated policy decisions made in the first quarter of the year sought to alleviate cost-side inflationary pressures stemming from exchange rates without imposing additional constraints on financial conditions. Indeed, as a result of the measures that were taken, improvements were observed in such financial benchmarks as exchange rate volatility, inflation compensation, and risk premiums in the first half of the year.

Despite a relative recovery in global financial conditions as of April, FX markets retained some of their volatility. However, the Turkish lira positively diverged from other developing countries' currencies in that period, and recouped some of the losses which it had previously suffered. Thanks to macroprudential policies as well as government incentives and measures aimed at supporting the financial system, lending began to regain some vigor. Coming

Graph 2.1.2.1: CBRT Funding*
(2-week MA, TL Billion)



Source: CBRT

* Marginal funding is O/N funding quoted at the upper limit of the corridor.

ON 20 NOVEMBER 2017, THE CBRT BEGAN CONDUCTING TURKISH LIRA-SETTLED FORWARD FOREIGN EXCHANGE AUCTIONS IN ORDER TO EFFECTIVELY MANAGE THE REAL SECTOR'S EXCHANGE RATE RISKS AND COUNTERACT ANY EXCESSIVE VOLATILITIES THAT MIGHT TAKE PLACE IN EXCHANGE RATES.

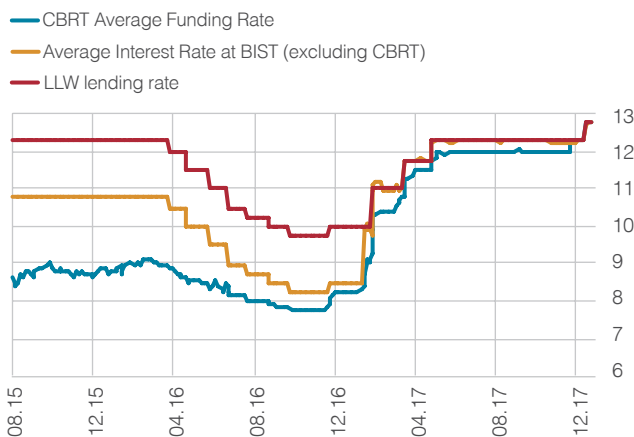
to the conclusion that the elevated level of inflation due to the lagged effects of Turkish lira depreciation, the rise in import prices, and the increase in food prices posed risks to pricing behavior, the CBRT decided at its April MPC meeting to further strengthen its monetary tightening. Consequently, the LLW lending rate was increased to 12.25 percent from 11.75 percent (Graph 2.1.2.2). Beginning in June, it was apparent that global economic activity was indeed recovering. The upward revision in global economic growth projections and subdued volatility increased the global risk appetite in this period. As a result of this, portfolio flows to developing countries remained strong. Thanks to the KGF support, commercial loan growth accelerated, and economic activity gained strength owing to supportive incentives and measures. Nevertheless, high levels of inflation and inflation expectations as well as developments in the core inflation outlook posed risks to pricing behavior. Taking these risks into account, the CBRT decided to maintain its tight monetary policy stance in June and July while it gradually strengthened the level of monetary policy prudence through its communication in September and October.

In November, various liquidity measures were taken in order to counter the adverse effects that exchange rate market volatilities and price formations inconsistent with economic fundamentals might have on price stability and financial stability (Graph 2.1.2.3). In line with this, the borrowing limits of banks taking part in the CBRT's IMM were reduced to zero on their overnight transactions. As a result of this action, the CBRT was now providing all of its funding through its LLW channel as of 22 November and the Bank's weighted average funding rate settled at 12.25 percent, which was identical to its LLW rate. Under its Reserve Options Mechanism (ROM), the CBRT lowered the upper limit of its FX facility to 55 percent from 60 percent and reduced all tranches by 5 percentage points, thereby providing the banking system with additional foreign currency liquidity. The Bank also announced that it would allow export rediscount credit borrowers to repay specified portions of their obligations in Turkish liras that were converted at fixed rates. On 20 November 2017, the CBRT additionally began conducting Turkish lira-settled forward foreign exchange auctions in order to effectively manage the real sector's exchange rate risks and counteract any excessive volatilities that might take place in exchange rates.

The high levels of inflation witnessed at year-end as well as recent developments in costs continued to exacerbate both expectation and pricing-behavior risks. For this reason, the CBRT decided to continue tightening its monetary policy stance, and at its December MPC meeting the Bank raised its LLW lending rate to 12.75 percent from 12.25 percent.

Graph 2.1.2.2: Short-Term Interest Rates

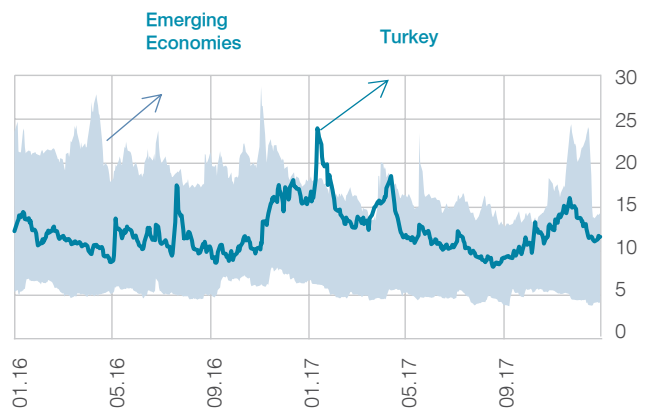
(%)



Source: BIST, CBRT

Graph 2.1.2.3: Implied FX Volatility

(1-month-ahead, %)



Source: Bloomberg.

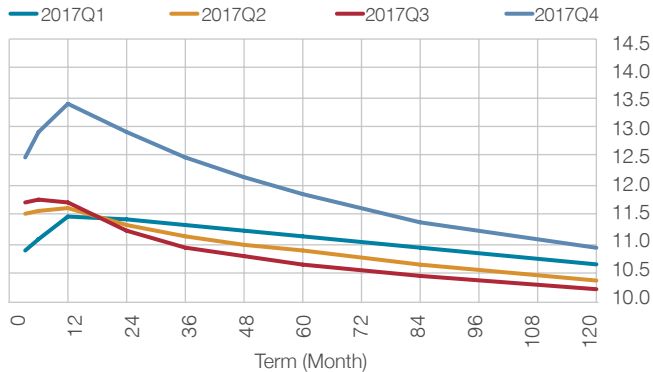
* Emerging economies include Brazil, Chile, Colombia, Hungary, Indonesia, Mexico, Philippines, Poland, Malaysia, Romania and South Africa.

Paralleling this increasingly tighter monetary policy stance, the yield curve shifted upwards at all maturities but most pronouncedly in the shorter ones, especially during the last quarter of the year (Graph 2.1.2.4). Between the middle of September and the end of November, Turkey's country risk premium diverged somewhat negatively from that of other developing countries due to geopolitical developments in its region. However, in December, Turkey's risk premium improved owing in part to increases in the global risk appetite but also to diminishing geopolitical risks and CBRT's monetary tightening efforts (Graph 2.1.2.5).

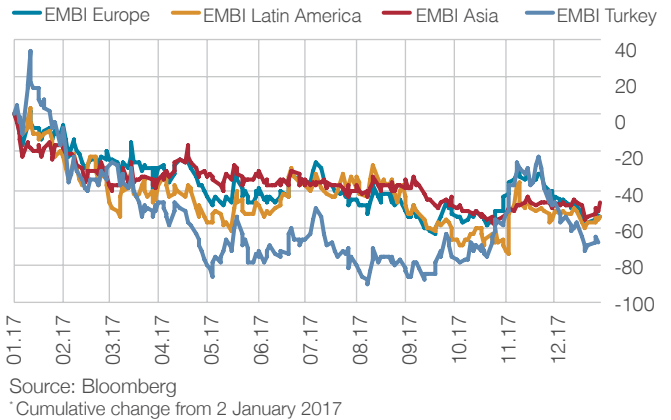
Performance improvements observed in global economic activity and signals that the process of monetary policy normalization in developed countries was likely to be moderate prompted strong and steady portfolio investment flows towards developing countries in 2017. Having lost momentum in the September-November period, inward portfolio investments in Turkey began to rise again in response to recent reductions in exchange rate market volatilities and in geopolitical risks. Indeed, when we look at the cumulative growth in such investments since the beginning of 2017, we see that portfolio investment inflows in Turkey were well above historical averages (Graph 2.1.2.6).

Thanks to macroprudential policies in support of the financial system as well as to public finance measures and incentives, there was a marked growth in credits in 2017 (Graph 2.1.2.7). In the last quarter of the year, the fact that Treasury-backed KGF lending was approaching previously-announced limits had the effect of making the rebalancing process in commercial credits continue, with the result that overall credit growth during the last three months remained flat.

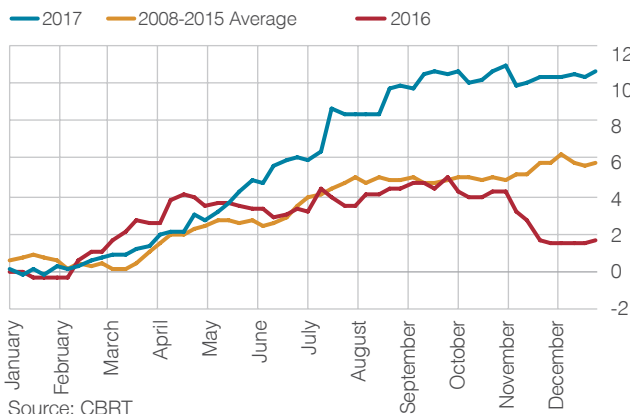
Graph 2.1.2.4: Yield Curve
(%)



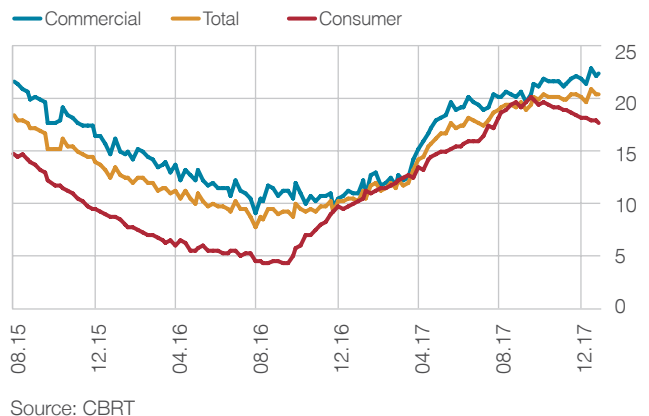
Graph 2.1.2.5: Regional Risk Premiums
(Basis Points)



Graph 2.1.2.6: Portfolio Flows in Turkey*
(Cumulative YtD, USD Billion)



Graph 2.1.2.7: Annual Loan Growth Rates
(Adjusted for Exchange Rate, Percentage Change, Annual)



Inflation Developments

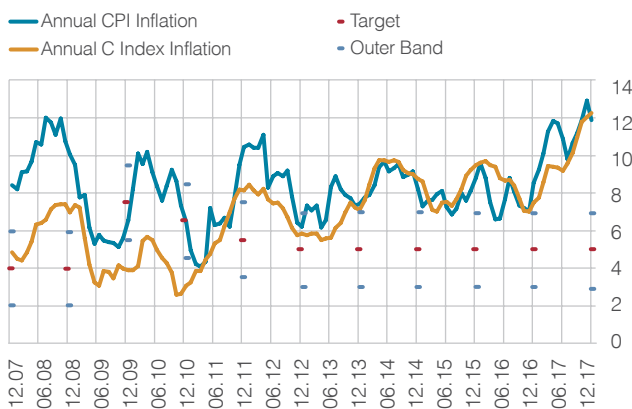
Annual inflation realised at 11.92 percent as of end-2017, a figure that is outside the uncertainty band (Graph 2.1.2.8). The depreciation in the Turkish lira, developments in import prices and unprocessed food prices, and vigorous economic activity were the determinants of this inflation performance. Tax adjustments and real unit wages contributed less to inflation in 2017 than they did in 2016.

The consumer price index (CPI) and annualized core inflation indicators have been moving upwards in Turkey since November 2016. Although inflation initially appeared to subside somewhat owing to waning base effects, both CPI inflation and core inflation continued to rise as of July. The volatilities during the year were attributed to developments in the energy and food groups. Cost-side inflationary pressures stemming from developments in exchange rates and in oil and other input prices were quite evident in the core goods and energy groups. Besides these cost-side pressures, core goods inflation fueled by higher customs duties on a number of goods (personal care products, garments, etc.) and by a deterioration in pricing behavior made the most salient contribution to overall inflation. The effects of exchange rate depreciation were also to be seen in the food and services subgroups in 2017.

The course of annual inflation in the food group fluctuated due to base effects. While much of this volatility stemmed from the unprocessed food group and was particularly the result of movements in fresh fruit and vegetable prices, the depreciation of the Turkish lira also adversely affected food inflation, whose net contribution to overall inflation was more serious in 2017 than it was in 2016. Late-in-the-year measures taken by the Food Committee began to have a measurable impact on unprocessed food prices. The downward support provided to inflation by demand conditions associated with the strong course of economic activity disappeared as of the second quarter of 2017.

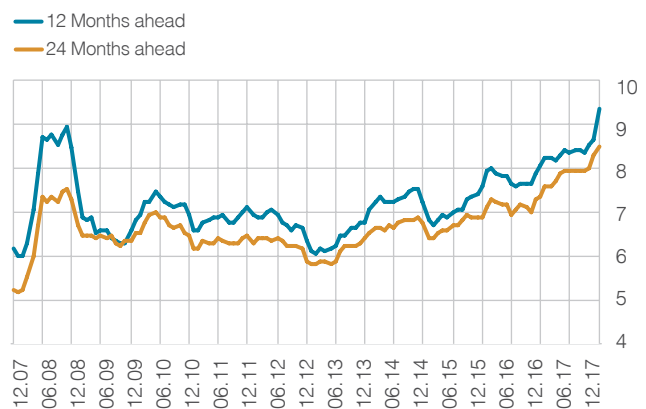
Owing to cost shocks and the overall inflation outlook, medium-term inflation expectations began to deteriorate in the last quarter of 2016 and this trend continued all year long in 2017. Despite staying relatively flat throughout the second and third quarters of 2017, inflation expectations remained high and they worsened noticeably with the rapid depreciation of the Turkish lira in the last quarter of the year (Graph 2.1.2.9). Overall, 2017 was a year in which heightened inflation expectations had a significant impact on price-adjustment behavior.

Graph 2.1.2.8: Inflation and Targets
(%)



Source: CBRT, TurkStat.

Graph 2.1.2.9: Inflation Expectations
(%)



Source: CBRT

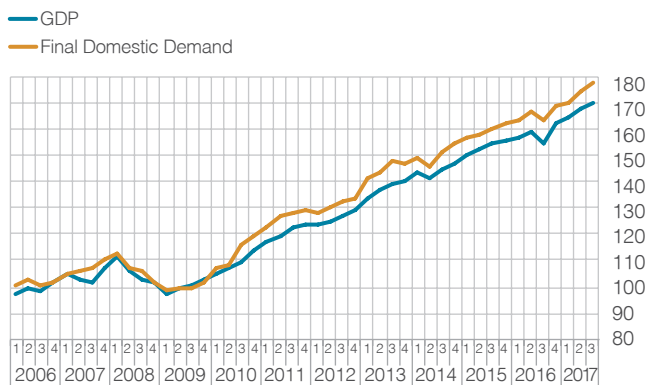
GDP Developments, Rebalancing Process, and Labor Market

According to data with base year 2009 published by the Turkish Statistical Institute (TurkStat), Turkey's GDP grew by 3.2 percent in 2016. The country's goods exports and tourism industry were adversely affected that year by geopolitical tensions as well as by incidents of terrorism and by rocky relations with Russia.

On the other hand, 2017 was a year in which the economic losses suffered in 2016 were recouped. During the first nine months of 2017, the country's GDP increased by 7.4 percent as compared with the same period of the previous year (Graph 2.1.2.10). With priority being given to restoring confidence in the national economy, a total of TL 200 billion in credit was supplied to small- and medium-sized enterprises (SME) through the Credit Guarantee Fund. Besides a recovery in tourism revenues in the wake of diminished geopolitical tensions, growth was also supported by demand-driven increases in goods exports, especially those going to EU countries.

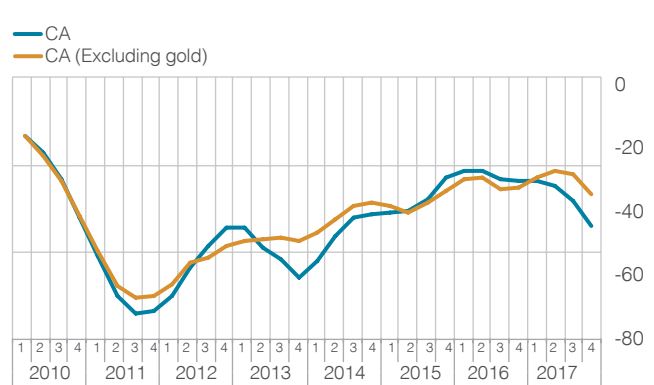
Growth in the current account deficit after the second quarter of 2016 was driven primarily by gold imports. When gold imports are factored out, Turkey's balance of payments had actually improved from the end of 2011 until the third quarter of 2017. Looking at a sectoral breakdown, we see that the strong performance in gold-excluded exports, particularly led by exports by the motor vehicles and iron & steel sectors, played a significant role in the improvement of the current account deficit. These two sectors' solid export performance was supported by robust demand coming from EU countries. The improvement in the non-gold current account balance was helped by a strong recovery in tourism revenues but was hampered by both higher energy prices and by a drop in the country's terms of trade (Graph 2.1.2.11).

Graph 2.1.2.10: Gross Domestic Product and Final Domestic Demand (Seasonally Adjusted, Real, 2009=100)



Source: CBRT, TurkStat

Graph 2.1.2.11: Current Account Balance (12-Month Cumulative, USD Billion)

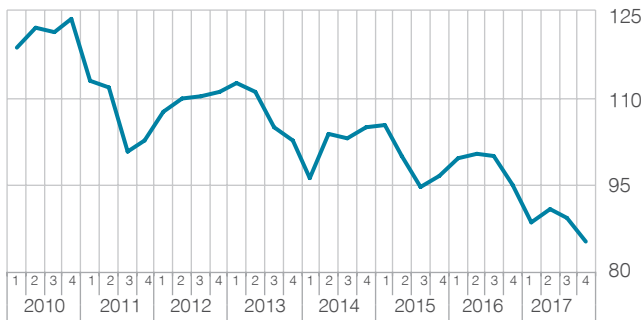


Source: CBRT

Real effective exchange rates fell by an average of 10 percent in 2017 as compared with the previous year. This decline in real exchange rates in a year of relatively vigorous domestic demand is what also contributed to the improvement in the current account deficit by helping to rein in rises in imports (Graph 2.1.2.12).

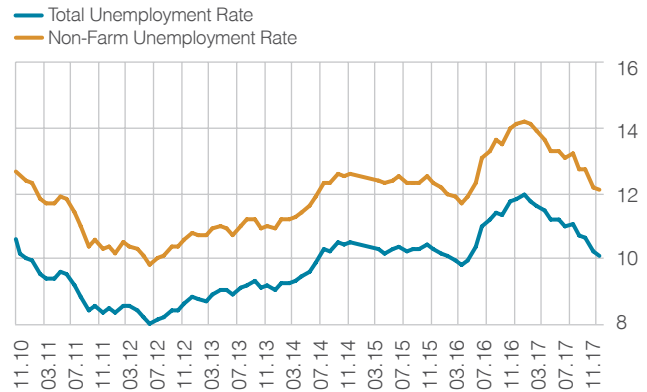
Unemployment rates appear to have been in decline from the beginning of 2017 onward (Graph 2.1.2.13). While robust economic activity along with rises in non-agricultural employment contributed substantially to this downtrend, it was constrained by the increase in the labor force participation rate (Graph 2.1.2.14). Growth in non-agricultural employment in the first nine months of 2017 was driven by services and construction sectors whereas employment rates in the manufacturing industry remained rather low.

Graph 2.1.2.12: Real Effective Exchange Rate
(CPI Based, 2003=100)



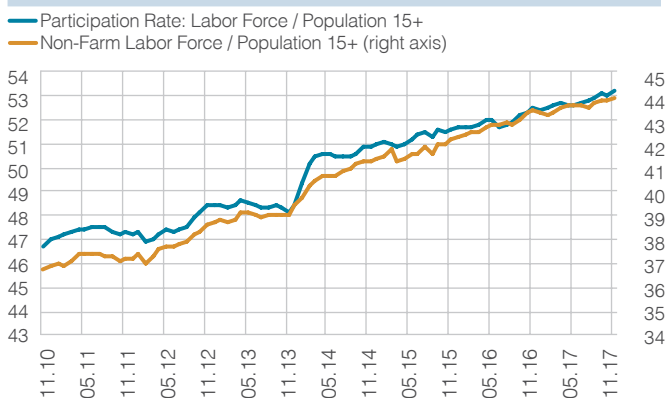
Source: CBRT

Graph 2.1.2.13: Unemployment Rates
(%, Seasonally Adjusted)



Source: CBRT, TurkStat

Graph 2.1.2.14: Ratio of Non-Farm Laborforce and Employment to Over-15 Population (% Seasonally Adjusted)



Source: CBRT, TurkStat.

2.2 Operational Framework of Monetary Policy

2.2.1 Turkish Lira Liquidity Management

The funding need of the system, which amounted to TL 95.54 billion as of end-2016, increased to TL 110.71 billion twelve months later.

- As of 12 January 2017, the CBRT ceased to conduct one-week repo auctions as part of its overall efforts to counter the adverse effects that exchange rate market volatilities and price formations inconsistent with economic fundamentals witnessed at the beginning of the year might have on price stability and financial stability.
- Having previously removed all of the borrowing limits to which banks were subject at the CBRT Interbank Money Market in July 2016, the Bank restored them in 2017, initially to TL 22 billion on 11 January before cutting them by half to TL 11 billion as of the 16th of the same month. Later in the year, the CBRT reduced the limits once again to zero as of 22 November.
- As of 16 January 2017, the CBRT started limiting the amounts of funding that it supplied to the BIST Interbank Repo/Reverse Repo Market on days when it deemed such action to be necessary; beginning on 10 March 2017, it provided no funding to BIST at all on some days; as of 3 May 2017, it ceased providing any funding through this channel.
- With its suspension of its quotation and repo-auction funding, the CBRT continued to address banks' end-of-day liquidity needs by means of no-limit LLW deposit and repo transactions at its LLW lending rate and this is the rate at which the CBRT satisfied a substantial part of banks' liquidity needs during 2017. Following the advent of LLW funding, the CBRT assigned a separate limit for the intraday liquidity facility (IDLF), which had previously been a component of borrowing limits, as of 6 March 2017 so that banks could manage their liquidity more effectively during the day. In effect, this allowed banks to borrow during the day at an amount equal to the borrowing limit. It was also made possible for banks to set off their IDLF transactions against LLW transactions at the end of the day, thus allowing them to convert their IDLF repayments into LLW obligations. Finally on 22 November 2017, IDLF limits were set at twice the value of banks' borrowing limits that were in effect on 21 November.

Having set an overall Turkish-lira portfolio target of TL 15 billion for 2017 and taking also into account the TL 2 billion worth of nominal instruments to be redeemed during the year, TL 3 billion worth of nominal instruments were accepted for the open market operations (OMO) portfolio, which was TL 13.9 billion at the beginning of 2017. In this way, the year-end portfolio target was reached.

In 2017, the CBRT continued the technical work towards achieving simpler and transparent collateral conditions in TL operations within the CBRT. Therefore, in the framework of the Common Collateral Project, whose aim is to provide a common platform for the conduct of collateral operations for all CBRT markets, as of 11 August 2017.;

- The collateral accounts for all operations conducted in the IMM (TL deposit, LLW deposit, and IDLF) have been combined.
- The same discounting method applicable to the CBRT open market operations has been adopted in calculating the limits that may be used against the instruments pledged as collateral for IMM transactions.

2.2.2 Exchange Rate Policy

In 2017, the CBRT continued to adhere to a floating exchange rate regime in which exchange rates are determined by market supply and demand conditions. Under this regime, the CBRT does not have any nominal or real exchange rate targets. Nonetheless, in order to curb any risks that might impair financial stability, the CBRT does not remain unresponsive to excessive appreciation or depreciation of the Turkish lira.

In 2017, the CBRT did not intervene in FX market directly or by way of conducting auctions.

On 18 January 2017, the CBRT started conducting FX deposit auctions against TL deposits, by means of which it supplied a maximum USD 6.25 billion worth of temporary FX liquidity to the market. On 21 March 2017, the bank raised the buying rate on FX deposit as collateral from 0.75 percent to 1.00 percent, and then to 1.25 percent on 16 June and to 1.50 percent on 18 December.

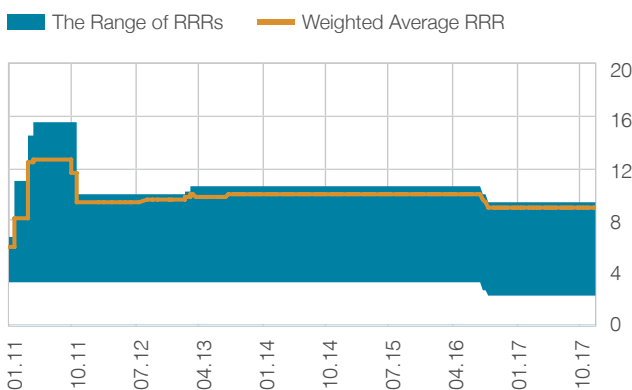
On 20 November 2017, the CBRT initiated the TL-settled forward foreign exchange sale auctions. By means of this instrument, the maximum position carried in maturities of 1, 3 and 6 months was USD 3 billion.

Taking into account the developments in international benchmark interest rates, the CBRT raised the interest rate on USD-denominated required reserve option accounts, and free accounts held at the CBRT from 0.75 percent to 1.00 percent on 21 March 2017, then to 1.25 percent on 16 June and to 1.50 percent on 18 December.

2.2.3 Reserve Requirements

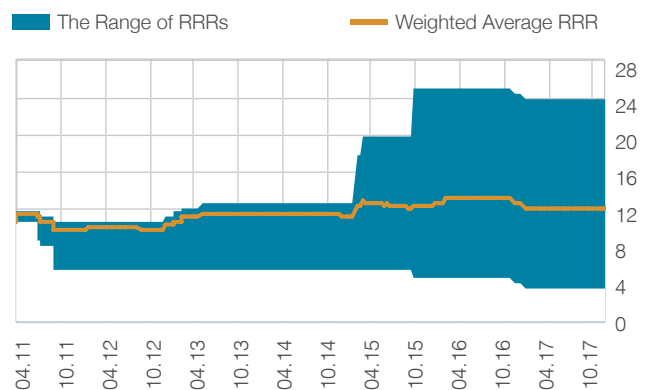
The CBRT continues to use reserve requirements as both a monetary policy and macroprudential policy instrument. As of end-2017, the weighted-average reserve requirement ratios for TL and FX were 10.0 percent and 12.5 percent, respectively (Graphs 2.2.3.1 and 2.2.3.2). ROM has not only contributed to total reserves but has also limited the potential impact of capital flow volatilities on FX markets.

Graph 2.2.3.1: TL Reserve Requirement Ratios (%)



Source: CBRT
Last Observation: 15.12.2017

Graph 2.2.3.2: FX Reserve Requirement Ratios (%)



Source: CBRT
Last Observation: 15.12.2017

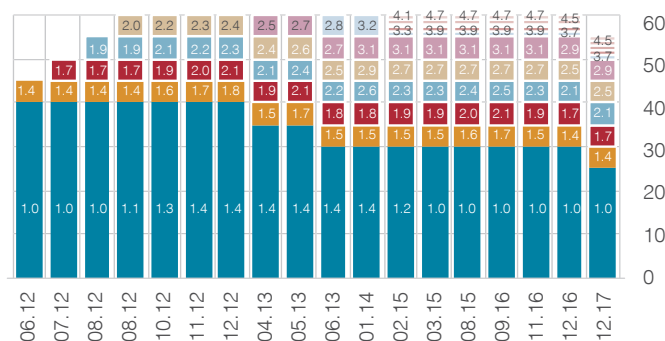
In order to strengthen the ROM's automatic stabilizing feature and to provide the FX liquidity needed by the financial sector, changes have been made in reserve option coefficients in 2017. These changes involved lowering the upper limit of FX facilities from 60 percent to 55 percent, and reducing all tranches by 5 percentage points (Graphs 2.2.3.3 and 2.2.3.4).

Banks and financing companies continue to use the CBRT's ROM facility. As of end-2017, the ratio of utilization for the FX facility was 75.5 percent and that for the gold facility was 90.9 percent. Banks in Turkey can also keep standard gold in their precious metal deposit accounts and this facility's utilization ratio by the end of 2017 was 71.2 percent.

In order to attract gold savings into the formal economy and also to increase reserves, a new ROM tranche of 5 percent was added to the existing ones, thereby permitting wrought and scrap gold to be held in standard gold accounts. Use of this new facility increased steadily throughout the year and as of end-2017, this facility was being used by twelve banks and the utilization ratio was 17.5 percent.

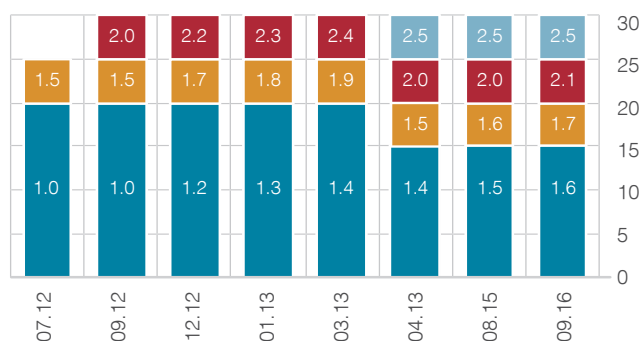
The leverage-based reserve requirement regulation aims to counter risks associated with conducting high-leverage operations in the banking sector and thus to improve the system's resilience to shocks. The sector's leverage ratio, which is calculated by dividing the Tier 1 capital by the sum of total liabilities and off-balance-sheet items (at certain weights) was around 7.5 percent as of June 2017. The Turkish banking sector's leverage ratio in 2017 was stable and well above the minimum Basel III ratio of 3 percent and the minimum CBRT requirement for the last quarter of 2015 of 5 percent (Graph 2.2.3.5 and Table 2.2.3.1).

Graph 2.2.3.3: Reserve Option Coefficients for Reserve Requirements Held as FX



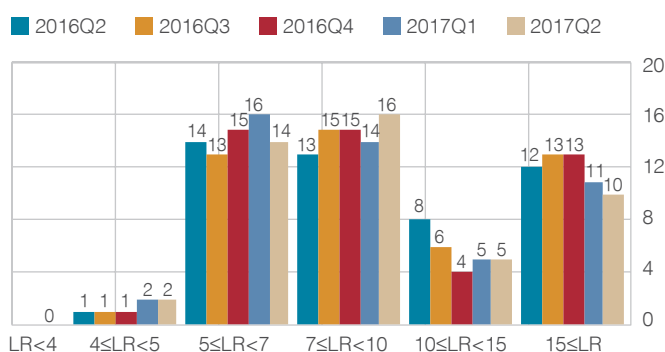
Source: CBRT
Last Observation: 01.12.2017

Graph 2.2.3.4: Reserve Option Coefficients for Reserve Requirements Held as Gold



Source: CBRT
Last Observation: 23.09.2016

Graph 2.2.3.5: Development of Leverage Ratios (Units)



Source: CBRT
Last Observation: June 2017

Table 2.2.3.1: Development of Leverage Ratios (Units, %)

	No. of Banks	Leverage Ratio (%)
2016Q1	48	7.55
2016Q2	48	7.69
2016Q3	48	7.84
2016Q4	48	7.55
2017Q1	48	7.40
2017Q2	47	7.52

Source: CBRT
Last Observation: June 2017

2.2.4 Rediscount Credits

In the scope of article 45 of the Central Bank Law, rediscount credits are extended to exporters and firms that engage in foreign currency-earning services and activities. These loans are extended as Turkish liras through the Export Credit Bank of Turkey (Turk Eximbank) as well as through commercial banks, which accept exporters' FX-denominated bills for discounting. The loans normally have up to 240-day maturities (360 days for exports of high-tech products and exports to new markets). The loans are repaid to the CBRT in foreign currency.

In line with efforts both to reduce Turkey's current account deficit and to reinforce the CBRT's reserves by supporting exports, the total limit available for rediscount credits is USD 20 billion, USD 17 billion of which is assigned to Turk Eximbank and the remaining USD 3 billion to commercial banks. Credit limits by types of companies are: up to USD 400 million for foreign trade capital companies and up to USD 350 million for other companies. The entire limit can be used in applications for credits with a maturity of up to 120 days and maximum 60 percent of the limit can be used in credit applications with a maturity of 121-360 days.

As part of an effort to encourage the use of local currencies in the conduct of foreign trade, a swap agreement was signed between the Republic of Turkey and the People's Republic of China. In the framework of the swap agreement, in January 2017, the CBRT published a set of implementation instructions, the "Circular on Rediscount Credits denominated in Chinese Yuans", concerning the acceptance of bills denominated in Chinese yuan (CNY) for rediscount against a total credit limit of CNY 2 billion to be used in payments of trade and investment activities between the two countries. Within this framework, in 2017, CNY 23.5 million worth of rediscount credits was extended to seven firms for ten projects.

In February 2017, considering the provisions of Article 6 of the Decree Law No: 683 that was published in the Official Gazette No: 29957 dated 23 January 2017 and in November 2017 considering unsound price formations that are inconsistent with economic fundamentals, more convenient terms for the repayment were presented for the firms that have used rediscount credits by offering facility to repay their foreign exchange liability in Turkish liras. Within these facilities:

- As a result of the changes made in February 2017, repayments of rediscount credits, which had been lent before 1 January 2017 and were due by 31 May 2017, could be made in Turkish liras provided that they were paid at maturity and the Central Bank buying exchange rates announced on 2 January 2017 would be applicable for these transactions. In this framework, 1,714 rediscount credits amounting around USD 4 billion were repaid in Turkish liras by 683 firms.
- As a result of the changes made in November 2017, it had been decided that the repayments of rediscount credits for export and foreign exchange earning services, which were due by 1 February 2018, could be made in Turkish liras at an exchange rate of 3.7000 for the USD, 4.3000 for the Euro, and 4.8000 for the GBP, provided that they were paid at maturity. In case the exchange rate on the date of credit extension was higher than these rates, the exchange rate on the date of credit extension would be applicable. Accordingly, 801 rediscount credits amounting around USD 2.4 billion were repaid in Turkish liras by 375 firms.

The total amount of rediscount credits, which was USD 18.1 billion in 2016, rose to 20.4 billion in 2017 and by the end of 2017, the outstanding value of rediscount credits was USD 12.5 billion.

Rediscount credits' contribution to the CBRT's FX reserves was USD 12.5 billion in 2017.

2.2.5 Maximum Credit Card Interest Rates

The CBRT sets and announces the maximum monthly contractual and default interest rates to be charged on credit card borrowing on a quarterly basis. Having previously set maximum monthly contractual rates for credit cards as 1.84 percent for TL and 1.47 percent for FX, maximum monthly default rates as 2.34 percent for TL and 1.97 percent for FX, the bank did not change them in 2017.

2.3 Financial Stability Developments and Activities

2.3.1 Financial Stability Developments

On the back of the favorable global economic outlook, increased global risk appetite towards emerging economies, and the partial alleviation of uncertainties about monetary policies of advanced economies, developments in global financial markets in 2017 were supportive of global financial stability. The recovery in economic activity in the United States and other developed countries underpinned the favorable outlook in global financial markets while the search for yields helped keep the flow of capital into developing countries strong. Nonetheless, uncertainties over fiscal and trade policies to be implemented in the USA, high levels of global indebtedness, and geopolitical problems in Asia and the Middle East posed downside risks to global financial stability.

Household assets and liabilities in Turkey continued to grow in 2017 while the decline in the household leverage ratio (defined as household liabilities/assets) that began in 2013 also continued, albeit at a somewhat slower pace. At times of heightened geopolitical uncertainties and FX volatilities, FX borrowing remains a serious financial stability issue for developing countries. As per the regulations that are currently in effect in Turkey, households are not allowed to borrow in foreign currencies; neither (with the exception of mortgage loans) are they allowed to borrow at flexible interest rates. These regulations preclude households from carrying either exchange rate risk or interest rate risk. The slowdown in economic activity, which appeared in 2016 in the wake of a series of internal and external shocks, was reversed in 2017 with the efforts to re-activate the credit channel via government measures and incentives. During this period, the ratio of real-sector indebtedness to GDP remained unchanged as a result of exchange rate volatility and a heightened awareness of exchange rate risk resulted a significant decline in FX-denominated borrowing and consequently, the real sector's overall FX open position also remained flat. Moreover, the TL-settled forward foreign exchange sale auctions that the CBRT initiated in the last quarter of 2017, are also expected to support the real sector's exchange rate risk management in the period ahead.

Credit growth accelerated in both retail and commercial loans in 2017. Growth in retail lending continued nourished by changes in macroprudential policies and a variety of government incentives. Meanwhile, TL-denominated commercial lending accelerated in the first half of the year fueled by such incentives as interest-free credit support of the Small and Medium Enterprises Development Organization of Turkey (KOSGEB), the so-called "Respite" loans with low interest rates extended by the Union of Chambers & Commodity Exchanges of Turkey (TOBB), and Treasury-backed Credit Guarantee Fund loans. In the second half of the year, TL-denominated commercial lending continued to grow albeit more slowly as the upper limit of the KGF loans was approached and lost momentum due to base effects. Non-performing loan (NPL) ratios remained low owing to increases in economic activity, strong growth in Turkish lira lending, and positive developments in collections associated with regulations regarding loan-restructuring. This is a confirmation of both the banking sector's robust asset quality and of the real sector's as well as households' debt service capacity. The sector's profitability indicators displayed a favorable development owing to expanded credit volume and wider interest margins, effective cost and expense management, and the improvement in its asset quality. The industry's capital adequacy ratios were boosted not only by greater profitability but also by growth in its Treasury-backed loans and its issuances of subordinated debt instruments.

In this period, rapid growth in credits was mostly financed by core liabilities and this in turn contributed positively to financial stability.

Banks' use of external financing moderately increased in 2017, and sector's liquidity buffers were deemed to be sufficient to survive adverse risk scenarios. Banks' Liquidity Coverage Ratios, a measure enabling banks' liquidity position to remain in the safe zone over a 30-day time frame, were well above the legal lower limits while indicators showing their long-term liquidity positions also remained within safe territory. These two factors increase the Turkish banking sector's resilience to potential international market shocks. The maturities of Turkish banks' non-core funding items also remained long (thanks in part to reserve requirements) and this bolstered the sector's ability to withstand a potential global liquidity crunch. The diversity in the countries and financial institutions from which Turkey's banks borrow also supported this situation. Recently, the external debt roll-over ratio is above 100 percent, banks can borrow syndication loans with maturities up to 2 years albeit at a limited amount, and there was a moderate recovery in costs in 2017. This is all evidence that there has been no noticeably unfavorable change in the credit supply of international lenders. The increasing need for Turkish lira liquidity generated by rapid growth in TL loans coupled with supportive market conditions encouraged banks to seek for alternative sources of funding. The result is that there has been an increase in banks' Turkish-lira borrowings in international swap markets and in their issues of long-term bonds and subordinated debt instruments.

2.3.2 Financial Stability Activities

The risks associated with financial stability are discussed on various platforms in Turkey such as the Economic Coordination Council (ECC) and the Financial Stability Committee (FSC) and necessary measures are taken in a timely manner. CBRT continues to cooperate with and work in coordination with the authorities concerned. Central Bank representatives have participated in meetings of the FSC, the Systemic Risk Assessment Group set up within the FSC, and the sub-committee meetings of the Crisis Management & Resolution Standing Working Sub-Group, and the Systemic Risk Monitoring Standing Working Sub-Group (for which the CBRT serves as the secretariat).

One key financial stability issue that stood out in 2017 was the FX-denominated indebtedness incurred by Turkey's real sector. The CBRT played an active role in the project for which the foundations were laid at the FSC meetings. With an amendment to Article 44 of CBRT Law No.1211⁽¹⁾, CBRT was authorized to demand any and all manner of information and documents that will help it monitor transactions that affect the foreign currency positions of real persons and legal entities. The data monitoring system, which was set up at the CBRT to effectively manage company-based exchange rate risks, is important in that it enhances the Bank's ability to supervise companies' currency risk in the long view.

In 2017, the CBRT continued to share its views and assessments concerning financial stability via its biannual Financial Stability Report. In addition to these reports, the CBRT also continued to contribute to economics literature by means of working papers, research notes in economics, and articles, the objective of which is to provide academic support for the issues dealt with in the Financial Stability Report.

In 2017, the CBRT also continued to support international publications and meetings in cooperation with other agencies and organizations. The CBRT's relations with international agencies working in the field of financial stability such as the International Monetary Fund (IMF) and the Bank for International Settlements (BIS) continued as well. This relation takes the form of exchanging views on issues being dealt with in reports that the organizations intend to publish. The CBRT participates in the meetings organized by these agencies, but also it submits written opinions about reports published by them. The CBRT also undertakes work to establish cooperation between Turkish institutions when dealing with these matters in Turkey.

Throughout 2017, the CBRT continued to engage in efforts aimed at enhancing its representational influence and effectiveness on international financial platforms while also contributing to financial stability. The Bank participated in the Plenary, the Steering Committee and Standing Committee meetings of the Financial Stability Board (FSB) at the highest level. The FSB promotes international financial stability; it does so by coordinating national financial authorities and international standard-setting bodies as they work toward developing strong regulatory, supervisory and other financial sector policies.

The Basel Committee on Banking Supervision (BCBS) is charged with setting general standards applicable to bank supervision; serving as a consultant for member nations; and formulating new international standards especially in such areas as capital and liquidity. Turkey is a BCBS member and senior-level representatives of the CBRT took part in the Committee's meetings during 2017. The CBRT representatives also participated in and contributed to various BCBS working sub-group meetings at the technical level.

The CBRT also took part in the activities of the Islamic Financial Services Board (IFSB), whose fundamental duties are to develop and improve interest-free financial services so as to be in compatible with developments in the international financial system.

The CBRT and Qatar Central Bank became co-chairs of the FSB Middle East and North Africa (MENA) Regional Consultative Group (RCG) on 1 July 2017 and the CBRT hosted the first meeting of the Group on 20 November 2017. The issues addressed at the meeting consisted of the FSB's ongoing activities, regional issues pertaining to fragilities and financial stability, financial innovations and cyber-risks, the high level of global indebtedness, asset quality and settlement issues, and misconduct risk in the financial sector.

⁽¹⁾ Article 33 of the Law on Amendments to Some Tax Laws and Various Laws issued in Official Gazette dated 5 December 2017 and Article 44 of the Central Bank Law No. 1211 dated 14.1.1970 have been amended as follows:

"Authority to request information from real and legal persons Article 44- (The redrafted Article 44 by Law No. 7061 of November 28, 2017, which was repealed by Law No. 6111 of February 13, 2011)

The Bank shall, in order to monitor the operations of real and legal persons which affect their foreign exchange position, be authorized to request all kinds of information and documents from real and legal persons that it shall determine. The procedures and principles, including also the scope, collection and monitoring methods, supervision of the accuracy and sharing of the information and documents to be requested and provision of outsourcing services, shall be determined by the Bank. In the implementation of this article, the provisions of Article 35 and sub-paragraph (a) of paragraph (II) of Article 68 of this Law shall also apply to employees of outsourcing institutions."

2.4 Financial Infrastructure

2.4.1 CBRT Payment System Statistics

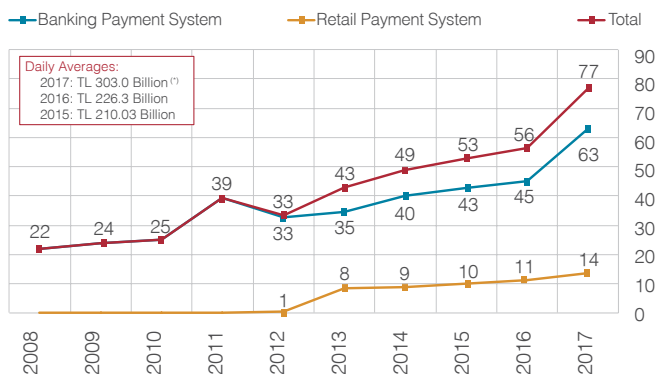
The amount of transactions conducted through the Interbank Turkish Lira Transfer System and through its Electronic Securities Transfer and Settlement System was TL 63 trillion in 2017. The average daily transaction volume was TL 248.8 billion. A total of 2.5 million transactions were conducted through the system, which corresponds to an average of 9,913 messages a day. The volume of settlements conducted through the Interbank Turkish Lira Transfer System in 2017 increased by 39.7 percent compared to 2016 (Graph 2.4.1.1).

The total volume of all transactions conducted via the CBRT Retail Payment System in 2017 was TL 14 trillion, while the average daily transaction volume was TL 54.2 billion. The total number of transactions conducted in the system was 470 million and the daily average number of messages processed was 1,858,811. The greatest number of transactions occurred on 16 October 2017, when 4,423,927 messages were handled. In 2017, 25.5 percent more settlements were carried out in the CBRT Retail Payment System than in 2016 (Graph 2.4.1.2).

The number of transactions handled in the Auction System was 118,348 in 2017.

As the Turkish branch of The Royal Bank of Scotland Plc. exited the CBRT Payment Systems on 2 November 2017 on account of its voluntary liquidation, the number of banks participating in the CBRT Payments Systems in 2017 declined from 53 to 52.

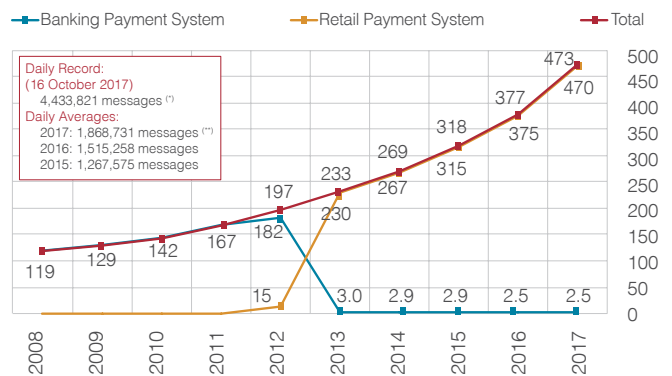
Graph 2.4.1.1: Total Value of Payments Processed through CBRT Payment Systems (TL Trillion)



Source: CBRT

(*) TL 248.8 billion from Banking Payment System and TL 54.2 billion from Retail Payment System.

Graph 2.4.1.2: Total Number of Payment Messages Processed through CBRT Payment Systems (Million Messages)



Source: CBRT

(*) 4,423,927 messages from Retail Payment System and 9,894 messages from Banking Payment System.

(**) 1,858,818 messages from Retail Payment System and 9,913 messages from Banking Payment System.

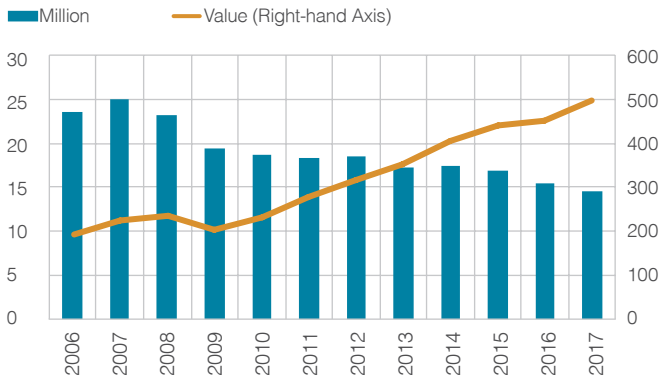
2.4.2 Check Clearing System

Check clearing in Turkey is performed by the Interbank Clearing Houses Center (ICH), which was originally set up pursuant to Law No. 3167 on Regulation of Payments by Check and Protection of Check Holders.

The CBRT engages in an ongoing effort to make sure that check clearing is handled smoothly and also to improve the check-clearing system.

In 2017, the total amount of payments cleared through the ICH corresponded to about a quarter of Turkey's GDP. The 14.5 million checks that were processed last year had an aggregate value of TL 498.5 billion (Graph 2.4.2.1).

Graph 2.4.2.1: Checks Cleared by the Interbank Clearing Houses Center (Annual)



Source: ICH

2.4.3 Use of International Bank Account Number

The “Communiqué Concerning International Bank Account Numbers” issued by the CBRT in 2008 stipulates that banks shall generate an International Bank Account Number (IBAN) for each of their customers subject to the rules set out in the communiqué, which also provides rules concerning their customers’ use of these numbers when transferring funds. This Communiqué rapidly increased public awareness and use of the IBAN system in Turkey. By year-end 2017, IBAN usage ratio for the senders was 99.5 percent whereas recipients’ ratio was 92.5 percent of fund transfers taking place through the Electronic Fund Transfer System (EFT).

2.4.4 CBRT Policy on Prevention of Money-Laundering and Financing of Terrorism

In 2017, the CBRT formulated the “Policy on Prevention of Money Laundering and Financing of Terrorism”. With this policy, the CBRT redefined the general principles governing risk management activities towards assessment of customers and transactions and monitoring and control activities within the framework of the Bank’s overall risk-based approach.

2.4.5 Approval of Additional Activities of Payment and Securities Settlement Systems

Approval of Operation of the Electronic Board of Director System by the Central Securities Depository of Turkey (MKK)

The CBRT Decision dated 26 December 2016, which took effect upon issue in Official Gazette No.29941 dated 7 January 2017, expanded the scope of the MKK’s operating license with respect to Article 17 of the “Regulation on the Operations of Payment and Securities Settlement Systems”. As per the Decision, the Electronic Board of Director System (e-BDS), which was planned to be developed by the MKK in addition to its existing system operation activities, was included in the scope of the initial authorization given to MKK by the mentioned Regulation and it was recognized as an activity that can be carried out by the MKK.

The e-BDS system allows members of the board of directors of companies using the MKK-provided e-BDS system to participate in electronic (remote) board of directors meetings using their secure electronic signatures, to present their views and suggestions electronically, to cast votes online for or against the proposal submitted to the meeting, and to sign board decisions electronically.

Approval of Takasbank to Provide Central Counterparty Services in the Borsa Istanbul Money Market

On 7 October 2016, the CBRT provisionally authorized Istanbul Clearing & Custody Bank (Takasbank) to provide central counterparty (CCP) services in the BIST Money Market which was approved by the Capital Markets Board. Accordingly, Takasbank started providing CCP services in the BIST Money Market in October 2016. A CBRT Board decision dated 9 March 2017 concerning the above-mentioned services went into effect upon publication in the Official Gazette No.30018 of 25 March 2017. Takasbank acts as a CCP in this market, which was set up to generate a long-term Turkish-lira interest rate that could serve as a benchmark for flexible rate TL borrowing instruments and flexible rate swaps, and guarantees transactions, within the framework of specific rules, by serving as borrower for lenders and lender for borrowers.

Approval of Takasbank to Mediate “TapuTakas- Services Regarding Payment of the Price of Real Estate Purchases and Sales via Takasbank”

Takasbank has set up and now operates TapuTakas, an electronic platform for the processing of payments in the sale and purchase of real estate properties. Being the creator and the operator of the system, Takasbank applied to the CBRT for a permanent approval to operate this infrastructure. The aim of TapuTakas is to prevent the problems that parties in real estate transactions encounter by ensuring that the cash payment for the property and the property subject to trading are exchanged simultaneously and safely between the buyer and the seller in real time. The CBRT Board granted authorization to Takasbank to carry out “Payment Services in the Conduct of Real Estate Purchases and Sales” on 5 October 2017. The CBRT Board decision was published in Official Gazette No.30214 of 18 October 2017.

Structural Changes to Take Place due to Takasbank’s New Role as CCP in the Borsa Istanbul Equity Market

Takasbank’s assumption of the CCP role in the BIST Equity Market required a number of structural changes to be made in the Equity Market Clearing System. These changes were approved by the CBRT Board on 29 May 2017.

Operating License of Mastercard Payment Transaction Services Turkey

The CBRT has authorized Mastercard Payment Transaction Services Turkey (MPTS), an entity based in Turkey, to act as a payment systems operator as a result of the evaluations pursuant to Law No. 6493 on “Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions”, as well as the “Regulation on the Operations of Payment and Securities Settlement Systems”.

The CBRT decision concerning this license was published in Official Gazette No. 30116 of 6 July 2017.

MPTS is an entity that provides clearing and settlement services for institutions that issue and acquire cards in the field of payments with cards. It also provides various technology-based infrastructure associated with these cards such as managing ATM, POS, and printing cards etc.

MPTS, which was originally founded in 2001 under the name of “Provus”, was acquired by Mastercard Incorporated in 2014. A publicly-traded company whose shares are quoted on the New York Stock Exchange, Mastercard Incorporated controls a 99.9 percent stake in MPTS. Active in Romania, Albania, and Kosovo as well as in Turkey and the Turkish Republic of Northern Cyprus, MPTS’s operations include clearing and settlement mediation, card and data-management services, and transaction authorization services.

The CBRT license also authorizes MPTS to conduct other operations such as “Switching and Authorization Services”, “Card and Data-Management System Services”, Public Collection Solution Services, “Masterpass Services”, “Mobile Contactless Payment Services”, and “Clearing And Settlement Mediation Services” pursuant to the CBRT’s regulation under the scope of the operating license granted to MPTS.

2.4.6 Developments in the Oversight of Payment and Securities Settlement Systems

In accordance with the Law on Payment and Securities Settlement Systems, Payment Services, and Electronic Money Institutions (Law No.6493) and secondary legislation issued pursuant to this Law, the CBRT has authority and responsibility to oversee the payment and securities settlement systems and to ensure uninterrupted operation of these systems.

Pursuant to Paragraph 3 of Article 12 of the Regulation on Operations of Payment and Securities Settlement System, the Central Securities Depository of Turkey (MKK) has submitted the following issues for the approval of the CBRT:

- A Euroclear link that MKK planned to set up by opening an account associated with another Euroclear account belonging to Takasbank
- An indirect link that MKK set up with the TARGET2-Securities (T2S) system.

The CBRT Executive Committee approved these links on 29 May 2017.

Also pursuant to Paragraph 3 of Article 12 of the Regulation on Operations of Payment and Securities Settlement System, the Interbank Card Center (BKM) submitted for the approval of the CBRT a link that it planned to set up on account of the center's direct participation in the Discover Card system. The CBRT Executive Committee approved this link on 29 May 2017.

Based on its authorities and responsibilities given by relevant legislations, the CBRT constantly oversees payment and securities settlement systems in a process that begins with the licensing of organizations that set up and manage these systems and continues with the conduct of their operations.

As part of these supervisory duties and responsibilities, the CBRT monitors the system operators by checking information and documents collected, conducts on-site visits when it deems necessary in order to perform more detailed examinations of transactions and documentation, and, based on the findings of its off-site and on-site oversight, prepares detailed reports concerning system operators' compliance with the CBRT regulations and international standards.

Accordingly, in 2017, the CBRT carried out detailed oversight activities regarding the operations of BKM, Takasbank, and Garanti Payment Systems Inc, performed on-site visits and prepared oversight reports by examining the operators' compliance with the provisions of "Law No.6493 on Payment And Securities Settlement Systems, Payment Services, And Electronic Money Institutions" and secondary legislation issued pursuant to this Law, and "Principles for Financial Market Infrastructures" published by the BIS Committee on Payments and Market Infrastructures (CPMI) and by the International Organization of Securities Commissions (IOSCO).

2.5 Banknotes in Circulation

By the end of 2017, the value of banknotes in circulation in Turkey increased by 6.9 percent year-on-year and reached TL 131.4 billion. The total number of banknotes in circulation rose by 7.7 percent and reached 1,920 million. Over the last five years, the value of banknotes in circulation in Turkey has increased by an average 16.9 percent and the number of banknotes in circulation by 11.0 percent on a yearly basis (Graph 2.5.1).

Excluding withdrawn banknotes that are still in the 10-year redemption period, the number of banknotes in circulation was 1,889.1 million on 29 December 2017. As of end-2017, the denominations with the highest number of banknotes in circulation were TL 100 and TL 50 banknotes (Graph 2.5.2). The share of these two denominations made up 55.4 percent of all the notes in circulation. As measured by value on the other hand, the two denominations commanding the biggest shares of the total were TL 100 (55.3 percent) and TL 200 (25.8 percent) banknotes (Table 2.5.1).

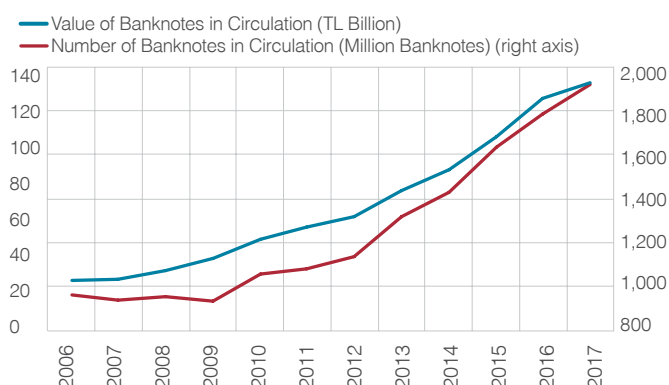
Table 2.5.1: Banknotes in circulation by 29 December 2017

Denomination	Total Value	% of Total Value	Total Number	% of Total Value
200 TL	33,910,866,800.0	25.80	169,554,334.0	8.82
100 TL	72,645,085,600.0	55.26	726,450,856.0	37.84
50 TL	16,814,741,500.0	12.79	336,294,830.0	17.52
20 TL	4,671,872,910.0	3.55	233,593,645.5	12.17
10 TL	2,139,591,930.0	1.63	213,959,193.0	11.14
5 TL	1,096,483,062.5	0.83	219,296,612.5	11.42
SUBTOTAL	131,278,641,802.5	99.86	1,899,149,471.0	98.91
Others*	179,020,579.0	0.14	20,842,484.5	1.09
TOTAL	131,457,662,381.5	100.00	1,919,991,955.5	100.00

Source: CBRT

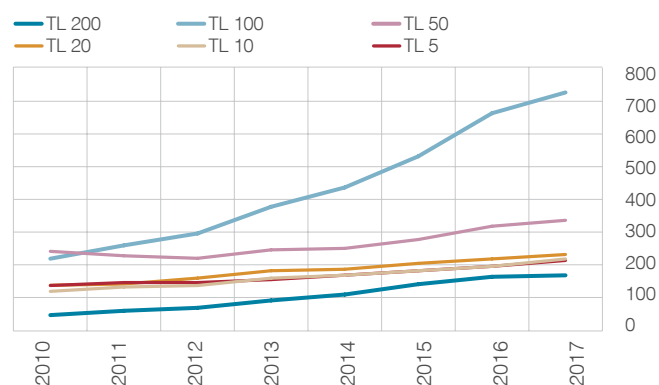
* Banknotes which have been removed from circulation but whose 10-year redemption period has not yet expired.

Graph 2.5.1: Value and Number of Banknotes in Circulation



Source: CBRT

Graph 2.5.2: Number of Banknotes in Circulation by Denomination (Million Banknotes)



Source: CBRT

The “Annual Average Value of Banknotes in Circulation/GDP” ratio, which was 2.9 percent in 2006, has increased over the years and reached 4.3 percent in 2017 (Graph 2.5.3).

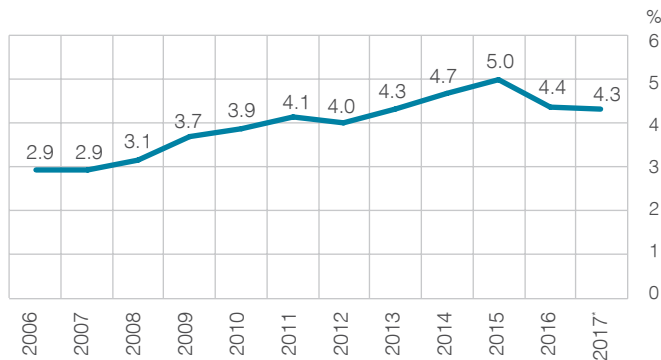
In 2017, the CBRT conducted TL 860.8 billion worth of transactions, of which TL 426.2 billion were deposits and TL 434.7 billion were payments, via 21 branches, 16 banknote depots and 2 cash centers.

CBRT has banknote depots in sixteen of Turkey’s provinces where it does not have branches. These facilities, which are intended to maintain the physical quality of banknotes in circulation while also keeping markets supplied with the denominations that they need in a timely fashion, made TL 56.8 billion worth of deposits and carried out TL 59 billion worth of payments in 2017. To put it another way, these facilities carried out 13.4 percent of the bank’s total banknote handling operations last year.

The CBRT’s Cash Center on the European Side of Istanbul (Avrupa Yakası Vezne Merkezi), which is a subdivision of the Istanbul Branch, carried out 38.6 percent of all transactions handled in Istanbul province. On a nationwide basis, the shares of some branches in total transaction volume was as follows:

The Ankara Branch 12.3 percent, Cash Center on the European Side of Istanbul 11.7 percent, Anadolu Side Cash Center of Istanbul 9.6 percent, Istanbul- Karaköy Branch 9.1 percent, and İzmir Branch handled 8.1 percent of all transactions.

Graph 2.5.3: Annual Average Value of Banknotes in Circulation / GDP (%)



Source: CBRT

*) 2017 GDP is calculated with annualized 9-month data (2009=100).

THE TOTAL VALUE OF BANKNOTES IN CIRCULATION INCREASED BY 6.9 PERCENT YEAR-ON-YEAR AND REACHED TL 131.4 BILLION BY THE END OF YEAR 2017.

2.6 Foreign Exchange Reserves and Risk Management

The CBRT holds foreign currency reserves in support of a range of objectives that include assisting the government in meeting its FX-denominated domestic and foreign debt obligations, maintaining adequate FX liquidity against external shocks, supporting monetary and exchange rate policies, and enhancing market confidence. The CBRT's reserve-management implementations are governed by Law No. 1211.

The CBRT Board regulations and decisions regarding gold and FX reserve management issued pursuant to the same act also provide the framework for the reserve management activities. The CBRT's institutional decision-making framework for reserve management has a three-tier hierarchical structure. Firstly, as the Bank's top decision-making authority, the Board, approves the "Guidelines for Foreign Exchange Reserve Management" prepared in line with the three priorities cited in the CBRT Law as safety, liquidity and return. With this Guideline, the Board also sets the general investment criteria for reserve management and authorizes the Executive Committee and Governor to make decisions about implementation. Decisions made by the Executive Committee or the Governor, which are based on proposals made by the Foreign Exchange Risk Management and Investment Committee (FXRIC) in accordance with the Guidelines approved by the Board, constitute the second tier of the institutional decision-making process. At this point, a benchmark portfolio that reflects the CBRT's general risk tolerance and investment strategy is determined and approved. At the end of each year, the FXRIC proposes a benchmark portfolio to be implemented in the following year. This portfolio, which sets out the strategic asset allocation preferences of the CBRT, is submitted to the Executive Committee and becomes effective upon its approval. The third and final tier of the institutional decision-making process is the implementation of reserve management practices within the limits specified by the Guidelines and the benchmark portfolio. Reserve management activities are carried out within an organizational structure based on the segregation of duties principle. Accordingly, the reserve management activities are carried out by the Reserve Management Division; while risk management activities are carried out by the Risk Management Division.

Subject to the objectives and limits set by the Guidelines and the benchmark portfolio, reserve-management operations are conducted through spot and forward FX trading in international markets, forward transactions, other derivative instruments, FX deposit transactions, repo and reverse repo and securities lending transactions.

Gold holdings

565.1 tons

By 29 December 2017, the gold holdings became 565.1 tons accounting for 21.9 percent of total reserves.

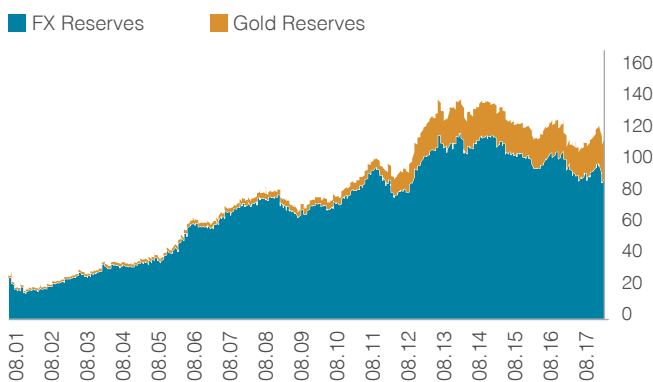
The CBRT's gold holdings became 565.1 tons by 29 December 2017 accounting for 21.9 percent of total reserves (Graph 2.6.1). CBRT gold reserves conform to international standards and are managed as per the framework of the provisions and conditions stipulated in the Central Bank Law No.1211 and the Guidelines issued by the CBRT Board. Pursuant to these Guidelines, the Bank may engage in outright trading of gold and conduct gold deposit and gold swap transactions. As per a regulation that has been in effect since October 2011, commercial banks in Turkey have an option to keep a specified portion of their reserve requirements as standard gold according to the ratios determined for types of reserve requirements.

Efforts to control risks that the CBRT may be exposed to during the conduct of its reserve management operations begins with the strategic asset allocation process, as early as when defining the benchmark portfolio. Once the currencies, instruments and maturities to be employed in reserve management have been set, the expected return and the financial risks involved are to a large extent identified. Reflecting the CBRT's preferences for strategic asset allocation, the benchmark portfolio consists of target currency composition, target maturities and limits of deviation from these targets, maximum permissible transaction limits, the investment universe representing eligible transaction types, and countries and instruments to invest in. When determining the benchmark portfolio, the aim is to generate returns while observing constraints such as protecting capital and ensuring the availability of liquidity but the fundamental aim is the prudent management of the reserves, the country's national wealth. Having determined the overall permissible risk level within the framework of the CBRT's risk tolerance by means of the benchmark portfolio, risks are measured, monitored, and reported regularly.

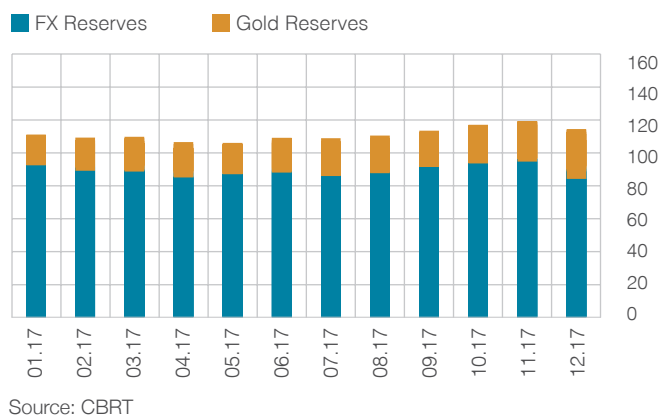
Despite positive developments in global growth throughout 2017, risk appetite in international markets were affected by "Brexit", rising tensions concerning North Korea, and by advanced economy central banks' exit strategies from accommodation and influenced the CBRT's reserve management strategies in 2017. Inasmuch as financial risks remained persistently high last year, the CBRT maintained its conservative approach in reserve management and took all necessary measures to protect its reserves.

To conclude, the CBRT closely monitors the theoretical and technical developments related to reserve and risk management practices in global economic and financial markets and strives to conduct a country implementation observing both the CBRT's needs and taking into account global developments.

Graph 2.6.1: CBRT FX & Gold Reserves in 2001-2017
(USD Billion)



Graph 2.6.2: CBRT FX & Gold Reserves in 2017
(USD Billion)



2.7 European Union Harmonization Activities

Turkey's screening process, which is the first phase of EU accession negotiations, began on 3 October 2005 and ended on 13 October 2006. The EU-harmonization process of Turkey continues.

Table 2.7.1 shows developments in chapters, in which the CBRT participated in the screening and negotiations.

The current situation in EU Chapters that directly concerns the CBRT is as follows: negotiations on chapters 18. Statistics and 32. Financial Control were opened on 26 June 2007; while chapters 4. Free Movement of Capital and 17. Economic and Monetary Policy were opened to negotiations on 19 December 2008 and 14 December 2015 respectively. Chapter 9. Financial Services is one of the eight chapters that were suspended by a resolution passed at the EU summit of 14-15 December 2006, mandating that their negotiations be blocked until the EU Commission verifies that Turkey fulfills its commitments with respect to Southern Cyprus. Nevertheless, in the framework of harmonization with EU acquis in chapter 9, Turkey put into force the Law No. 6493 on Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions on 27 June 2013. This Law also provides harmonization with the relevant EU legislation in Chapter 4. Free Movement of Capital. Chapter 33. Financial and Budgetary Provisions was opened to negotiations on 30 June 2016. However one more technical criterion has been introduced for the provisional closure of these negotiations in addition to the full implementation of the Annex Protocol.

Since the onset of technical negotiations with the European Commission, three of six closing benchmarks for "Chapter 32. Financial Control" have been satisfied. Of these three benchmarks, the CBRT has contributed to the closing criterion of "legal and administrative alignment with the Council Regulation (EC) 1338/2001 laying down measures necessary for the protection of the euro against counterfeiting". Among the chapters with which the bank is indirectly involved, Chapter 28. Consumer and Health Protection was opened to negotiations on 19 December 2007, Chapter 6. Company Law on 17 June 2008, and Chapter 16. Taxation on 30 June 2009. Opening benchmarks have been established for Chapter 19. Social Policy and Employment, while Chapter 2. Free Movement of Workers is still under review by the European Council.

The CBRT continues to provide the Turkish Ministry of EU Affairs with information concerning developments in the chapters for which it is responsible so that the Ministry may monitor the progress being made in Turkey's harmonization with the EU Acquis and can forward this information to the European Commission.

Table 2.7.1: The Status of the Chapters in which the CBRT Participated in the Screening Process and Accession Negotiations

Directly-Related Chapters	Final Status in Negotiations	Indirectly-Related Chapters	Final Status in Negotiations
4. Free Movement of Capital	Negotiations commenced (19 December 2008)	2. Free movement of workers	In progress at the Council level
9. Financial services	Negotiations suspended (14-15 December 2006)	6. Company law	Negotiations commenced (17 June 2008)
17. Economic and monetary policy	Negotiations commenced (14 December 2015)	16. Taxation	Negotiations commenced (30 June 2009)
18. Statistics	Negotiations commenced (26 June 2007)	19. Social policy and employment	Opening benchmarks defined
32. Financial control	Negotiations commenced (26 June 2007) Added to Positive Agenda	28. Consumer & health protection	Negotiations commenced (19 December 2007)
33. Financial and budgetary provisions	Negotiations commenced (30 June 2016)		

Economic and Financial Dialogue with the EU

On 3 May 2017, an “Economic and Financial Dialogue” meeting of experts was held in Brussels. At the meeting, participants discussed assessments of the progress that Western Balkan countries and Turkey had made in the first phase of their Economic Reform Programs and the countries’ responses to the assessments and corrections they requested be made in the European Commission’s final declaration.

On 16 May 2017, a meeting of high-level officials was held in Brussels as part of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey. During this meeting, participants debated a Draft Joint Resolution prepared by the Economic & Financial Committee (EFC) secretariat concerning candidate countries (Albania, Macedonia, Montenegro, Serbia, Bosnia-Herzegovina, Kosovo, and Turkey) that had been drawn up at the 3 May 2017 meeting of EFC experts. As a result of this meeting, the text of the joint resolution was finalized for submission and approval at the Economic & Financial Affairs Council - EU Candidate Countries Ministerial Dialogue Meeting.

On 23 May 2017, a meeting of Economic and Financial Dialogue between the EU and the Western Balkans and Turkey meeting was held in Brussels. This meeting, which is the highest level meeting with respect to economic dialogue between the EU and candidate countries, was attended by economy/ finance ministers of member and candidate states and the text of the joint conclusion prepared at the EFC International Ministerial Meeting that took place on 16 May 2017 was approved.

The spring and fall “Candidate Country Economic Forecast Meetings” that are held twice a year by the European Commission took place on 24 April and 19 October 2017, respectively. During these meetings, EU Commission economists and other participants discussed economic and financial forecasts, data and information on related matters.

EU Acquis Harmonization Meetings

On 7 November 2017, the fifteenth meeting in the series of the Subcommittee IV on Economic & Monetary Issues, Capital Movements, and Statistics was held in Ankara. During this meeting, the importance of this meeting was underlined from the standpoint of keeping track of developments taking place both in the EU and in Turkey. Participants were also briefed on a new system for scheduling and reporting committee meetings.

On 28 November 2017, the Turkey-EU Association Committee set up under the Ankara Agreement between Turkey and the EU held its 125th meeting in Brussels. In addition to the progress of negotiations, the meeting’s agenda included “Political and Economic Criteria”, “High-Level Economic Dialogue”, “Justice and Home Affairs”, “Environment and Climate Change”, “EU- Turkey Energy Dialogue”, “Transportation”, “Customs Union, Trade, and Internal Market Issues”, “Taxation”, and “Instrument for Pre-Accession Assistance”.

EU Projects

In 2017, the first “Pre-Accession Assistance” project submissions were solicited by the CBRT. Of the thirteen projects that were submitted to the EU, two projects submitted by the CBRT under the coordination of the Communications and Foreign Relations Department were selected without any requests of revision.

Accordingly, the “Economic Modelling and Forecast Capacity Development”, a project proposal by the CBRT Markets Department was fully approved by the EU Delegation in 2015 and was awarded an EUR 295,000 budget to carry it out.

2.8 Communication Activities

2.8.1 Accountability and Monetary Policy Communication

The CBRT acts diligently to conduct an efficient communication policy, in line with the monetary policy that it implements and the accountability principle borne by the CBRT's instrumental independence. Communication of the monetary policy implementations and rationale for these implementations to the public is very important because it helps them gain support when they are properly understood by the public and it helps guide expectations in line with the targets in tandem with credibility.

For the CBRT, accountability means being accountable to the public for its decisions, their consequences and its corporate governance. In its role as an independent central bank, the CBRT is responsible for achieving and maintaining price stability and in that capacity it has responsibilities towards society as well. In 2017, the Bank continued to engage in efforts to ensure that its actions and intentions were accessible to and correctly understood by everyone. The CBRT also sought to enhance its own credibility and effectiveness.

Rules governing the CBRT accountability are stipulated in article 42 of the Bank Law No. 1211. As required by the principle of accountability, the CBRT continued to publish its analytical balance sheet on its website on a daily basis throughout 2017. The CBRT issued a report explaining the results of the independent audits of its balance sheet and income statement. Similarly, the rationale for CBRT policy decisions and the repercussions of such decisions were also publicly announced through regular reports and presentations.

Under the current monetary policy implementation, the CBRT's main communication tools are the Monetary Policy Committee releases and the Inflation Reports. Inflation Reports are published on a pre-announced calendar and contain information about international economic developments; inflation outlook, supply and demand conditions, general assessments concerning financial markets, financial intermediation, and public finance; and the medium-term inflation forecasts. These reports also included thematic text boxes dealing with current issues concerning the Turkish economy. In 2017, the CBRT Inflation Reports were presented at briefings on 31 January and 1 August in Ankara and on 28 April and 1 November in Istanbul. All of the year's Inflation Report Briefings were broadcast live on the CBRT website and the proceedings were simultaneously translated into English for non-Turkish audiences.

In 2017, the CBRT posted on its website the MPC decisions on short-term interest rates and other monetary policy instruments along with summaries of MPC meetings held on scheduled dates specified in the "Monetary and Exchange Rate Policy for 2017" document. The CBRT announced its Monetary and Exchange Rate Policy for 2018 on 5 December 2017. Information about the CBRT's most important activities and about changes in implementation that were of significant concern to the public were disclosed by means of 51 press releases.

To help promote better public understanding of monthly inflation developments, the CBRT also continued to issue the Monthly Price Developments Report on the first business day following the release of the inflation figures.

Another communication channel that the CBRT uses is its Financial Stability Report, which is also released according to a pre-announced schedule. In 2017, the Bank posted the Financial Stability Reports on its website on 30 May and 30 November. In the Financial Stability Reports, the CBRT shared its perspective on the overall financial sector with respect to the most recent financial stability developments in Turkey and abroad.

THE CBRT'S PRIMARY COMMUNICATION DOCUMENTS CONCERNING CURRENT MONETARY POLICY ARE MPC DECISIONS AND INFLATION REPORTS.

2.8.2 Communication Activities for General Public

In 2017, the CBRT prepared publications in printed and electronic formats and disseminated them through a variety of channels. Last year, the Bank continued to publish the quarterly CBRT Bulletin that it uses to inform different audiences about its policy implementations, its corporate structure, activities, and publications. This periodical appears once every three months and is published in Turkish (TCMB Bülten) and English (CBRT Bulletin) editions.

As part of direct communication activities, in 2017, Governor Murat Çetinkaya conducted a program of domestic and international presentations and speeches concerning CBRT policies and practices and current economic developments. Governor Çetinkaya took part in a variety of meetings and conferences and explained CBRT policies to audiences. The texts of these presentations and speeches and video recordings of some of the speeches are accessible on the CBRT website.

The CBRT continued to use its website to meet the information needs of various target groups, to manage the website in line with its effective communication strategy, and to enrich the website's content.

In 2017, the CBRT kept a close watch on current technological developments in communication and continued to make use of social media as well as other online and multimedia tools in order to interact with the public. One of the focal points of the CBRT communication activities last year was to make the published policy documents and reports produced by the Bank understandable by all segments of the public. In line with this, statements concerning policy measures, the reports, and data were worded in a clearer, simpler, and straightforward way so that they could be understood not just by specialists but by the general public. Multimedia tools such as infographics, visual summaries, and video clips were also used for the same purpose.

The CBRT Electronic Data Delivery System (EDDS) was renewed in 2017 and appeared in its new look on October 20th. In the redesign of the EDDS, the goal was to maintain existing services while also adding new features that took into account user needs that had been identified in website satisfaction surveys. In its renewed form, users can generate dynamic reports and charts from the EDDS database and even take part in the report-generation process by making changes in the visual and content aspects of tables and charts in line with their own needs.

Located at tcmbblog.org, the CBRT corporate blog provides a channel through which bank professionals share their views with the public, open these views to discussion, and provide timely contributions to the economic agenda. New analyses and videos continued to be published on the blog during the year.

In 2017 the CBRT also continued to make more active use of social media and to enrich the postings in its accounts with visual materials. The Bank made intensive and effective use of its Twitter account in particular.

On the CBRT Facebook page, with the content provided under the "Question of the Week" and "Term of the Week" headings the Bank aimed to inform users about basic economic and monetary-policy concepts. Visual material consisting of selections from the CBRT art collection was also shared through this account. Through its Flickr account, the CBRT continued to share photographs from events and activities organized by the Bank. Besides, the CBRT continued to publish a variety of informational videos on Governor's speeches, the Bank's Inflation Report, Financial Stability Report, and Monetary and Exchange Rate Policy for 2018 as well as on various CBRT events on its YouTube channel.

ONE OF THE FOCAL POINTS OF CBRT COMMUNICATION ACTIVITIES IN 2017 WAS TO MAKE PUBLISHED POLICY DOCUMENTS AND REPORTS UNDERSTANDABLE BY ALL SEGMENTS OF THE PUBLIC.

2.8.3 Activities on Financial Education and Economy Education

In 2017 the CBRT launched “Herkes İçin Ekonomi (Economics for All) initiative to introduce monetary policy and economic concepts. Believing that economics education should begin at an early age just like instruction in reading, writing, and arithmetic, the CBRT has started to play an active role in economics education by teaching such concepts as “money”, “inflation”, and “central bank” to everyone from primary school on up.

As part of this overall effort, the CBRT has developed a program of visits aimed at primary school children. Under this program, which began in Ankara in the fall term of the 2017-2018 academic year, 60 volunteer CBRT employees, having received a brief pedagogic training, began conducting visits to local schools. During these visits the volunteers explained money, inflation, and central banking topics to about 2,000 fourth-grade pupils and they also passed out booklets, activity workbooks, and information leaflets on banknotes that explained these subjects in a language and style that their audience could understand.

Within the scope of the “Economics for All” program, a variety of publications intended for other target audiences were also prepared. These include booklets on the subjects of money, central banking, inflation, and savings for primary and middle-school pupils; an activity workbook for primary school children; and “Why is Price Stability Important for You?”, a publication for high school students. These publications as well as information leaflets and the poster on banknotes, designed to familiarize school children with banknotes are also available on the CBRT website.

Recognizing that university students also constitute an important target audience for its “Economics for All” program, the CBRT conducts “University Gatherings” with renewed content at its Head Office building in Ankara. Under this program, participants are informed about the monetary policy framework and central banking as well as about career opportunities at the CBRT. In 2017, the program was renewed in order to better interact with these students and to convey content to them in a more entertaining manner through the use of video clips, animated movie clips, and games. During 2017, approximately 1,800 students from 35 universities attended the CBRT University Gatherings.

IN 2017, THE CBRT LAUNCHED AN INITIATIVE NAMED “ECONOMICS FOR ALL” TO EXPLAIN ECONOMICS AND MONETARY POLICY TO ALL SEGMENTS OF THE PUBLIC.

2.8.4 Investor Relations

Regarding relations with financial institutions and credit rating agencies (CRA's), 2017 was a very productive year for the CBRT. Throughout the year, 57 technical-level face-to-face meetings with investors were held at the Bank's Head Office, in line with the Bank's new communication strategy, which was announced in July 2016. During those meetings, the CBRT met with 303 investors, analysts and economists, representing 162 financial institutions. In the same period, eight meetings were held with CRA officials, five of which were teleconferences.

Table 2.8.4.1: Meetings Held in 2017

Period	Meetings with CRAs	Meetings with Investor Agencies	Number of Investor Agencies	Total Number of People Attending
January-March 2017	4	13	49	88
April-June 2017	1	10	24	43
July-September 2017	1	17	57	102
October-December 2017	2	17	32	70

In addition to the meetings that took place at the CBRT Head Office, the Bank participated to an investor meeting organization in London in February and also to a number of such meetings held in Washington DC in April and October.

In keeping with the CBRT's ongoing efforts to utilize every possible channel, in order to communicate effectively with all of its stakeholders, preparations of the technical infrastructure needed to conduct webcasts were completed and in October, one English and one Turkish webcasts about the CBRT's new EDDS were held. Moreover, the CBRT collaborated with the Turkish Investor Relations Society (TUYID) to enhance the Bank's technical knowledge regarding investor relations and also to provide non-CBRT professionals working in this field with information about the Turkish economy and monetary policy issues. In this framework, a "meet-and-greet" gathering on "The ABC of Investor Relations" was held with board members of the TUYID at the CBRT in March and a seminar on "The Role of Investor Relations in CBRT Policies and Practices" was held in October in Istanbul.

2.9 International Cooperation and Events

2.9.1 Relations with International Organizations

The 37th meeting of the Central Bank Governors' Club of Central Asia, Black Sea Region and Balkan Countries, which was founded on the initiative of the CBRT, was hosted by the CBRT in Antalya on 2-4 April 2017. The main themes of the meeting were monetary policy, financial stability, and the enhancement of economic resilience.

In order to increase cooperation among the Governors' Club member countries and to help with the preparations of the Governors' Club meetings, a "Monetary Policy and Financial Stability Working Group" was established in November 2017 on the initiative of the CBRT. Russia and Turkey assumed the role of co-chair of this Group.

Within the scope of the activities of the Organization of Islamic Cooperation (OIC), which is the second largest international organization after the United Nations, the Meeting of the Central Banks and Monetary Authorities of OIC Member Countries was held in September 2017. During the meeting, participants discussed global and financial developments, a stable and inclusive financial system, and financial stability issues. In the declaration published at the end of the meeting, it was stated that the members would meet regularly every year and the CBRT would undertake the duties of secretariat. It was also decided to create two working groups focusing respectively on the issues of "OIC Economic Outlook" and "Financial Inclusion". Established on the initiative of the CBRT, the "OIC Economic Outlook" working group is being co-chaired by Iran, Pakistan, and Turkey while the "Financial Inclusion" working group is being co-chaired by Bangladesh, Saudi Arabia, and Uganda.

One microsite⁽²⁾ was also set up for this meeting.

2.9.2 Relations with Central Banks

2017 was marked by important developments from the standpoint of the CBRT's bilateral relations. Significant progress was also made in the direction of expanding the scope of such relationships through multilateral cooperation.

In an effort to expand its international cooperation, the CBRT first undertook a review of its Bilateral and Multilateral Cooperation Strategy in 2017 as a result of which a three-pillared strategic approach was formulated: 1) Develop existing collaborations, 2) Initiate collaborations with central banks with which memorandums of understanding are currently being negotiated, and 3) Plan multilateral collaborations.

As a consequence of the efforts made last year under this new strategy, the number of memorandums of understanding which the Bank signed increased to 26 from 16 such agreements signed between 2010 and 2016. This rise has significantly expanded the scope of the CBRT's international influence (Table 2.9.2.1).

The aim of these new memorandums of understanding with Bosnia-Herzegovina, Georgia, and Bulgaria in April, with Ukraine in June, with Tunisia, Serbia, and Iran in September, and with Albania and Qatar in November, was to strengthen the CBRT's network of international ties across a broad region that embraces the Balkans, Black Sea littoral countries, Eastern Europe, North Africa and the Middle East.

Table 2.9.2.1: New CBRT Memorandums of Understanding Signed in 2017

Bosnia-Herzegovina	Serbia
Bulgaria	Tunisia
Georgia	Iran
Ukraine	Albania
Macedonia	Qatar

⁽²⁾ <http://www.tcmb.gov.tr/wps/wcm/connect/tcmb+en/tcmb+en/main+page+site+area/conferences/oic>

Recognizing the importance of engaging in multilateral collaborations in addition to bilateral cooperation, the CBRT organized a multilateral seminar for the first time in 2017 in order to promote the sharing of knowledge and experience among the central banks of Eastern European, the Balkans, and Black Sea littoral countries which had already signed memorandums of understanding with the CBRT and which might be potential partners of the Bank. Titled “Central Bank Communication: How to Keep Up with the Latest Trends”, the multilateral seminar was held in Istanbul and was attended by 45 high-level representatives of the central banks of 12 countries. The CBRT plans to make such seminars traditional and to hold them every year for different country groups in order to discuss different issues.

Continuing to diversify its activities with the central banks with which it already cooperates in 2017, the CBRT intensified its current collaboration with the European Central Bank (ECB) and with the Italian and Indonesian Central Banks. Personnel were mutually seconded with the aim of sharing experience while working visits and workshops were conducted and joint seminars and conferences were organized.

The CBRT engaged in high-level policy dialogues with the administrations of a large number of central banks in 2017. Governor-level policy dialogue meetings were conducted with the central banks of Italy, Pakistan, Saudi Arabia, Tajikistan, Kuwait, Libya, Azerbaijan, Qatar, Iran, and Albania in 2017. During the IMF-World Bank annual meetings that took place in Washington DC on 13-15 October 2017, policy dialogue meetings at the deputy governor-level took place with the ECB and the Russian Central Bank.

Bilateral working committees serve as another mechanism, by means of which the CBRT is able to engage in dialogues with other central banks. The seventh meeting of the Russian-Turkish Working Group on Financial and Banking Cooperation took place in 2017, during which the parties signed an annex protocol to the technical cooperation agreement that was signed in 1997. The aim of this new protocol is to support the two banks’ cooperation processes. In 2017 a working committee was set up in order to develop bilateral relations with Iran’s central bank. This committee met three times last year. During these meetings, participants exchanged views and information on such issues as trade in local currencies, a swap agreement mechanism between the respective central banks, interest-free finance in Turkey, and reserves management. Last year a decision to set up a working committee was also made with the Ukrainian central bank. The intention is to hold this new Committee’s first meeting in the early months of 2018.

Moreover, working visits with the central banks of Azerbaijan, Iraq, Uzbekistan, and Ukraine were also organized in order to engage in bilateral discussions and to exchange information. A training program was conducted for Iraq’s central bank staff and a meeting to discuss interest-free finance was held with representatives of Pakistan’s central bank.

In order to enhance the effectiveness of the cooperation between the CBRT and other central banks, allow the CBRT departments to benefit more from such cooperation and ensure continuity of the cooperation process, The Committee of Cooperation with Central Banks was established within the Bank in April 2017. The committee is structured so as to allow relations between the CBRT and other central banks to be conducted more systematically and according to a regular schedule. Its first meeting took place in April with participation of representatives from the CBRT units, during which participants were informed about and exchanged views on the committee’s objectives, collaboration processes, and members’ roles. During the committee’s second meeting in July, the results of activities that had been planned for 2017 were assessed, information was provided about EU projects, and views were exchanged on plans for 2018. At the third meeting, which took place in November, information was provided about the committee’s working principles and about the most recent developments in bilateral relations since the last meeting. The agenda of the meeting also included the selection of a theme for the 2018 bilateral and multilateral cooperation catalogue and an exchange of views concerning EU project requests.

2.9.3 Participation in International Working Groups

In 2017 the CBRT attended the annual meetings of the Banknote Security Committee, the Manufacturing Process Committee, and the Banknote Materials Committee, all three of which are technical sub-units of the European Banknote Conference. CBRT representatives also took part in the activities of the Policy Committee Advisor Group, which is responsible for assessing the effectiveness of the conference's management and operations.

As a central bank that uses banknote processing systems (BPS) supplied by Germany-based Giesecke & Devrient (G&D), the CBRT is a member of the BPS International Users Group. In 2017 the Bank sent representatives to take part in that group's annual conference of central banks and banknote printers which G&D conducts for those who use its banknote processing systems. The aims of this conference are to enable participants to exchange views and experience about the use of G&D systems and to enable updating of systems in line with technological innovations. In 2017, CBRT representatives also attended the semiannual meetings of the BPS Technical Advisory Group, which is a technical sub-unit of the international users group.

The CBRT is also a member of the KBA NotaSys Customer Focus Group, which was set up by KBA-NotaSys, a Switzerland-based firm that manufactures and supplies majority of the machines used to print banknotes around the world today, to facilitate technical cooperation and encourage the exchange of knowledge and experience among those who use KBA NotaSys machinery, systems, and equipment in their banknote printing processes. CBRT representatives attended the KBA NotaSys Customer Focus Group's annual meeting in 2017 and also took part in the activities of the Technical Work Group, a sub-unit of the customer focus group.

As Turkey's representative, the CBRT takes part in the activities and meetings of working groups established by the CPMI, which is hosted by BIS. Some of the working groups of which the CBRT is a participant published their final reports in 2017 while others continued to work on fulfilling their mission briefs. Accordingly;

- Having published its "Guidance on Cyber Resilience for Financial Market Infrastructures" in 2016, the Cyber Resilience Working Group, which is co-chaired by the CPMI and the IOSCO, last year continued its efforts both to determine the degree to which the principles set forth in that guidance are being complied with and to foster collaboration and the sharing of knowledge and experience among group-member countries.
- In March 2017, CBRT representatives took part in a workshop conducted by the CPMI Correspondent Banking Working Group.
- CBRT representatives attended a meeting of the CPMI Retail Payments Working Group in October 2017 and took part in the preparation of the group's Report on Cross-Border Retail Payments.
- CBRT representatives participated in the meeting of the CPMI-IOSCO Digital Innovations Working Group that was held on 28 February-1 March 2017.

2.9.4 International Events

In its ongoing efforts to represent Turkey on international economic platforms and to foster mutual relations and cooperation with other countries' central banks and with international agencies and organizations, the CBRT conducts meetings, seminars, panels, workshops, and conferences for the discussion of current issues on the world's and Turkey's economic agendas.

The main events which the CBRT hosted and which were attended by the world's leading academicians and central bankers last year are highlighted below.

- CBRT Productivity Workshop was conducted in Izmir on 27-28 March 2017.
- The 37th Governors' Club Meeting of the Central Asian, Black Sea Region, and Balkan Countries took place in Antalya on 2-4 April 2017.
- Jointly organized along with the BIS-CPMI, the 16th Regional Payment Systems Workshop took place in Antalya on 9-12 May 2017.
- The 7th meeting of the Russian-Turkish Working Group on Financial and Banking Cooperation was held in Izmir on 11-12 May 2017.
- A meeting of the Financial Statements Analysis Working Group, a sub-group of the European Committee of Central Balance-Sheet Data Offices (ECCBSO), took place on 8-9 June in Istanbul. The CBRT has been actively involved in the ECCBSO since 2014 and its representative currently serves as deputy chair of this working group.
- The "Central Banking Seminar on Communication: How to Keep up with the Latest Trends" was held in Istanbul on 8-9 September 2017.
- The "Meeting of the Central Banks and Monetary Authorities of the OIC Member Countries" was organized in Bodrum on 21-22 September 2017, followed by the "Islamic Finance Workshop" in the same town on 23-24 September 2017.
- The "Workshop on Current Modeling and Forecasting Practices in Central Banks" was held in Izmir on 29-30 September 2017.
- The "Conference on Productivity and Sectoral Reallocation" was jointly organized with the ECB in Izmir on 6-7 October 2017.
- The "7th International Seminar on Legal Aspects of Central Banking: A Changing Legal Environment for Central Banks" was held in Istanbul on 23-24 October 2017.
- The "12th Meeting of the FSB Regional Consultative Group for the Middle East and North Africa (MENA)" was held in Antalya on 20 November 2017.
- The "Conference on Global Environment and Policy Challenges in Emerging Markets" was organized in Antalya on 1-2 December 2017.

2.10 Research and Development Activities

2.10.1 Academic Research and Development Activities

In keeping with the importance that the CBRT attaches to academic studies, working papers and research notes prepared by the CBRT staff continued to be posted on the CBRT website in 2017. 21 publications were added to the CBRT working papers series of peer-reviewed research papers written by the CBRT staff-members. In addition, another 15 new additions were made to the series of Research Notes that the CBRT publishes in order to contribute to discussions on economic issues in a timely fashion and to publicize the results of research about Turkish economy and monetary policy.

Central Bank Review, a peer-reviewed journal covering such topics as macroeconomic stability, financial stability, liquidity management, payment systems, and reserves management, was published by the CBRT 4 times in 2017.

Meanwhile, 7 articles that were written with contributions of the staff of the CBRT Research and Monetary Policy Department were published in journals that are listed in the Social Sciences Citation Index. The same department also held 5 seminars as part of the general series that it conducts for the CBRT personnel last year. During these seminars, presentations were given by participants from universities in Turkey and other countries, from international organizations, and from other countries' central banks.

During the first half of 2017, a total of 6 research papers and studies were published by the Istanbul School of Central Banking (İMB). Of these publications, 2 were published by journals that are listed in the Social Sciences Citation Index, 1 was included in the CBRT Working Papers Series, and 3 appeared in various other national and international research publications.

In 2017, the İMB also conducted research seminars and a program of visit for academicians, research specialists, and central bank economists with the aim of contributing to the CBRT's technical capacity, knowledge, communication, and bilateral cooperation in the areas of central banking, economics, and finance.

2.10.2 Research Activities on Structural Economic Developments

The Structural Economic Research Department of the CBRT, established and commenced operations on 28 June 2016, continued to engage in research on such topics as identifying the structural factors that restrain the effectiveness of the monetary policy, to formulate policy proposals within the framework of inter-agency cooperation, and to develop the corporate infrastructure.

This Department's activities in 2017 may be summed up under five headings: (1) Work carried out within the scope of the Food and Agricultural Product Markets Monitoring and Evaluation Committee (2) In-depth field studies exploring real economy along with sectoral and regional issues (3) Support for policymaking processes (4) Research (5) Coordination with academic circles.

The CBRT serves as the secretariat for the Food & Agricultural Product Markets Monitoring & Evaluation Committee. During 2017, this Committee convened 10 times in meetings that were chaired by Deputy Prime Minister Mehmet Şimşek. As a result of technical discussions concerning issues on the Committee's agenda, a total of 17 decisions were put into effect with their publication in the Official Gazette.

Because the agencies and organizations that make up the Committee's membership are represented at their most senior level of administration, the Committee is able to take a cooperative, solution-focused approach and formulate concrete policy measures in order to deal with the issues and problems they address. The benefits of the measures taken are expected to make themselves clearly felt in 2018.

In interactions with the real sector, face-to-face meetings are held with firms' senior decision-makers. These meetings make it possible to obtain first-hand information from individual firms about sectoral, regional, and general activities and about their expectations on a variety of issues such as production & demand, investment, employment, borrowing conditions, prices, and costs.

Having previously been conducted in every two months in 2014-2016, meetings with firms were conducted monthly last year. During 2017 a total of 1,581 firms were visited, of which 723 were manufacturers and 423 were wholesalers and retailers. Of these firms, 384 were based in Istanbul, 143 in Izmir, and 108 in Ankara. Seeking to maintain continuous communication with real sector firms on a more localized basis, a more dynamic structure was established in 2017 and Istanbul (Europe), Istanbul (Anatolia), Ankara, Izmir, and Adana Regional Offices were opened.

Such meetings play a major role in keeping track of real sector sentiments about how the economy is doing in a more timely fashion, in gaining a better understanding of the reasons behind firms' economic decisions, and in making sounder economic forecasts. The data obtained through these meetings is compiled on a sectoral and regional basis so as to remove any firm-specific information and then is regularly reported. It serves as substantial input for the determination of the monetary policy. In addition, corporate decision-makers' views about and expectations of monetary policy implementation were also reported to the CBRT Senior management without the identities of the firms. During 2017, efforts were made to improve the quality of the reports, to improve the sampling of current data taking the relative weights of economic activities at the sectoral and regional levels into account, and to enable sampling selection to be carried out by Regional Offices.

The direct transmission of the CBRT policies to companies and the provision of the better-quality timely information to the MPC have strengthened the strategic role of the real sector studies in the CBRT - Real Sector communication.

Besides analyzing such structural issues as Turkey's economic growth, productivity, labor markets, foreign trade, balance of payments, public finance, saving/consumption, competition, human capital, research & development, and infrastructure as well as entrepreneurship, the digital economy, energy, education, and migration from the standpoints of financial stability and monetary policy, real-sector data was compiled on a sectoral and regional basis, consolidated and used effectively in the monetary policy decision-making process.

Detailed work was also carried out in order to provide access to new data sets and to support the policy-formulation process with the aims of identifying the structural factors that lead to inflation rigidity and persistence, of working jointly with other agencies and organizations that are involved, and of expanding the analytical capacities of the CBRT technical units.

2.10.3 Banknote Printing Research and Development Activities

An online system using image-processing technology was developed to control the quality of the intaglio printing on banknote substrates. This system is now being used on one of the CBRT Banknote Printing Plant's intaglio printing machines.

A number of project-based R&D studies aimed at improving the plant's processes were also completed last year.

One of the works that was completed in 2017 was initiated in 2016 and involved setting up an in-house ISO 14001 Environmental Management System, which provides an overall framework for ensuring that the plant is fulfilling its environmental responsibilities and statutorily-mandated obligations. In September 2017, the Turkish Standards Institution (TSE) was formally requested to verify the plant's compliance with the standard. As a result of audits that the TSE conducted on 10-13 October, the plant was qualified for ISO 14001 Environmental Management System certification.

2.10.4 Information Technologies Research and Development Activities

A large number of projects and infrastructure-related works were carried out in 2017 by the Information Technologies Department in line with the CBRT strategies. The infrastructure projects focused mainly on technology-renewal and capacity-expansion while the others were concerned with contributing to the CBRT's ability to achieve its targets for the upcoming period by improving the services provided to bank units and by modernizing its software inventory.

Focusing on increasing the delivery speed and quality of information technology (IT) services being provided and on readying the Bank's IT infrastructure for its digital transformation, important progress was made last year in the areas of:

- Improving IT processes so as to make them compliant with internationally-recognized best practices;
- Improving the automation of the software-development lifecycle;
- Changing over to a service-oriented architecture;
- Increasing the measurability and efficiency of IT service management processes through their automation.

Within the context of software-development processes, work was completed on the commission of new methods and tools for estimating project costs and for analyzing software quality.

In the context of the CBRT's ongoing digital transformation process, work is continuing on projects concerned with the Bank's use of big-data and business-analytics technologies and with installing the infrastructure needed for such use. Other projects in support of the CBRT's digital transformation carried out last year included renewing the Bank's main website and its EDDS and readying the infrastructure required for expanding the use of mobile technologies.

Important progress was also made in 2017 in the direction of renovating the CBRT's infrastructure technologies in line with its digital transformation projects. In this context, the Bank's communication networks, data-storage technologies, and user hardware systems were renewed, thereby increasing the CBRT's capacity to cope with its steadily-expanding transaction volumes.

INFRASTRUCTURE PROJECTS FOCUSED MAINLY ON TECHNOLOGY-RENEWAL AND CAPACITY-EXPANSION WHILE OTHERS AIMED AT CONTRIBUTING TO THE CBRT'S ABILITY TO ACHIEVE ITS TARGETS BY IMPROVING THE SERVICES BEING PROVIDED TO BANK UNITS AND BY MODERNIZING ITS SOFTWARE INVENTORY.

2.10.5 Technology-Deployment Activities

Archives Management System

After completion of the testing processes, the CBRT's new web-based Archives Management System was made accessible to all authorized CBRT users as of the beginning of 2017.

Consisting of 13 main modules and 25 sub-modules, this system experienced heavy use in 2017 owing to the accessibility that it provides to information contained in CBRT's physical and electronic archives no matter where the archives themselves may be located. Through this system, information may be:

- Entered and stored in databases;
- Searched;
- Displayed;
- Requested, transferred, and purged;
- Reported;
- Addressed in the CBRT archives through the use of barcodes and hand-held terminals for addressing;
- Organized to enable digitization processes.

As of end-2017, the CBRT Archives Management System contained 303,741 entries, of which 289,749 were located in the Bank's archives, 13,821 in Department archives, and 171 in Division/Service-level archives.

All documents and files dating back to 1931, when the CBRT was founded, and which hitherto had been held in Department and Branch archives have been recorded in electronic format and are being kept in the corporate archives of the now fully operational CBRT Archive Management System.

Creation of Corporate Archives

All archival materials previously held by Departments and Branches either on their own premises and/or in the archives of the Izmit Branch have been relocated to the new CBRT Corporate Archives in Kahramankazan, about an hour's drive north of Ankara. Under this project, about 300 thousand storage containers holding about 100 million documents were physically conserved; classified according to subject, date, and standard document code; labeled with barcodes and saved into the CBRT Archive Management System.

Since all documents in the corporate archives can be queried through the CBRT Archive Management System, users who are in need of particular documents can use the system to request access.

Use of Electronic Signatures and Registered Electronic Mail

Owing to the increasingly greater use of electronic signatures in the CBRT's external correspondence, a set of instructions detailing how registered electronic mail is to be used was prepared and published.

The CBRT's registered email address (merkezbankasi@hs02.kep.tr) was intensively used for the sending and receiving of all email messages and documents that bear electronic signatures. During 2017, 287 documents were received through this address and 830 were sent via the Bank's registered email address.

Besides being now mandated by law, the use of the registered email system and of electronic signatures saves labor, reduces communication costs, ensures that correspondence takes place quickly and securely, and is a more eco-friendly alternative.

CBRT's New Electronic Data Delivery System

By allowing the national economy to be monitored closely, the CBRT Electronic Data Delivery System (EDDS) provides a vital public service. On 20 October 2017, a newly-designed EDDS was launched with enhanced functions and features.

When designing the new system, one goal was to ensure that existing services were not interrupted; another was to add new features that had been identified based on the findings of previously-conducted user-satisfaction surveys. These new features include:

- REST-compliant web services
- Customization
- Report templates
- The ability to prepare interactive graphics
- Frequently-used data sets
- Most recently-updated data sets
- The ability to display data on maps of Turkey and the world.

The EDDS continues to give users access to more than 25,000 time series.

Cash Management System

The use of more effective information flows in the cash management system and in the CBRT's banknote deposit and payment operations with banks allowed for increased automation as well as reduced costs and risks. CBRT introduced the use of sealed containers for banks' deposits of banknotes to the CBRT branches, relieved banknote deposit operations and decreased transaction times. And finally, under a new module introduced to the system in December 2017, information concerning banknote processing data started to be automatically sent to the banks. Hence, overall efficiency for CBRT and the banking sector has been improved.

Decentralized Cash Management System

The goal of CBRT's Decentralized Cash Management System, per se the Notes-Held-to-Order Scheme, is to set up in-house cash vaults at premises of the Bank's counterparties, namely banks and CITs and to delegate greater roles in cash-handling, storage and distribution operations so as to increase the efficiency of banknote and coin circulation in Turkey.

With the aim of increasing the efficiency in cash cycle, reducing the costs and risks, and improving service quality by expanding the distribution network, in 2017 CBRT organized workshops for the mentioned counterparties in November and December during which developments related to this project were discussed and visits were conducted to potential cash vault facilities.

BY ALLOWING THE NATIONAL ECONOMY TO BE MONITORED CLOSELY, THE EDDS PROVIDES A VITAL PUBLIC SERVICE. ON 20 OCTOBER 2017, A NEWLY-DESIGNED EDDS WAS LAUNCHED WITH ENHANCED FUNCTIONS AND FEATURES.

2.11 Training Activities

During 2017, 5,428 people took part in CBRT-organized training activities while 625 CBRT employees benefited from a variety of programs conducted by other agencies and organizations.

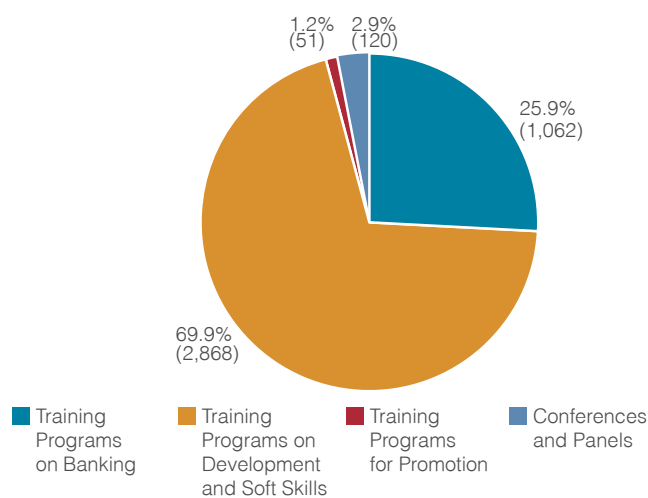
2.11.1 Training Programs Organized by the CBRT

During 2017, 3,981 CBRT employees attended in-house training programs on “Banking”, “Development & Soft Skills”, and “Promotion” (Graph 2.11.1.1). Two programs (“Microsoft Office 2010” and “Prevention of Money-Laundering and Terrorism Financing”) were administered as e-learning. A total of 648 people took part in training programs.

A total of 1,409 university students took part in last year’s CBRT pre-recruitment programs. 3 took part in the CBRT Internship Program and another 6 took part in the CBRT International Internship Program. Training was also provided to 29 outsourced employees (Graph 2.11.1.2). In line with the Bank’s goal of expanding the scope of İMB’s training activities, the School’s mission and scope as defined in the CBRT Charter on Organization and Duties was amended to give it the authority to conduct training programs dealing with economics and finance issues to public and private-sector organizations in Turkey. For the first time in 2017, the school conducted training programs on the subjects of money, banks and central banking, monetary policy, and exchange rate regimes for 65 of the employees of Energy Exchange Istanbul.

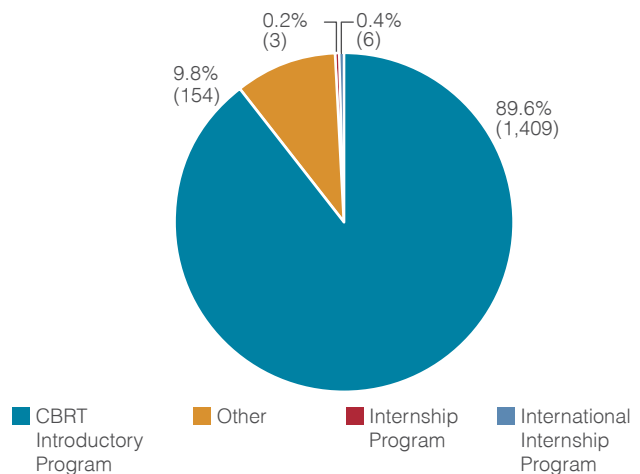
On 24 October 2017, a “Cashless Society Workshop” was held at the CBRT Head Office Conference Hall.

Graph 2.11.1.1: Training Activities for CBRT Employees
(Number of CBRT Employees)



Source: CBRT

Graph 2.11.1.2: Training Activities for Non-CBRT Employees
(Number of Participants)



Source: CBRT

On 8 December 2017, a seminar on “Regulations Concerning the Prevention of Money-Laundering and Terrorism Financing” was conducted for CBRT employees in order to increase their awareness of the CBRT’s corporate policy related to such matters and of the new practices that were being introduced within this context.

On 27 February 2017, a workshop on “Supervision of Payment and Security Settlement Systems” was conducted in Istanbul to inform systems operators about national regulations and international standards that must be taken into account when supervising the payment and security settlement systems, to explain the purpose, scope, and methods of supervision and to respond to the questions of systems operators, if any.

2.11.2 International Training and Technical Support Activities

A total of 534 people consisting of employees from the central banks and policy-making authorities of 58 countries and from institutions in Turkey took part in the international training and technical support activities organized by the İMB in 2017.

In 2017 the İMB also conducted 15 international training programs in the form of seminars and workshops on issues pertinent to central banking. Of these programs, two concerning cash management and İslamic finance and real-economy financing were organized for the first time in 2017. During 2017, the İMB provided the participants in one training program with an opportunity to continue their training in the field. Two trainees who completed the Bank’s “Balance of Payments and External Statistics” took part in a five-day on-the-job training at the Statistics Department in Ankara.

International training programs organized by the İMB in 2017 are as follows:

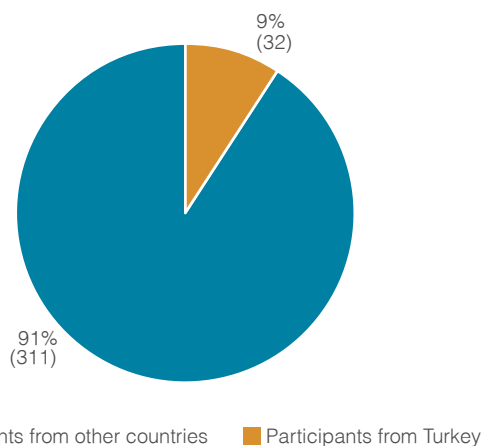
- “Human Resources Management at Central Banks” workshop (22-24 March 2017, Istanbul).
- Internal Audit Practices at Central Banks” seminar (17-20 April 2017, Istanbul).
- “Balance of Payments and External Statistics” seminar (25-28 April 2017, Istanbul).
- “Financial Stability, Financial Crises and Monetary Policy” seminar (8-11 May 2017, Istanbul).
- “Sectoral Financial Accounts” seminar (15-17 May 2017, Istanbul).
- “Monetary Policy” workshop (22-25 May 2017, Izmir).
- “Payment Systems and Instruments” seminar (11-14 September 2017, Istanbul).
- “Prudential Supervision of the Banking Sector and Macroprudential Regulations” seminar (25-29 September 2017, Istanbul).
- “Survey Design and Implementation” seminar (4-6 October 2017, Istanbul).
- “Foreign Exchange Reserve and Risk Management” seminar (11-13 October 2017, Istanbul).

- “Central Bank Policy Mix: Issues, Challenges and Policies” joint workshop with Bank Indonesia (16-20 October 2017, Istanbul).
- “Financial Markets and Instruments” seminar (23-26 October 2017, Istanbul).
- “Cash Circulation Management” seminar (20-23 November 2017, Istanbul).
- “Islamic Finance and Funding the Real Economy” workshop (27-29 November 2017, Istanbul).
- “Risk Management in Financial Institutions” joint workshop with Toronto Center (18-22 December 2017, Istanbul).

A total of 343 people consisting of employees from the central banks and policy-making authorities of 58 countries and from institutions in Turkey took part in 15 international training programs organized by the İMB in 2017 (Graph 2.11.2.1). The programs’ 311 international participants represented countries in Asia, Europe, Africa, and South America (Graph 2.11.2.2).

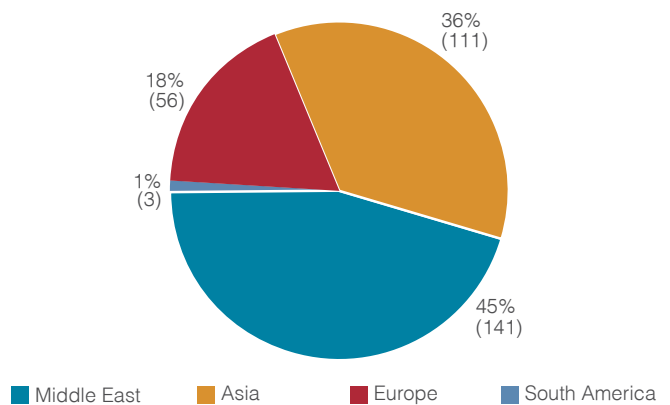
In its efforts to increase bilateral cooperation with other central banks and international organizations, the İMB also organized 14 technical support programs (6 of which took place outside Turkey) for the staff of 12 central banks and two other organizations. Two of these programs were conducted under a Memorandum of Understanding (MoU) with Bank Indonesia, one under an MoU with the Central Bank of Iraq, and one under an MoU with the National Bank of the Kyrgyz Republic.

Graph 2.11.2.1: Breakdown of Participation in İMB International Training Programs (Number of Participants)



Source: CBRT

Graph 2.11.2.2: Regional Breakdown of Participation from Other Countries in İMB International Training Programs (Number of Participants)



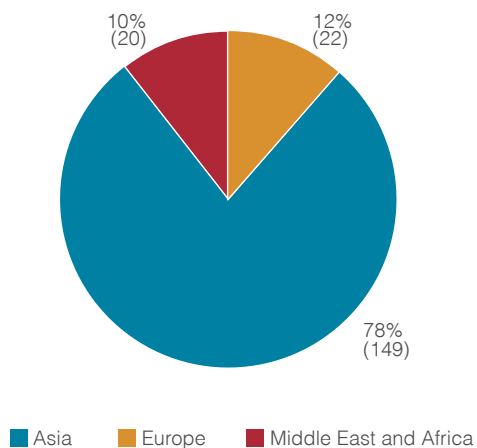
Source: CBRT

Under the technical support programs organized by the CBRT, the Bank and relevant institutions from Turkey shared knowledge and experience with the employees of other central banks and policy-making authorities on the subjects of:

- Risk Management in Payment Systems
- Current Developments in CBRT Statistics
- Balance of Payments
- Islamic Banking and Precious Metals and Related Operations and Regulations
- Capital Flow Management and Economic Policy Mix
- Information Security
- Planning of Training Activities
- Money-Laundering and Terrorism Financing
- Use of Reuters and Bloomberg Services in the Conduct of Market Operations
- Current Issues in Cash Circulation
- Financial Stability Issues: Macroprudential Policies and Practices
- Personnel Recruitment, Professional Development, and Training Activities
- On-Site Auditing Practices
- Supervision of Payment Systems and Developments in Payments

During 2017, 191 employees from other central banks and policy-making authorities took part in the CBRT-organized technical support programs (Graph 2.11.2.3).

Graph 2.11.2.3: Regional Breakdown of Participation from Other Countries in İMB Technical Support Programs (Number of Participants)



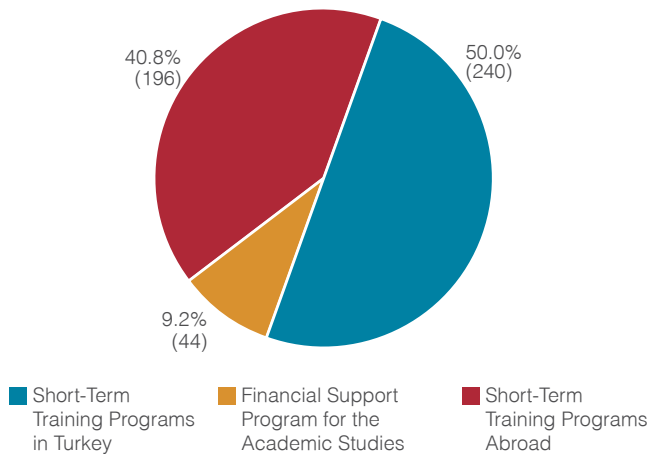
Source: CBRT

2.11.3 Training Activities Organized by Other Agencies and Organizations

A total of 242 CBRT employees attended short-term training programs organized by other agencies and organizations in Turkey and 196 CBRT employees attended such programs abroad. In addition, 38 CBRT employees took part in training programs organized by other agencies and organizations under the Financial Support Program for Academic Studies (Graph 2.11.3.1).

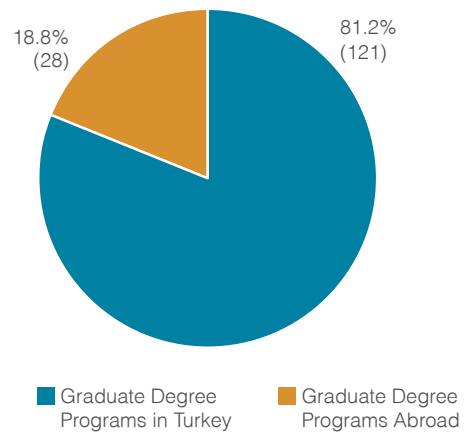
During 2017, 121 CBRT employees, 27 of whom were recently enrolled, continued their Master's and PhD studies in Turkey, while 28 employees, including 10 recently enrolled, took part in Master's/PhD degree programs abroad (Graph 2.11.3.2).

Graph 2.11.3.1: Short-Term Non-CBRT Training Programs (Number of CBRT Employees)



Source: CBRT

Graph 2.11.3.2: CBRT Employees Attending Graduate Programs (Number of CBRT Employees)



Source: CBRT

2.11.4 Other Activities

In the context of "Assignment of Speakers and Lecturers from the CBRT", seven employees gave lectures in training events organized by a variety of agencies and organizations in Turkey; another two were assigned to serve as visiting lecturers in different universities in Turkey.

Within the scope of specialist-qualification thesis evaluations, theses prepared by assistant specialists wishing to be promoted to full specialist positions were examined and approved by thesis committees.

2.12 Culture, Art and Sports Activities

On the occasion of the 60th anniversary of the establishment of diplomatic relations between Turkey and South Korea and also in recognition of the declaration of 2017 as a bilateral cultural year between the two countries, an exhibition of a selection of works from the CBRT Art collection was held in Seoul. Entitled “Invisible Language”, the exhibition was organized in coordination with the Turkish Ministry of Foreign Affairs.

The exhibition, held at the Bank of Korea Money Museum, was opened on 10 July 2017 in the presence of CBRT Deputy Governor Murat Uysal, Turkish Ambassador to Korea Arslan Hakan Okçal, and Bank of Korea Governor Lee Ju-yeol. Consisting of 30 works by 22 artists, “Invisible Language” presented viewers with an unconventional arrangement of exquisite examples not only of Turkish pictorial art but also of the Turkish traditional arts of calligraphy, marbling, and miniatures. On display from 11 July to 3 September 2017, “Invisible Language” conceptually drew attention to the power of art as a universal language while also offering a unique look at the process of the contemporization of the Turkish painting and traditional arts.

“Economy and the Human Being” an international photography contest, was held for the first time by the CBRT in 2017. The contest, which was conducted by the Photographic Art Society with the support of the International Federation of Photographic Art and Photographic Arts Federation of Turkey, attracted 4,781 photographs by 1,362 artists, 296 of whom were photographers from 30 different countries. Completing its judging of the entries on 12 September 2017, the jury selected 10 photographs to be awarded prizes and 100 for exhibition. These works were put on display at the CerModern Arts Center in Ankara on 8-21 November 2017.

A prestige book about the Turkish Foreign Ministry’s historically and architecturally important embassy and consulate buildings in other countries as well as about the international exhibitions of selected works from the CBRT Art Collection that were mounted in coordination with the Foreign Ministry was readied for publication. The book, one objective of which is to contribute to the promotion and preservation of Turkey’s cultural heritage, contains explanatory texts in Turkish, English, and French.

The CBRT engages in cultural, artistic, and social activities in order to promote its corporate identity on national and international platforms and also to protect Turkey’s cultural heritage and ensure that it is passed on to future generations. In this context, the Bank contributed to a project that involved the production of “Our Great Musical Heritage: 100 Immortal Works in Commemoration of the 100th Anniversary of the Founding of the Üsküdar Musiki Cemiyeti (Üsküdar Music Society), Turkey’s First School of Music”, an album of Turkish classical music that was also accompanied by a prestige book.

In the context of sporting activities, the CBRT competed in the fields of athletics, basketball, football, table tennis, and tennis in the 2017 EuroBank Sports Festival that took place in La Baule in France on 24-28 May 2017. Hosted by Banque de France, the festival welcomed 2,500 people representing the central banks of 30 European countries taking part in competition in 19 branches.

The 2017 round of the Balkan Countries Central Bank Sports Tournament, an international sports meet that has been held in a Balkan country every year since 2005, was hosted by the CBRT on 12-15 October 2017 in Antalya. During the four-day tournament, which was characterized by expressions of solidarity and sportsmanship, 370 athletes representing central bank teams from Albania, Bosnia-Herzegovina, Bulgaria, Greece, Kosovo, Macedonia, Montenegro, Romania, and Turkey competed in football, basketball, volleyball, tennis, table tennis, swimming, chess, and trekking.

The CBRT took part in the CBL 2016-2017 Ankara Interinstitutional Basketball League matches of men's basketball teams representing Ankara-based companies and agencies. Last year, CBRT teams also took part in the Ankara Institutional Table Tennis Tournament organized by the Ankara representative of the Turkish Table Tennis Federation (18-19 March 2017) as well as in the Federation's 15th Interinstitutional Table Tennis Championship in the Turkish Republic of Northern Cyprus (5-7 May 2017). A CBRT team was also fielded in the Interinstitutional Table Tennis League matches conducted by the Ankara Institutional Table Tennis Organizational Committee last year.

"Economy and the Human Being"

1,362 artists

1,362 artists, 296 of whom photographers from 30 different countries, submitted 4,781 photographs as entries in the CBRT's "Economy and the Human Being" international photography contest.

2.13 Corporate Social Responsibility Activities

In addition to fulfilling the duties and responsibilities entrusted to it by the CBRT Law, the CBRT also undertakes a variety of corporate social responsibilities and provides financial support for the conduct of academic studies. In the scope of the Financial Support Program for Academic Studies, which has been in place since 2006, the Bank continued to provide support for conferences on economics and finance as well as for other academic and policy-making studies in these fields both at national and international levels. In 2017, financial support was provided to 27 academic programs that had applied for it.

The CBRT granted the seventh in the series of “Central Bank of the Republic of Turkey Research Awards” in 2017 to support academic studies in the fields of the Turkish economy, emerging market economies, and/or central banking and to make these studies accessible to a larger audience. At the end of the evaluation process, in addition to the awards granted to the top three entries, encouragement awards were granted to another four.

Founded by the contributions of the CBRT in Izmit's Derince township, the Central Bank Derince Anatolian High School, which had first opened its doors to students in the 2001-2002 academic year, had its 16th graduation ceremony on 26 May 2017. During the ceremony, the highest ranking graduates were awarded with plaquets and various presents. The ceremony was attended by CBRT officials from the Head Office and Izmit Branch, along with Derince township dignitaries, and students' families. Since the 2002-2003 academic year, the CBRT has been awarding scholarships to graduates of this high school who have enrolled in a university and who satisfy specific criteria. As of 2017, the number of such scholarship recipients reached 96. The CBRT also donated laboratory equipment and supplies for use in support of the school's chemistry, biology, and physics programs.

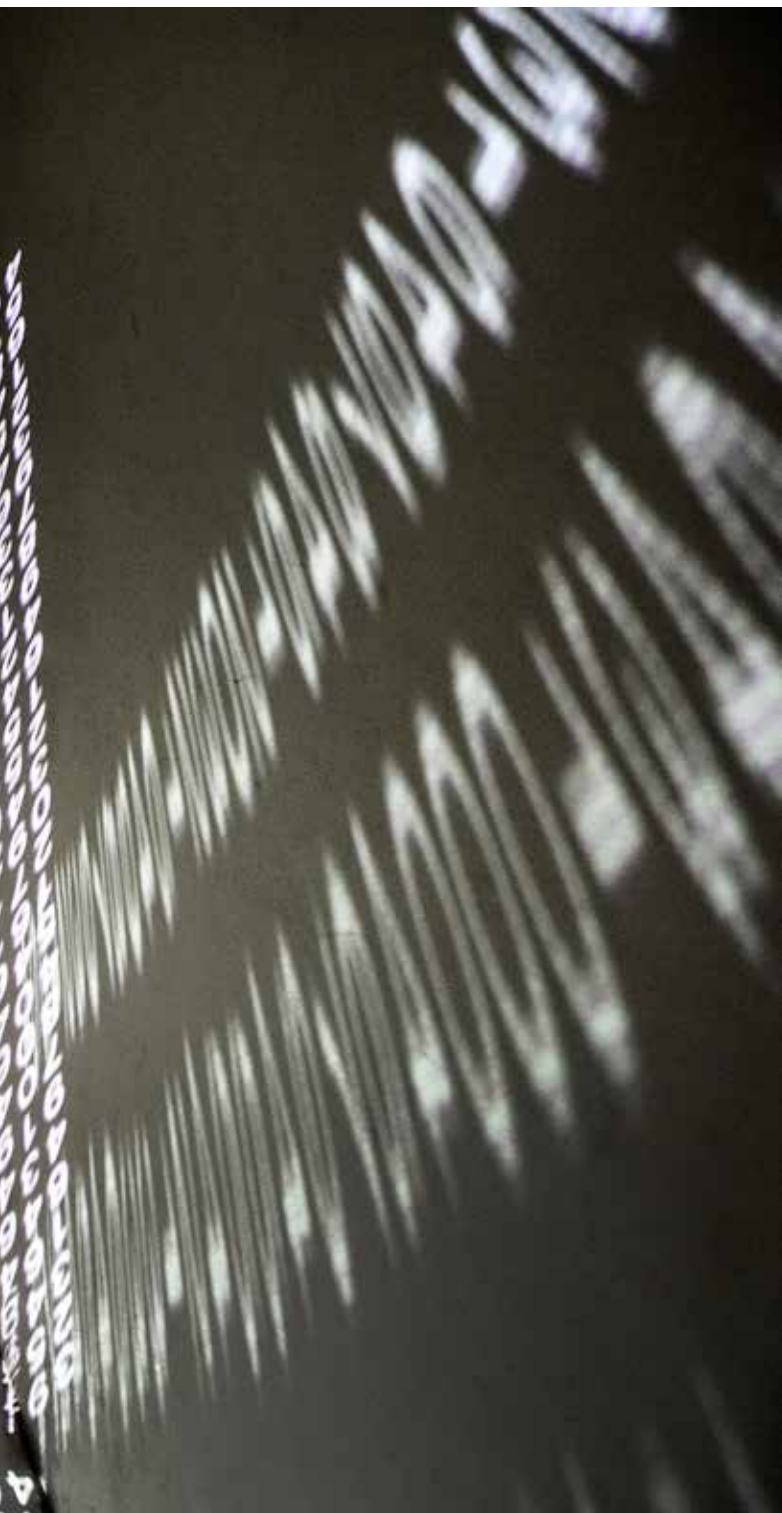
As part of the 97th April 23rd National Sovereignty and Children's Day celebrations in 2017, an exhibition of children's art was hosted by the CBRT at its Atrium Art Center from 20 April to 18 May. The works on display in the show, the 19th in the series since its inception, were provided by students of the privately-owned Sudecan Special Education & Rehabilitation Center in Ankara's Kahramankazan township as well as by the CBRT employees' children in the 6-12 age group. The participants from Sudecan Special Education & Rehabilitation Center were also given art supplies and gifts.

IN ADDITION TO FULFILLING THE DUTIES AND RESPONSIBILITIES ENTRUSTED TO IT BY THE CBRT LAW, THE CBRT ALSO UNDERTAKES A VARIETY OF CORPORATE SOCIAL RESPONSIBILITIES AND PROVIDES FINANCIAL SUPPORT FOR THE CONDUCT OF ACADEMIC STUDIES.

PART 3 FINANCIAL STATEMENTS



Photograph: Merve Arslan - Data



3.1 Balance Sheet as of 31 December 2017

ASSETS	Explanation No.	Turkish Lira	Foreign Currency	Total
1. Gold	3.4.2.1	-	88,778,169,804	88,778,169,804
1.1 International Standard (Net Gram) 564,654,453.89		-	88,778,169,804	88,778,169,804
2. Foreign Banknotes	3.4.2.2	-	10,581,358,466	10,581,358,466
3. Foreign Correspondents	3.4.2.3	-	306,351,078,099	306,351,078,099
3.1 FX Securities		-	251,841,977,106	251,841,977,106
3.2 Deposit		-	21,989,215,554	21,989,215,554
3.3 Other		-	32,519,885,439	32,519,885,439
4. Reserve Tranche Position	3.4.2.4	-	606,030,295	606,030,295
5. Securities Portfolio	3.4.2.5	14,531,545,390	-	14,531,545,390
5.1 Government Securities		14,531,545,390	-	14,531,545,390
5.2 Other		-	-	-
6. Lending Related to Monetary Policy Operations	3.4.2.6	137,553,171,477	-	137,553,171,477
6.1 Open Market Operations		34,295,896,442	-	34,295,896,442
6.2 Interbank Operations		103,257,275,035	-	103,257,275,035
7. Domestic Banks	3.4.2.7	-	19,467,018,398	19,467,018,398
8. Credits	3.4.2.8	-	47,714,675,890	47,714,675,890
8.1 Domestic Credits		-	47,680,497,133	47,680,497,133
8.1.1 Rediscount Credits		-	47,680,497,133	47,680,497,133
8.1.2 Other Credits		-	-	-
8.2 Foreign Credits		-	34,178,757	34,178,757
9. Share Participations	3.4.2.9	-	1,064,813,130	1,064,813,130
10. Treasury Liabilities Due to SDR Allocation	3.4.2.4	-	5,757,111,698	5,757,111,698
11. Fixed Assets (Net)	3.4.2.10	324,862,265	-	324,862,265
12. Claims under Legal Proceedings (Net)	3.4.2.8	-5,843,448,373	5,843,448,373	-
12.1 Claims under Legal Proceedings		-	5,843,448,373	5,843,448,373
12.2 Provisions for Claims under Legal Proceedings (-)		-5,843,448,373	-	-5,843,448,373
13. Deferred Tax Assets	3.4.2.14	-	-	-
14. Revaluation Account	3.4.2.17	-	-	-
15. Other Assets	3.4.2.11	4,232,558,345	8,090,167	4,240,648,512
15.1 Gold Non-International Standard (Net Gram) 3,177,797.62	3.4.2.1	499,631,332	-	499,631,332
15.2 Coins		61,491,590	-	61,491,590
15.3 Income Accruals		60,174,800	-	60,174,800
15.4 Other		3,611,260,623	8,090,167	3,619,350,790
TOTAL ASSETS		150,798,689,104	486,171,794,320	636,970,483,424

LIABILITIES	Explanation No.	Turkish Lira	Foreign Currency	Total
1. Currency Issued	3.4.2.12	131,457,662,382	-	131,457,662,382
2. Liabilities Related to Monetary Policy Operations	3.4.2.6	19,808,748,338	-	19,808,748,338
2.1 Open Market Operations		-	-	-
2.2 Interbank Operations		77,346,697	-	77,346,697
2.3 Liquidity Bills		-	-	-
2.4 Other		19,731,401,641	-	19,731,401,641
3. Deposits	3.4.2.13	82,659,856,129	295,108,666,094	377,768,522,223
3.1 Public Sector		40,163,893,239	9,197,731,546	49,361,624,785
3.1.1 Treasury, General and Special Budget Administrations		40,159,666,686	9,191,748,880	49,351,415,566
3.1.2 Other		4,226,553	5,982,666	10,209,219
3.2. Banking Sector		41,813,268,608	281,690,971,026	323,504,239,634
3.2.1 Domestic Banks		39,382,371,937	55,443,314,163	94,825,686,100
3.2.2 Foreign Banks		2,429,961,805	-	2,429,961,805
3.2.3 Required Reserves in Blocked Accounts		-	226,247,656,863	226,247,656,863
3.2.3.1 Cash		-	169,214,107,415	169,214,107,415
3.2.3.2 Gold (Net Gram) 362,749,624.02	3.4.2.1	-	57,033,549,448	57,033,549,448
3.2.4 Other		934,866	-	934,866
3.3 Other Deposits		682,694,282	4,219,963,522	4,902,657,804
3.3.1 FX Deposits by Citizens Abroad		-	2,508,008,144	2,508,008,144
3.3.2 International Institutions		70,634,592	-	70,634,592
3.3.3 Extrabudgetary Funds		172,411,754	70,421,824	242,833,578
3.3.4 Other		439,647,936	1,641,533,554	2,081,181,490
4. Foreign Banks	3.4.2.3	-	2,842,399	2,842,399
5. Reserve Tranche Means	3.4.2.4	-	606,030,295	606,030,295
6. SDR Allocation	3.4.2.4	-	5,757,111,698	5,757,111,698
7. Tax Obligation	3.4.2.14	3,256,768,727	-	3,256,768,727
7.1 Taxes Payable		3,242,852,033	-	3,242,852,033
7.2 Deferred Tax Liabilities		13,916,694	-	13,916,694
8. Provisions	3.4.2.15	386,450,646	-	386,450,646
9. Capital and Reserves	3.4.2.16	21,587,173,355	-	21,587,173,355
9.1 Paid-in Capital		25,000	-	25,000
9.2 Inflation Adjustments for Capital		46,208,524	-	46,208,524
9.3 Reserves		21,540,939,831	-	21,540,939,831
10. Revaluation Account	3.4.2.17	55,296,111,083	-	55,296,111,083
11. Profit of the Period	3.4.2.20	18,383,903,389	-	18,383,903,389
12. Other Liabilities	3.4.2.18	1,470,758,359	1,188,400,530	2,659,158,889
12.1 Treasury Gold (Net Gram) 2,809,821.53	3.4.2.1	54,333,208	387,442,840	441,776,048
12.2 Letters of Credit		-	274,758,674	274,758,674
12.3 Expense Accruals		54,565,672	-	54,565,672
12.4 Other		1,361,859,479	526,199,016	1,888,058,495
TOTAL LIABILITIES		334,307,432,408	302,663,051,016	636,970,483,424
REGULATING ACCOUNTS				1,228,964,474,757

3.2 Balance Sheets as of 31 December 2017 and 2016

ASSETS	Explanation No.	2017	2016
1. Gold	3.4.2.1	88,778,169,804	49,449,492,253
1.1 International Standard		88,778,169,804	49,449,492,253
2. Foreign Banknotes	3.4.2.2	10,581,358,466	6,259,811,100
3. Foreign Correspondents	3.4.2.3	306,351,078,099	317,709,256,495
3.1 FX Securities		251,841,977,106	286,470,939,177
3.2 Deposit		21,989,215,554	24,391,271,139
3.3 Other		32,519,885,439	6,847,046,179
4. Reserve Tranche Position	3.4.2.4	606,030,295	533,910,683
5. Securities Portfolio	3.4.2.5	14,531,545,390	13,889,107,720
5.1 Government Securities		14,531,545,390	13,636,435,950
5.2 Other		-	252,671,770
6. Lending Related to Monetary Policy Operations	3.4.2.6	137,553,171,477	95,555,846,625
6.1 Open Market Operations		34,295,896,442	71,355,625,484
6.2 Interbank Operations		103,257,275,035	24,200,221,141
7. Domestic Banks	3.4.2.7	19,467,018,398	-
8. Credits	3.4.2.8	47,714,675,890	37,622,353,457
8.1 Domestic Credits		47,680,497,133	37,590,464,519
8.1.1 Rediscount Credits		47,680,497,133	37,590,464,519
8.1.2 Other Credits		-	-
8.2 Foreign Credits		34,178,757	31,888,938
9. Share Participations	3.4.2.9	1,064,813,130	917,955,544
10. Treasury Liabilities Due to SDR Allocation	3.4.2.4	5,757,111,698	5,071,996,336
11. Fixed Assets (Net)	3.4.2.10	324,862,265	660,624,852
12. Claims under Legal Proceedings (Net)	3.4.2.8	-	-
12.1 Claims under Legal Proceedings		5,843,448,373	5,423,981,380
12.2 Provisions for Claims under Legal Proceedings (-)		-5,843,448,373	-5,423,981,380
13. Deferred Tax Assets	3.4.2.14	-	4,126,958
14. Revaluation Account	3.4.2.17	-	-
15. Other Assets	3.4.2.11	4,240,648,512	2,444,113,341
15.1 Gold Non-International Standard	3.4.2.1	499,631,332	416,755,969
15.2 Coins		61,491,590	131,585,442
15.3 Income Accruals		60,174,800	43,308,781
15.4 Other		3,619,350,789	1,852,463,149
TOTAL ASSETS		636,970,483,424	530,118,595,363

LIABILITIES	Explanation No.	2017	2016
1. Currency Issued	3.4.2.12	131,457,662,382	122,959,912,798
2. Liabilities Related to Monetary Policy Operations	3.4.2.6	19,808,748,338	50,320,258
2.1 Open Market Operations		-	-
2.2 Interbank Operations		77,346,697	50,320,258
2.3 Liquidity Bills		-	-
2.4 Other		19,731,401,641	-
3. Deposits	3.4.2.13	377,768,522,223	315,092,997,096
3.1 Public Sector		49,361,624,785	25,030,296,253
3.1.1 Treasury, General and Special Budget Administrations		49,351,415,566	25,021,999,200
3.1.2 Other		10,209,219	8,297,053
3.2. Banking Sector		323,504,239,634	285,089,598,754
3.2.1 Domestic Banks		94,825,686,100	99,621,924,919
3.2.2 Foreign Banks		2,429,961,805	560,942,646
3.2.3 Required Reserves in Blocked Accounts		226,247,656,863	184,905,999,320
3.2.3.1 Cash		169,214,107,415	150,683,070,459
3.2.3.2 Gold	3.4.2.1	57,033,549,448	34,222,928,860
3.2.4 Other		934,866	731,869
3.3 Other Deposits		4,902,657,804	4,973,102,088
3.3.1 FX Deposits by Citizens Abroad		2,508,008,144	2,929,285,613
3.3.2 International Institutions		70,634,592	51,540,198
3.3.3 Extrabudgetary Funds		242,833,578	215,073,960
3.3.4 Other		2,081,181,490	1,777,202,317
4. Foreign Banks	3.4.2.3	2,842,399	1,318,337
5. Reserve Tranche Means	3.4.2.4	606,030,295	533,910,683
6. SDR Allocation	3.4.2.4	5,757,111,698	5,071,996,336
7. Tax Obligation	3.4.2.14	3,256,768,727	1,715,181,693
7.1 Taxes Payable		3,242,852,033	1,715,181,693
7.2 Deferred Tax Liabilities		13,916,694	-
8. Provisions	3.4.2.15	386,450,646	437,861,357
9. Capital and Reserves	3.4.2.16	21,587,173,355	18,458,180,010
9.1 Paid-in Capital		25,000	25,000
9.2 Inflation Adjustments for Capital		46,208,524	46,208,524
9.3 Reserves		21,540,939,831	18,411,946,485
10. Revaluation Account	3.4.2.17	55,296,111,083	53,408,965,849
11. Profit of the Period	3.4.2.20	18,383,903,389	9,555,947,338
12. Other Liabilities	3.4.2.18	2,659,158,889	2,832,003,610
12.1 Treasury Gold	3.4.2.1	441,776,048	45,320,794
12.2 Letters of Credit		274,758,674	1,493,912,359
12.3 Expense Accruals		54,565,672	5,447,910
12.4 Other		1,888,058,495	1,287,322,547
TOTAL LIABILITIES		636,970,483,424	530,118,595,363
REGULATING ACCOUNTS		1,228,964,474,757	1,047,954,426,585

3.3 Profit and Loss Statements for 2017 and 2016

	Explanation No.	2017	2016
Interest Income	3.4.2.20	17,060,635,721	11,471,095,111
Interest Expense	3.4.2.20	-6,924,814,084	-3,119,709,940
Net Interest Income /Expense		10,135,821,636	8,351,385,171
Fee and Commission Income	3.4.2.20	610,351,177	502,301,417
Fee and Commission Expense	3.4.2.20	-15,822,581	-17,173,505
Net Fee and Commission Income /Expense		594,528,596	485,127,912
Non-Interest Income	3.4.2.20	14,697,521,887	5,429,687,133
Non-Interest Expense	3.4.2.20	-3,941,452,688	-3,089,334,386
Net Non-Interest Income/Expense		10,756,069,199	2,340,352,747
Net Profit /Loss Before Tax		21,486,419,431	11,176,865,831
Tax Expense		-3,102,516,042	-1,620,918,493
Tax Provision		-3,091,367,708	-1,625,060,930
Deferred Tax Income/Expense	3.4.2.14	-11,148,334	4,142,437
Net Profit/Loss of the Period		18,383,903,389	9,555,947,338

3.4 Explanations

3.4.1. Basis of Presentation of the Financial Statements

The CBRT prepares its books of account in accordance with the Tax Legislation and the CBRT Law No. 1211 and prepares its statutory financial statements in accordance with the Turkish Commercial Code (TCC) and the CBRT Law No. 1211.

Periodicity, full disclosure, prudence, social responsibility, economic entity, going concern, monetary unit, historical cost, neutrality and documentation, consistency, substance over form, and materiality principles, which are the underlying assumptions of accounting, constitute the basis of the CBRT's accounting practices.

Foreign currency transactions of the CBRT are converted to Turkish lira at the exchange rates prevailing on transaction dates. During the preparation of financial statements, foreign currency-denominated assets and liabilities are converted to Turkish lira using the FX and foreign currency buying rates of the CBRT applicable on the balance sheet date.

Pursuant to Article 61 of the CBRT Law No.1211, the unrealized gains and losses arising from the revaluation of gold and foreign currency due to changes in the value of the Turkish currency against foreign currencies are monitored in the "Revaluation Account" item in the assets and liabilities of the CBRT's balance sheet. In the event of realization, gains or losses are reflected in the profit and loss statement.

The financial statements are presented in Turkish lira.

3.4.1.1. Gold Reserves

The CBRT's gold reserves consist of international and non-international standard gold held at CBRT vaults, foreign banks and BIST. Gold in foreign banks is held as free deposits as part of reserve management. Gold deposited by banks and financing companies for reserve requirements is also held at foreign banks and the BIST.

Gold is initially recognized at prices prevailing on recognition date, and measured at fair value in the following periods. Fair value is calculated as the average of the gold prices quoted at 10:30 and 15:00 in the London Bullion Market on the last business day of the week and at month-end and using 1 ounce of gold = 31.1035 grams, and is reported on the balance sheet as converted daily to Turkish lira from these revalued amounts. Fair value differences arising from both price and exchange rate difference are recognized as unrealized gains and losses in the "Revaluation Account" as per Article 61 of the CBRT Law No. 1211.

3.4.1.2 Financial Assets and Liabilities

a) Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss are financial assets held for trading.

Pursuant to Article 52 of the CBRT Law No. 1211, regarding open market operations, securities purchased by the CBRT on its own account in order to regulate money supply and the liquidity in the economy, and foreign securities are classified in this group. After initial recognition, held-for-trading financial assets are revalued at their fair values at month ends, and gains and losses arising from revaluation are transferred to profit and loss accounts. The differences between acquisition costs and fair values of held-for-trading financial assets are reflected in the items "3. Foreign Correspondents" and "5. Securities Portfolio" in the balance sheet.

Fair value is calculated based on the weighted average prices that occur in the BIST for transactions with the same value date. In absence of these prices, the prices of related securities published in the Official Gazette by the CBRT on a daily basis are used for fair value calculation. Foreign currency securities are valued at their fair value using the closing prices in related international markets at month ends.

Interest earned during the holding period of the held-for-trading financial assets is shown in interest income.

b) Loans

Loans extended by the CBRT are recognized when cash is advanced to borrowers. Loans are measured at amortized cost using the 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 discounts estimated future cash flows through the expected life of the financial asset, or, where appropriate, through a shorter period, exactly to the net present value of the financial asset.

c) Available-for-Sale Financial Assets

Available-for-sale assets are initially recognized at acquisition cost. Subsequent to the initial recognition, fair values of available-for-sale financial assets are determined based on market prices or other valuation techniques. Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are monitored in "12. Other Liabilities".

CBRT's participation shares in the BIS, Society for Worldwide Interbank Financial Telecommunication (SWIFT) and International Islamic Liquidity Management Corporation (IILM) are classified as available-for-sale financial assets.

Gains and losses arising from changes in fair value of the participation shares are monitored in "12. Other Liabilities". When participation shares are derecognized, the amount of gains or losses monitored in "12. Other Liabilities" is reflected in the profit and loss statement.

Dividends related to participation shares are reflected in the profit and loss statement in the period when the right to receive dividends is established.

d) Repurchase Transactions

Repurchase transactions of Turkish lira securities are undertaken within the scope of the open market operations of the CBRT.

Repurchase transactions are recognized as collateralized loans. While the cash receivables are shown in "6. Lending Related to Monetary Policy Operations / 6.1 Open Market Operations" item on the asset side in the amount lent on the transaction date, securities received as collateral are monitored in regulating accounts. Interest received from banks is accrued at month-ends using the effective interest method. On the maturity date, the interest income arising from the transaction is reflected in the profit and loss statement.

e) Impairment of Financial Assets

Financial assets or financial asset groups, other than those at fair value through profit or loss, are assessed for the existence of impairment indicators at the end of each reporting period. Impairment loss is incurred when there is an objective indicator related to the impairment of the financial asset as a result of one or more events that occur after initial recognition of financial assets and that have a negative impact on the estimated future cash flows of financial assets or the groups of financial assets. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's book value and the present value of estimated future cash flows, discounted at the original effective interest rate.

The book value of the financial asset is reduced by the impairment loss. When a trade receivable becomes uncollectible, a provision is set aside in the amount of the receivable. Changes in the provision account are reflected in the profit and loss statement.

f) Derecognition of the Financial Assets

The CBRT derecognizes an asset when the rights arising from the contract on the cash flow of the financial asset expire or when all risks and rewards arising from the acquisition of this asset are transferred to another party.

g) Financial Liabilities at Fair Value through Profit or Loss

The liquidity bills, which are issued by the CBRT pursuant to Article 52 of the CBRT Law No. 1211 with an aim to effectively regulate the money supply and liquidity in the economy within the framework of monetary policy targets, have maturities no longer than 91 days and are tradable in the secondary markets on CBRT's own account and behalf within the scope of open market operations, are classified in this group. The CBRT recognizes liquidity bills at the issuing amount and revalues them at the end of each month, at their fair value according to the prices announced in the Official Gazette on a daily basis. The differences between the issuing amounts and the fair values are reflected in the profit and loss statement. As of the balance sheet date, there are no liquidity bills issued by the CBRT.

h) Other Financial Liabilities

Other financial liabilities are measured at amortized cost with interest expense recognized on an effective interest rate.

i) Reverse Repurchase Transactions

Reverse repurchase transactions are recognized as collateralized deposits. While the securities lent as collateral are shown in "5. Securities" in the assets of the balance sheet, cash debts are monitored in "2. Liabilities Related to Monetary Policy Operations / 2.1 Open Market Operations" item in the liabilities as the amount received on the transaction date. The interest paid to the banks is accrued at month-ends using the effective interest method. The interest expense paid for the transaction on the maturity date is reflected on the profit and loss statement.

j) Foreign Exchange Deposits Against Turkish Lira Deposits Transactions

Foreign exchange deposits given are monitored in "7. Domestic Banks" in the asset side and TL deposits received are monitored in "2. Liabilities Related to Monetary Policy Operations / 2.4 Other" in the liability side. Interest amount collected from foreign exchange deposits and paid to TL deposits are accrued at month ends using the effective interest method. Interest income and interest expense arising from these operations are recorded in the profit and loss statement.

k) TL-Settled Forward Foreign Exchange Sales

At value date, TL receivables and foreign exchange commitments are recognized under the regulating accounts. At month ends, gains and losses are monitored in "12. Other Liabilities / 12.4 Other" in the liability side and "15. Other Assets / 15.4 Other" in the asset side, respectively. At maturity TL settlements are recorded in the profit and loss statement.

l) Currency Swap Transactions

Foreign currency payables and TL receivables due to currency swap agreements are recognized under the regulating accounts at value date and monitored in "3. Foreign Correspondents / 3.3. Other" in the asset side and "3. Deposits / 3.2 Banking Sector / 3.2.2 Foreign Banks" in the liability side, respectively. Interest collected/paid for the usages within swap agreement is accrued at month ends using the effective interest method. Interest collected/paid on maturity is recorded in the profit and loss statement.

3.4.1.3. Income and Expense

a) Interest Income / Expense

As required by the periodicity principle, income and expense are accrued for the interest amounts of undue receivables and payables at month-ends, and income and expense accruals are recognized for due receivables and payables whose collections or payments are going to occur in the next period.

b) Fee and Commission Income and Expense

The fee and commission income and expense, which the CBRT pays or receives as a result of the transactions with commercial banks, the Undersecretariat of Treasury, public administrations within the scope of general budget, other individuals and institutions, are recognized as income or expense in the period of payment or receipt. Income and expense accruals are recognized for payments or collections that are going to occur in the next period.

3.4.1.4. Fixed Assets

Fixed assets consist of land, buildings and additional expenses as a part of buildings' cost, furniture and fixtures, and software products.

While the land in the balance sheet of the CBRT is carried at acquisition cost; buildings, furniture and fixtures, and software are carried at cost minus accumulated depreciation in the balance sheet.

The difference between the sale proceeds arising from the disposal of fixed assets and the net carrying value of the asset is recognized in the profit and loss statement.

Depreciation of the fixed assets, other than land, is calculated and reflected in financial statements in accordance with their useful life, specified in the Tax Procedure Law General Communiqués using the prorated depreciation method.

3.4.1.5. Currency Issued

According to the CBRT Law No. 1211, the CBRT has the exclusive privilege of issuing banknotes. The amount of banknotes issued is shown under "1. Currency Issued" item on the balance sheet of CBRT. The CBRT can replace the banknotes in circulation with new ones when necessary. In financial statements, banknotes in circulation are presented with their nominal values.

Stocks of semi-finished banknotes printed at the CBRT's banknote printing plant are monitored at cost in "15. Other Assets". Expenses associated with banknotes are initially capitalized and are charged to the profit and loss statement upon transfer of banknotes to the auxiliary storage of the CBRT. Costs of finished and semi-finished banknotes include direct costs, depreciation costs, staff costs, transportation costs and other printing costs.

3.4.1.6. Provisions

According to Article 59 of the CBRT Law No. 1211, provisions, the amounts to be deemed appropriate by the Board, may be set aside from the gross annual profit of the Bank in order to cover certain risks which may occur in the following years due to the operations exclusive to the Bank.

3.4.1.7. Employee Benefits

Retirement pay and employee termination benefits are paid on the retirement of employees or in case of layoffs. The amount to be paid is calculated based on the title and tenure of the employee and in accordance with related laws.

Retirement pay and employee termination benefits obligation are calculated according to the net present value of obligations that are expected to arise due to retirement of employees, and are reflected in financial statements.

3.4.1.8. Taxes

a) Current Taxes

The CBRT, established as a “joint stock company” as per Article 1 of the CBRT Law No. 1211, is a corporate taxpayer. It is responsible for withholding tax on wages, outsourcing payments, interest on deposits, etc. as per Article 94 of the Income Tax Law No. 193, and on the payments made to firms subject to limited tax liability except for commercial, agricultural and other earnings; and on payments made for the transfer or sale of intangible rights as per Article 30 of the Corporate Income Tax Law No. 5520.

The CBRT is a taxpayer of banking and insurance transactions tax.

Revaluation gains from assets and liabilities that are subject to Article 61 of the CBRT Law No. 1211 are not considered as a profit item for the year in which the revaluation is applied and also not taken as an income item in the calculation of corporate tax base. Revaluation losses from assets and liabilities are not considered as an expense for the year in which the revaluation is applied and also not taken as a loss item in the computation of corporate tax base.

The corporate tax for the current period is reflected as expense in the profit and loss statement. Tax-related adjustments during the current reporting period are booked as of the date on which they are made.

b) Deferred Taxes

Deferred tax assets and liabilities arise from the tax effect of the temporary differences between the amounts of assets and liabilities in the financial statements and their book values based on the CBRT Law and tax laws. The deferred tax asset is reflected in the assets and the deferred tax liability is reflected in the liabilities on the balance sheet.

Tax expense of current year includes related period's corporate tax and the change in deferred tax income.

3.4.1.9 Comparative Information and Adjustment of the Financial Statements of the Preceding Year

The CBRT's financial statements for the current year and the previous year are presented together to allow comparison of the financial position. If necessary, the comparative information is reclassified and any significant differences are explained to be compatible with the presentation of the current financial statements.

3.4.1.10 Custody Operations

Custody assets held by the CBRT on behalf of individuals and financial institutions are monitored in regulating accounts.

3.4.2 Explanations Related to Financial Statement Items

3.4.2.1 Gold

The gold holdings are composed of 564,654,453.89 net grams of gold in international standards equivalent to TL 88,778,169,804 and 3,177,797.62 net grams of gold in non-international standards equivalent to TL 499,631,332. While some part of the gold in international standards belongs to the Treasury and CBRT, the rest is placed to the CBRT by banks and financing companies for satisfying their reserve requirements. Gold holdings in international standards are stored in the vaults of CBRT, held with the BIST and foreign correspondents.

Table 3.4.2.1.1: Gold

	2017		2016	
	Net Gram	TL	Net Gram	TL
International standards	564,654,454	88,778,169,804	377,056,337	49,449,492,253
Owned by CBRT	199,440,583	31,357,177,515	116,103,765	15,226,563,392
At BoE	109,759,799	17,257,057,024	53,743,706	7,048,280,928
At Fed	-	-	28,689,413	3,762,506,517
At BIS	18,736,294	2,945,826,226	-	-
At CBRT	33,670,645	5,293,889,429	33,670,645	4,415,775,948
At BIST	37,273,844	5,860,404,835	-	-
Reserve requirements of the banks	361,444,985	56,828,426,762	259,397,566	34,018,995,737
At BoE	264,341,426	41,561,255,421	226,066,008	29,647,689,774
At BIST	97,103,560	15,267,171,341	33,331,558	4,371,305,963
Reserve requirements of the financing companies	1,304,639	205,122,687	1,555,006	203,933,123
At BoE	1,304,639	205,122,687	1,555,006	203,933,123
Owned by the Treasury	2,464,247	387,442,840	-	-
At BIST	2,464,247	387,442,840	-	-
Non-international standards	3,177,798	499,631,332	3,177,798	416,755,969
Owned by CBRT	2,832,113	445,280,911	2,832,113	371,420,817
Collection (Owned by CBRT)	109	17,213	109	14,358
Owned by the Treasury	345,575	54,333,208	345,575	45,320,794

Note: Gold holdings are valued based on 1 ounce of gold = 31.1035 grams using the price 1,296.50 USD/Ounce (2016: 1,159.10) and USD buying rate of 3.7719 as of 31 December 2017 (2016: 3.5192). Accordingly, the price of 1 net gram of gold is TL (1,296.50 x 3.7719) / 31.1035 = TL 157.23.

Gold holdings in international standards are held by the CBRT as part of foreign currency reserves and they account for 21.85 percent (2016: 13.22 percent) of total foreign currency reserves.

The gold deposited by banks and financing companies for required reserves, which amounts to 362,749,624.02 net grams equivalent to TL 57,033,549,448, and the gold owned by the Treasury and kept at the BIST, which amounts to 2,464,246.85 net grams equivalent to TL 387,442,840 are also followed under this item.

Some part of gold holdings in non-international standards belong to the CBRT and the rest of them belong to the Treasury. Gold holdings in non-international standards are stored in the vaults of the Head Office and recognized in the assets of the balance sheet under "15. Other Assets". 345,574.68 net grams of gold that belongs to the Treasury amounts to TL 54,333,208 and is reported in liabilities side of the balance sheet under "12. Other Liabilities/12.1 Treasury Gold".

3.4.2.2. Foreign Banknotes

As of the end of 2017, the Turkish lira equivalent of foreign banknotes kept in the vaults of the branches of CBRT is TL 10,581,358,466.

Table 3.4.2.2.1: Foreign Banknotes

	2017	2016
Foreign banknotes	10,581,358,466	6,259,811,100

3.4.2.3. Foreign Correspondents

“3. Foreign Correspondents”, which represents the main part of the FX reserves of CBRT and presented in the assets of the balance sheet, consists of FX securities carried at fair value, deposit accounts in foreign correspondents, and current accounts.

Table 3.4.2.3.1: Foreign Correspondents (Assets)

	2017		2016	
	TL	USD Equivalent	TL	USD Equivalent
FX Securities	251,841,977,106	66,767,935,816	286,470,939,177	81,402,290,059
Deposit	21,989,215,554	5,829,745,103	24,391,271,139	6,930,913,599
Other	32,519,885,439	8,621,619,194	6,847,046,179	1,945,625,761
Demand deposit	27,326,772,506	7,244,829,530	2,272,455,004	645,730,565
SDR holding account	5,190,498,204	1,376,096,451	4,573,610,865	1,299,616,636
Other	2,614,729	693,213	980,309	278,560
TOTAL	306,351,078,099	81,219,300,114	317,709,256,495	90,278,829,420

Balances of “4. Foreign Banks” in the liabilities of the balance sheet as of the end of 2017 and 2016 are presented below.

Table 3.4.2.3.2: Foreign Banks (Liabilities)

	2017		2016	
	TL	USD Equivalent	TL	USD Equivalent
Nostro accounts	2,842,399	753,572	1,318,337	374,613

3.4.2.4 Balances Arising from Turkey's Membership in the International Monetary Fund

Within the framework of the financial relations arising from Turkey's membership in the IMF, that part of Turkey's IMF quota paid as gold and foreign currency is represented under "4. Reserve Tranche Position" in the assets of the balance sheet and "5. Reserve Tranche Means" in the liabilities of the balance sheet. SDR 37,750,000 of the amount SDR 112,775,000 was paid as gold. Turkey's quota increased from SDR 1,455.8 million to SDR 4,658.6 million on 18 February 2016.

Table 3.4.2.4.1: Balances Arising from Membership in the IMF

	2017		2016	
	TL	SDR	TL	SDR
Assets				
Reserve tranche position	606,030,295	112,775,000	533,910,683	112,775,000
Treasury liabilities due to SDR allocation	5,757,111,698	1,071,329,729	5,071,996,336	1,071,329,729
Liabilities				
Reserve tranche means	606,030,295	112,775,000	533,910,683	112,775,000
SDR allocation	5,757,111,698	1,071,329,729	5,071,996,336	1,071,329,729

SDR 112,307,000 which was allocated to Turkey by the IMF and used by the Treasury; and General and Special SDR Allocation in the amount of SDR 959,022,729 in 2009 are presented under "10. Treasury Liabilities Due to SDR Allocations" in the assets, and "6. SDR Allocation" in the liabilities.

3.4.2.5. Securities

As of the end of 2017, the fair value of securities is TL 14,531,545,390.

Table 3.4.2.5.1: Securities

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Government bonds and treasury bills issued by the Undersecretariat of Treasury	14,557,547,630	14,531,545,390	13,664,355,770	13,636,435,950
Lease Certificates issued by the Undersecretariat of Treasury Asset Leasing Company	-	-	248,904,320	252,671,770
TOTAL	14,557,547,630	14,531,545,390	13,913,260,090	13,889,107,720

3.4.2.6. Lending and Liabilities Related to Monetary Policy Operations

“6. Lending Related to Monetary Policy Operations” in the assets of the balance sheet, which represents cash receivables of CBRT, has a balance of TL 137,553,171,477 as of the end of 2017. The income accruals reflected in this item are TL 35,896,437 for repurchase agreements (2016: TL 48,625,623); and TL 109,575,035 for Interbank Money Market operations (2016: TL 11,421,141).

“2. Liabilities Related to Monetary Policy Operations” in the liabilities of the balance sheet, which represents cash debts of the CBRT, has a balance of TL 19,808,748,338. The expense accruals reflected in this item are TL 46,697 for Interbank Money Market operations (2016: TL 20,258), and TL 34,833,780 for FX deposits against TL deposits operations (2016: None).

Table 3.4.2.6.1: Lending/Liabilities Related to Monetary Policy Operations

	2017	2016
Assets		
Lending Related to Monetary Policy Operations	137,553,171,477	95,555,846,625
Open market operations	34,295,896,442	71,355,625,484
Interbank money market operations	103,257,275,035	24,200,221,141
Liabilities		
Liabilities Related to Monetary Policy Operations	19,808,748,338	50,320,258
Open market operations	-	-
Interbank money market operations	77,346,697	50,320,258
Other	19,731,401,641	-
Lending Related to Monetary Policy Operations (Net)	117,744,423,139	95,505,526,367

3.4.2.7 Domestic Banks

“7. Domestic Banks” item represents FX deposit operations with the CBRT as counterparty, FX deposit operations intermediated by the CBRT, and foreign exchange deposits against Turkish lira deposits operations that started on 18 January 2017. As of 31 December 2017, the amount of domestic banks account is TL 19,467,018,398 (2016: None). The income accrual in this item for foreign exchange deposits against Turkish lira deposits operations is TL 4,052,117 (2016: None)

Table 3.4.2.7.1: Domestic Banks

	2017	2016
FX deposits against Turkish lira deposits	19,467,018,398	-
TOTAL	19,467,018,398	-

3.4.2.8. Credits and Claims under Legal Proceedings

Domestic credits, which are extended to banks against rediscounted bills, consist of USD 6,761,022,393 (2016: USD 6,091,086,244), EUR 4,905,730,152 (2016: EUR 4,364,282,011), GBP 27,047,292 (2016: GBP 7,924,921) and CNY 23,142,685 (2016: None) equivalent to TL 47,804,468,499 (2016: TL 37,661,027,484). The year-end balance of domestic credits including accruals is TL 47,680,497,133 (2016: TL 37,590,464,519).

Foreign credits consist of credits extended to the Central Bank of Sudan. In accordance with the Banking Agreement between the CBRT and the Central Bank of Sudan, foreign credits that were extended amount to USD 9,061,417 (2016: USD 9,061,417) equivalent to TL 34,178,758 (2016: TL 31,888,938).

Table 3.4.2.8.1: Credits and Claims under Legal Proceedings (TL)

	2017	2016
Domestic Credits	47,680,497,133	37,590,464,519
Foreign Credits	34,178,757	31,888,938
Claims under Legal Proceedings (Net)	-	-
Claims under Legal Proceedings	5,843,448,373	5,423,981,380
Provisions for Claims under Legal Proceedings (-)	-5,843,448,373	-5,423,981,380
TOTAL	47,714,675,890	37,622,353,457

NOTE: Interest accrued to the claims on the Central Bank of Iraq is USD 7,951,453 (2016: USD 7,740,340) equivalent to TL 28,975,858 (2016: TL 22,712,458).

The claims on the Central Bank of Iraq are USD 1,456,631,064 (2016: USD 1,448,679,611) equivalent to TL 5,494,266,709 (2016: TL 5,098,193,286). The claims arising from the credit extended against bills for the Iraq Bekhme Dam Project are USD 92,574,475 (2016: USD 92,574,475) equivalent to TL 349,181,664 (2016: 325,788,094). Monthly interest is accrued on the credits extended to the Central Bank of Iraq. As per Article 323 of the Tax Procedure Law No.213, a provision has been made for the principal payment and the interest accrued. As a provision of TL 5,843,448,373 has been set for these claims as an offsetting item, this account has no balance as of the year-end.

3.4.2.9. Share Participations

CBRT's share participations in the BIS, SWIFT and IILM are classified as available-for-sale financial assets.

Share participations in the BIS and SWIFT are valued at fair value, while the share participations in the IILM are recorded at historical cost since the fair value cannot be determined.

The share participation in the BIS, which is acquired under the scope of central banking activities and classified as available-for-sale financial asset, is recognized at fair value calculated as 70 percent of the net asset value of the BIS.

Table 3.4.2.9.1: Share Participations

Participation	Nature of Business	2017			2016		
		Ownership (%)	TL	Foreign Currency	Ownership	TL	Foreign Currency
BIS	Banking supervision services	1.43	1,026,925,611	SDR 10,000,000	1.43	882,635,924	SDR 10,000,000
SWIFT	Electronic fund transfer services	0.007	168,518	EUR 37,320	0.007	127,621	EUR 34,400
IILM	Liquidity management	13.33	37,719,000	USD 10,000,000	13.33	35,192,000	USD 10,000,000
	TOTAL		1,064,813,130			917,955,544	

The movement in share participations is as follows:

Table 3.4.2.9.2: Movement in Share Participations

	2017	2016
Balance on 1 January	917,955,544	753,091,962
Fair value changes	146,857,586	164,863,582
Balance on 31 December	1,064,813,130	917,955,544

3.4.2.10. Fixed Assets (Net)

The CBRT's fixed assets consist of lands, buildings, furniture and fixtures and software products.

Table 3.4.2.10.1: Movement in Fixed Assets

	Land and Building	Furniture and Fixtures	Software	Total
Net book value on 1 January	577,355,686	79,507,932	3,761,234	660,624,852
Additions	29,628,041	28,821,255	12,606,797	71,056,093
Disposals (net) (*)	-366,139,844	-113,951	-	-366,253,795
Depreciation charge	-5,332,899	-27,754,098	-7,477,887	-40,564,885
Net book value on 31 December	235,510,984	80,461,138	8,890,143	324,862,265

(*) Disposals are shown net of accumulated depreciation.

2017	Land and Building	Furniture and Fixtures	Software	Total
Book value	398,246,885	251,958,865	35,821,306	686,027,056
Accumulated depreciation	162,735,901	171,497,727	26,931,163	361,164,791
Net book value	235,510,984	80,461,138	8,890,143	324,862,265

2016	Land and Building	Furniture and Fixtures	Software	Total
Book value	735,457,019	233,667,124	23,300,699	992,424,842
Accumulated depreciation	-158,101,333	-154,159,192	-19,539,465	-331,799,990
Net book value	577,355,686	79,507,932	3,761,234	660,624,852

3.4.2.11 Other Assets

Table 3.4.2.11.1: Other Assets

	2017	2016
Gold in non-international standard	499,631,332	416,755,969
Coins	61,491,590	131,585,442
Income accruals	60,174,800	43,308,781
Charges and commissions due from the Treasury	35,408,495	25,908,999
EFT fees	18,508,276	15,600,590
Other	6,258,029	1,799,192
Other	3,619,350,790	1,852,463,150
Prepaid taxes to be deducted from corporate tax	2,158,794,988	1,447,972,489
Income tax withholding to be deducted from corporate tax	141,038,934	222,734,541
Depots	61,238,020	64,305,949
Prepaid expenses	1,912,141	1,501,720
Other	1,256,366,706	115,948,451
TOTAL	4,240,648,512	2,444,113,341

3.4.2.12 Currency Issued

Table 3.4.2.12.1: Currency Issued

	2017	2016
Balance on 1 January	122,959,912,798	103,042,636,169
Banknotes put into circulation	50,964,983,041	55,309,941,347
Banknotes withdrawn from circulation	-42,467,233,457	-35,245,518,985
Banknotes expired	-	-147,145,733
Balance on 31 December	131,457,662,382	122,959,912,798

Banknotes in circulation amount to TL 131,457,662,382 as of the end of 31 December 2017.

3.4.2.13 Deposits

Table 3.4.2.13.1: Deposits

	2017	2016
Public sector deposits	49,361,624,785	25,030,296,253
Treasury, general and special budget administrations	49,351,415,566	25,021,999,200
Other	10,209,219	8,297,053
Banking sector deposits	323,504,239,634	285,089,598,754
Domestic banks	94,825,686,100	99,621,924,919
Deposits of banks	10,754,658,926	26,543,942,646
Free required reserves	84,071,027,174	73,077,982,273
Foreign banks	2,429,961,805	560,942,646
Required reserves in blocked accounts	226,247,656,863	184,905,999,320
Cash	169,214,107,415	150,683,070,459
Gold	57,033,549,448	34,222,928,860
Other	934,866	731,869
Other deposits	4,902,657,804	4,973,102,088
Deposits by citizens abroad	2,508,008,144	2,929,285,613
Deposits by international institutions	70,634,592	51,540,198
IMF	56,886,918	46,524,098
Other	13,747,673	5,016,100
Extrabudgetary funds	242,833,578	215,073,960
Other	2,081,181,490	1,777,202,317
Financing companies	2,075,177,611	1,767,915,893
Deposits by embassies	723,877	1,184,065
Other	5,280,002	8,102,359
TOTAL	377,768,522,223	315,092,997,096

3.4.2.14 Tax Liability

The CBRT is subject to corporate tax. The amount of corporate tax to be applied on taxable corporate income is calculated over the profit by adding back non-deductible expenses and by deducting income and allowances that are exempt from taxes.

Table 3.4.2.14.1: Taxes to be Paid

	2017	2016
Corporate tax	3,091,367,708	1,625,060,930
Other taxes	151,484,325	90,120,763
Obligations as taxpayer	60,391,383	20,145,018
Obligations as withholding tax collector	91,092,942	69,975,745
TOTAL	3,242,852,033	1,715,181,693

The effective corporate tax rate in 2017 is 20 percent (2016: 20 percent). In Turkey, advance tax is calculated and accrued on a quarterly basis. Advance corporate income tax rate applied in 2017 is 20 percent (2016: 20 percent).

For temporary differences arising from the differences in the provisions of the TCC and the tax legislation, deferred tax asset and liability are calculated over the effective corporate tax rate of 20 percent (2016: 20 percent).

The breakdown of temporary differences and the resulting deferred income tax assets/liabilities as of the end of 2017 is as follows:

Table 3.4.2.14.2: Temporary Differences and Deferred Income Tax Assets/Liabilities

	2017		2016	
	Total Temporary Differences	Deferred Tax Asset/Liability	Total Temporary Differences	Deferred Tax Asset/Liability
Total assets	173,713,430	34,742,686	229,458,022	45,891,604
Retirement pay and employment termination benefit obligations	143,394,309	28,678,862	194,805,019	38,961,004
Fixed assets depreciation adjustment	30,319,122	6,063,824	34,653,002	6,930,600
Total liabilities	-973,187,611	-48,659,381	-835,292,924	-41,764,646
Fair value adjustment of the BIS participation share	-973,187,611	-48,659,381	-835,292,924	-41,764,646
Net Asset/Liability	-799,474,181	-13,916,694	-605,834,902	4,126,958

The movement of deferred income tax asset is as follows:

Table 3.4.2.14.3: Deferred Tax Asset/Liability Movement

	2017	2016
	4,126,958	7,572,341
Balance on 1 January	-11,148,334	4,142,437
Deferred tax related to profit and loss statement (Net)	-6,895,319	-7,587,821
Deferred tax related to other liability accounts	-13,916,694	4,126,958
Balance on 31 December		

3.4.2.15 Provisions

Table 3.4.2.15.1: Provisions

	2017	2016
Retirement pay and employment termination benefit provisions	143,394,309	194,805,019
Insurance provision for money in transit	243,056,337	243,056,337
TOTAL	386,450,646	437,861,357

The year-end balance of the insurance provision for valuables in transit, which is set pursuant to Article 59 of the CBRT Law No. 1211, is TL 243,056,337.

Under the Turkish Labor Law No. 1475 and the Pension Fund Law No. 5434, employers are obliged to pay the retirement and employment termination benefits to the employees whose contracts have expired and who are entitled to leave work receiving termination and retirement benefits.

Provisions for retirement pay and employment termination benefits are calculated by estimating the present value of probable future obligation of the CBRT arising from the retirement of its employees. Accordingly, actuarial assumptions which are used to calculate total liabilities are presented below.

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 the effects of future inflation are adjusted. Therefore, as of the year-end, provisions in the financial statements are calculated by estimating the present value of the probable future obligation arising from the retirement of the employees. The provisions on the respective balance sheet dates have been calculated based on the discount rate of 1.28 percent (2016: 1.28 percent), using the estimated annual inflation rate of 5.88 percent and interest rate of 7.23 percent.

As the ceiling amount of termination benefit is revised semi-annually, the maximum amount of TL 4,732 (2016: TL 4,297) effective from 1 July 2017 has been taken into consideration in calculating the provision for the termination benefit obligation of the CBRT's employees.

The movement in the retirement pay and employment termination benefit obligations is as follows:

Table 3.4.2.15.2: Movement in Retirement Pay and Employment Termination Benefit Obligations

	2017	2016
Provision as of 1 January	194,805,019	172,190,889
Provision set aside	25,060,594	32,055,246
Retirement pay and employment termination benefits paid	-76,471,304	-9,441,116
Provision as of 31 December	143,394,309	194,805,019

3.4.2.16 Capital and Reserves

The CBRT's capital, of amount TL 25,000, is divided into 250,000 shares, each with a value of TL 0.10 and is registered.

Table 3.4.2.16.1: Capital and Reserves

	2017	2016
Paid-in capital	25,000	25,000
Inflation adjustment for paid-in capital	46,208,524	46,208,524
Reserves	21,540,939,831	18,411,946,485
Ordinary reserves	14,423,856,184	12,188,860,830
Extraordinary reserves	6,955,912,084	6,061,914,092
Special reserves	161,171,564	161,171,564
TOTAL	21,587,173,355	18,458,180,010

The shareholders of the CBRT as of the end of 2017 and 2016 are listed below:

Table 3.4.2.16.2: Shareholders

	2017		2016	
	Share (TL)	Share (%)	Share (TL)	Share (%)
Undersecretariat of Treasury	13,780	55.12	13,780	55.12
T.C. Ziraat Bankası	4,806	19.22	4,806	19.22
Mervak İç ve Dış Ticaret	1,280	5.12	1,280	5.12
Türkiye Garanti Bankası	621	2.48	621	2.48
Türkiye İş Bankası	582	2.33	582	2.33
Türkiye Halk Bankası	277	1.11	277	1.11
Yapı ve Kredi Bankası	139	0.56	139	0.56
Akbank	8	0.03	8	0.03
Türkiye Ekonomi Bankası	2	0.01	2	0.01
ING Bank	5	0.02	5	0.02
Other	3,500	13.99	3,500	13.99
Paid-in Capital	25,000	100.00	25,000	100.00

3.4.2.17 Revaluation Account

Table 3.4.2.17.1: Revaluation

	2017	2016
Revaluation account	55,296,111,083	53,408,965,849

This item, which shows the unrealized gains and losses, arising from the valuation of gold, FX and banknotes, other assets and obligations in terms of foreign currency in the asset and liabilities of the CBRT due to changes in the value of the Turkish currency against the foreign currencies and changes in gold prices in the international markets, has a balance of unrealized gain amounting to TL 55,296,111,083 at the year-end.

3.4.2.18 Other Liabilities

Table 3.4.2.18.1: Other Liabilities

	2017	2016
Treasury gold	441,776,048	45,320,794
Letters of credit	274,758,674	1,493,912,359
Expense accruals	54,565,672	5,447,910
Other	1,888,058,495	1,287,322,547
Difference arising from accounting policy changes	927,054,457	796,043,399
Blocked accounts as per the decisions of tax offices and courts	4,083,290	29,920,579
Amounts to be debited to foreign correspondent accounts on next year's value date	141,886,200	396,025,665
Other	815,034,548	65,332,904
TOTAL	2,659,158,889	2,832,003,610

3.4.2.19 Regulating Accounts

Regulating accounts, which are expressed in terms of Turkish lira, FX and units, have a balance of 1,228,964,474,757 (2016: 1,047,954,426,585) as of the year-end. Nominal value of the securities received as collateral under repurchase agreements is TL 28,241,562,517 (2016: TL 65,497,699,206), the fair value of these securities is TL 34,403,521,720 (2016: TL 72,870,843,032) and they are monitored in regulating accounts with their nominal values. Within the scope of Currency Swap Agreement between the Republic of Turkey and the People's Republic of China to promote foreign trade with national currencies, amounts of TL 4,082,627,222 (2016: TL 1,000,000,000) receivable and CNY 7,154,118,638 (2016: CNY 2,006,859,867) payable are monitored in regulating accounts. TL-settled forward foreign exchange sales that started in 2017 are monitored in regulating accounts as well. As of 31 December 2017 these accounts have balances of TL 11,154,227,730 in receivables and USD 2,850,000,000 in liabilities.

3.4.2.20 Profit/Loss Accounts

Table 3.4.2.20.1: Profit/Loss Statement

	2017	2016
NET INTEREST INCOME/EXPENSE	10,135,821,636	8,351,385,171
Interest Income	17,060,635,721	11,471,095,111
TL and FX securities portfolio	3,986,373,400	2,744,354,667
Securities purchased under agreements to resell	3,249,405,051	7,131,918,208
Interbank money market operations	8,936,681,248	1,246,626,532
Credits	324,283,826	164,675,200
Banks	563,892,196	183,520,504
Interest Expense	-6,924,814,084	-3,119,709,940
FX deposits by citizens abroad	-777,415	-2,654,723
Securities sold under agreements to repurchase	-	-84,815
Interbank money market operations	-6,911,987	-2,661,495
Treasury accounts	-2,206,889,018	-1,405,169,801
IMF general resource account (GRA) charges	-29,115,977	-3,967,169
TL required reserves	-959,265,576	-955,425,656
FX required reserves	-1,484,993,469	-656,387,844
Banks	-2,236,860,644	-93,358,437
NET FEE AND COMMISSION INCOME/EXPENSE	594,528,596	485,127,912
Fee and commission income	610,351,177	502,301,417
EFT transaction fees and commissions	297,976,360	250,809,362
Commissions due from the Treasury	213,806,213	154,092,609
Commission and maintenance fees due from banks	84,061,635	85,494,907
Other fund transfer fees	2,769,901	2,406,404
Fees charged to banks within the context of CMS	11,211,275	4,889,335
Other	525,791	4,608,799
Fee and commission expense	-15,822,581	-17,173,505
Commission and maintenance fees due to banks	-15,111,806	-16,801,481
Other	-710,775	-372,024
NET NON-INTEREST INCOME/EXPENSE	10,756,069,199	2,340,352,747
Non-Interest Income	14,697,521,887	5,429,687,133
Profit on purchase and sale of FX	14,585,538,948	5,364,039,664
Securities portfolio trading income and fair value increase	-	54,148,252
Dividend income	11,141,299	6,562,124
Other	100,841,640	4,937,094
Non-Interest Expense	-3,941,452,688	-3,089,334,386
Loss on purchase and sale of FX	-617,107,544	-131,905,968
Securities portfolio trading loss and fair value decrease	-1,761,301,860	-986,983,690
Provision expense for claims under legal proceedings	-419,466,993	-965,136,811
Wages and salaries	-763,646,229	-687,092,544
Social security costs	-84,767,860	-85,590,465
Operating expenses	-126,729,942	-88,014,770
Banknote paper and ink expenses	-123,157,470	-107,456,680
Depreciation charges	-40,183,357	-32,825,232
Other	-5,091,433	-4,328,227
PROFIT BEFORE TAX	21,486,419,431	11,176,865,831
DEFERRED TAX INCOME	-11,148,334	4,142,437
REPORTED PROFIT OF THE PERIOD	21,475,271,097	11,181,008,268

3.4.2.21 Profit Distribution

Paragraph 5 of Article 64 of the TCC No. 6102 amended with the Law No. 6335 stipulates that natural and legal persons, who are subject to the TCC, are also obliged to conform to the regulations made based on the provisions of the Tax Procedure Law No. 213 concerning book keeping and recording as well as on the power entrusted with Article 175 and the repeating Article 257 of the same law. According to the aforementioned paragraph, provisions of the Law No. 6102 concerning book keeping, inventory, financial statement preparation, capitalization, provisions, accounts, valuation, maintenance and submission do not impede the implementation of the Law No. 213 and the related provisions of other tax laws, nor do they impede the determination of tax base in compliance with tax laws and the preparation of related financial statements.

The profit of the CBRT for the 2017 period is TL 21,482,097,239, which has been stated in its accounting books kept according to the provisions of the Tax Procedure Law No. 213. Taking into account Articles 56 and 60 of the CBRT Law No. 1211 and the provisions of Article 64 of the TCC No. 6102 amended with the Law No. 6335, distribution of the profit is as follows:

Table 3.4.2.21.1: Profit Distribution (Article 60 of the Law No. 1211)

	2017	2016
Reported profit of the period (TCC No. 6102)	21,475,271,097	11,181,008,268
Reporting adjustments	6,826,142	-6,031,499
Profit to be distributed (Tax Procedure Law No. 213)	21,482,097,239	11,174,976,769
Tax provisions	3,091,367,708	1,625,060,930
Corporate income tax	3,091,367,708	1,625,060,930
Profit after tax	18,390,729,531	9,549,915,839
Other distributions	6,034,188,150	3,138,964,965
1- Reserves	6,014,987,077	3,128,993,345
Ordinary reserves	4,296,419,448	2,234,995,354
Extraordinary reserves	1,718,567,629	893,997,992
2- Shareholders	3,000	3,000
First dividends	1,500	1,500
Second dividends	1,500	1,500
3- Bonus to the personnel (Article 60/c)	19,198,073	9,968,620
The amount to be transferred to the Treasury	12,356,541,382	6,410,950,873

3.5 Explanations on Operating Expenses

The table below shows the distribution of operating expenses incurred for the operational activities of the Bank in the last two years on the basis of the current expenditure items in real (2003) prices:

Table 3.5.1: Distribution of Expenses (with 2003 prices)

	2017 (TL)	2016 (TL)	Change (%)
I- Personnel Expenses	271,801,997	275,127,107	-1
II- Other Expenses	40,599,811	31,339,176	30
III- Banknote Printing Expenses	39,455,316	38,261,804	3
TOTAL	351,857,124	344,728,087	2

In 2017, while other expenses and banknote printing expenses increased, there was a decrease in personnel expenses compared to 2016.

- Personnel expenses: These expenses cover salaries, fringe benefits, social security, social benefits, health and education expenses and travel allowances.
- The number of Bank personnel decreased by 18.2 percent from 4,579 in 2016 to 3,745 in 2017. Compared to 2016, there was a 1 percent decrease in real personnel expenses. In 2017, the amount of gross salaries paid to the senior management of the Bank, comprising the Board, the Executive Committee, the MPC and the Auditing Committee was TL 6,158,298. This amount accounts for 1 percent of total salaries and fringe benefits paid to the Bank personnel in 2017.
- Other expenses: There was a 30 percent increase in 2017 compared to 2016. This resulted from the increase in consulting and research expenses, other expenses, expenses of money in transit, social expenses, and maintenance and repair expenses.
- Banknote printing expenses: There was a 3 percent increase because of the raise in banknote production in 2017 compared to the previous year.

The Bank, in performing the main duties (such as issuing banknotes, determining the monetary policy, achieving price stability and managing FX reserves of the country) assigned to it by the Bank's Law, while keeping up with technological developments, prepares its budget adhering to the principle of frugality in both operating expenses and also investment expenditures.

3.6 Audit at the CBRT and Audit Reports

3.6.1 Audit at the CBRT

The activities of the CBRT, which operates as a joint stock company, are audited by both internal and external auditors in compliance with the regulations of the CBRT Law No. 1211.

Audits Conducted by the Internal Organs of the CBRT

In accordance with the Article No 15 of the CBRT Law No. 1211, the General Assembly examines and resolves whether to approve the annual report prepared by the Board of the Bank, the report of the Auditing Committee, the CBRT's balance sheet and the income statements. In this way, the General Assembly completes the monitoring of the activities of the Bank every year by discharging the Board of the Bank and the Auditing Committee.

On the other hand, in accordance with the Article No 24 of the CBRT Law No. 1211, the Auditing Committee audits all the operations and accounts of the CBRT and submits to the General Assembly a report to be drawn up on operations and accounts of the Bank at the end of the year. Under the authority of the CBRT Law No. 1211, the Auditing Committee submits its written opinions to the Board and also presents a copy thereof to the Prime Ministry.

The authority and responsibility for auditing the Bank's transactions are entrusted with the Audit Department according to the Articles No. 44 and 45 of the Main Regulation on Organization and Duties of the CBRT.

The Audit Department has the duty and authority to conduct audits, examinations and research and also to carry out investigations and consulting services when needed in the departments, branches and representative offices of the CBRT and also at institutions and organizations other than the Bank that fall within the scope of authorities and duties granted by the CBRT Law No. 1211 as well as other legislations.

According to the Article No. 6 of the "Audit Regulation of CBRT", audits are carried out by 4 types of activities. Those are named as internal audit, investigation, examination and consultancy and external audit activities.

According to the Article No. 37 of the "Audit Regulation of the CBRT", one or several of the operational, financial, compliance and information systems audits are conducted together in all departments, branches and representative offices of the CBRT.

Within the scope of the external audit function, banks operating in Turkey are audited to ensure that calculation of the liabilities subject to reserve requirements, reporting of the maximum and the weighted average interest rates/profit-loss participation rates, compliance of variable interest products and maturity and types of deposits with regulation, the legal compliance of variable interest rate housing loan contracts, the incompliance with the credit card regulations and the controls regarding reporting of credit cards, the closure of export rediscount credit accounts; the consistency of Trial Balance accounts with credit card and overdraft accounts, announced interest rates, actual maximum interest rates, KT (the weighted average interest rates and amounts for credits in TL) and MT (the weighted average interest rates and amounts for credits in TL) forms, and IBAN applications comply with the relevant regulations. In 2017, the Audit Department conducted external audits in 22 banks and 4 financing institutions.

The Audit Department is composed of 18 chief inspectors, 5 chief auditors, 17 inspectors, 1 auditor, 3 information technologies auditors, 10 authorized assistant auditors, 3 assistant auditors and 2 information technologies assistant auditors. Among those, 1 chief inspector and 1 IT auditor are assigned to assist the Executive Director in the conduct of his duties.

In line with the system of “Follow-up of Audit Results” in place, relevant meetings were held in June and December 2017 to monitor whether the necessary actions are taken regarding the issues in the audit reports, to inform and receive the opinions of the Board, the Auditing Committee and the Executive Committee.

On 23 May 2017, the Institute of Internal Auditing - Turkey bestowed its “Quality Assurance Corporate Awareness” award on the CBRT Audit Department for having successfully passed a quality assessment of its internal auditing procedures as well as its “Continuous Professional Development” award for its contributions to the creation of well-trained workforces and to professional development.

Audits Conducted by External Parties

Article 42 of the CBRT Law No. 1211 constitutes the legal basis of external auditing of the Bank. Accordingly, the Prime Minister may have the operations and accounts of the Bank audited.

In accordance with the Article No. 42 of the CBRT Law No. 1211, the Governor submits a report to the Council of Ministers on the operations of the Bank and the monetary policy followed and to be followed, each year in April and October. The CBRT furnishes information regarding its operations to the Committee on Plan and Budget of the Grand National Assembly of Turkey twice a year.

In accordance with the second paragraph of the same Article, the CBRT may assign external auditors to audit the balance sheet and the income statements of the Bank. An independent external review of the Bank’s accounts has been deemed as vital to the corporate governance of the Bank, and was first initiated in 2000. As part of the transparency and accountability principles adopted, the reports prepared following the audit engagements each year are made public via the CBRT’s website.

In addition to these audits mentioned above, the Undersecretariat of Treasury, the State Supervisory Commission, the Turkish Court of Accounts, certain ministries and other authorized government agencies, may conduct audits through their auditors in the CBRT on the subjects related to their duties, if needed.

3.6.2 The Report of the Auditing Committee

CENTRAL BANK OF THE REPUBLIC OF TURKEY JOINT STOCK COMPANY 2017 AUDITING COMMITTEE REPORT FOR THE EIGHTY-SIXTH ACCOUNTING YEAR

The Auditing Committee has audited the activities and resulting statements of the 2017 Accounting Year of the Central Bank of the Republic of Turkey within the framework of the provisions of the related legislation, and concluded that:

1. Cash, gold holdings, foreign exchange banknotes and securities in the service and reserve vaults of the Head Office and Branches, which were subject to audit and stock-taking, are in conformity with the records as well as the legal books, and these values are kept and administered in accordance with the instructions,
2. The decisions, dissents and abstaining votes of the Board have been deliberated and no action was deemed necessary.
3. The books related to the Bank's accounts were examined and it was ascertained that: the records were kept properly and per legislation, the Bank's operations were in conformity with the Central Bank Law and the Articles of Association,
4. The balance sheet dated 31.12.2017 and the Income Statement for the period between 01.01.2017-31.12.2017 are in compliance with the Turkish Commercial Code and the Central Bank Law,
5. The financial statements compiled to present the financial position of the Central Bank of the Republic of Turkey by 31.12.2017, and the results of activities relating to the year that ended on the same date are presented in an accurate, correct and clear manner pursuant to the legislation in force in Turkey and the Central Bank Law,
6. The trial for the legal liability lawsuit filed by the Bank continues,

In conclusion, we hereby submit the "Balance Sheet" and the "Income Statement" dated 31.12.2017 for approval of the General Assembly.

Ankara, 5 March 2018

Mehmet Ziya GÖKALP
Auditing Committee Member

Mehmet BABACAN
Auditing Committee Member

Mehmet KAYA
Auditing Committee Member

Zekeriya KAYA
Auditing Committee Member

3.6.3 Independent Auditor Report Drawn up in Compliance with the Central Bank Law and Related Legislation⁽³⁾

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

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the Law of the Central Bank of the Republic of Turkey and related legislation (Note I.A.(2)).

Basis for Opinion

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

Additional Paragraph for English Translation

The effect of the differences between the accounting principles summarized in Section I.A.(2) and the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified and reflected in the accompanying financial statements. The accounting principles used in the preparation of the accompanying financial statements differ materially from IFRS. Accordingly, the accompanying financial statements are not intended to present the Bank's financial position and results of its operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

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

The Bank Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Law of the Central Bank of the Republic of Turkey and related legislation (Note I.A.(2)), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Erdem Taş
Partner

Ankara, 5 March 2018

⁽³⁾ The full report is available at the Bank's web site (www.tcmb.gov.tr), under About the Bank/ Financial Statements and Reports/Independent Audit Reports.

3.6.4 Independent Audit Report Drawn up in Compliance with IFRS

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Central Bank of the Republic of Turkey (the “Bank”), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Ankara, 5 March 2018

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