

Annual Report 2014



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

CBRT Activities 2014

Monetary and Exchange Rate Policy

Cultural Activities

Institutional

Training- Conference

Other

17 January 2014
Arrangements were made in the calculation of required reserves and ROCs were revised.

21 January 2014
The MPC meeting was held. The one-week repo rate was kept constant at 4.5 percent, the overnight borrowing rate at 3.5 percent and the marginal funding rate at 7.75 percent.

The CBRT Communique No. 2014/1, which sets the amounts the drawee bank is liable for in cases where a check is dishonored, was published in the Official Gazette.

23 January 2014
Due to unhealthy price formations in exchange rates, the CBRT directly intervened in the market through FX sales.

28 January 2014
The Inflation Report 2014-I was presented at a press conference.

The MPC meeting was held. The one-week repo rate was increased from 4.5 percent to 10 percent, the overnight borrowing rate from 3.5 percent to 8 percent and the marginal funding rate from 7.75 percent to 12 percent.

28 January 2014
Pursuant to Article 42 of the CBRT Law, an Open Letter was written to the Government.

29 January 2014
The additional monetary tightening policy was ended.

13 February 2014
Governor Erdem Başçı delivered a presentation before the Planning and Budget Commission of the Grand National Assembly of Turkey.

18 February 2014
The MPC meeting was held. The one-week repo rate was kept constant at 10 percent, the overnight borrowing rate at 8 percent and the marginal funding rate at 12 percent.

18 March 2014
The MPC meeting was held. The one-week repo rate was kept constant at 10 percent, the overnight borrowing rate at 8 percent and the marginal funding rate at 12 percent.

19 March 2014
An announcement was published in the Official Gazette and on the CBRT website regarding the designation of payment and securities settlement systems, which are operated by the CBRT, the Interbank Check Clearing House, the Istanbul Settlement and Custody Bank Inc. (Takasbank), the Central Securities Depository of Turkey and the Interbank Card Center, as the systems subject to the provisions in Article 10 of the Law No. 6493.

19 March 2014
The maximum contractual and overdue interest rates to be applied to credit card transactions were determined.

27 March 2014
Governor Erdem Başçı made a presentation at the meeting of the Board of Directors of the Banks Association of Turkey.

3 April 2014
Governor Erdem Başçı delivered a presentation on "Economic Outlook and Monetary Policy" in London.

7 April 2014
Governor Erdem Başçı delivered a presentation on "Economic Outlook and Monetary Policy" in Kayseri.

12 April 2014
Governor Erdem Başçı delivered a presentation on "Economic Outlook and Monetary Policy" in Washington.

17 April 2014
The 82nd Ordinary General Assembly Meeting of the CBRT was held.

24 April 2014
The MPC meeting was held. The one-week repo rate was kept unchanged at 10 percent, the overnight borrowing rate at 8 percent and the marginal funding rate at 12 percent; whereas the late liquidity window lending rate was reduced from 15 percent to 13.5 percent.

28 April 2014
Due to the improvement in the current account deficit, the daily foreign exchange selling auction amount was decreased from "minimum USD 50 million" to "minimum USD 40 million".

Governor Erdem Başçı delivered a presentation on "Economic Outlook and Monetary Policy" in Skopje.

30 April 2014
The Inflation Report 2014-II was presented at a press conference.

9 May 2014
Due to the favorable developments in the balance of payments, the daily foreign exchange selling auction amount was decreased from "minimum USD 40 million" to "minimum USD 20 million".

The Central Bank of the Republic of Turkey started to publish data on the contribution of export rediscount credits to the CBRT foreign exchange reserves on its website.

9 May 2014
The exhibition "Aesthetic Heritage: Calligraphy - Ebru (Marbling) - Sedefkârlık (Mother-of-Pearl Inlay)", opened in Ankara.

21-24 May 2014
A workshop on "Monetary Policy in Developing Economies" was organized in Izmir.

22 May 2014
The MPC meeting was held. The one-week repo rate was cut from 10 percent to 9.5 percent, while the overnight borrowing rate and the marginal funding rate were kept unchanged at 8 percent and 12 percent, respectively.

29 May 2014
The Financial Stability Report 2014-I was published.

2 June 2014
Governor Erdem Başçı delivered a presentation before the Council of Ministers.

2-3 June 2014
The "Macro Workshop 2014", a workshop on an international level, was organized in Istanbul.

5 June 2014
Governor Erdem Başçı participated in a panel discussion in London.

13 June 2014
Governor Erdem Başçı delivered a speech at the "Sustainable Mega Cities and Financial Centers from New York to Istanbul Conference" in Istanbul.

16 June 2014
Governor Erdem Başçı made a presentation in Konya.

24 June 2014
The MPC meeting was held. The one-week repo rate was cut from 9.5 percent to 8.75 percent, while the overnight borrowing rate and the marginal funding rate were kept unchanged at 8 percent and 12 percent, respectively.

The CBRT started using social media accounts for financial education purposes.

25 June 2014
As part of the celebrations of the 600th anniversary of diplomatic relations between Turkey and Poland, the exhibition "The Orient, Modernity and Art", featuring a selection of works from the Art Collection of the CBRT, opened at the Museum of King Jan III's Palace at Wilanów.

26 June 2014

As part of the celebrations of the 600th anniversary of diplomatic relations between Turkey and Poland, the National Bank of Poland and the CBRT hosted a joint conference on 'Poland's and Turkey's Transition: Achievements and Challenges Ahead'.

28 June 2014

The "Regulation on Operations of Payment and Securities Settlement Systems" and the "Regulation on Oversight of Payment and Securities Settlement Systems" entered into force after being published in the Official Gazette.

1 July 2014

The CBRT announced the winners of "2014 Research Awards".

17 July 2014

The MPC meeting was held. The one-week repo rate was cut from 8.75 percent to 8.25 percent and the overnight borrowing rate from 8 percent to 7.5 percent, whereas the marginal funding rate was kept intact at 12 percent.

23 July 2014

Governor Erdem Başçı delivered a presentation before the Planning and Budget Commission of the Grand National Assembly of Turkey.

24 July 2014

The Inflation Report 2014-III was presented at a press conference.

25 July 2014

Due to the favorable developments in the balance of payments, the daily foreign exchange selling auction amount was decreased from "minimum USD 20 million" to "minimum USD 10 million".

Governor Erdem Başçı delivered a presentation at the Management Board of the Turkish Exporters Assembly in Istanbul.

1 August 2014

The foreign currencies that can be maintained for Turkish lira required reserves were limited to the US dollar only.

27 August 2014

The MPC meeting was held. The one-week repo rate was kept unchanged at 8.25 percent and the overnight borrowing rate at 7.5 percent, whereas the marginal funding rate was reduced from 12 percent to 11.25 percent and the interest rate on borrowing facilities provided for primary dealers via repo transactions from 11.5 to 10.75 percent.

11 September 2014

Governor Erdem Başçı delivered a presentation in Kastamonu.

20 September 2014

The new CBRT website was opened for test use.

25 September 2014

The MPC meeting was held. The one-week repo rate was kept unchanged at 8.25 percent, the overnight borrowing rate at 7.5 percent and the marginal funding rate at 11.25 percent.

29 September 2014

Due to heightened volatility observed in the exchange rates, the daily foreign exchange selling auction amount was increased from "minimum USD 10 million" to "minimum USD 40 million".

9 October 2014

The interest rates applied to banks' one-week maturity borrowings from the Central Bank as a last resort facility were reduced from 10 percent to 7.5 percent for dollar and from 10 percent to 6.5 percent for euro.

20 October 2014

Changes were made pertaining to export rediscount credits.

21 October 2014

The Central Bank announced that it would remunerate the Turkish lira component of required reserves of financial institutions.

22 October 2014

The new method to be used in the determination of the maximum interest rates to be applied to credit card transactions was announced.

23 October 2014

The MPC meeting was held. The one-week repo rate was kept constant at 8.25 percent, the overnight borrowing rate at 7.5 percent and the marginal funding rate at 11.25 percent.

31 October 2014

The Inflation Report 2014-IV was presented at a press conference.

13 November 2014

Starting with the September 2014 data, the CBRT started publishing Turkey's balance of payments statistics in accordance with the new definitions and methods set out in the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6).

20 November 2014

The MPC meeting was held. The one-week repo rate was kept unchanged at 8.25 percent, the overnight borrowing rate at 7.5 percent and the marginal funding rate at 11.25 percent.

24 November 2014

Governor Erdem Başçı delivered a presentation before the Council of Ministers.

27 November 2014

The Financial Stability Report 2014-II was published.

1 December 2014

Due to the expected improvements in the balance of payments, the foreign exchange selling auction amount was decreased from "minimum USD 40 million" to "minimum USD 20 million".

2 December 2014

The exhibition "Tradition, Culture and Modernity: Contemporary Art from Turkey", featuring a selection of works from the Art Collection of the CBRT, opened in Kuala Lumpur to welcome Malaysian art lovers.

9 December 2014

Due to heightened volatility observed in the exchange rates, the daily foreign exchange selling auction amount was increased from "minimum USD 20 million" to "minimum USD 40 million".

10 December 2014

The Monetary and Exchange Rate Policy for 2015 was presented at a press conference.

16 December 2014

It was announced that the appropriate amount of the FX needs of the energy importing state owned enterprises would be met directly by the Undersecretariat of Treasury and the Central Bank of the Republic of Turkey.

17 December 2014

Governor Erdem Başçı delivered a presentation before the Planning and Budget Commission of the Grand National Assembly of Turkey.

19 December 2014

For the first time, all sectors were included in the scope of the 2013 Financial Accounts Tables and Financial Accounts Report.

24 December 2014

The MPC meeting was held. The one-week repo rate was kept constant at 8.25 percent, the overnight borrowing rate at 7.5 percent and the marginal funding rate at 11.25 percent.

Central Bank of the Republic of Turkey

Trade Registry Number: 269

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THE EIGHTY-THIRD ACCOUNTING YEAR

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ANKARA

2015

Annual Report 2014

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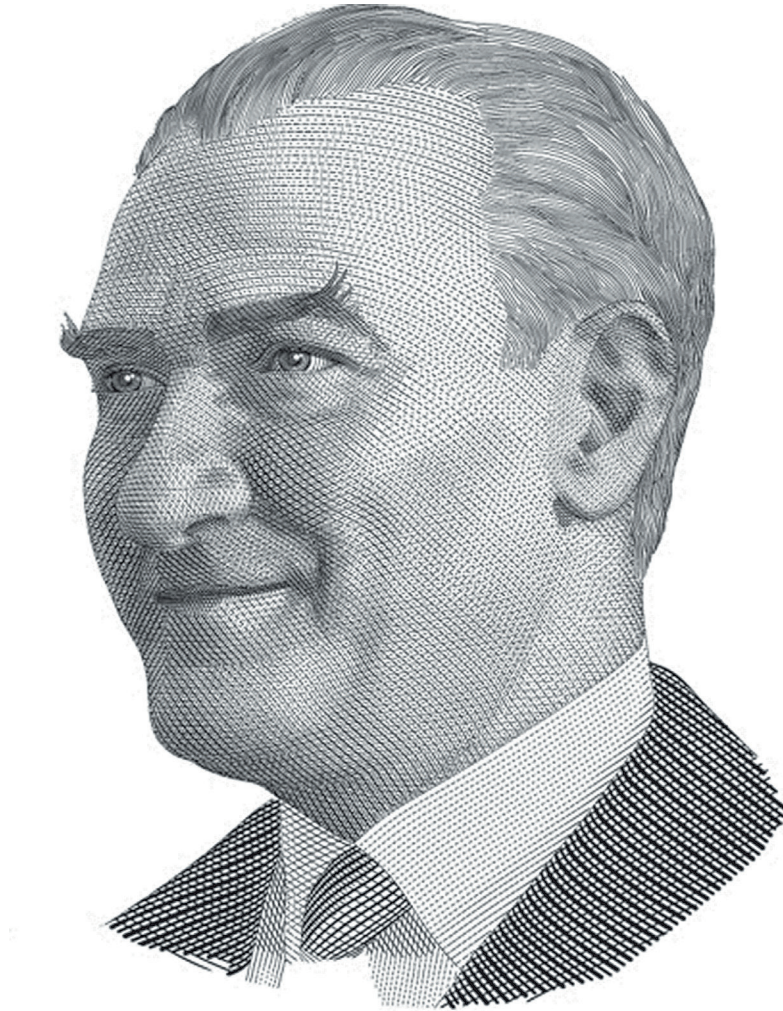
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Portrait, E-9 Emission Group
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Abbreviations

BIMER	The Communication Center of the Prime Ministry
BIS	Bank for International Settlements
BIST	Borsa İstanbul
BoE	Bank of England
BRSA	Banking Regulation and Supervision Agency
CBRT	Central Bank of the Republic of Turkey
CPI	Consumer Price Index
ECB	European Central Bank
EMEs	Emerging Market Economies
EU	European Union
FDD	Final Domestic Demand
Fed	Federal Reserve, The Central Bank of the United States
GDP	Gross Domestic Product
IBAN	International Bank Account Number
ICH	Interbank Clearing Houses Center
IILM	International Liquidity Management Corporation
IMB	Istanbul School of Central Banking
IMF	International Monetary Fund
MPC	Monetary Policy Committee
ROC	Reserve Option Coefficient
ROM	Reserve Option Mechanism
SDR	Special Drawing Rights
TBB	The Banks Association of Turkey
TL	Turkish Lira
Treasury	Undersecretariat of Treasury
TRT	Turkish Radio and Television Corporation
TURKSTAT	Turkish Statistical Institute
US	United States
USD	US Dollar

Foreword



Dr. Erdem Başçı
Governor

The Turkish economy has witnessed many important developments over the last few years. The Gross Domestic Product (GDP) increased by 72 percent in real terms in the third quarter of 2014 from 2002. Over the same period, thanks to prudent monetary and financial policies, significant progress was made in disinflation; inflation rates were brought down to single digits and inflation has hovered in the 6-10 percent interval in the last 10 years. On the back of the sustained budget discipline in the public sector and prudential borrowing in the private sector, real interest rates decreased below 5 percent and remained at around 2 percent. In the framework of the floating exchange rate regime implemented since 2001, the CBRT employed a range of instruments to achieve a cumulative USD 112-billion rise in the CBRT foreign exchange and gold reserves.

With the aim of steering the economy towards a stable growth path and attaining a sound external borrowing composition, the CBRT, by end-2010, designed and started implementing a new monetary policy framework taking into account macro-financial risks as well. This new policy framework, which incorporated both conventional instruments and unconventional ones (such as, 1-week repo auction, the interest rate corridor, TL and FX liquidity management, and the Reserve Options Mechanism-ROM), was used to achieve price stability and establish financial stability. These policies helped curb the negative impact that could have been caused by the volatility in international markets.

In 2014, credit growth continued at a reasonable pace. Commercial loans and loans extended to small and medium-scale enterprises displayed a relatively stronger trend. The tight monetary policy stance coupled with macroprudential measures caused a decline in non-food inflation. Nevertheless, the end-year inflation remained well above the 5 percent-target due to the uptrend in food inflation stemming from adverse weather conditions.

The fight against inflation requires a number of other measures in addition to the monetary policy implementations of the CBRT. In particular, the course of food inflation in recent years has been a significant risk factor for both the level and the volatility of headline inflation. In this respect, the inauguration of the Food and Agricultural Product Markets Monitoring and Evaluation Committee in 2014, which was established with the contribution of the CBRT along with other institutions, is a very important step in terms of discussing food price developments on a common platform and taking necessary measures.

The CBRT Head Office and the Istanbul School of Central Banking (IMB) organized various national and international meetings, seminars, panels, workshops and conferences on topics related to the global and Turkish economy throughout the year. All these events contributed to the exchange of views between the Bank and international institutions, other central banks and academicians as well as to achieving international standards in the conduct of Bank's activities. In addition, the Bank provided support for scientific activities in Turkish academia. Meanwhile, in-house training programs aimed at increasing the qualifications of the Bank personnel continued as well.

In accordance with the agreement reached with the Government during the preparation of the Medium-Term Program, the inflation target for the 2015-2017 period has been set at 5 percent. In the framework of the duty assigned to it by law, the Bank continues to contribute to balanced and sustainable growth in the Turkish economy with a view to achieving the price stability objective while at the same time safeguarding the financial stability objective. Our policy measures aim to ensure a stable trend in loan growth and inflation expectations. Maintaining fiscal discipline and effecting structural reforms will support macroeconomic stability and permanently boost Turkey's growth performance.

Part 1

General Information

The CBRT, which is vested with the exclusive privilege of issuing banknotes in Turkey, was founded on 30 June 1930 as a joint stock company to manifest its independence and its difference from other public institutions. The Bank started its operations on 3 October 1931 in Ankara.

The CBRT has a capital of 25,000 Turkish liras and its shares are divided into (A), (B), (C) and (D) classes. The Class (A) shares belong solely to the Treasury and cannot constitute less than fifty-one percent of the capital. Class (B) shares are allocated to national banks operating in Turkey. Class (C) shares belong to banks other than the national banks and privileged companies. Class (D) shares are allocated to Turkish commercial institutions and to legal and real persons of Turkish nationality. As of end-2014, the shares that belong to (A), (B), (C) and (D) classes were 55.12 percent, 25.74 percent, 0.02 percent and 19.12 percent, respectively.

With an amendment to the CBRT Law No: 1211 on 25 April 2001, the primary objective of the CBRT was explicitly described as achieving and maintaining price stability. Moreover, the amendment stipulated that the Bank would determine at its own discretion the monetary policy that it would implement and the monetary policy instruments it would use. Thus, the Bank is vested with instrument independence. In addition, the Bank takes precautions to achieve stability in the financial system and regulatory measures with respect to money and foreign exchange markets. Finally, the Law also stipulated that the Bank would support the growth and employment policies of the government, provided that it shall not be in conflict with the objective of achieving and maintaining price stability.

By the end of 2014, the CBRT had 4,753 employees working in 16 Departments and 21 Branches in Turkey, as well as representatives of the Bank working in Turkish Representations in Frankfurt, Kuala Lumpur, London, Moscow, New York, Beijing, Sydney, Tokyo, Washington DC and Permanent Delegation to the OECD in Paris. With this organizational structure, CBRT implements its policies in a dynamic structure by closely monitoring the developments in both the domestic and international arenas and executing its functions in line with powers and duties granted by its Law.

1.1. Governing Bodies

1.1.1. Board



Dr. Erdem Başçı
Governor



Mehmet Vehbi Çıtak
Member



Dr. Lokman Gündüz
Member



Prof. Dr. Necdet Şensoy
Member



Prof. Dr. Sabri Orman
Member



Dr. Ahmet Faruk Aysan
Member



Abdullah Yalçın
Member

The Board is composed of the Governor and six members elected by the General Assembly. Board members serve a three-year term of office and one third of the members are replaced every year. The Governor also acts as Chairman of the Board. Board meetings are held at least once a month at the request of the Governor. The Board convenes with the participation of at least two thirds of its members and renders decisions by the majority of members present.

Duties and powers of the Board include: making decisions concerning the monetary policy to be implemented and monetary policy instruments to be utilized in compliance with the inflation target; setting forth regulations regarding banknotes in circulation; drawing up regulations regarding open market operations and foreign exchange and foreign currency transactions, interest rates related to rediscount and advance transactions, reserve requirements and the management of gold and foreign exchange reserves of the country; preparing the budget, annual report, balance sheet, income statements and the agenda of the General Assembly of the Bank; approving the staff structure and regulations on the administration, organization, services and personnel of the Bank. In 2014, the Board held 18 meetings and made a total of 151 decisions.

At the CBRT Shareholders' Ordinary General Meeting held on 17 April 2014, Mehmet Vehbi Çıtak and Lokman Gündüz whose terms of office were to expire at the end of 30 April 2014, were re-elected as members of the Board for a term of 3 years from 1 May 2014 to the end of 30 April 2017.

As of 31 December 2014, the Chairman of the Board is Governor Erdem Başçı and the Board members are Mehmet Vehbi Çıtak, Lokman Gündüz, Necdet Şensoy, Sabri Orman, Ahmet Faruk Aysan and Abdullah Yalçın.

1.1.2. Monetary Policy Committee



Dr. Erdem Başçı
Governor



Dr. Mehmet Yörükoğlu
Member



Prof. Dr. Turalay Kenç
Member



Necati Şahin
Member



Murat Çetinkaya
Member



Dr. Ahmet Faruk Aysan
Member



Prof. Dr. Abdullah Yavaş
Member

The Monetary Policy Committee (MPC) is composed of the Governor as its chairman, the Deputy Governors, a member to be elected by and from the Board members and a member to be appointed by a joint decision on the recommendation of the Governor. The Undersecretary of the Treasury or the Deputy Undersecretary to be designated by him/her may participate in meetings without voting rights. The MPC's duties and powers are: to determine the principles and the strategy of monetary policy to achieve and maintain price stability, to determine the inflation target jointly with the Government within the framework of the monetary policy strategy, to provide information to the public in line with the principles set forth and to provide information to the Government within specified periods by preparing reports on monetary policy targets and implementations, to take necessary measures to protect the domestic and international value of the

Turkish lira and to set the exchange rate regime to be employed in determining the value of the Turkish lira against gold and foreign currencies jointly with the Government.

The MPC held 13 meetings in 2014.

As of 31 December 2014, members of the MPC chaired by Governor Erdem Başçı are Deputy Governors Mehmet Yörükoğlu, Turalay Kenç, Necati Şahin, Murat Çetinkaya, Board member Ahmet Faruk Aysan and Abdullah Yavaş who was appointed by a joint decision.

1.1.3. Auditing Committee



Mustafa Saim Uysal
Member



Yasin Aydın
Member



Ahmet Fethi Toptaş
Member



Mehmet Ziya Gökalg
Member

The Auditing Committee is composed of four members elected by The General Assembly. Members of the Auditing Committee serve a two-year term of office.

The Auditing Committee supervises all the Bank's operations and accounts. The Auditing Committee, which has no administrative power, submits its evaluations to the Board in writing and presents a copy to the Prime Ministry thereof. At the end of each year, the Committee prepares a report on the Bank's operations and accounts and submits it to the General Assembly.

At the regular General Assembly meeting of the CBRT held on 17 April 2014, Mehmet Ziya Gökalp was elected as member of the Auditing Committee for a term of office from 1 May 2014 until the end of 30 April 2016.

As of 31 December 2014, the members of the Auditing Committee are: Mustafa Saim Uysal, Yasin Aydın, Ahmet Fethi Toptaş and Mehmet Ziya Gökalp.

1.1.4. Executive Committee



Dr. Erdem Başçı
Governor



Dr. Mehmet Yörükoğlu
Member



Prof. Dr. Turalay Kenç
Member



Necati Şahin
Member



Murat Çetinkaya
Member

The Executive Committee is composed of the Governor and Deputy Governors. The Governor is appointed by a Council of Ministers decree to serve a five-year term. The Deputy Governors are appointed for five years by a joint decision upon the recommendation of the Governor. Decisions of the Executive Committee are made by a majority of all members.

The Executive Committee draws up regulations on the administration, organization and services of the Bank, and when the Governor deems necessary, it examines issues subject to Board decision in advance and prepares proposals to be submitted to the Board. The Committee is also responsible for ensuring the coordination of the Bank's operations and performing duties related to the appointment, remuneration, dismissal and retirement of employees other than those appointed by the Board.

As of 31 December 2014, members of the Executive Committee chaired by Governor Erdem Başçı are Mehmet Yörükoğlu, Turalay Kenç, Necati Şahin and Murat Çetinkaya.

1.1.5. Financial Benefits for Senior Management

In line with articles 19, 22/A, 24 and 33 of the CBRT Law No:1211, the representation allowances and monthly salaries of the Governor and Deputy Governors as well as monthly salaries and compensations of the Board members and MPC members, and the salaries of the Auditing Committee members are determined by the Council of Ministers. Accordingly, in 2014, the gross amount paid to members of the Board, Executive Committee, MPC and Auditing Committee of the Bank was 5,123,338 Turkish Liras. This amount accounts for approximately 1 percent of the total salaries and fringe benefits paid to the bank staff in 2014.

1.1.6. Head Office Departments

By 31 December 2014;

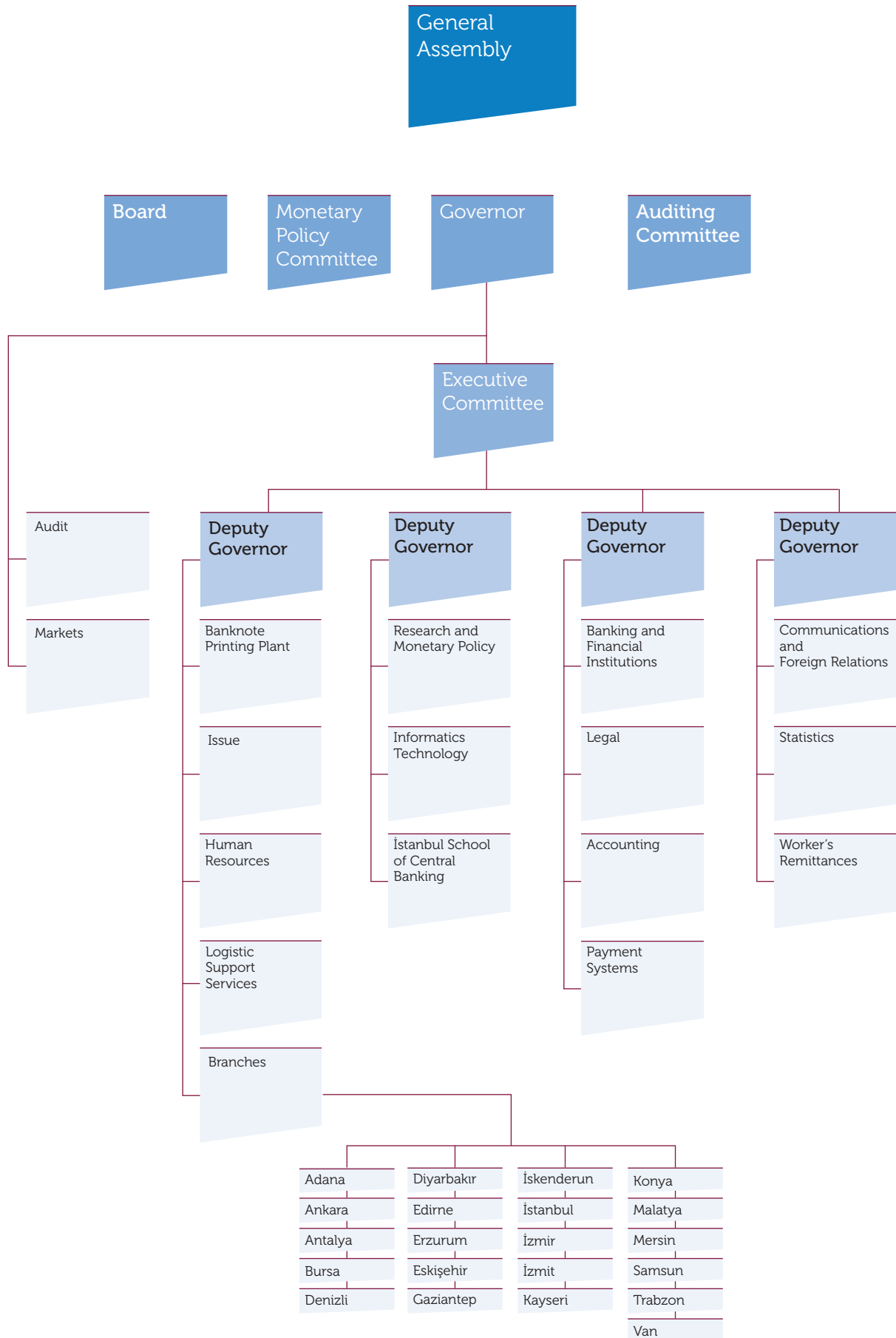
Accounting	Executive Director	İrfan Yanar
Audit	Executive Director	Mehmet Düzgün
Banking and Financial Institutions	Executive Director	Ahmet Biçer
Banknote Printing Plant	Acting Executive Director	Hayrettin Yavuz
Communications and Foreign Relations	Executive Director	Dr. Yusuf Soner Başkaya
Human Resources	Executive Director	Cem Eyerci
Informatics Technology	Executive Director	Ömer Öztürk
Issue	Executive Director	Selahattin Akkaş
İstanbul School of Central Banking	Executive Director	Dr. Necati Tekatlı
Legal	Chief Legal Counsel and Executive Director	Dr. Osman Remzi Günver
Logistic Support Services	Executive Director	Emin Keskin
Markets	Executive Director	Erkan Kilimci
Payment Systems	Executive Director	-
Research and Monetary Policy	Acting Executive Director	Dr. Mustafa Kılıç
Statistics	Executive Director	Gülbin Şahinbeyoğlu
Workers' Remittances	Executive Director	Dr. Ali Çufadar

1.1.7. Branches

By 31 December 2014;

Adana	Director	İskender Büyüктаş
Ankara	Director	Dr. Yusuf Bora Enhoş
Antalya	Director	Eyüp Kütük
Bursa	Director	Ahmet İnci
Denizli	Director	-
Diyarbakır	Director	Ertuğrul Gündoğdu
Edirne	Director	Hatice Oya Amaç
Erzurum	Director	İshak Uzuntaş
Eskişehir	Director	Tevfik Hayati Boyalı
Gaziantep	Director	Kemal Ketenci
İskenderun	Director	Süleyman Miçooğulları
İstanbul	Director	Haluk Ersoy
İzmir	Director	Mehmet Reşit Ketene
İzmit	Director	Halil Yeşilbursa
Kayseri	Director	Osman Kandıra
Konya	Director	Cemal Şahiner
Malatya	Director	Mehmet Sanı
Mersin	Director	Muharrem Zengin
Samsun	Director	Mehmet Ünal Kekevi
Trabzon	Director	Ramazan Karaman
Van	Director	Saadettin Çoban

1.1.8. Organization Chart



1.2. CBRT 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 (SG) 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.

1.3. Staff

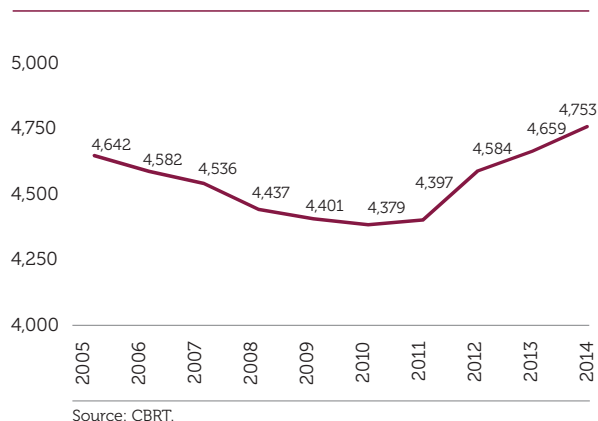
In line with its strategic role in the economy, and the various tasks that it undertakes, the CBRT has qualified human resources comprised of different professions. By end-2014, the total number of CBRT staff posts was 5,074; the total number of staff employed 4,753 and the occupancy rate 93.67 percent.

A total of 96 staff members have ceased employment due to retirement, resignation, military service or death, while 182 employees have been recruited. Additionally, 8 staff members, who had left the Bank to complete their military services, have returned. Consequently, the actual number of staff members by the end of the year increased by 94 to 4,753 compared to 2013 (Graph 1).

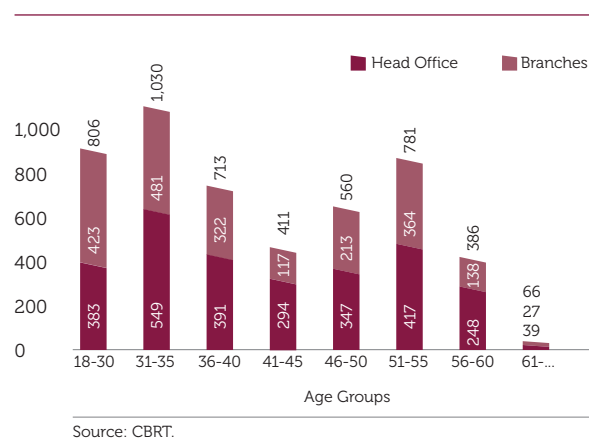
The distribution of CBRT staff is as follows: 77.17 percent comprised general administrative services, 11.24 percent technical services, 0.44 percent medical services, 0.27 percent legal services, and 10.88 percent by auxiliary services. Additionally, 15.13 percent of the staff employed is contract personnel.

Approximately 56.13 percent of the CBRT staff work at the head office, while 43.87 percent work at the branches. Based on age distribution of the staff, 38.63 percent of the personnel fall in the range of 18-35 years (Graph 2). Moreover, 72.06 percent of the Bank's employees have associate, bachelors, masters and doctorate degrees (Graph 3).

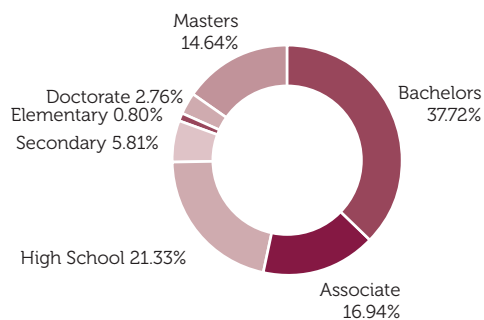
Graph 1. Number of Employees Between 2005 - 2014



Graph 2. Age Distribution of Employees



Graph 3. Educational Distribution of Employees



Part 2

Activities and Major Developments

2.1. Price Stability, Financial Stability and Monetary Policy

2.1.1. Overview

After the global financial crisis, monetary policies have begun to focus not only on price stability but also on financial stability across many countries. In order to contain the macrofinancial risks emerging from global imbalances, the CBRT continued with the monetary policy strategy that has been implemented without prejudice to price stability since 2010. To this end, in addition to short-term money market rates, the conventional monetary policy tool, the Bank actively used reserve requirement ratios, the ROM, the interest rate corridor and other liquidity policies in 2014.

Due to external and internal developments that affected risk perceptions in early 2014, the Turkish lira depreciated significantly and risk premiums increased notably. In order to contain the repercussions of these developments on inflation and macroeconomic stability, the CBRT decided in January to deliver a strong and front-loaded monetary tightening and to simplify its operational framework. The tight monetary stance helped to curb the deterioration of inflation expectations, to minimize the volatility in financial markets, and to improve risk premiums. Despite the measured rate cuts during mid-2014, the tight monetary policy stance was maintained throughout the year by keeping the yield curve nearly flat.

Global financial markets followed a volatile course in 2014. The ongoing uncertainty about the normalization of global monetary policies caused the global risk appetite and capital flows to be data-sensitive. Against this background, the CBRT maintained its prudent policy stance and delivered measured rate cuts by the second quarter of 2014. Meanwhile, in view of the heightened geopolitical tensions and the financial market volatility, the tight monetary policy stance was invigorated by a tight liquidity policy. Thus, the BIST overnight repo rates settled close to the upper end of the interest rate corridor when the tight liquidity policy was in effect.

2.1.2. Developments in 2014

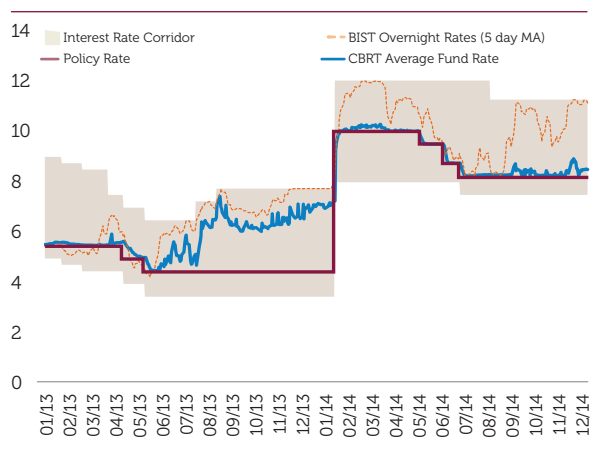
Monetary Policy Developments

As a result of the uncertainty that has been heightening both locally and globally since late 2013, Turkey's risk premium indicators deteriorated noticeably. In this period, exchange rate movements and rising volatility across financial markets had an adverse impact on the inflation outlook and macrofinancial stability. Therefore, by the strong and front-loaded monetary tightening implemented on 28 January 2014, the Committee aimed to control the deterioration in the inflation outlook and to support financial stability (Graph 4). With regard to simplifying the operational framework, the CBRT decided to provide liquidity primarily from the one-week repo rate instead of the marginal funding rate and raised the one-week repo rate from 4.5 percent to 10 percent. In this respect, additional monetary tightening (AMT) was terminated. The tight monetary policy stance and the recently alleviated uncertainty helped to contain the deterioration in medium-term inflation expectations; reduced the financial market volatility and slightly improved the risk premiums.

Owing to the decrease in risk premiums, the improving global liquidity conditions, the slowing trend of inflation and the waning cumulative effects of exchange rate depreciation on inflation during the second quarter of the year, the CBRT decided to deliver measured rate cuts. Firstly, in April, the late liquidity window lending rate was lowered from 15 to 13.5 percent. Then, the one-week repo rate was cut by 50, 75 and 50 basis points in May, June and July, respectively (Graph 4). In addition to the measured rate cuts, the Committee maintained a tight monetary policy stance by keeping the yield curve nearly flat. In this period, the spread between 5-year market rates and the BIST Interbank Overnight Repo rates was lower than the average over the past years (Graph 5).

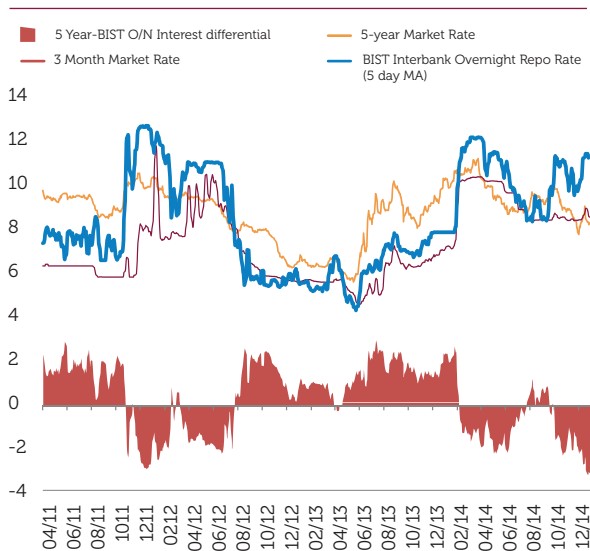
Furthermore, in order to ensure the symmetry of the interest rate corridor, the overnight lending rate was lowered from 12 to 11.25 percent, while the rate on borrowing facilities for primary dealers via repo transactions was cut from 11.5 to 10.75 percent in August. The CBRT continued to fund the market primarily via the one-week repo rate in the third quarter following the decision made at January's interim MPC meeting that simplified the operational

Graph 4. BIST Repo-Reverse Repo Market O/N Rates (Percent)



Source: CBRT, BIST.

Graph 5. Money Market Interest Rates (Percent)



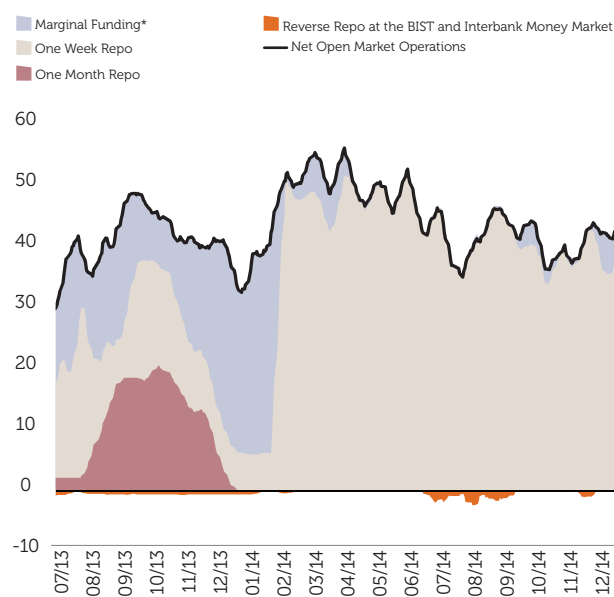
Source: CBRT, BIST.

framework of monetary policy (Graph 6). The provision of liquidity primarily by one-week repo auctions enabled the CBRT average funding rate to near the weekly funding rate. Meanwhile, in view of the geopolitical tensions and the financial market volatility, the tight monetary policy stance has been invigorated by a tight liquidity policy since September. Thus, the BIST overnight repo rates that hovered around the one-week repo auction rate in July and August of 2014 settled close to the upper end of the interest rate corridor in this period (Graph 4).

In order to maintain balanced growth and capital inflows during the upcoming global monetary policy normalization, the CBRT has changed the foreign exchange deposit rates that apply to banks to borrow from the CBRT within their limits through the Foreign Exchange Deposit Market. As of 9 October 2014, the rates for one-week maturity borrowings from the CBRT as the last resort facility have been reduced from 10 percent to 7.5 percent for the USD and from 10 percent to 6.5 percent for the euro. Moreover, considering the increase in banks' balance sheets and the CBRT's international reserves, the CBRT increased the banks' transaction limits at the Foreign Exchange and Banknotes Markets, which are currently 10.8 billion USD, to 21.62 billion USD as of 10 December 2014. Furthermore, the CBRT raised the limits of export rediscount loans and lowered loan costs on 20 October 2014 to support the balanced growth. These changes are expected to raise exporters' borrowing from the CBRT, which will also lead to an increase in the CBRT's FX reserves in 2015.

In addition, it was also stated that it is crucial to further strengthen the currently robust structure of the banking sector to enhance financial stability. Consequently, the CBRT announced on 21 October 2014 that it would provide additional support to core liabilities to stimulate balanced growth and domestic savings. To this end, the CBRT decided to remunerate the Turkish lira component of required reserves of financial institutions as an incentive, which will also reduce the sensitivity of the cost of Turkish lira required reserve holdings against the policy rate and thus strengthen the automatic stabilization feature of the ROM.

Graph 6. CBRT Funding
(2 Week Moving Average, Billion TL)



* Marginal funding is the interest on overnight funds extended at the upper band of the interest rate corridor.

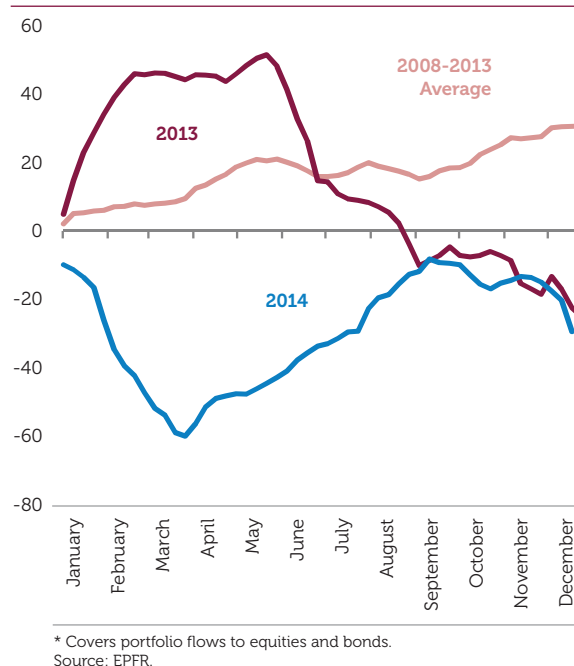
Source: BIST, CBRT.

While the US Federal Reserve (Fed) ended its quantitative easing program in October, uncertainties regarding the timing and the magnitude of the policy rate hike have continued. Meanwhile, amid weak economic activity in the European Union (EU) and the growing risk of deflation, the European Central Bank (ECB) cut the policy rate in this period and announced a quantitative easing program that entailed the purchase of covered bonds and asset-backed securities. In the second and third quarters of 2014, indicators for global economic activity performed weaker than expected, causing growth forecasts for 2014 to be revised down. Financial market volatility and falling global growth rates led to some fluctuation in emerging market capital inflows during the entire year (Graphs 7 and 8).

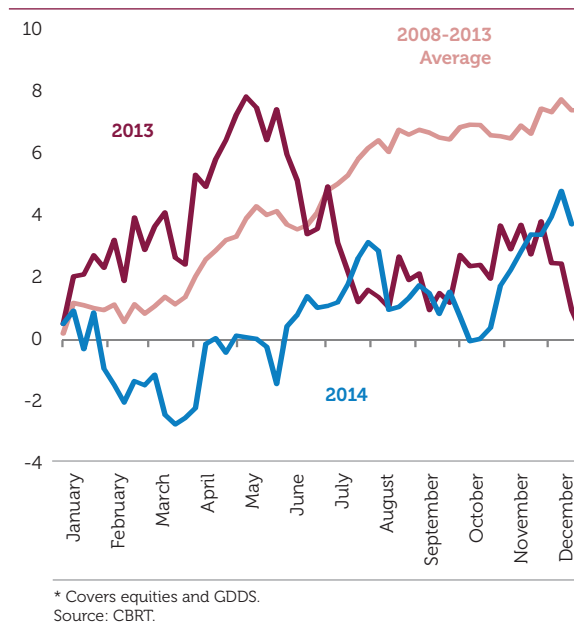
To eliminate the possible effects of the excessive volatility in the FX market on price stability and financial stability, the CBRT launched unsterilized FX sales auctions in the third quarter of 2013. These auctions were held throughout 2014 and total FX sales of USD 13.08 billion, USD 3.151 billion of which was made through direct intervention in January, reduced the CBRT reserves in this period. Reimbursement of rediscount credits of about USD 13 billion contributed to the CBRT reserves in the same period.

To support financial stability, the CBRT raised the reserve requirement ratios of FX-denominated non-core short-term liabilities of banks and financing companies in a way to prompt the extension of maturities in late 2014. The rise in FX reserve requirement ratios is expected to contribute to the CBRT'S FX reserves around USD 3.2 billion. The average FX reserve requirement ratio, which is currently 11.7 percent, will rise to 12.8 percent. Moreover, to strengthen the automatic stabilizing feature of the ROM, technical adjustments were made in reserve option tranches and coefficients to provide the FX liquidity due to the adaptations in reserve requirement ratios.

Graph 7. Capital Flows to Emerging Markets*
(Billion, USD)



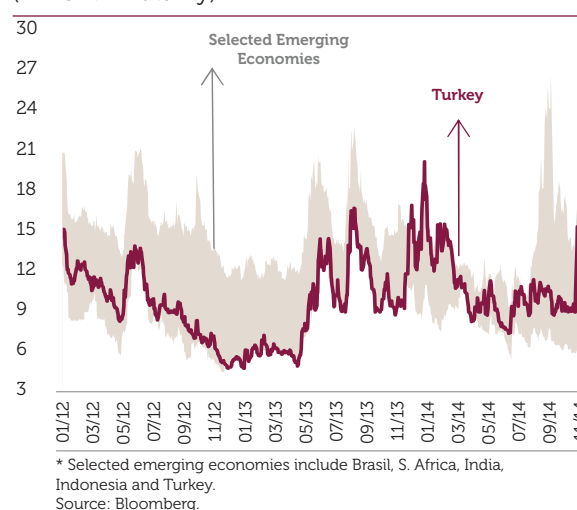
Graph 8. Capital Flows to Turkey*
(Billion, USD)



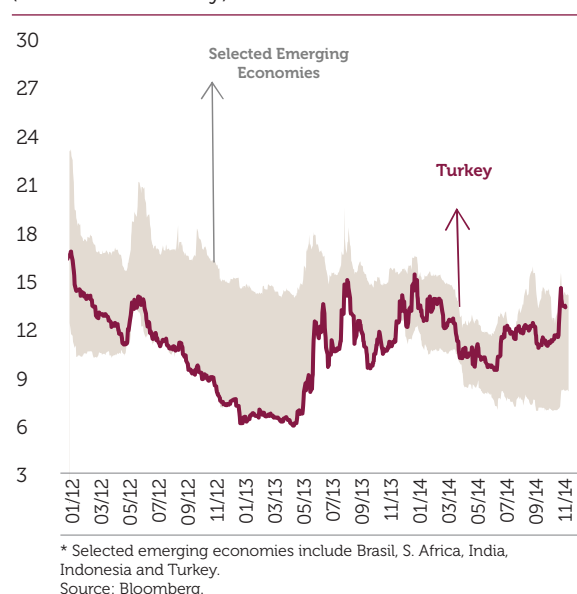
Due to the uncertainty stemming from the launch of the Fed's exit from quantitative monetary easing in December 2013 coupled with Turkey-specific factors, the implied volatility of the Turkish lira displayed a higher increase than those in other emerging economies in early 2014 (Graph 9 and 10). The exchange rate volatility, which trended downwards in the second and third quarters of 2014, trended upwards again in December 2014.

The Turkish lira and the currencies of other emerging economies with a high foreign financing requirement followed a parallel course in 2014 (Graph 11). The Turkish lira depreciated against the USD by around 9 percent in this period.

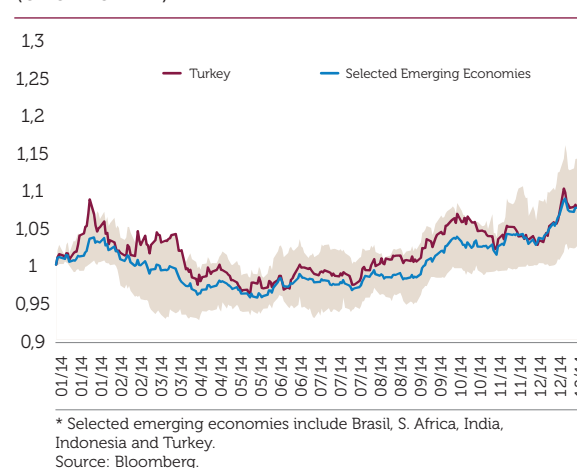
Graph 9. Exchange Rate Volatility Implied by Options* (1-month maturity)



Graph 10. Exchange Rate Volatility Implied by Options* (12-month maturity)

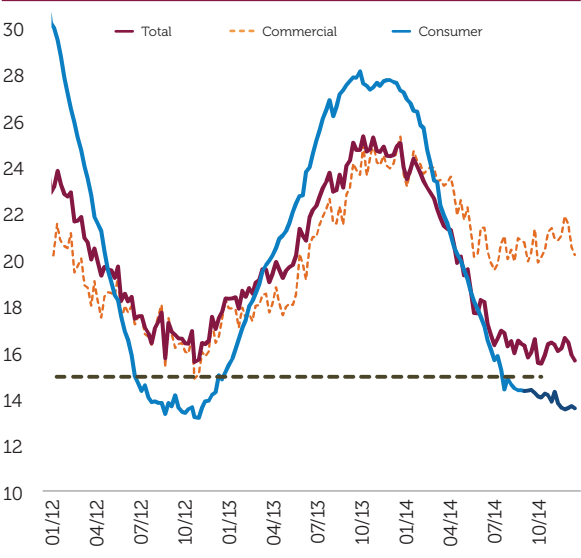


Graph 11. TL and Emerging Market Currencies vs USD* (01.01.2014=1)



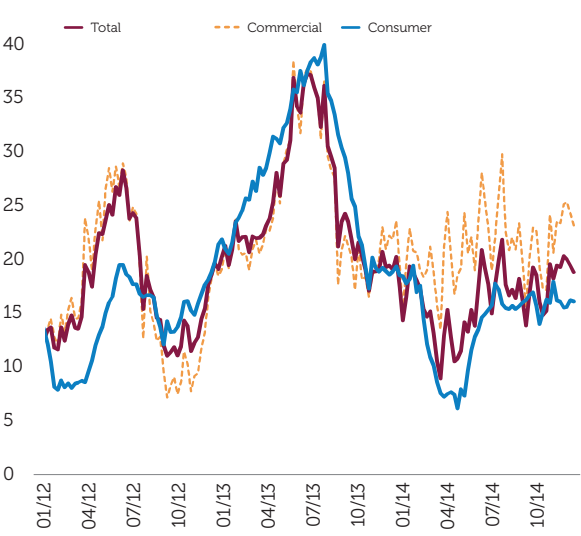
The annual growth rate of loans extended to the non-financial sector, which has been slowing due to the CBRT's tight monetary policy and the Banking Regulation and Supervision Agency (BRSA)'s measures introduced in the start of the year, recorded a notable decline in 2014 (Graph 12). This fall was more evident in consumer loans due to the scope of the BRSA practices. From mid-2014, the annualized loan growth rate saw a partial increase on account of the improvement in consumer loans (Graph 13). Against these developments, the annual growth rate of total loans stood at 15.7 percent on 26 December 2014.

Graph 12. Loan Growth
(Adjusted for Exchange Rate Effect, Annual, Percent)



Source: CBRT.

Graph 13. Loan Growth
(Adjusted for Exchange Rate Effect,
13 Week Moving Average, Annualized, Percent)



Source: CBRT.

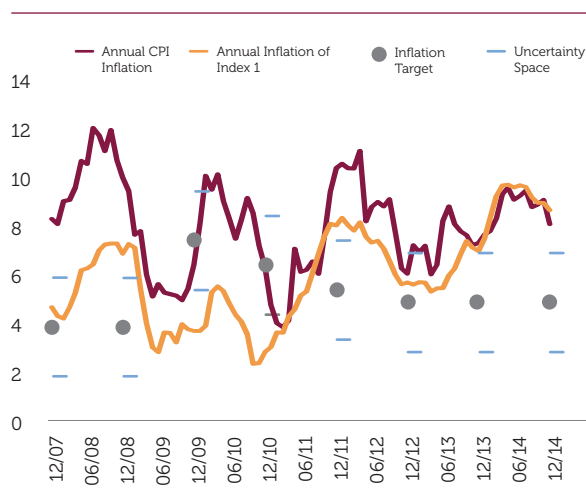
Inflation Developments

Inflation, which trended upwards in the first half of 2014 due to the effects of the depreciation in the Turkish lira since May 2013, assumed a downward course in the second half and stood at 8.17 percent at the year end. Inflation realizations remained above the uncertainty band owing to the exchange rate pass-through as well as the surge in food prices resulting from the negative supply shock amid drought and unfavorable weather conditions. On the other hand, the plunge in international oil prices in late 2014 had positive effects on energy prices, which accelerated the fall in inflation. Due particularly to the effects of the fall in fuel prices on certain services items, services inflation registered a decline in the last quarter of 2014. In addition, amid the alleviation of the exchange rate effects on the core goods inflation, core inflation indicators recorded an improvement (Graph 14). Inflation expectations, which trended upwards because of cost shocks driven by the exchange rate effect and food prices across the year besides the deterioration in the pricing behavior in the first quarter, have recently witnessed a recovery amid the positive contribution of energy prices (Graph 15).

National Income Developments, Balancing Process and the Labor Market

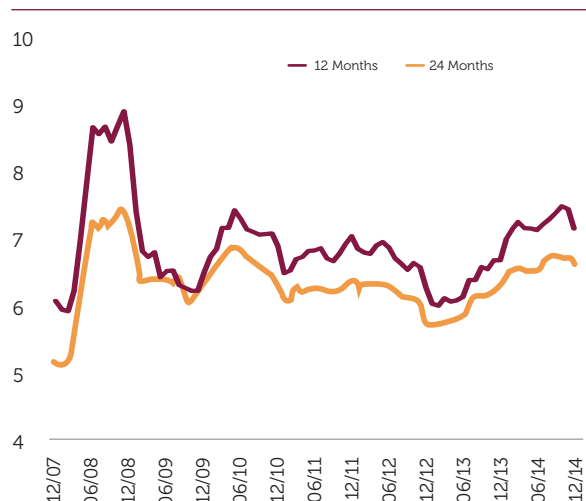
The new monetary policy that was adopted at end-2010 accompanied by the macroprudential measures ensured a slowdown in domestic demand and imports, which led to the start of a balancing process between domestic and external demand. Thus, the contribution of net exports to growth increased considerably in 2012, whereas growth stood at 2.1 percent due to the slowdown in domestic demand. The current account deficit registered a sizeable decline in the same period. Meanwhile, economic growth re-accelerated in 2013 and reached 4 percent. According to the data released by TurkStat, the annual growth rate in the first quarter of 2014 was 2.8 percent and the mild growth trend was preserved. The weak course of the final domestic demand (FDD) and the stronger trend of increase in the exports excluding gold compared to imports excluding gold indicate that the balancing process continues (Graph 16 and 17). Thus, the trend of improvement in the current account deficit was sustained.

Graph 14. Inflation and Targets (Percent)



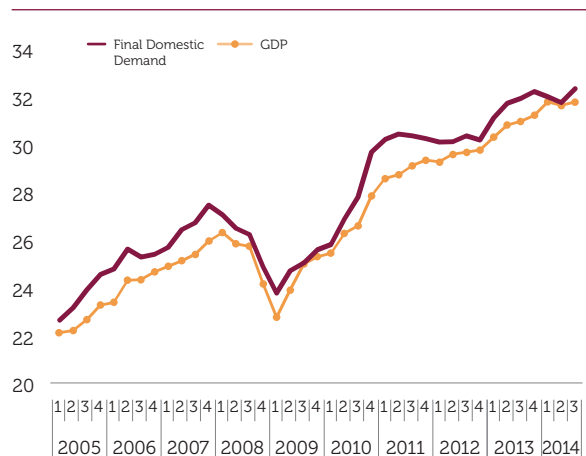
Source: TURKSTAT, CBRT.

Graph 15. Inflation Expectations (Percent)



Source: CBRT.

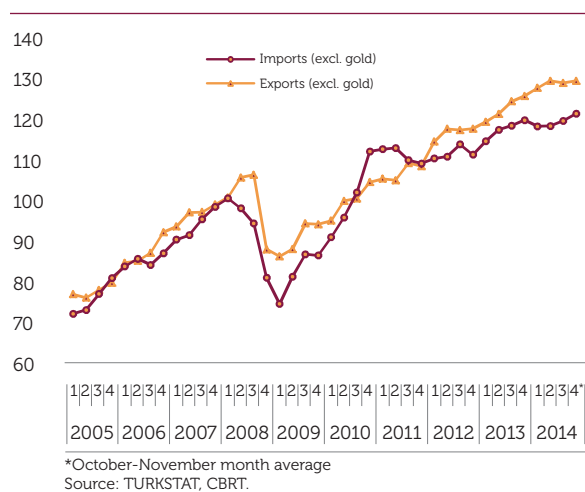
Graph 16. GDP and Final Domestic Demand (Seasonally Adjusted, Real, Billion TL)



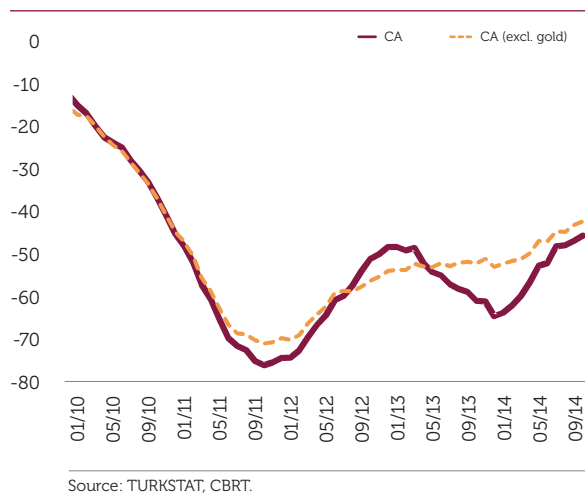
Source: TURKSTAT, CBRT.

The balancing between domestic and external demand, which started in 2011, brought about an apparent improvement in the current account balance as well. Although the current account deficit saw a deterioration in 2013 due to the rise in net gold imports, the current account deficit excluding gold continued to improve gradually. In 2014, not only the convergence of net gold imports and past averages but also the deceleration in the rate of increase of the FDD led the improving trend in the current account deficit including and excluding gold to continue (Graph 18). Meanwhile, the new monetary policy adopted in late 2010 led the real exchange rate to register a decline that can be considered notable with respect to economic fundamentals (Graph 19). The real exchange rate, which depreciated sharply in the second half of 2013 owing to the uncertainties regarding the Fed's monetary policies, assumed a trend of gradual appreciation as of early 2014. Despite this development, the average real exchange rate depreciated by 5.6 percent in 2014 compared to 2013.

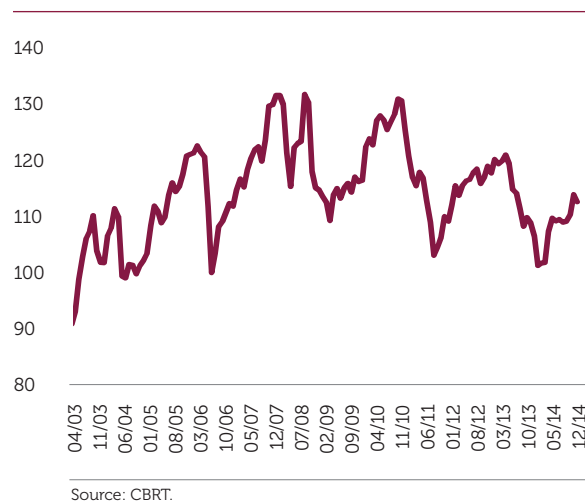
Graph 17. Export and Import Quantity Indices
(Seasonally Adjusted, 2010=100)



Graph 18. Current Account Balance
(12-month cumulative, Billion USD)

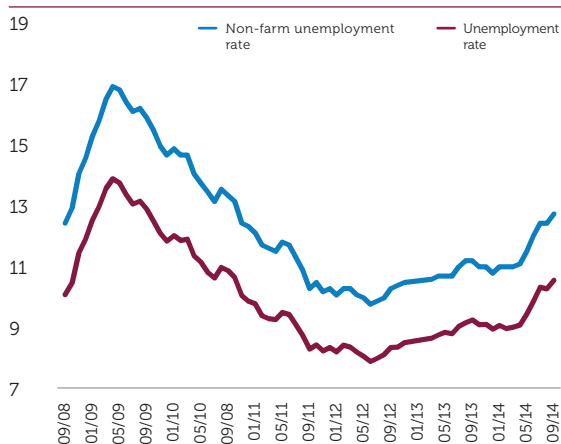


Graph 19. Real Effective Exchange Rate Index
(CPI-Based, 2003=100)



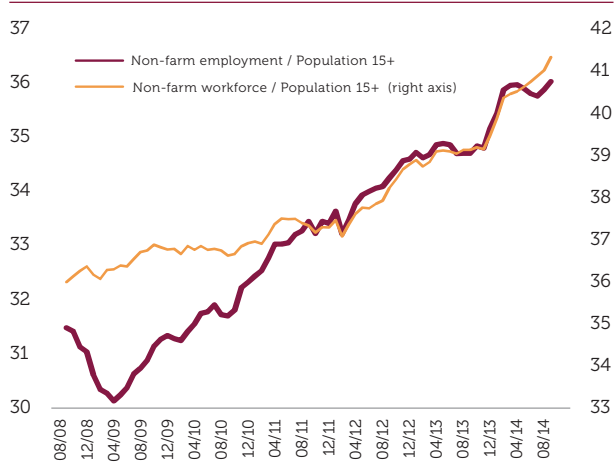
In 2014, total and non-farm unemployment rates displayed an increase (Graph 20). The upward trend in the labor power increased the non-farm unemployment rate throughout the year (Graph 21). Non-farm employment receded in the first half and added to the unemployment rate, but trended upwards in the second half. Across the sub-sectors of non-farm employment, following the plunge in the first half, construction employment partially improved in the second half of the year. The industrial sector did not spur an employment increase, while the services sector drove the rise in employment across the year.

Graph 20. Unemployment Rates
(Percent, seasonally adjusted)



Source: TURKSTAT, CBRT.

Graph 21. Ratio of Non-Agriculture Labor Force and Employment in Population 15+
(Seasonally adjusted)



Source: TURKSTAT, CBRT.

2.2. Operational Framework of the Monetary Policy

2.2.1. Turkish Lira Liquidity Management

After May 2013, global monetary policy developments were the key drivers behind the movements in financial markets. In this period, all financial assets were re-priced on a global level while emerging economies witnessed portfolio outflows. The CBRT adopted policies to contain the spillover effects of the global volatility and to improve the deteriorated inflation outlook by actively using the instruments of the one-week repo rate, the interest rate corridor, TL and foreign-currency liquidity policies and the ROM.

At an interim meeting of the MPC on 28 January 2014, it was expressed that a considerable depreciation of Turkish Lira and remarkable increase of risk premium had been observed due to the developments which had been adversely affecting risk perception in domestic and international markets. A strong and frontloaded monetary tightening and simplifying operational framework were decided in order to confine the adverse effects of these developments on inflation and macroeconomic stability. In this respect, the one-week repo rate was raised to 10 percent from 4.5 percent. In addition, marginal funding rate and the interest rate on borrowing facilities provided for primary dealers via repo transactions was raised to 12 percent and 11.5 percent from 7.75 percent and 6.75 percent respectively. In the meantime, the borrowing rate was held at 0 percent while the lending rate was raised to 15 percent from 10.25 percent within the late liquidity framework.

It was announced that with simplification of the monetary policy framework the Central Bank funding would be provided primarily from the one-week repo rate instead of the marginal funding rate and it was emphasized that the tight monetary policy stance would be sustained until there was a significant improvement in the inflation outlook.

In February and March MPC decisions, it was assessed that the upside risks on the inflation outlook and expectations maintained their importance, but the strong and frontloaded monetary tightening delivered at the January interim meeting had contained the adverse impact of such risks on the medium term inflation expectations. The committee highlighted that inflation was expected to increase until June, partly reflecting base effects. Against this backdrop, inflation expectations and pricing behavior would be closely monitored and the tight monetary policy stance would be maintained until there was a significant improvement in the inflation outlook.

By pointing to the deceleration in private FDD in response to the tight monetary stance, macroprudential measures and weak capital flows, it was emphasized that demand conditions and its composition would support disinflation and lead to a significant improvement in current account deficit in 2014.

In the MPC decision of April, the late liquidity window lending interest rate was reduced from 15 percent to 13.5 percent due to the reduction in the need for an additional tightening in liquidity policy in response to the recent decline in uncertainties and partial improvement in the risk premium indicators.

With the decline in uncertainties and improvement in the risk premium indicators during May, a measured decrease in the one week funding rate of 50 basis points was decided in parallel with the reduction of market interest rates for all maturities. The tight monetary policy stance to be maintained by keeping a flat yield curve until a significant improvement in the inflation outlook was emphasized.

As a result of the gradual tapering off in the adverse impact of exchange rate developments since mid-2013 on annual inflation, in the June and July MPC meetings measured cuts of 75 and 50 basis points in the one-week repo rate were delivered respectively in light of the recent improvement in global liquidity conditions encountered in the second quarter of 2014. On the other hand, the CBRT borrowing rate was cut by 50 basis points in July. In the August MPC meeting, the Marginal Funding Rate was reduced from 12 percent to 11.25 percent, and the interest rate on borrowing facilities provided for primary dealers via repo transactions was reduced from 11.5 to 10.75 in order to maintain the current policy stance in the short term rates within a more symmetric interest rate corridor.

The macroprudential measures implemented at the beginning of 2014 and the tight monetary policy stance paid off and favorable impacts on the core inflation trend began to be observed. This disinflation process is believed to be further supported in 2015 by the falling commodity prices, especially oil prices. Notwithstanding, keeping in mind the elevated food prices, the tight monetary policy stance was kept in place in the last four months of 2014 by maintaining a flat yield curve, to make sure that the improvement in the inflation outlook was here to stay.

2.2.2. Exchange Rate Policy

The CBRT continued to implement the floating exchange rate regime in 2014. The foreign exchange rate is determined by supply and demand conditions in the market. The CBRT does not have a nominal or real exchange rate target under this regime. Nonetheless, to curb the risks to financial stability, the CBRT does not remain unresponsive to excessive appreciation or depreciation of Turkish lira.

On 23 January 2014, as a result of unhealthy price formations, the CBRT directly intervened in the FX markets by selling FX.

Taking into account the ongoing improvement in the current account deficit, the daily foreign exchange selling auction amount was decreased from "minimum USD 50 million" to "minimum USD 40 million" from 28 April 2014 onward. The daily foreign exchange selling auction amount was decreased from "minimum USD 40 million" to "minimum USD 20 million" effective from 9 May 2014 onward, and decreased from "minimum USD 20 million" to "minimum USD 10 million" effective from 25 July 2014 onward.

Effective from 29 September 2014 onward, due to heightened volatility observed in the exchange rates, the daily foreign exchange selling auction amount was increased from "minimum USD 10 million" to "minimum USD 40 million".

Effective from October 9, 2014, the rates applied to banks' one week maturity borrowings from the Central Bank as a last resort facility have been reduced from 10 percent to 7.5 percent for USD and from 10 percent to 6.5 percent for the EUR.

Effective from 1 December 2014 onward, taking the expected improvements in the balance of payments into account, the foreign exchange selling auction amount was decreased from "minimum USD 40 million" to "minimum USD 20 million".

Effective from 9 December 2014 onward, due to heightened volatility observed in the exchange rates, the daily foreign exchange selling auction amount was increased from "minimum USD 20 million" to "minimum USD 40 million".

Starting from 17 December 2014, the foreign exchange needs of the energy importing state owned enterprises will be met directly by the CBRT and the Undersecretariat of the Treasury, as appropriate.

2.2.3. Reserve Requirements

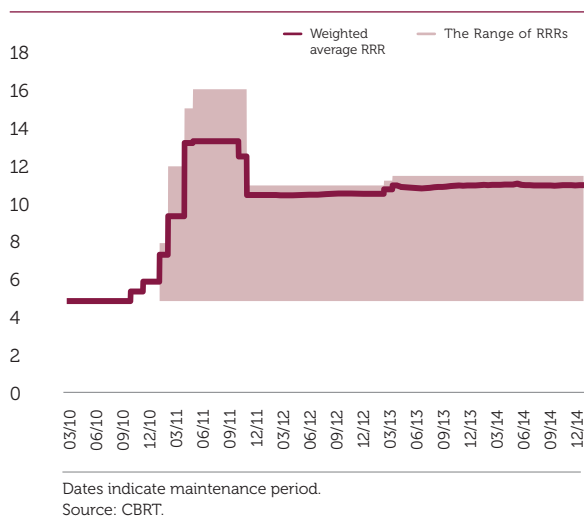
The CBRT continues to use reserve requirements as a monetary policy and macroprudential instrument. By the end of 2014, the weighted average reserve requirement ratios for Turkish lira and FX are 11 percent and 11.7 percent, respectively (Graphs 22 and 23).

To simplify the structure of reserve requirements, an approach to directly involve items subject to reserve requirements was adopted as of 2014 instead of subtracting certain items from total domestic liabilities in calculating liabilities subject to reserve requirements. With this approach, effective as of the calculation period of 17 January 2014, many small items that have no direct effect on the monetary policy and reduce the efficiency of operational process were exempted from the scope of the required reserve liability.

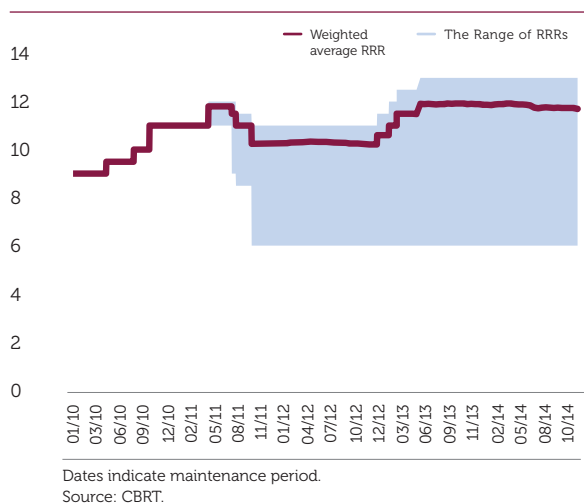
Through the ROM, not only did total reserves register an increase, but also the effects of potential volatilities in external financing conditions on the economy were contained.

Considering the global market developments and the operational procedures for reserve requirements, the CBRT limited the type of currency maintained within the ROM to USD, effective as of 1 August 2014.

Graph 22. TL Reserve Requirement Ratios (Percent)



Graph 23. FX Reserve Requirement Ratios (Percent)



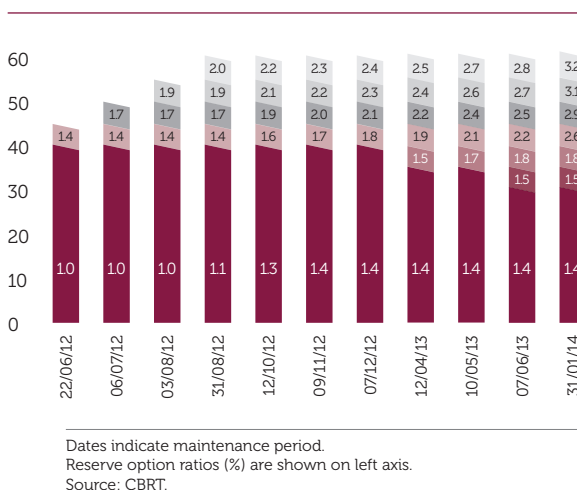
At the beginning of 2014, in order to enhance the efficiency of the ROM, FX reserve option coefficients (ROC) were revised for the upper tranches. By the end of 2014, the coefficients corresponding to the last tranches of the FX and gold reserve options stood at 3.2 and 2.5, respectively (Graphs 24 and 25).

Banks and financing companies use the ROM facilities widely and consistently. As of the maintenance period of 19 December 2014, the utilization ratio of the FX facility became 86 percent, and that of the gold facility reached 87 percent across the sector. Banks can also maintain standard gold for precious metal deposit accounts, the utilization ratio of which is around 75 percent.

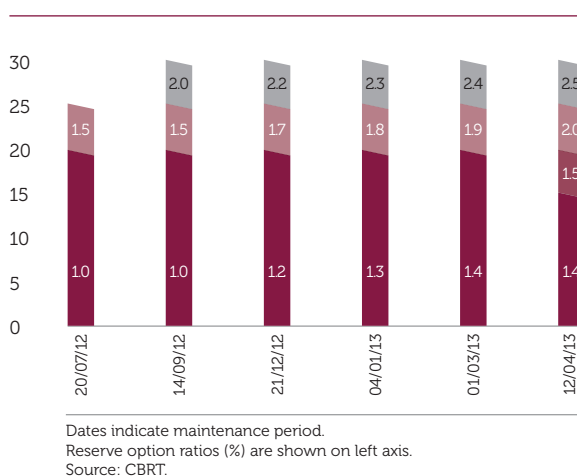
To spur balanced growth and domestic savings, the CBRT started to remunerate required reserves of banks and financing companies maintained in Turkish lira, as of November 2014. The CBRT press release dated 21 October 2014 announced that, starting from 2015, as a way to encourage core liabilities, financial institutions whose ratio of deposits and equity to loans are higher than the sector average will be remunerated at a higher rate unless they worsen their own situation.

The leverage-based reserve requirement regulation that aims to boost the resilience of the banking sector to shocks by containing its indebtedness continued to be implemented with all of its aspects in 2014. The leverage ratio of the sector realized around 7.8 percent as of June 2014 (Graph 26). The data pertaining to April-June 2014 suggest that the banking sector's leverage ratio, having a stable course, is well above the minimum ratio of 3 percent set by the Basel III regulation and 4 percent set by the CBRT for 2014. An analysis by banks reveals that no bank is required to hold additional reserve requirements.

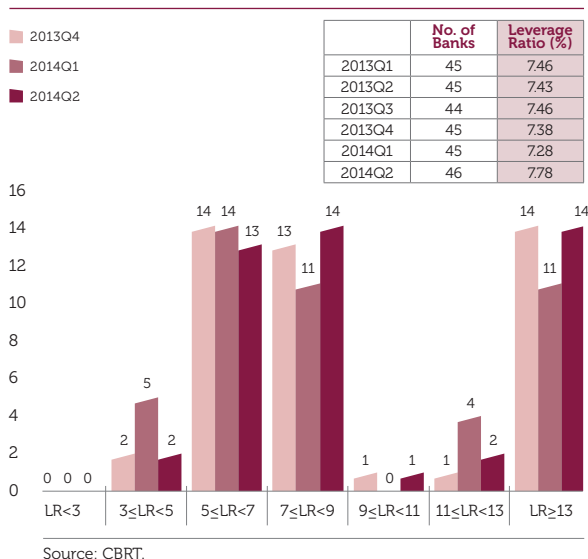
Graph 24. ROCs for Required Reserves Held as FX



Graph 25. ROCs for Required Reserves Held as Gold



Graph 26. Distribution of the Leverage Ratio



2.2.4. Export Rediscount Credits

Within the scope of Article 45 of the CBRT Law, export rediscount credits are extended in Turkish lira with a maturity up to 240 days through the Export Credit Bank of Turkey and commercial banks by the acceptance of foreign exchange bills for rediscount, whereas repayments to the CBRT are made in foreign exchange.

Taking into account the contribution of export rediscount credits to the decrease in the current account deficit and the increase in the CBRT's foreign exchange reserves, the credit limits were increased by USD 3 billion to USD 15 billion on 20 October 2014.

Moreover, with the changes made in export rediscount credits' regulations on 20 October 2014,

- i) The credit limit per company for foreign trade capital companies was increased from USD 240 million to USD 300 million; for other companies, the limit was raised from USD 180 million to USD 250 million, whereas the entire limit can be used for credits with a maturity up to 120 days and up to 50 percent of the limit can be used for credits with a maturity of 121-240 days.
- ii) The interest rate to be applied to export rediscount credits with up to a maturity of 120 days is the monthly LIBOR or EURIBOR rate. The cost of export rediscount credits with a maturity longer than 120 days was reduced by 20 basis points and the interest rate to be applied to these credits is the 6-month LIBOR or EURIBOR rate.
- iii) Exporters were provided the opportunity to obtain post shipment export rediscount credits via presenting foreign exchange bills for rediscount. The bills are based on export receivables and assigned to factoring companies which then present these bills to Turkish Eximbank for endorsement.

Export rediscount credit extensions, which were USD 15.1 billion in 2013, reached USD 15.3 billion in 2014, with an outstanding balance of USD 8.5 billion as of 31 December 2014.

As a result, export rediscount credits contributed USD 13 billion to the Central Bank's net foreign exchange reserves in 2014.

2.2.5. The Maximum Interest Rates for Credit Cards

A new method was developed to determine the maximum interest rates for credit cards aiming at protecting both financial stability as well as the consumer and to enhance transparency and predictability. This method was made public in the CBRT Communiqué No. 2014/5 on Maximum Interest Rates To Be Applied To Credit Card Transactions published in the Official Gazette No: 29153 dated 22 October 2014. In this framework, it is aimed to prevent frequent changes in maximum rates on credit cards; to restrict the use of credit cards by consumers in periods of low interest rates and to direct them towards consumer loans; to prevent the increase in past-due loans in the financial system in periods of high interest rates by alleviating the interest rate burden on consumers.

2.3. Financial Stability Developments

In the first half of 2014, the normalization process in the Fed's monetary policy continued to have an adverse impact on capital flows towards Emerging Market Economies (EMEs) due to volatility in capital flows and decline in risk appetite. In this context, capital flows to Turkey also weakened, increasing the volatility of exchange rates and financial markets. Taking into account the relative deterioration in the inflation outlook, the CBRT delivered a strong and front-loaded tightening in its monetary policy in January 2014. Concerns over financial stability dissipated to a large extent through the first half of 2014 as a result of the CBRT's cautious stance, macroprudential measures that took the steam out of consumer credit growth, the easing of uncertainties with regard to the national economy, and the slight improvement in the global risk appetite. In the second half of 2014, the weak global economic outlook was accompanied by decoupling of the United States of America (USA) from other developed countries in terms of growth trends and the sharp decline in commodity prices, especially in oil prices. Growth decelerated in EMEs while Euro area and Japan did not show a strong recovery compared to the USA. Such decoupling was reflected on monetary policies of these countries. In this context, despite the Fed's normalization process, the Euro area, Japan and China took steps to support economic growth.

Growth in the Turkish economy, which decelerated in the second quarter of 2014, performed better in the third quarter of the year. There was a moderate recovery in the private consumption and investment demand and the domestic demand provided more support for growth. Meanwhile, the contribution of exports to annual growth declined due to the global economic slowdown. Despite this change in growth composition, the moderate trend in consumer loans and favorable developments in terms of trade are likely to support the recovery in the current account balance. On the other hand, the uncertainties over the global monetary policies, the geopolitical developments and vulnerabilities of external demand still pose a risk to the recovery process.

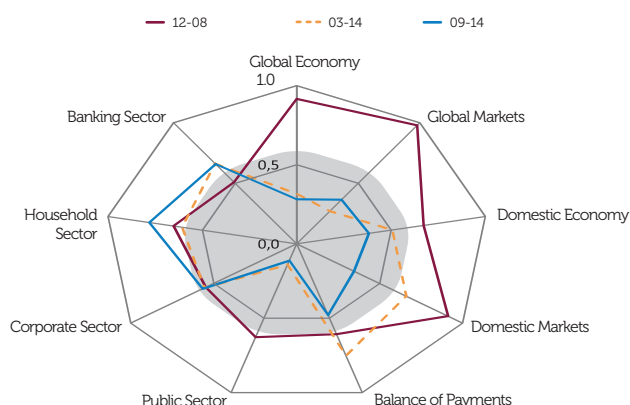
The asset-liability balance of households continued to improve in 2014. Growth in household assets continued especially in investment funds, as a result of the rise in the savings. On the liabilities side, the weight of housing loans in retail loans gradually increased, while consumer loans remained as a primary funding source of households. The annual growth of personal credit cards and vehicle loans was taken under control with the contribution of macroprudential measures, curbing the excessive growth pace of household indebtedness. The ratio of the financial liabilities of the corporate sector to the GDP continued to increase on the back of the rise in domestic liabilities. The rise in domestic liabilities was mainly driven by TL loans while FX loans remained relatively weak. The corporate sector's external liabilities remained stable relative to the

GDP and the weight of short-term debts in external financial liabilities has slightly decreased since the beginning of 2014.

The banking system remained resilient and strong in 2014. The interest rate shock analysis revealed that the sensitivity of the system to interest rate risk is limited. Moreover, despite the fluctuations in global financial markets, the sector had no difficulty in rolling over its external borrowings and had adequate buffers against FX liquidity shocks that may have emanated from foreign markets abroad. On the other hand, the banking sector has been using non-deposit funding resources in an incremental manner over the last few years. In response to the prospective effects of this tendency on financial stability, the CBRT remunerated the Turkish lira component of required reserves in a way to provide further support to core liabilities.

The macro display chart below illustrates the schematic reflection of the developments in financial stability in Turkey within the framework of the analysis conducted. Accordingly, while improvement in the global economy has been limited, volatility in global markets increased between March 2014 and September 2014. In the same period, domestic factors supported financial stability in general. The positive domestic economic outlook can be attributed mainly to the moderate improvement in confidence indices and the recovery in the loan trends. The strong support from domestic markets to financial stability can be attributed mainly to decline in fluctuations in exchange rates, asset prices and interest rate.

Graph 27. Financial Stability Map^{1,2}



(1) Getting closer to the core means that the contribution of the related sector to financial stability has increased on the positive side. The analysis allows an historical comparison within each sub-sector. A cross-sector comparison is available only in terms of the direction of the change in the positioning as to the core.

(2) For the methodology used in the financial stability map, see Financial Stability Report (FSR) v.13, November 2011-Special Topic IV/10.

2.4. Financial Infrastructure

2.4.1. Developments in the Legal Framework Regarding Payment Systems

In accordance with the "Law on Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions" No. 6493 which was issued in the Official Gazette No. 28690 dated 27 June 2013; secondary regulations, "Regulation on Operations of Payment and Securities Settlement Systems" and "Regulation on Oversight of Payment and Securities Settlement Systems" were prepared by the CBRT and entered into force by publication in the Official Gazette No. 29044 dated 28 June 2014.

In order to fulfill the duty assigned by Article 11 of Law No. 6493 to the CBRT, payment and securities settlement systems operated by the CBRT, the Interbank Clearing Houses Center (ICH), the Istanbul Settlement and Custody Bank, the Central Registry Agency, and the Interbank Card Center were determined as systems subject to the provisions in Article 10 of Law No. 6493, and notification regarding this designation was published in the Official Gazette dated 19 March 2014 and released to the public on the CBRT's website.

Article 5 of the "Regulation on Oversight of Payment and Securities Settlement Systems" regulates that the CBRT should set the objectives to be reached with oversight activities and policies to be followed during the oversight activities and release them to the public. The Objectives and Policies Regarding Payment and Securities Settlement Systems of the CBRT was posted on the CBRT's website on 1 October 2014.

2.4.2. Usage Statistics of the CBRT Payment Systems

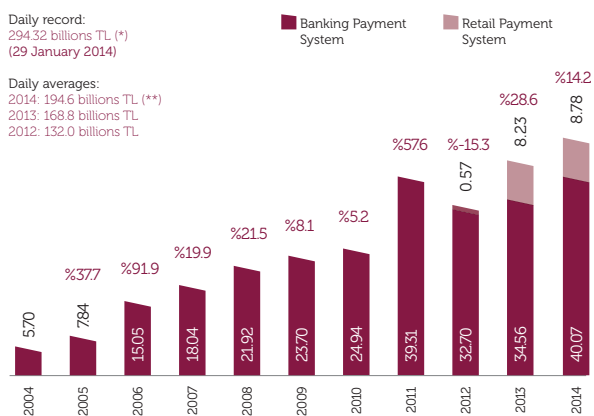
The yearly total amount reached in the Banking Payment System and Electronic Securities Transfer and Settlement System was 40.07 trillion Turkish liras, with a maximum daily amount of 261.89 billion Turkish liras obtained on 29 January 2014. The average daily amount of transactions was 194.65 billion Turkish liras in 2014. The number of transactions handled in the system was 2.8 million in 2014. The average daily number of messages was 11,368 in 2014. The daily number of transactions hit a peak of 22,831 on 8 October 2014.

The Retail Payment System began operating on 7 December 2012. The total amount reached 8.78 trillion Turkish liras. The maximum daily amount was 64 billion on 28 June 2013. This value was not passed in 2014. The average daily amount was 34.98 billion Turkish liras. The number of transactions handled in the system was 266.64 million and the average daily number of messages was 1,062,322. The daily number of transactions hit a peak of 2,611,606 on 17 November 2014.

The number of transactions handled in the Auction System was 93,990.

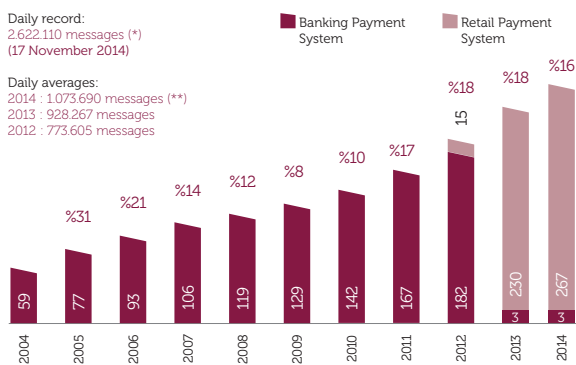
The number of participants in CBRT Payment Systems was 50 as of end-2014.

Graph 28. Value of Transactions in CBRT Payment Systems (Trillion TL)



(*) 261.89 billion TL from Banking Payment System and 32.42 billion TL from Retail Payment System
 (**) 159.66 billion TL from Banking Payment System and 34.98 billion TL from Retail Payment System
 Source: CBRT.

Graph 29. Volume of Transactions in CBRT Payment Systems (Million Messages)



(*) 2,611,606 messages from Retail Payment System and 10,504 messages from Banking Payment System.
 (**) 1,062,322 messages from Retail Payment System and 11,368 messages from Banking Payment System.
 Source: CBRT.

2.4.3. International Bank Account Number (IBAN) Usage

Regarding implementation of the IBAN Communiqué issued by the CBRT, it has been observed that IBAN usage ratio for the senders was 99.7 percent where as the recipients' ratio was about 86 percent on fund transfers made through Electronic Money Transfer System as of the end of 2014.

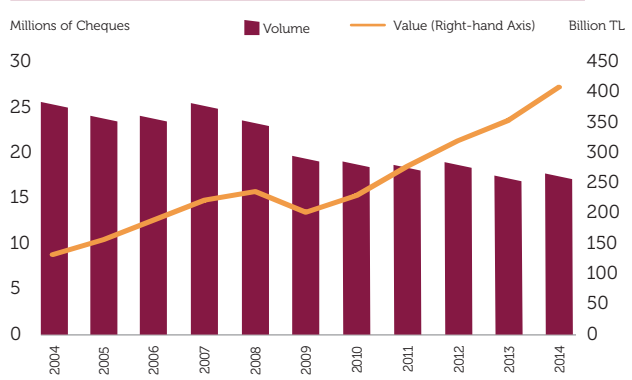
2.4.4. Cheque Clearing System

The ICH, established with the Law on Regulation of Payments by Check and Protection of Check Holders (The Law Number: 3167), performs its activities via Ankara and Istanbul Clearing Houses in accordance with the regulation on the ICH which was released by the CBRT.

The smooth and uninterrupted handling of the cheque clearing process, which plays a vital role with regard to payment systems, is of utmost importance. Therefore, to enhance the quality and efficiency of services offered, technological developments and current needs are taken into consideration and required improvements are made.

The volume and value of cheques cleared in the ICH in 2013 were 172 million and 349.9 billion TL, respectively. In 2014, the volume of cheques cleared 174 million and the value increased to 403.9 billion TL. (Graph 30).

Graph 30. Cheques Cleared in the Interbank Clearing Houses Center



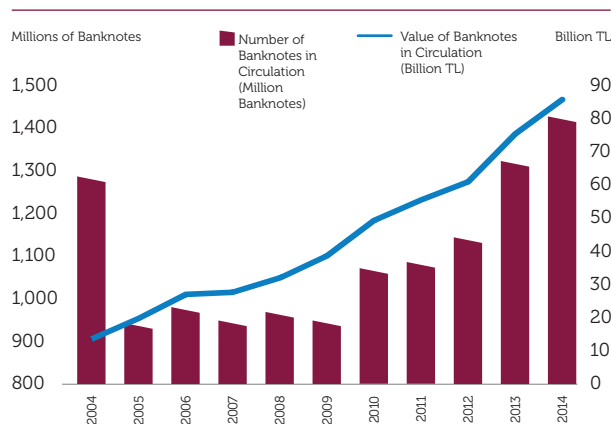
Source: ICH

2.5. Banknotes in Circulation

The value of banknotes in circulation increased by 13.8 percent and stood at TL 85.1 billion in 2014. The total number of the banknotes in circulation rose by 8.4 percent and reached 1,426.6 million banknotes at the end of 2014. Between 2004-2014, the average annual growth rate of banknotes in circulation was 21.3 percent in value terms. In the same period, the average growth rate of the number of banknotes in circulation was 1.9 percent, mainly because of the introduction of higher denominations during the first and second phases of the currency reform that took place in 2005 and 2009, respectively (Graph 31).

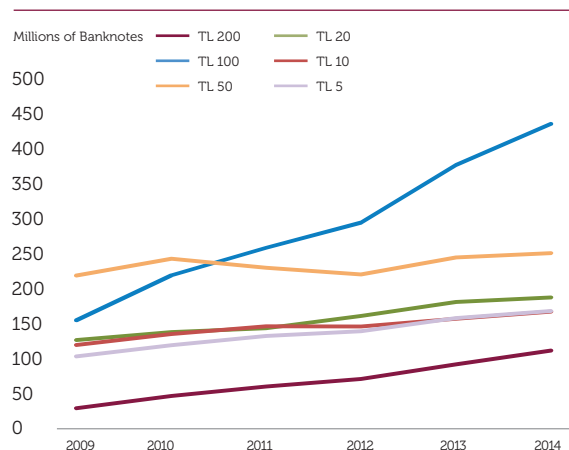
Excluding withdrawn banknotes which are still in the redemption period, 1,323 million banknotes were in circulation as of 31 December 2014. In terms of number, 100 Turkish lira and 50 Turkish lira banknotes accounted for the largest shares of banknotes in circulation (Graph 32). The share of the two denominations was 48.1 percent. In terms of value, 100 Turkish lira and 200 Turkish lira banknotes accounted for the largest shares, standing at 51.1 and 26.4 percent respectively at the end of the year (Table 1).

Graph 31. Value and Number of Banknotes in Circulation



Source: CBRT.

Graph 32. Number of Banknotes in Circulation (Millions of Banknotes)



Source: CBRT.

Table 1 Banknotes in Circulation (as of 31 December 2014)

Denomination	Amount	Share (Percent)	Pieces	Share (Percent)
TL 200	22,455,698,600.00	26.38	112,278,493.00	7.87
TL 100	43,476,127,650.00	51.08	434,761,276.50	30.48
TL 50	12,555,645,425.00	14.75	251,112,908.50	17.60
TL 20	3,761,578,830.00	4.42	188,078,941.50	13.18
TL 10	1,679,031,710.00	1.97	167,903,171.00	11.77
TL 5	844,231,660.00	0.99	168,846,332.00	11.84
SUB TOTAL	84,772,313,875.00	99.59	1,322,981,122.50	92.74
Others*	345,907,824.50	0.41	103,610,579.00	7.26
TOTAL	85,118,221,699.50	100.00	1,426,591,701.50	100.00

(*) Banknotes that are still in the 10-year redemption period.

Source: CBRT.

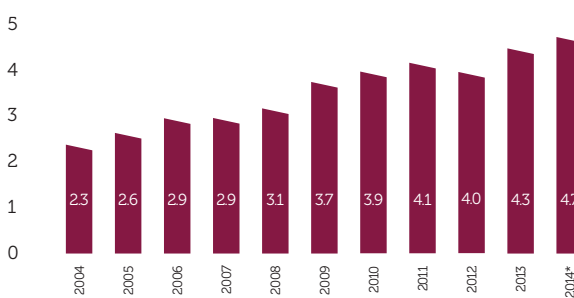
The ratio of the annual average value of banknotes in circulation to GDP was 2.3 percent in 2004. This ratio grew by an average of 7.4 percent annually during the 2005-2014 period and reached 4.7 percent at the end of 2014 (Graph 33).

In 2014, a total transaction of 610.3 billion TL, (300 billion TL deposits vs. 310.3 billion TL payments), was realized through 21 branches, 16 banknote depots and 2 cash centers.

Moreover, in 2014, 32.9 billion TL deposits and 33.3 billion TL payment transactions were made in banknote depots, which have been established in 16 cities where our Bank does not have branches, with the objective of improving banknote quality and meeting various cash demands of the market on time. In other words, 10.8 percent of the Bank's total transaction volume in 2014 was made through the banknote depots.

The European Side Cash Center that was established in 2012 as a sub-division of the Istanbul Branch received 38.7 percent share in total volume of cash operations of Istanbul in 2014. The Anatolian Side Cash Center's share was 29.4 percent. In this period, European and Anatolian Side Cash Centers had shares of 11.9 and 9 percent in total transaction volume and performed as the second and the fourth largest branches, respectively, among all branches.

Graph 33. Annual Average Value of Banknotes in Circulation / GDP (Percent)



(*) 2014 GDP data are annualised by using the nine months data.
Source: CBRT, TURKSTAT.

2.6. Foreign Exchange Reserve and Risk Management

The CBRT holds foreign exchange reserves in support of a range of objectives which include assisting the Turkish Government in meeting its foreign exchange denominated domestic and foreign debt obligations, maintaining foreign exchange liquidity against external shocks, supporting the monetary and exchange rate policies and giving confidence to the markets. The legal basis for the CBRT's reserve management practices derives from CBRT Law No. 1211. Additionally, guidelines and decisions made by the Board based on the authority granted by the Law constitute the other basis of the foreign exchange and gold reserve management practices.

The institutional decision-making framework of reserve management has a three-tier hierarchical structure. The Board, as the top decision-making authority of the CBRT, determines the general investment criteria for reserve management by approving the Guidelines for Foreign Exchange Reserve Management that are prepared in accordance with the reserve management priorities set by the Law as security, liquidity and return, respectively and authorizes the Executive Committee and the Foreign Exchange Risk and Investment Committee (FXRIC) to make decisions regarding implementation. The decisions made by the Executive Committee and FXRIC in accordance with the Guidelines for Foreign Exchange Reserve Management approved by the Board constitute the second-tier of the institutional decision-making process. At this stage, the benchmark portfolio, which reflects the general risk tolerance and

investment strategy of the Bank, is determined and approved. According to the strategic asset allocation preferences of the Bank, the benchmark portfolio is determined by the FXRIC at each year-end to be implemented in the following year and becomes effective with the approval of the Executive Committee. The last 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 formed in accordance with the separation of duties principle. Accordingly, reserve management activities are performed by the Foreign Exchange Transactions Division whereas risk management related to the reserve management operations is carried out by the Foreign Exchange Risk Management Division.

Based on the objectives and limits set by the Guidelines and the benchmark portfolio, reserve management operations are conducted through spot and forward purchases and sales of foreign exchange in international markets, other derivative instruments, time deposit transactions, purchase and sale of securities, repo and reverse repo transactions, securities lending transactions, export and import of foreign exchange banknotes, and transportation of foreign exchange banknotes in the country among local branches.

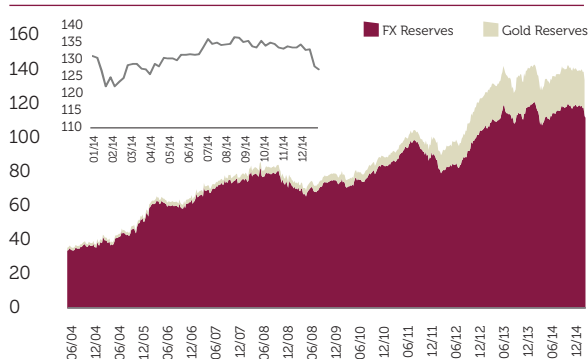
Gold reserves of the CBRT, which are of international standards, are managed within the regulations and constraints stated in the Law and the guidelines set by the Board. Pursuant to these Guidelines, the CBRT may conduct outright purchase and sale transactions, gold deposit transactions and gold swap transactions. According to the new regulation initiated October 2011, Turkish commercial banks have an option to fulfill a certain portion of their reserve requirements with standard gold. In this respect, gold holdings rose to 532.3 tons and gold reserves constitute 15.9 percent of total reserves as of 26 December 2014 (Graph 34).

Controlling risks that the CBRT is exposed to during reserve management operations starts with the strategic asset allocation process; in other words, when defining the benchmark portfolio. Once the currencies and instruments to be used in reserve management and the duration target for the investments are set, the expected return and financial risks involved in reserve management are also determined to a great extent. Reflecting the Bank's preferences regarding strategic asset allocation, the benchmark portfolio consists of the target currency composition, duration targets and related deviation limits from these targets, the number and size of sub-portfolios to be held in major reserve currencies, overall credit risk limits and the investment universe representing eligible transaction types, countries and instruments to invest in. The aim in determining the benchmark portfolio is to ensure that an adequate return is obtained while observing capital preservation and liquidity constraints to devote the utmost importance to the prudent management of foreign exchange reserves, hence the national wealth of the country. After the overall acceptable risk level is defined with respect to the CBRT's risk tolerance through the benchmark portfolio, the existing risks are measured, monitored and reported regularly.

Despite positive signs of global economic recovery, the continuing impacts of the global financial crisis witnessed in previous years played an important role in determining the CBRT's reserve management strategies in 2014 too. In this context, as financial risks remained elevated in 2014, the conservative approach continued and all necessary measures were taken to preserve the value of reserve assets.

In brief, reserve and risk management practices were performed in line with contemporary practices by taking into account the CBRT's own requirements and theoretical and technical progress in reserve and risk management practices together with developments in the international economy and financial markets.

Graph 34. Foreign Exchange Reserves of the CBRT (Billion USD)



Source: CBRT.

2.7. European Union Harmonization Activities

The screening process comprising the first phase of accession negotiations with the EU was started on 3 October 2005 and completed on 13 October 2006. Since completing the screening process, preparations for harmonization with the EU *acquis* have continued.

Table 2 shows developments on the relevant chapters, in which the Bank participated in the screening process as well as in the accession negotiations.

Among the chapters that are directly related to the Bank, Chapters "18. Statistics" and "32. Financial Control" were opened to negotiations on 26 June 2007 and Chapter "4. Free Movement of Capital" was opened to negotiations on 19 December 2008. Chapter "9. Financial Services" is one of the eight chapters which have been blocked by the decision "negotiations will be blocked until Turkey fully implements its obligations on Cyprus" given at the EU summit on 14-15 December 2006. However, under the harmonization scope of this chapter, the Law on Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions (Law No: 6493) was entered into force on 27 July 2013. This Law also provides harmonization with the relevant EU legislation in Chapter "4. Free Movement of Capital".

Of the chapters that are directly related to the Bank, Chapter "17. Economic and Monetary Policy" was not opened to negotiations. Chapter "33. Financial and Budgetary Provisions" is still under review by the Council.

Since the technical negotiations with the European Commission, three of six closing benchmarks for Chapter "32. Financial Control" have been fulfilled. Among these three, "The legislative and administrative alignment with the Council Regulation (EC) No: 1338/2001, arranging the protection of the Euro from counterfeiting" is the one that the Bank has contributed to. Among chapters which are indirectly related to the Bank, 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". Chapter "2. Free Movement of Workers" is still under review by the Council.

In order to monitor the progress achieved in alignment with the EU *acquis* and to report the progress to the Commission, the Bank continues to provide information to the Ministry of EU Affairs on the developments in the related Chapters.

Table 2. The Status of the Chapters in which the Bank 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	Opened to negotiations. (19 December 2008)	2. Free Movement of Workers	In process at the Council.
9. Financial Services	Opening of the chapter was blocked. (14-15 December 2006)	6. Company Law	Opened to negotiations. (17 June 2008)
17. Economic and Monetary Policy	Position Paper was presented. (9 March 2007)	16. Taxation	Opened to negotiations. (30 June 2009)
18. Statistics	Opened to negotiations. (26 June 2007) Within the context of Positive Agenda	19. Social Policy and Employment	Opening benchmarks have been defined.
32. Financial Control	Opened to negotiations. (26 June 2007) Within the context of Positive Agenda	28. Consumer and Health Protection	Opened to negotiations. (19 December 2007)
33. Financial and Budgetary Provisions	In process at the Council.		

2.8. Communication Policy and Activities

An efficient communication policy, accompanied by transparency, not only contributes to the effectiveness of central bank policies, but is also crucial for the central bank to keep accountability promises emanating from central bank independence. In 2014, the CBRT continued to place special emphasis on communication and transparency to enhance public confidence in the Bank as well as in its policies and to reinforce the effectiveness of these policies.

The implications of the principle of accountability are explicitly set out in Article 42 of the CBRT Law. In accordance with Article 42, Governor Erdem Başçı delivered presentations on the economic outlook and monetary and exchange rate policy implementations before the Council of Ministers on 2 June 2014 and 24 November 2014, and before the Planning and Budget Commission of the Grand National Assembly of Turkey on 13 February 2014, 23 July 2014 and 17 December 2014. As required by the principle of accountability, in 2014, the CBRT continued to publish its analytical balance sheet daily on its website, as well as issue a report to make the results of the independent audits of the Bank balance sheet and income statements public. To serve the same objective, the CBRT also disclosed the rationale and consequences of its policy decisions via regular reports and presentations throughout the year.

Under the current monetary policy implementation, the MPC decisions and the Inflation Reports are the main communication tools of the CBRT. Via the Inflation Report that is published in accordance with the pre-announced calendar, the Bank informed the public about its general evaluations on international economic developments, inflation, supply and demand developments, financial markets, financial intermediation and public finance as well as medium term inflation forecasts. Accordingly, Inflation Reports were published at press conferences by Governor Erdem Başçı on 28 January 2014 and 24 July 2014 in Ankara and on 30 April 2014 and 31 October 2014 in Istanbul.

In 2014, the Bank continued to post on its website MPC decisions on short-term interest rates and other monetary policy instruments as well as the summaries of the MPC meetings on the date and time announced in the text of the Monetary and Exchange Rate Policy for 2014. On 10 December 2014, the CBRT shared with the public the monetary and exchange rate policy to be implemented in 2015, and announced that the text of Monetary and Exchange Rate Policy for 2016 would be released on 9 December 2015. The CBRT also informed the public throughout 2014, via press releases about the Bank's main activities and the changes in implementations that are of high public concern.

In order for the public to better understand monthly inflation developments, the Bank continued to issue the Monthly Price Developments Report the day following the release of the inflation figures.

The CBRT, which safeguards financial stability along with its primary objective of price stability, issued the Financial Stability Reports on its website on 29 May 2014 and 27 November 2014 in accordance with its pre-announced calendar of data release. The CBRT shared its perspective about the overall financial sector with respect to the most recent developments on the financial stability front both in Turkey and around the world.

With the aim of promoting the Bank and its policy implementations, the CBRT prepared several publications in 2014 and released them in both print and electronic formats. Payment System – Payment Systems in Turkey was published in 2014 and disseminated to banks, universities' economics departments, libraries, non-governmental organizations and various other institutions in Turkey. In addition, the Financial Stability - Financial Stability Developments in Turkey booklet is in preparation. The CBRT also continued to publish the quarterly CBRT Bulletin, which informs different segments of the public about its policy implementations as well as its corporate structure, activities and publications. The Bulletin reaches a wide audience in Turkey and abroad and is also accessible on the CBRT's website. Moreover, to introduce its policies and implementations to the public, the CBRT published a brochure in Turkish and English on its website.

Another publication released in 2014 by the CBRT is the prestigious two-volume book titled "Modernization of the Ottoman Financial System". The two volumes, titled "Searching for Central Bank at State-i Aliye-i Osmaniyye" and "Ottoman Monetary Reform", discuss monetary reforms carried out in the 19th century by the Ottoman Empire and the attempt to establish a regulatory central bank in the framework of these reforms. The prestigious book is written by Hüseyin Al, Şevket Kamil Akar and Kaya Bayraktar.

In the form of direct communication, in 2014, Governor Erdem Başçı delivered various speeches and presentations in Turkey and abroad, introducing the policies and implementations of the Bank and analyzing current economic developments. Within this scope, Governor Başçı made presentations about the economic outlook and monetary and exchange rate policies at conferences that were open to the press and held by the chambers of commerce and industry in Kayseri (7 April 2014), Konya (16 June 2014) and Kastamonu (11 September 2014). The Governor also delivered presentations at the Banks Association of Turkey (TBB) on 27 March 2014 and at TBB and the Participation Banks Association of Turkey on 21 October 2014 and explained the CBRT policies at events organized by various non-governmental organizations as well as at international meetings and conferences. Presentations and speeches delivered by the Governor, MPC members and senior Bank management and videos of some of the Governor's speeches are available on the CBRT website.

As part of its communication policies, the Bank has been holding meetings closed to the press since May 2011 in response to requests from bank economists for meetings on a technical level. These meetings, held in the presence of the MPC members as well as the representatives from relevant departments, start with a presentation on the latest macroeconomic developments, by either the Bank's Chief Economist or the Executive Director of the Research and Monetary Policy Department. This presentation is followed by a question-answer session, during which members of the MPC answer questions from economists. A total of 8 meetings were held in 2014 – one in London and others in Ankara, attended by 563 Turkish and foreign economists and analysts. The presentations delivered at these meetings are posted on the Bank's website under the Technical Presentations menu.

The CBRT continued to use its website, one of its major means of communication, efficiently and effectively in 2014. The CBRT website has been redesigned and the new website was launched on 27 September 2014. It has been restructured so as to bring the Bank's main objectives and main functions to the forefront. Accordingly, the menu selection and page contents have been revised and rearranged to meet the needs of users of the website. Furthermore, new features such as the For Children (in Turkish only) section and an Interactive Charts facility have been added. In addition, main economic developments and significant economic indicators in terms of Turkey's economy and monetary policy are shared with the public in the most current form.

Responding to demands from universities as well as public agencies and institutions, the Bank organized informative programs both at the Bank's Head Office in Ankara and also outside Ankara in 2014. Through these programs, 25 groups of third and fourth year university students were informed about the history of the Bank, monetary and exchange rate policies and career opportunities. In addition, the CBRT set up a booth to promote its policies, implementations and publications in the 4th International Conference on Economics organized by the Turkish Economic Association (TEK) between 18-20 October 2014.

In 2014, the CBRT continued to respond to requests for information via its electronic mail address, iletisimbilgi@tcmb.gov.tr, which was introduced specifically to ensure communication with individuals, institutions and establishments outside the Bank, as well as through the Unit on the Right to Information and also the Communication Center of the Prime Ministry (BIMER), both established pursuant to the Law on the Right to Information. Throughout 2014, a total of 3,374 applications were responded to via the Right to Information System and 373 applications were answered via BIMER.

In accordance with the framework set out in the Prime Ministry Circular on "Financial Access, Financial Education and Financial Consumer Protection Strategy and Action Plans" of 5 June 2014, the CBRT started to use social media accounts to facilitate financial education. In this respect, the CBRT actively uses its Twitter, Facebook, YouTube and Flickr accounts. Twitter has been the most actively used social media channel. In 2014, more than 400 tweets were posted and the CBRT reached approximately 17,000 followers for its Twitter account in Turkish. Remarks by Governor Erdem Başçı have also been shared with the public via the YouTube channel.

In addition, within the framework of the Prime Ministry Circular, the CBRT held several informative activities in 2014 to encourage the use of *kurus* (Turkish coins) and foster the habit of saving. These activities were intended to improve the habit of saving all over the country via the widespread use of *kurus*. Accordingly, the CBRT set up a booth in the 36th International Children's Festival organized by the Turkish Radio and Television Corporation (TRT) between 16-23 April 2014 in Gaziantep. The Bank distributed various materials to children designed by the CBRT that had the Turkish lira sign on them and emphasized concepts such as savings, *kurus*, money, money boxes and banks. Children also watched cartoon films covering the same concepts in the CBRT's booth.

In the scope of efforts to encourage the use of *kurus* and foster the habit of saving, a "Kurus Family" story line series that includes basic concepts of saving habits and the use of *kurus* was published in the TRT Children's Magazine in April 2014. In 2014, 80,000 TRT Children's Magazines were distributed at schools and various events. The CBRT has published *kurus* family stories on its website and social media accounts as well.

Moreover, the Bank staff visited some elementary schools in Ankara, informed students on the habit of saving, distributed materials produced specifically for the campaign and showed them cartoon films. Also, the Bank sent 4,270 campaign-related materials to 28 schools from various cities upon requests for training materials.

According to the Turkish National Strategy, the CBRT has set a priority goal of increasing the ability of economy reporters to accurately understand the CBRT statements and macroeconomic data by providing training on basic economic concepts, thus contributing to the production of news reports that are easily understood by the public at large. A total of four one-day training sessions were held in Istanbul on 22 November 2014 and 20 December 2014 and in Ankara on 29 November 2014 and 13 December 2014, attended by approximately 70 reporters. The participants were given training in Monetary Policy and the Monetary Transmission Mechanism, Inflation Targeting Regime and Operational Framework, Recent Monetary Policy Implementations and Communications Policy, EDDS Applications, Daily Liquidity Management, Money Supply and Central Bank Balance Sheet, Balance of Payments Statistics and Financial Stability.

In addition, the CBRT organized two surveys in 2014 to collect information on financial literacy. The first of these surveys, "Use of *Kurus* and TL Sign Perception" was conducted in April and consisted of four questions. The second survey, consisting of six questions, was prepared in December with the title "Inflation Rate and Savings".

Monitoring and reporting global developments in the monetary policy decision making process are as important as monitoring the domestic economic developments. Global economic developments are monitored on a daily, weekly and monthly basis, economic analyses oriented toward these developments are reported to the senior management and internally, in the form of periodic presentations and reports. These informative documents and presentations are important contributions to the MPC's decision-making process.

2.9. International Cooperation and Organizations

2.9.1. International Relations

In order to guide the preparations of our country's G20 presidency term in 2015, the "G20 Presidency Guidance Committee" was established by circular No: 28628 dated 25 April 2013 issued by the Prime Ministry; Governor Erdem Başçı is a member of this "G20 Presidency Guidance Committee". Our Bank is also represented by Deputy Governor Turalay Kenç on the "Content Management Subcommittee" and "G-20 Task Force". These committees conducted studies throughout 2014 to determine the content and provide logistics issues for our presidency in 2015.

On 1 December 2014, Turkey became the president of G20. The presidency has the priority of leading the discussions on the global social and economic issues and putting them into the G20 agenda. In this regard, the "Content Management Subcommittee" prepared and presented reports on the issues that is planned to be included in the agenda to the "G20 Presidency Guidance Committee". Turkey's priorities in the presidency term were announced by Deputy Prime Minister Ali Babacan as three "i"s. These are stated as inclusiveness, implementation and investment for growth. In accordance with these priorities, our Bank has been preparing discussion papers and contributing to the communiqués that fall within its purview. Our Bank also organizes conferences, seminars and workshops that contribute to the G20 agenda. On December 10, 2014 the "Macro Prudential Policies" workshop was organized by the CBRT in İstanbul. The preparations have been continuing for the workshop on "Causes and Effects of Oil Price Movements and Policy Implications". In addition, our Bank has also been actively participating in the G20 Logistics Task Force which is established by the Ministry of Foreign Affairs. Our Bank also has been working together with all the related public agencies and international organizations on both content and logistic issues of G20.

In 2014 the CBRT took further steps toward enhancing communication and technical cooperation with other central banks. High level policy dialogue meetings were held with Banca d'Italia in April, with Bundesbank in July and with ECB in November. A conference on "Assessing the Macroeconomic Implications of Financial and Production Networks" was held jointly with the ECB at the CBRT's Seminar and Recreational Facility in İzmir-Özdere during 12-13 September 2014. Participants from international institutions, central banks and universities attended the conference. Under the current Memorandum of Understanding (MoU), two delegations visited Banca d'Italia for meetings on technical cooperation and international economic analysis in August and in November. On 27 September 2014, a MoU was signed with the Central Bank of Montenegro to enhance the bilateral relationship, to foster cooperation and to share information in the field of central banking. In line with the MoU with the Central Bank of Montenegro, mutual expert visits, technical consultancy on central banking issues, bilateral research activities, seminars and workshops are planned for the coming years.

2.9.2. Organizations

In order to promote Turkey on international economic platforms and foster mutual relations and cooperation with other central banks and international institutions, the CBRT organized meetings, seminars, panels, workshops and conferences to discuss recent financial and economic topics.

Organizations hosted by the CBRT which brought together leading academics and central bankers are as follows;

- The "G-20 Framework Working Group" meeting in Ankara on 21-22 March 2014.
- The "59th Economic Policy" panel jointly organized with the Centre for Economic Policy Research (CEPR) in İzmir on 25-26 April 2014.
- The meeting on "IILM Sukuk Awareness" jointly organized with the International Liquidity Management Corporation (IILM) in İstanbul on 29 April 2014.
- The International Monetary Fund (IMF) - World Bank Constituency Meeting at Deputies Level in İstanbul on 1-3 May 2014.
- The 13th Regional Payment Systems Workshop jointly organized by the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS) in Trabzon on 7-10 May 2014.
- The "Monetary Policy in Developing Economies" Workshop in İzmir on 21-24 May 2014.
- The BIS Executive Committee Meeting jointly organized with the BIS in İstanbul on 28 May 2014.
- The workshop on "Developing and Improving Sectoral Financial Accounts" jointly organized with the BIS in İstanbul on 29-30 May 2014.
- Macro Workshop 2014 in İstanbul on 2-3 June 2014.
- The conference on "Monetary Policy and Financial Stability in Emerging Markets" jointly organized with the National Bureau of Economic Research (NBER) in İstanbul on 13-14 June 2014.

- The conference on "Assessing the Macroeconomic Implications of Financial and Production Networks" jointly organized with the ECB in İzmir on 12-13 September 2014.
- The conference on "Islamic Finance Conference Series II - Financial Stability and Islamic Finance" jointly organized with Borsa İstanbul (BIST) and INCEI F-The Global University of Islamic Finance in Ankara on 3 November 2014.
- The seminar on "Central Banking Legislation: Challenges, Trends and Best Practices" in Antalya on 13-14 November 2014.
- The workshop on "Macroprudential Policies" jointly organized with the BIS in İstanbul on 10 December 2014.

Activities supported by the CBRT are as follows;

- The "Monetary Policy, Financial Stability and Innovation" panel organized within the scope of the "İstanbul Finance Summit 2014" in İstanbul on 16 September 2014.
- The "Global Financial Instability and Central Bank Policies" panel organized within the scope of the "International Conference on Economics 2014" in Antalya on 18 October 2014.

2.10. Research and Development Activities

In 2014, the Working Papers and CBRT Research Notes on Economics prepared by the CBRT staff were posted on the CBRT website as a reflection of the importance that the CBRT attaches to academic studies. Accordingly, 40 new publications were added to the CBRT Working Papers series that are composed of refereed research papers. In addition, 21 new notes were added to the CBRT Research Notes on Economics to disseminate the results from research in the Turkish economy with a particular emphasis on macroeconomic developments and issues relevant to monetary policy, and thereby contributing to discussions on economic issues in a timely fashion.

The CBRT's bi-annual refereed journal, the "Central Bank Review" covering topics such as macroeconomic stability, financial stability, liquidity management, payment, clearing and settlement systems and reserve management was published in three issues in 2014.

Concurrently, 20 of the articles prepared by the contributions of the Research and Monetary Policy Department staff were published in journals listed in the Social Sciences Citation Index. In 2014, 31 seminars were organized by the Research and Monetary Policy Department for participants from the Bank. In these seminars, presentations were given by lecturers from domestic and international universities, international organizations and fellow central banks.

The İMB staff published 15 research papers in 2014; 2 of the papers were published in the journals listed in the Social Sciences Citation Index, 7 of the studies were published in the CBRT Working Paper Series, 3 of them were published in the Central Bank Review and 3 of the papers were published in other national and international research publications.

In order to contribute to the Bank's knowledge, communication and bilateral cooperation by conducting joint studies and organizing research programs with central banks' economists, academics and expert researchers, the İMB hosted 24 research seminars, a session in the 13th Eurasian Business and Economics Society Conference, the 6th CBRT Internal Research Conference and an international workshop titled "Macro Workshop 2014". Moreover, in 2014, 21 economists participated in the İMB's visiting economist program, in which the İMB hosts researchers and central bankers. Economists from 16 different institutions joined the program designed to enhance studies on central banking and to contribute to academic studies prepared at the CBRT.

Some of the Research and Development Projects which have been conducted since 2012 at the Banknote Printing Plant were completed in 2014. These projects can be summarized as follows:

- A process has been developed to refine and recycle 90% of the wiping solution, a waste product of the production process, which has been used in the Intaglio and Orlof printing machines. A system was designed, produced, installed at our Printing Plant and commissioned.
- A system was improved to perform the quality control of the UV ink printing during production, and was integrated into three simultan printing machines.
- The entire electronic control unit, the main motor, 90% of the sensors (check points) and some mechanical parts of one of the simultan printing machines were innovated and updated. The electronic control unit of the printing machine was designed from scratch, and the software of PLCs on the electronic control unit was improved.
- Feasibility studies were realized for research, development and performance of some projects planned for 2015.

2.11. Training Activities

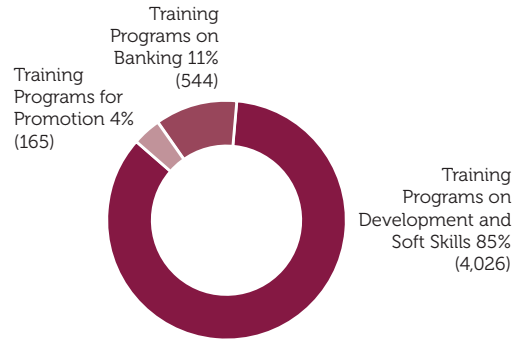
In 2014, 6472 people participated in the training activities organized by CBRT; 664 CBRT employees benefited from training activities organized by other institutions while 42 CBRT employees took part as speakers/lecturers in training activities organized by other institutions in Turkey and abroad.

2.11.1. Training Activities Organized by the CBRT

In 2014, 4735 CBRT employees attended programs organized by CBRT. These programs are categorized as: "Training Programs on Banking", "Training Programs on Development and Soft Skills" and "Training Programs for Promotion" (Graph 35).

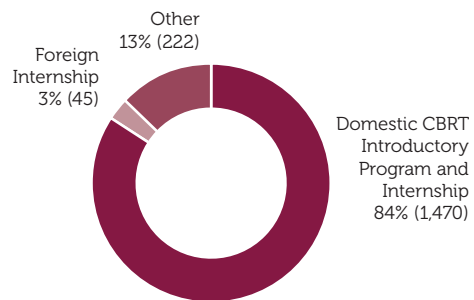
A total of 1461 university students were enrolled in the "CBRT Introductory Program" and 9 university students completed an internship. Moreover, 45 international students from the universities of Kazakhstan and Kyrgyzstan attended a one-month internship program at the CBRT. Also, 96 temporary staff and 126 participants from other institutions attended training programs organized by the CBRT (Graph 36).

Graph 35. Training Activities (CBRT Employee)*



(*)1,039 employees who participated in online training programs are shown in "Training Programs on Development and Soft Skills".
Source: CBRT.

Graph 36. Training Activities (Other Participants)



Source: CBRT.

2.11.2. International Training and Technical Cooperation Activities

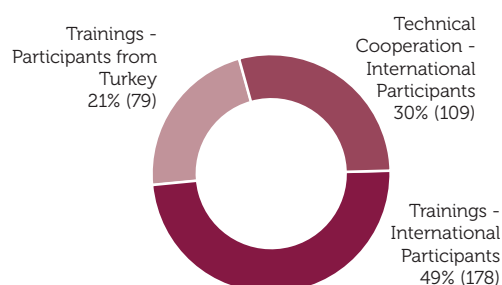
A total of 366 officials from central banks and related policy institutions from 50 countries, including officials from Turkey, participated in the international training and technical cooperation activities organized by the İMB in 2014 (Graph 37).

The İMB organized 10 international training activities on central banking issues with the participation of central banks, related policy institutions and international institutions in 2014. The İMB organized the following courses, seminars and workshop;

- The "Introduction to Modelling for Policy Analysis" course in İstanbul on 31 March-4 April 2014.
- The "Balance of Payments and External Statistics" seminar in İstanbul on 28-30 April 2014.
- The "Payment Systems and Instruments" seminar in İstanbul on 5-7 May 2014.
- The "Monetary Policy in Developing Economies" workshop in İzmir on 21-24 May 2014.
- The "Bayesian Econometric Methods and Forecasting" seminar in İstanbul on 25-29 August 2014.
- The "Inflation Targeting after the Crisis: Foundations, Results and Policy Challenges" seminar in İstanbul on 8-12 September 2014.
- The "Financial Stability, Financial Crises and Monetary Policy" seminar in İstanbul on 15-19 September 2014.
- The "Foreign Exchange Reserve and Risk Management" seminar in İstanbul 29 September-1 October 2014.
- The "Short-term Forecasting at Central Banks" seminar in İstanbul on 10-14 November 2014.
- The "Financial Crises and Credit Frictions in Open Economies" course in İstanbul on 15-19 December 2014.

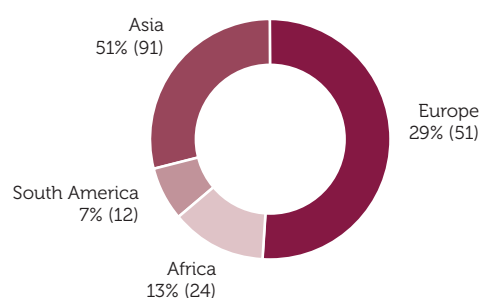
A total of 178 officials from Asia, Europe, and Africa and South America continents and 257 officials including participants from Turkey joined the international training activities organized by the İMB (Graph 38).

Graph 37. Distribution of Participation in the International Trainings and Technical Cooperation Activities Organized by the İMB



Source: CBRT.

Graph 38. Distribution of Participation in the International Training Activities Organized by the İMB



Source: CBRT.

With the intention of improving bilateral cooperation with the central banks and international institutions, the İMB organized 6 technical cooperation programs for some central banks on "Payment Systems", "Cash Management", "Branch Activities", "Customer Protection and Financial Education" and "Human Resources and Logistics Practices" in İstanbul and Ankara. Additionally, the İMB organized 3 technical cooperation programs abroad on "Balance of Payments Statistics", "Monetary Policy Implementations and Inflation Targeting" and "Risk Management".

Moreover, within the scope of the memorandum of understanding agreement between the Afghanistan Central Bank and the CBRT, the İMB arranged 3 technical cooperation programs for Executive Directors and Regional Directors of the Afghanistan Central Bank in Ankara and İstanbul.

The CBRT shared its experience with central banking issues with 109 officials from other central banks through the İMB's technical cooperation programs.

2.11.3. Training Activities Organized by Other Institutions

A total of 225 CBRT employees attended short-term training programs organized by other institutions in Turkey and 215 CBRT employees attended international short-term training programs by foreign institutions. Furthermore, in accordance with the "Financial Support Program for the Academic Studies", 71 CBRT employees participated in the training programs organized by other institutions (Graph 39).

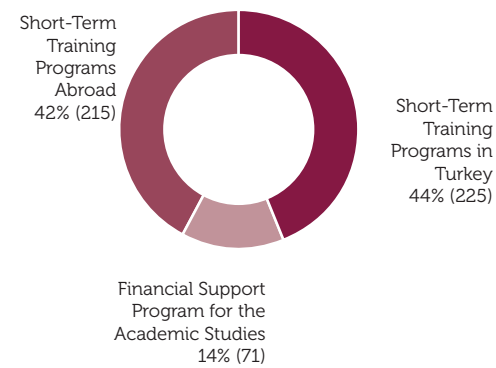
During 2014, 103 CBRT employees, 15 of whom were recently enrolled, continued their Master's/ PhD degree programs in Turkey, while 49 employees, including 13 recently enrolled, studied for Master's/ PhD degree programs abroad. Moreover, 1 CBRT employee continued a Professional Study and Research Program abroad (Graph 40).

2.11.4. Other Activities

Within the category of "Assignment of Speakers/ Lecturers from the CBRT", 30 employees gave lectures in various training events organized by other institutions in Turkey. Moreover 12 CBRT employees gave semester based lectures in different universities in Turkey.

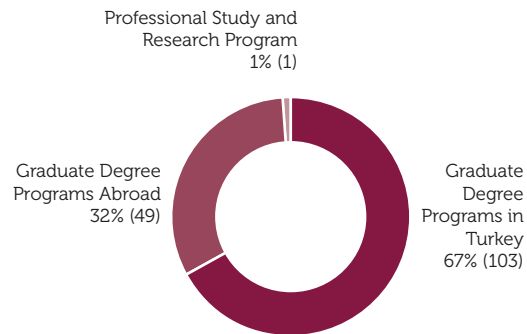
In addition, thesis studies of 9 assistant specialists were examined and evaluated by the committee.

Graph 39. Short-Term Training Programs



Source: CBRT.

Graph 40. CBRT Employee Attending Graduate Programs



Source: CBRT.

2.12. Culture, Art and Sports

Commemorating the 600th anniversary of the establishment of the political, economic, cultural, and diplomatic relationships and artistic cooperation between Turkey and Poland, the exhibition entitled "The Orient, Modernity and Art" selected from the Art Collection of the Bank, was held at the Wilanow Palace Museum, Warsaw, Poland between the dates of 25 June – 21 September 2014. The exhibition showcased the work produced by a group of other artists mostly in the 1980s and 1990s. The works were acquired by the CBRT collection in the 1990s when denouncements of Europe-centrism, hegemony and other modernity were frequently the agenda and bore witness to the spirit of an era rather than attempting to promote today's contemporary art. The exhibition focused on the reality of modern art of another, overshadowed culture of lands so long assumed to have stayed outside the reach of time, overlooked by historic processes, and where tradition and customs survived unchanged. A special catalogue was published in Turkish, Polish and English to document the exhibition for future reference.

On the occasion of the 50th anniversary of the initiation of the political, economic, cultural and diplomatic relations between Malaysia and Turkey, with a selection from the Bank's Art Collection, the exhibition entitled "Tradition, Culture and Modernity: CONTEMPORARY ART FROM TURKEY", was presented at the Islamic Arts Museum of Kuala Lumpur, Malaysia between the dates of 2 December 2014 and 31 January 2015. Summarising the development of Turkish painting, the exhibition offered a critical approach and insight in the context of tradition, culture and modernity. A special catalogue was published in Turkish and English to document the exhibition for future reference.

Featuring a selection of works from the Bank's art collection, the exhibition, "Calligraphy – Ebru (Marbling) – Sedefkârlık (Mother-of-Pearl Inlay)" was held in Ankara at the CBRT Art Gallery from 10 May to 17 July 2014. The exhibition displayed works of art by inlay artist Salih Balakbabalar and marbling master Alparslan Babaoğlu on the theme of calligraphy.

In addition to cultural activities, within the context of sporting activities, the CBRT hosted the 7th traditional "Interbank Chess Tournament" with participation from local banks in İstanbul on 6 December 2014. The Bank teams attended "Euro Bridge" in Poland, "Euro Tennis" in Austria, "Euro Table-Tennis" in Romania, "Euro Volleyball" in Greece and "Euro Hiking" in Italy, organized by the central banks that are members of the Sports and Cultural Associations of the European Central Banks and also the "10th Regional Central Banks Sports Tournament" hosted by the Central Bank of Montenegro in basketball and chess.

2.13. Social Responsibility Activities, Donations and Financial Support

In addition to performing the duties and responsibilities entrusted to it by the CBRT Law, the CBRT also engages in social responsibility activities and contributes to academic studies and various fields of interest by providing donations and financial support. In the scope of the Financial Support Program for Academic Studies, 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. Among the academic programs that applied for financial support, the Bank provided financial support for 19 academic programs.

Furthermore, the CBRT organized the 5th Contest for Academic Studies in 2014 to support academic studies in the Turkish economy, central banking or monetary policy and make these studies accessible to a larger audience. At the end of the evaluation process, one candidate was granted a first award, one candidate was granted a second award and one candidate was granted a third award, while four others were granted academic encouragement awards.

Central Bank Derince Anatolian High School in İzmit was founded by the contributions of the CBRT and the Bank of Greece in the aftermath of the 17 August 1999 earthquake in Turkey. The school, which started education in 2001-2002, had its 13th graduation ceremony in May 2014, where the highest ranking three graduates were awarded with plaquets, money awards and various presents. By 2014, the total number of graduates of the high school that has received a scholarship from the Bank for university education reached 70. Moreover, the CBRT donated office equipments such as notebooks, printers, and fax machines, a close-circuit TV system and a security system to the school.

The CBRT made a donation to furnish the girls' dormitory which was constructed by The Ministry of Foreign Affairs' Spouses Solidarity Association in Erciş district of Van province.

Furniture, such as office tables, coffee tables, shelving units, cabinets that had been out of use at the CBRT were repaired, maintained, polished and electronic devices such as computers, telephones, printers were repaired and maintained, and later distributed to educational institutions which were in need of such items.

Part 3

Financial Statements

3.1. Balance Sheet as of 31 December 2014

ASSETS	Explanation No.	Turkish Lira	Foreign Currency	Total
1. Gold	3.4.2.1	-	47,307,178,355	47,307,178,355
1.1 International Standard (Net Gram)				
529,108,281.88		-	47,307,178,355	47,307,178,355
2. Foreign Banknotes	3.4.2.2	-	2,091,971,871	2,091,971,871
3. Foreign Correspondents	3.4.2.3	-	245,424,134,556	245,424,134,556
3.1 FX Securities		-	228,715,091,024	228,715,091,024
3.2 Deposit		-	12,811,105,792	12,811,105,792
3.3 Other		-	3,897,937,740	3,897,937,740
4. Reserve Tranche Position	3.4.2.4	-	379,048,053	379,048,053
5. Securities Portfolio	3.4.2.5	9,217,473,960	-	9,217,473,960
5.1 Government Securities		9,166,544,460	-	9,166,544,460
5.2 Other		50,929,500	-	50,929,500
6. Lending Related to Monetary Policy Operations	3.4.2.6	46,454,161,112	-	46,454,161,112
6.1 Open Market Operations		46,254,098,612	-	46,254,098,612
6.2 Interbank Operations		200,062,500	-	200,062,500
7. Domestic Banks	3.4.2.7	-	-	-
8. Credits	3.4.2.8	-	19,351,600,020	19,351,600,020
8.1 Domestic Credits		-	19,328,800,400	19,328,800,400
8.1.1 Rediscount Credits		-	19,328,800,400	19,328,800,400
8.1.2 Other Credits		-	-	-
8.2 Foreign Credits		-	22,799,620	22,799,620
9. Share Participations	3.4.2.9	-	628,430,193	628,430,193
10. Treasury Liabilities Due to SDR Allocation	3.4.2.4	-	3,600,846,352	3,600,846,352
11. Fixed Assets (Net)	3.4.2.10	649,458,352	-	649,458,352
12. Claims under Legal Proceedings (Net)	3.4.2.8	-3,549,660,834	3,549,660,834	-
12.1 Claims under Legal Proceedings		-	3,549,660,834	3,549,660,834
12.2 Provisions for Claims under Legal Proceedings (-)		-3,549,660,834	-	-3,549,660,834
13. Deferred Tax Assets	3.4.2.14	8,106,685	-	8,106,685
14. Revaluation Account	3.4.2.17	-	-	-
15. Other Assets	3.4.2.11	1,784,826,432	4,138,330	1,788,964,761
15.1 Gold Non-International Standard (Net Gram)				
3,177,797.62	3.4.2.1	284,124,524	-	284,124,524
15.2 Coins		67,256,921	-	67,256,921
15.3 Income Accruals		31,750,122	-	31,750,122
15.4 Other		1,401,694,865	4,138,330	1,405,833,195
TOTAL ASSETS		54,564,365,707	322,337,008,563	376,901,374,270

LIABILITIES	Explanation No.	Turkish Lira	Foreign Currency	Total
1. Currency Issued	3.4.2.12	85,118,221,700	-	85,118,221,700
2. Liabilities Related to Monetary Policy Operations	3.4.2.6	32,306,729	-	32,306,729
2.1 Open Market Operations		-	-	-
2.2 Interbank Operations		32,306,729	-	32,306,729
2.3 Liquidity Bills		-	-	-
3. Deposits	3.4.2.13	35,454,167,069	206,039,285,009	241,493,452,078
3.1 Public Sector		13,351,324,980	9,622,195,993	22,973,520,974
3.1.1 Treasury, General and Special Budget Administrations		13,320,846,283	9,614,948,801	22,935,795,084
3.1.2 Other		30,478,698	7,247,192	37,725,890
3.2. Banking Sector		21,595,047,936	189,883,850,058	211,478,897,994
3.2.1 Domestic Banks		21,592,404,043	17,549,430,368	39,141,834,410
3.2.2 Foreign Banks		2,094,617	-	2,094,617
3.2.3 Required Reserves in Blocked Accounts		-	172,334,419,690	172,334,419,690
3.2.3.1 Cash		-	135,407,992,669	135,407,992,669
3.2.3.2 Gold (Net Gram) 413,004,51721	3.4.2.1	-	36,926,427,021	36,926,427,021
3.2.4 Other		549,277	-	549,277
3.3 Other Deposits		507,794,153	6,533,238,958	7,041,033,110
3.3.1 FX Deposits by Citizens Abroad		-	5,846,583,016	5,846,583,016
3.3.2 International Institutions		55,944,044	-	55,944,044
3.3.3 Extrabudgetary Funds		203,297,691	52,868,293	256,165,984
3.3.4 Other		248,552,418	633,787,648	882,340,066
4. Foreign Banks	3.4.2.3	-	867,641	867,641
5. Reserve Tranche Means	3.4.2.4	-	379,048,053	379,048,053
6. SDR Allocation	3.4.2.4	-	3,600,846,352	3,600,846,352
7. Tax Obligation	3.4.2.14	1,527,932,895	-	1,527,932,895
7.1 Taxes Payable		1,527,932,895	-	1,527,932,895
8. Provisions	3.4.2.15	385,247,276	-	385,247,276
9. Capital and Reserves	3.4.2.16	10,947,816,726	-	10,947,816,726
9.1 Paid-in Capital		25,000	-	25,000
9.2 Inflation Adjustments for Capital		46,208,524	-	46,208,524
9.3 Reserves		10,901,583,202	-	10,901,583,202
10. Revaluation Account	3.4.2.17	22,857,074,080	-	22,857,074,080
11. Profit of the Period	3.4.2.20	8,641,643,826	-	8,641,643,826
12. Other Liabilities	3.4.2.18	583,520,888	1,333,396,026	1,916,916,914
12.1 Treasury Gold (Net Gram) 345,574.68	3.4.2.1	30,897,575	-	30,897,575
12.2 Letters of Credit		-	938,770,080	938,770,080
12.3 Expense Accruals		3,198,749	-	3,198,749
12.4 Other		549,424,563	394,625,947	944,050,509
TOTAL LIABILITIES		165,547,931,189	211,353,443,081	376,901,374,270
REGULATING ACCOUNTS				886,302,696,131

3.2. Balance Sheets as of 31 December 2014 and 2013

ASSETS	Explanation No.	2014	2013
1. Gold	3.4.2.1	47,307,178,355	42,850,276,179
1.1 International Standard		47,307,178,355	42,850,276,179
2. Foreign Banknotes	3.4.2.2	2,091,971,871	3,754,572,450
3. Foreign Correspondents	3.4.2.3	245,424,134,556	232,627,024,034
3.1 FX Securities		228,715,091,024	211,123,802,766
3.2 Deposit		12,811,105,792	17,107,759,058
3.3 Other		3,897,937,740	4,395,462,210
4. Reserve Tranche Position	3.4.2.4	379,048,053	370,973,363
5. Securities Portfolio	3.4.2.5	9,217,473,960	8,931,100,770
5.1 Government Securities		9,166,544,460	8,931,100,770
5.2 Other		50,929,500	-
6. Lending Related to Monetary Policy Operations	3.4.2.6	46,454,161,112	39,081,965,985
6.1 Open Market Operations		46,254,098,612	39,007,449,947
6.2 Interbank Operations		200,062,500	74,516,038
7. Domestic Banks	3.4.2.7	-	-
8. Credits	3.4.2.8	19,351,600,020	13,329,215,092
8.1 Domestic Credits		19,328,800,400	13,307,133,918
8.1.1 Rediscount Credits		19,328,800,400	13,307,133,918
8.1.2 Other Credits		-	-
8.2 Foreign Credits		22,799,620	22,081,174
9. Share Participations	3.4.2.9	628,430,193	587,726,743
10. Treasury Liabilities Due to SDR Allocation	3.4.2.4	3,600,846,352	3,524,139,144
11. Fixed Assets (Net)	3.4.2.10	649,458,352	641,032,223
12. Claims under Legal Proceedings (Net)	3.4.2.8	-	-
12.1 Claims under Legal Proceedings		3,549,660,834	3,262,625,715
12.2 Provisions for Claims under Legal Proceedings (-)		-3,549,660,834	-3,262,625,715
13. Deferred Tax Assets	3.4.2.14	8,106,685	7,523,890
14. Revaluation Account	3.4.2.17	-	-
15. Other Assets	3.4.2.11	1,788,964,761	1,093,742,082
15.1 Gold Non-International Standard	3.4.2.1	284,124,524	261,996,936
15.2 Coins		67,256,921	68,020,952
15.3 Income Accruals		31,750,122	29,054,803
15.4 Other		1,405,833,195	734,669,391
TOTAL ASSETS		376,901,374,270	346,799,291,955

LIABILITIES	Explanation No.	2014	2013
1. Currency Issued	3.4.2.12	85,118,221,700	74,814,589,728
2. Liabilities Related to Monetary Policy Operations	3.4.2.6	32,306,729	208,520,271
2.1 Open Market Operations		-	-
2.2 Interbank Operations		32,306,729	208,520,271
2.3 Liquidity Bills		-	-
3. Deposits	3.4.2.13	241,493,452,078	228,325,479,041
3.1 Public Sector		22,973,520,974	27,488,714,052
3.1.1 Treasury, General and Special Budget Administrations		22,935,795,084	27,365,176,586
3.1.2 Other		37,725,890	123,537,465
3.2. Banking Sector		211,478,897,994	188,585,936,880
3.2.1 Domestic Banks		39,141,834,410	32,204,712,843
3.2.2 Foreign Banks		2,094,617	5,734,055
3.2.3 Required Reserves in Blocked Accounts		172,334,419,690	156,375,051,205
3.2.3.1 Cash		135,407,992,669	123,097,074,552
3.2.3.2 Gold	3.4.2.1	36,926,427,021	33,277,976,653
3.2.4 Other		549,277	438,776
3.3 Other Deposits		7,041,033,110	12,250,828,109
3.3.1 FX Deposits by Citizens Abroad		5,846,583,016	11,320,996,460
3.3.2 International Institutions		55,944,044	9,939,108
3.3.3 Extrabudgetary Funds		256,165,984	776,292,991
3.3.4 Other		882,340,066	143,599,551
4. Foreign Banks	3.4.2.3	867,641	798,556
5. Reserve Tranche Means	3.4.2.4	379,048,053	370,973,363
6. SDR Allocation	3.4.2.4	3,600,846,352	3,524,139,144
7. Tax Obligation	3.4.2.14	1,527,932,895	939,639,379
7.1 Taxes Payable		1,527,932,895	939,639,379
8. Provisions	3.4.2.15	385,247,276	371,225,865
9. Capital and Reserves	3.4.2.16	10,947,816,726	9,291,338,931
9.1 Paid-in Capital		25,000	25,000
9.2 Inflation Adjustments for Capital		46,208,524	46,208,524
9.3 Reserves		10,901,583,202	9,245,105,407
10. Revaluation Account	3.4.2.17	22,857,074,080	22,164,507,125
11. Profit of the Period	3.4.2.20	8,641,643,826	5,028,771,027
12. Other Liabilities	3.4.2.18	1,916,916,914	1,759,309,526
12.1 Treasury Gold	3.4.2.1	30,897,575	28,491,276
12.2 Letters of Credit		938,770,080	931,012,876
12.3 Expense Accruals		3,198,749	3,587,825
12.4 Other		944,050,509	796,217,549
TOTAL LIABILITIES		376,901,374,270	346,799,291,955
REGULATING ACCOUNTS		886,302,696,131	841,907,412,091

3.3. Profit and Loss Statements for 2014 and 2013

	Explanation No.	2014	2013
Interest Income	3.4.2.20	6,346,312,256	4,389,412,092
Interest Expense	3.4.2.20	-1,009,528,914	-587,203,122
Net Interest Income/Expense		5,336,783,342	3,802,208,970
Fee and Commission Income	3.4.2.20	404,815,947	353,397,586
Fee and Commission Expense	3.4.2.20	-10,160,789	-16,226,772
Net Fee and Commission Income/Expense		394,655,158	337,170,813
Non-Interest Income	3.4.2.20	7,427,995,804	5,520,358,878
Non-Interest Expense	3.4.2.20	-3,056,115,939	-3,741,132,288
Net Non-Interest Income/Expense		4,371,879,865	1,779,226,590
Net Profit /Loss Before Tax		10,103,318,365	5,918,606,373
Tax Provision	3.4.2.14	-1,461,674,539	-889,835,346
Net Profit/Loss		8,641,643,826	5,028,771,027

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 Law on the CBRT No.1211 and prepares its statutory financial statements in accordance with the Turkish Commercial Code and the Law on the CBRT No. 1211.

Periodicity, full disclosure, prudence, social responsibility, economic entity, going concern, monetary unit, historic 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 foreign exchange 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 balance sheet. In the event of realization, gains or losses are reflected on 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 Borsa Istanbul (BIST). Gold in foreign banks is held as free deposits as part of reserve management. Gold deposited by banks for reserve requirements is also held at foreign banks and 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 day of month and using 1 ounce of gold = 31.1035 grams, and is reported on the balance sheet as translated daily to Turkish lira from their month-end 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 on 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 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".

The CBRT's participation shares in the BIS, SWIFT and 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 on the profit and loss statement.

Dividends related to participation shares are reflected on 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 off-balance sheet 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 on 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 on 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 the 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 daily in the Official Gazette. 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 the 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 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 the 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 CBRT's balance sheet 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 No. 333, 339, 365 and 389 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 CBRT balance sheet. 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 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 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 obligation that are expected to arise due to retirement of employees and 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. The CBRT 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.

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. The deferred tax asset is reflected in the assets and the deferred tax liability is reflected in the liabilities on the balance sheet.

The deferred tax for the current period is reported as income or expense in the profit and loss statement or by relating it with other liabilities.

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 assessment of the financial position. If necessary, the comparative information is reclassified and the significant differences are explained to be compatible with 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 followed in off-balance sheet commitments.

3.4.2. Explanations Related to Financial Statement Items

3.4.2.1 Gold

The gold holdings are composed of 529,108,281.88 net grams of gold in international standards equivalent to TL 47,307,178,355 and 3,177,797.62 net grams of gold in non-international standards equivalent to TL 284,124,524. While some part of the gold in international standards belongs to the CBRT, rest is placed at the CBRT by banks to satisfy their reserve requirements. Gold holdings in international standards are stored in the vaults of the CBRT or held with foreign correspondents.

Table 3: Gold

	2014		2013	
	Net Gram	TL	Net Gram	TL
International standards	529,108,282	47,307,178,355	519,737,015	42,850,276,179
Owned by the CBRT	116,103,765	10,380,751,334	116,103,765	9,572,299,526
At BOE	53,743,706	4,805,184,844	53,743,706	4,430,957,561
At FED	28,689,413	2,565,099,132	28,689,413	2,365,329,485
At the CBRT	33,670,645	3,010,467,357	33,670,645	2,776,012,481
Reserve requirements of the banks	413,004,517	36,926,427,021	403,633,250	33,277,976,653
At BOE	410,763,314	36,726,042,714	402,113,380	33,152,669,312
At BIST	2,241,203	200,384,307	1,519,870	125,307,341
Non-international standards	3,177,798	284,124,524	3,177,798	261,996,936
The CBRT	2,832,113	253,217,160	2,832,113	233,496,635
CBRT Collection	109	9,789	109	9,026
Treasury	345,575	30,897,575	345,575	28,491,276

Note: Gold holdings are valued based on 1 ounce of gold = 31.1035 grams using the price 1,199.25 USD/Ounce (2013: 1,201.50) and USD buying rate of 2.3189 as of 31 December 2014 (2013: 2.1343). Accordingly, the price of 1 net gram of gold is TL $(1,199.25 \times 2.3189) / 31.1035 = \text{TL } 89.41$.

Gold holdings in international standards are held by the CBRT as part of foreign currency reserves and account for 16.03% (2013: 15.33%) of total foreign currency reserves. The gold deposited by banks for required reserves, which amounts to 413,004,517.21 net grams equivalent to TL 36,926,047,021 is also followed under this item.

Some part of gold holdings in non-international standards belong to the CBRT and the rest 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". A total of 345,574.68 net grams of gold that belongs to the Treasury amounts to TL 30,897,575 and is reported in the 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 2014, the Turkish lira equivalent of foreign banknotes kept in the vaults of the branches of the CBRT is TL 2,091,971,871.

Table 4: Foreign Banknotes

	2014	2013
Foreign banknotes	2,091,971,871	3,754,572,450

3.4.2.3. Foreign Correspondents

"3. Foreign Correspondents", which represents the main part of the foreign exchange reserves of the 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 5: Foreign Correspondents (Assets)	2014		2013	
	TL	USD	TL	USD
FX Securities	228,715,091,024	98,630,855,588	211,123,802,766	98,919,459,666
Deposit	12,811,105,792	5,524,647,804	17,107,759,058	8,015,629,976
Other	3,897,937,740	1,680,942,576	4,395,462,210	2,059,439,727
Demand deposit	648,589,835	279,697,199	1,179,080,689	552,443,747
SDR holding account	3,247,339,571	1,400,379,305	3,213,476,129	1,505,634,695
Other	2,008,335	866,072	2,905,392	1,361,286
TOTAL	245,424,134,556	105,836,445,968	232,627,024,034	108,994,529,370

Balances of "4.Foreign Banks" in the liabilities of the balance sheet as of the end of 2014 and 2013 are presented below.

Table 6: Foreign Banks (Liabilities)	2014		2013	
	TL	USD	TL	USD
Nostro accounts	867,641	374,160	798,556	374,154

3.4.2.4. Balances Arising from Membership in the IMF

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 IMF quota is SDR 1,455.8 million.

Table 7: Balances Arising from Membership in the IMF	2014		2013	
	TL	SDR	TL	SDR
Assets				
Reserve tranche position	379,048,053	112,775,000	370,973,363	112,775,000
Treasury liabilities due to SDR allocation	3,600,846,352	1,071,329,729	3,524,139,144	1,071,329,729
Liabilities				
Reserve tranche means	379,048,053	112,775,000	370,973,363	112,775,000
SDR allocation	3,600,846,352	1,071,329,729	3,524,139,144	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 2014, the fair value of securities is TL 9,217,473,960.

Table 8: Securities	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Government bonds and treasury bills issued by the Undersecretariat of the Treasury	8,986,647,437	9,166,544,460	9,158,266,857	8,931,100,770
Lease Certificates issued by the Undersecretariat of the Treasury Asset Leasing Company	48,065,000	50,929,500	-	-
TOTAL	9,034,712,437	9,217,473,960	9,158,266,857	8,931,100,770

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 the CBRT, has a balance of TL 46,454,161,112 as of the end of 2014. The income accruals reflected in this item are TL 45,098,790 for repurchase agreements (2013: TL 10,542,956); and TL 62,500 for Interbank Money Market operations (2013: TL 16,038).

"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 32,306,729. The expense accruals reflected in this item are TL 6,729 for Interbank Money Market operations (2013: TL 20,271).

Table 9: Lending/Liabilities Related to Monetary Policy Operations	2014	2013
Assets		
Lending Related to Monetary Policy Operations	46,454,161,112	39,081,965,985
Open market operations	46,254,098,612	39,007,449,947
Interbank money market operations	200,062,500	74,516,038
Liabilities		
Liabilities Related to Monetary Policy Operations	32,306,729	208,520,271
Open market operations	-	-
Interbank money market operations	32,306,729	208,520,271
Lending Related to Monetary Policy Operations (net)	46,421,854,383	38,873,445,714

3.4.2.7. Domestic Banks

"7. Domestic Banks" item represents foreign exchange deposits with the CBRT as counterparty and foreign exchange deposits intermediated by the CBRT. This item has no balance as of the end of 2014.

3.4.2.8. Credits and Claims under Legal Proceedings

Domestic credits, which are extended to banks against rediscounted bills, consist of USD 6,205,028,195 (2013: USD 4,631,848,057), EUR 1,755,486,738 (2013: EUR 1,171,416,435) and GBP 1,969,219 (2013: GBP 2,155,946), equivalent to TL 19,347,622,829 (2013: TL 13,333,188,058). The year-end balance of domestic credits including accruals is TL 19,328,800,400 (2013: TL 13,307,133,918).

Foreign credits consist of credits extended to the Central Bank of Sudan and the Bank of Albania. 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 (2013: USD 9,061,417) equivalent to TL 21,012,519 (2013: TL 19,339,782). Credits extended due to Banking Agreement between the CBRT and the Bank of Albania, which was terminated on 31 December 1990, are USD 769,077 (2013: USD 1,281,795) equivalent to TL 1,783,413 which amounts to TL 1,787,101 (2013: TL 2,741,392), including income accruals. The 2014 year-end balance of foreign credits is TL 22,799,620 including income accruals (2013: TL 22,081,174).

Table 10: Credits and Claims under Legal Proceedings	2014	2013
Domestic Credits	19,328,800,400	13,307,133,918
Foreign Credits	22,799,620	22,081,174
Claims under Legal Proceedings (Net)	-	-
Claims under Legal Proceedings	3,549,660,834	3,262,625,715
Provisions for Claims under Legal Proceedings (-)	-3,549,660,834	-3,262,625,715
TOTAL	19,351,600,020	13,329,215,092

The claims on the Central Bank of Iraq are USD 1,438,177,534 (2013: USD 1,436,088,653) equivalent to TL 3,334,989,883 (2013: TL 3,065,044,012) and its interest income accruals are USD 2,088,881 (2013: USD 2,555,773). The claims arising from the credit extended against bills for the Iraq Bekhme Dam Project are USD 92,574,475 (2013: USD 92,574,475) equivalent to TL 214,670,951 (2013: TL 197,581,703). 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 3,549,660,834 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

The 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% of the net asset value of the BIS.

Table 11: Share Participations		2014			2013		
	Nature of Business	Ownership (%)	TL	Foreign Currency	Ownership (%)	TL	Foreign Currency
BIS	Banking supervision services	1,43	605,163,793	SDR 10,000,000	1,43	566,317,025	SDR 10,000,000
SWIFT	Electronic fund transfer services	0,007	77,400	EUR 27,440	0,007	66,717	EUR 22,720
IILM	Liquidity management	13,33	23,189,000	USD 10,000,000	13,33	21,343,000	USD 10,000,000
TOTAL			628,430,193			587,726,743	

The movement in share participations is as follows:

Table 12: Movement in Share Participations	2014	2013
Opening balance	587,726,743	539,849,799
Fair value changes	40,703,450	47,876,944
Closing Balance	628,430,193	587,726,743

3.4.2.10. Fixed Assets (Net)

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

Table 13: Movement in Fixed Assets	Land and Building	Furniture and Fixtures	Software	Total
2014 Opening Net Book Value	559,909,494	78,385,444	2,737,286	641,032,223
Additions	2,601,001	36,828,947	128,266	39,558,214
Disposals (Net)	-526,651	-13,804	-	-540,455
Depreciation charge	-6,218,375	-22,902,265	-1,470,991	-30,591,631
2014 Closing Net Book Value	555,765,469	92,298,322	1,394,561	649,458,352

2014	Land and Building	Furniture and Fixtures	Software	Total
Book Value	704,307,142	200,705,115	18,077,091	923,089,348
Accumulated Depreciation	-148,541,673	-108,406,793	-16,682,530	-273,630,996
Net Book Value	555,765,469	92,298,322	1,394,561	649,458,352

2013	Land and Building	Furniture and Fixtures	Software	Total
Book Value	702,394,198	166,442,488	17,962,599	886,799,285
Accumulated Depreciation	-142,484,704	-88,057,044	-15,225,314	-245,767,062
Net Book Value	559,909,494	78,385,444	2,737,286	641,032,223

3.4.2.11 Other Assets

Table 14: Other Assets	2014	2013
Gold in non-international standard	284,124,524	261,996,936
Coins	67,256,921	68,020,952
Income accruals	31,750,122	29,054,803
Charges and commissions due from the Treasury	17,987,915	17,150,100
EFT fees	12,886,114	10,795,947
Other	876,093	1,108,757
Other	1,405,833,195	734,669,391
Prepaid taxes to be deducted from corporate tax	1,309,995,414	643,420,572
Depots	54,370,251	46,910,766
Prepaid expenses	1,454,445	961,473
Other	40,013,085	43,376,580
TOTAL	1,788,964,761	1,093,742,082

3.4.2.12. Currency Issued

Table 15: Currency Issued	2014	2013
Balance on 1 January	74,814,589,728	60,525,482,148
Banknotes put into circulation	34,357,065,597	41,353,594,407
Banknotes withdrawn from circulation and destroyed	-24,053,433,625	-27,064,486,827
Balance on 31 December	85,118,221,700	74,814,589,728

Banknotes in circulation, issued pursuant to the CBRT Law No. 1211 amount to TL 85,118,221,700 as of 31 December 2014.

3.4.2.13. Deposits

Table 16: Deposits	2014	2013
Public sector deposits	22,973,520,974	27,488,714,052
Treasury, general and special budget administrations	22,935,795,084	27,365,176,586
Other	37,725,890	123,537,465
Banking sector deposits	211,478,897,994	188,585,936,880
Domestic banks	39,141,834,410	32,204,712,843
Deposits of banks	7,811,013	17,460,789
Free required reserves	39,134,023,397	32,187,252,054
Foreign banks	2,094,617	5,734,055
Required reserves in blocked accounts	172,334,419,690	156,375,051,205
Cash	135,407,992,669	123,097,074,552
Gold	36,926,427,021	33,277,976,653
Other	549,277	438,776
Other deposits	7,041,033,110	12,250,828,109
Deposits by citizens abroad	5,846,583,016	11,320,996,460
Deposits by international institutions	55,944,044	9,939,108
IMF	11,967,710	9,879,578
Other	43,976,334	59,529
Extrabudgetary funds	256,165,984	776,292,991
Other	882,340,066	143,599,551
Financing companies	870,293,841	135,386,157
Deposits by embassies	1,640,185	1,392,160
Other	10,406,039	6,821,234
TOTAL	241,493,452,078	228,325,479,041

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 17: Taxes to be Paid	2014	2013
Corporate tax	1,461,674,539	889,835,346
Other taxes	66,258,356	49,804,033
Obligations as taxpayer	9,467,204	7,557,173
Obligations as withholding tax collector	56,791,152	42,246,860
TOTAL	1,527,932,895	939,639,379

The effective corporate tax rate in 2014 is 20% (2013: 20%). In Turkey, advance tax is calculated and accrued on a quarterly basis. Advance corporate income tax rate applied in 2014 is 20% (2013: 20%).

For temporary differences arising from the differences in the provisions of the Turkish Commercial Code and the tax legislation, deferred tax asset and liability are calculated over the effective corporate tax rate of 20% (2013: 20%).

The breakdown of temporary differences and the resulting deferred income tax assets/liabilities as of the end of 2014 is as follows:

Table 18: Temporary Differences and Deferred Income Tax Assets/Liabilities	2014		2013	
	Total Temporary Differences	Deferred Tax Asset/Liability	Total Temporary Differences	Deferred Tax Asset/Liability
Total assets	183,421,624	36,684,325	170,974,956	34,194,991
Retirement pay and employment termination benefit obligations	142,190,939	28,438,188	128,169,528	25,633,906
Fixed assets depreciation adjustment	41,230,685	8,246,137	42,805,428	8,561,086
Total liabilities	-571,552,793	-28,577,640	-533,422,025	-26,671,101
Fair value adjustment of the BIS participation share	-571,552,793	-28,577,640	-533,422,025	-26,671,101
Net Asset/Liability	-388,131,169	8,106,685	-362,447,069	7,523,890

The movement of deferred income tax asset on 31 December 2014 is as follows:

Table 19: Deferred Tax Asset Movement	2014	2013
Balance on 1 January	7,523,890	8,527,617
Deferred tax related to profit and loss statement (Net)	2,490,016	1,568,100
Deferred tax related to other liability accounts	-1,907,221	-2,571,827
Balance on 31 December 2014	8,106,685	7,523,890

3.4.2.15. Provisions

Table 20: Provisions	2014	2013
Retirement pay and employment termination benefit provisions	142,190,939	128,169,528
Other provisions		
Insurance provision for money in transit	243,056,337	243,056,337
TOTAL	385,247,276	371,225,865

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 the job by 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%, using the estimated annual inflation rate of 5.88% and interest rate of 7.23%.

As the ceiling amount of termination benefit is revised semi-annually, the maximum amount of TL 3,438 (2013: TL 3,254) effective from 1 January 2014 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 21: Movement in Retirement Pay and Employment Termination Benefit Obligations

	2014	2013
Provision as of 1 January	128,169,528	119,290,194
Provision set aside	19,648,997	14,933,596
Actuarial loss/gain	-	-3,112,365
Retirement pay and employment termination benefits paid	-5,627,586	-2,941,896
Provision as of 31 December	142,190,939	128,169,528

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 22: Capital and Reserves

	2014	2013
Paid-in capital	25,000	25,000
Inflation adjustment for paid-in capital	46,208,524	46,208,524
Reserves	10,901,583,202	9,245,105,407
Ordinary reserves	6,929,419,508	5,746,220,976
Extraordinary reserves	3,958,137,863	3,484,858,601
Special reserves	14,025,831	14,025,831
TOTAL	10,947,816,726	9,291,338,931

The shareholders of the CBRT as of the end of 2014 and 2013 are listed below:

	2014		2013	
Table 23: The Shareholders	Share (TL)	Share(%)	Share (TL)	Share(%)
Undersecretariat of the Treasury	13,780	55.12	13,780	55.12
T.C. Ziraat Bankası	4,806	19.22	4,806	19.22
TCMB Mensupları Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı	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 24: Revaluation

	2014	2013
Revaluation account	22,857,074,080	22,164,507,125

This item, which shows the unrealized gains and losses arising from the valuation of gold, foreign exchange 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 22,857,074,080 at the year-end.

3.4.2.18. Other Liabilities

Table 25: Other Liabilities

	2014	2013
Treasury Gold	30,897,575	28,491,276
Letters of Credit	938,770,080	931,012,876
Expense accruals	3,198,749	3,587,825
Other	944,050,509	796,217,549
Difference arising from accounting policy changes	545,469,426	509,232,229
Blocked accounts as per the decisions of tax offices and courts	22,870,591	19,287,595
Amounts to be debited to foreign correspondent accounts on next year's value date	338,320,417	236,289,898
Other	37,390,075	31,407,827
TOTAL	1,916,916,914	1,759,309,526

3.4.2.19 Regulating Accounts

Regulating accounts, which are expressed in terms of Turkish lira, foreign exchange and units, have a balance of 886,302,696,131 (2013: 841,907,412,091) as of the year-end. Nominal value of the securities received as collateral under repurchase agreements is TL 41,307,108,941 (2013: TL 38,833,545,087), and these securities are monitored in regulating accounts.

3.4.2.20. Profit/Loss Accounts

Table 26: Profit/Loss Statement	2014	2013
NET INTEREST INCOME/EXPENSE	5,336,783,342	3,802,208,970
Interest Income	6,346,312,256	4,389,412,092
TL and FX securities portfolio	2,313,891,627	2,531,419,479
Securities purchased under agreements to resell	3,918,262,243	1,796,490,862
Interbank money market operations	9,040,148	10,809,851
Credits	90,762,820	35,343,293
Banks	14,355,418	15,348,606
Interest Expense	-1,009,528,914	-587,203,122
FX deposits by citizens abroad	-23,082,130	-125,990,736
Securities sold under agreements to repurchase	-4,802,315	-8,856,685
Interbank money market operations	-5,504,050	-16,107,353
Treasury accounts	-939,790,853	-433,697,410
IMF general resource account (GRA) charges	-3,045,558	-2,529,648
Turkish lira required reserves	-33,027,233	-
Banks	-276,776	-21,291
NET FEE AND COMMISSION INCOME/EXPENSE	394,655,158	337,170,813
Fee and commission income	404,815,947	353,397,586
EFT transaction fees and commissions	201,333,406	173,351,341
Commissions due from the Treasury	149,341,828	133,277,544
Commission and maintenance fees due from banks	46,644,330	38,366,032
Other fund transfer fees	1,922,913	2,169,288
Other	5,573,471	6,233,380
Fee and commission expense	-10,160,789	-16,226,772
Commission and maintenance fees due to banks	-9,979,020	-16,056,318
Other	-181,769	-170,454
NET NON-INTEREST INCOME/EXPENSE	4,371,879,865	1,779,226,590
Non-Interest Income	7,427,995,804	5,520,358,878
Profit on purchase and sale of FX	6,333,511,390	5,454,556,239
Securities portfolio trading income and fair value increase	1,082,158,536	51,623,250
Dividend income	5,361,045	6,903,206
Deferred tax income	2,490,016	1,568,100
Other	4,474,817	5,708,083
Non-Interest Expense	-3,056,115,939	-3,741,132,288
Loss on purchase and sale of FX	-239,833,459	-20,234,464
Securities portfolio trading loss and fair value decrease	-1,677,478,331	-2,245,959,816
Provision expense for claims under legal proceedings	-287,035,119	-542,186,743
Insurance provision for valuables in transit	-	-165,700,000
Wages and salaries	-598,858,993	-564,945,253
Social security costs	-63,310,278	-45,637,590
Operating expenses	-75,242,604	-67,723,550
Banknote paper and ink expenses	-81,147,604	-62,568,648
Depreciation charges	-29,831,203	-24,406,445
Other	-3,378,347	-1,769,779
NET PROFIT/LOSS	10,103,318,365	5,918,606,373

3.4.2.21. Profit Distribution

Paragraph 5 of Article 64 of the Turkish Commercial Law No. 6102 amended with the Law No. 6335 stipulates that natural and legal persons, who are subject to the Turkish Commercial Law, 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 Law No. 6102 concerning book keeping, inventory, financial statement preparation, capitalization, provisions, accounts, valuation, maintenance and submission do not impede the implementation of 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 2014 period is TL 10,099,267,255, 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 Turkish Commercial Law No. 6102 amended with Law No. 6335, distribution of the profit is as follows:

Table 27: Profit Distribution (Article 60 of Law No. 1211)	2014	2013
Reported profit (Turkish Commercial Law No. 6102)	10,103,318,365	5,918,606,373
Reporting adjustments	4,051,110	2,613,714
Profit to be distributed	10,099,267,255	5,915,992,659
Tax provisions	1,461,674,539	889,835,346
Corporate income tax	1,461,674,539	889,835,346
Profit after tax	8,637,592,716	5,026,157,313
Other distributions	2,836,154,763	1,663,918,042
1-Reserves	2,827,794,680	1,656,477,795
Ordinary reserves	2,019,853,450	1,183,198,532
Extraordinary reserves	807,941,230	473,279,263
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)	8,357,083	7,437,247
The amount to be transferred to the Treasury	5,801,437,953	3,362,239,272

3.5. Explanations on Operating Expenses

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:

With 2003 prices, TL	2013 (TL)	2014 (TL)	% Change
I- Personnel Expenses	276.261.076	273.601.054	-1
II-Other Expenses	30.460.368	31.089.416	2
III-Banknote Printing Expenses	28.141.821	33.529.297	19
TOTAL	334.863.265	338.219.767	1

In 2014, there was a decrease in personnel expenses and an increase in other expenses and banknote printing expenses compared to 2013.

- **Personnel expenses:** These expenses cover salaries, fringe benefits, social security, health and education expenses and travel allowances.

The number of Bank personnel increased by 2 percent, from 4,676 in 2013 to 4,770 in 2014. Compared to 2013, there was a 1 percent decrease in personnel expenses. There was also a 2 percent decrease in salaries and fringe benefits, which constituted a significant portion of personnel expenses. In 2014, the amount of gross salaries paid to the senior management of the Bank, comprising the Board, the Executive Committee, the Monetary Policy and the Auditing Committee was TL 5,123,338. This amount accounts for 1 percent of total salaries and fringe benefits paid to the Bank personnel in 2014.

- **Other expenses:** There was a 2 percent increase in 2014 from the previous year. This resulted from the increase in expenses related to maintenance and repair, publication expenses and consultancy expenses compared to 2013.
- **Banknote printing expenses:** There was a 19 percent increase in 2014 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 foreign exchange 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 Bank

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

Audits Conducted by the Internal Organs of the Bank

In accordance with the Article No 15 of the Bank Law, the General Assembly examines and resolves whether to approve the annual report submitted by the Board of the Bank, the report of the Auditing Committee, the Bank's balance sheet, and profit and loss accounts. The General Assembly completes the monitoring of the activities of the Bank every year by clearing the Board of the Bank and the Auditing Committee.

In accordance with the Article No 24 of the Bank Law, the Auditing Committee supervises all the operations and accounts of the Bank and submits to the General Assembly a report to be drawn upon operations and accounts of the Bank at the end of the year. Under the authority of the Bank's Law, the Auditing Committee has the responsibility to submit its written opinions to the Board and also to present a copy thereof to the Prime Ministry.

According to the Articles no 44 and 45 of the Main Regulation on Organization and Duties of the Bank, the authority of and responsibility for auditing the Bank's transactions are entrusted with the Audit Department.

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

According to the Article No. 6 of the "Audit Regulation", audits are performed within 4 types of activities: a) Internal Audit b) Examination and Research c) Consultancy d) External Audit.

According to the Article No. 37 of the "Audit Regulation", one or more audit types of operational, financial, compliance and information systems are conducted together in all departments, branches and abroad representative offices of the Bank.

Due to being one of the leading institutions in the country that has "Internal Audit Quality Assurance Assessment", which is accepted as an indicator of the importance given to the execution of the internal audit activity within the framework of international standards, the Bank was given the "Internal Audit Awareness" award by the Institute of Internal Auditors of Turkey at a ceremony held on 29 May 2012.

Within the scope of the external audit function, banks that operate in Turkey are audited to ensure conformity with the relevant regulations in terms of reserve requirements measurements, notification of maximum and weighted average interest/profit loss participation rates, the compliance of deposits with in variable rates with maturity and type regulations, the compliance of in variable rate housing loan agreements with regulations, the incompliance in credit card regulations and controls in credit card reporting, the closure of export rediscount credit accounts; the consistency of credit card and overdraft accounts, announced interest rates, actual maximum interest rate notifications, 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 with Trial Balance and IBAN applications. In 2014, Audit Department conducted external audits in 24 banks and 3 financing companies.

The Audit Department is composed of 18 chief inspectors, 5 chief auditors, 19 inspectors, 1 auditor, 3 information technology auditors, 15 assistant auditors and 2 information technology assistant auditors. Among those, one chief inspector and one IT auditor are assigned to assist the Executive Director in the conduct of his duties.

The system of "Follow-up of Audit Results" which was established to monitor whether the necessary actions are taken regarding the issues in the audit reports, to inform and take the opinions of the Executive Committee, the Board and the Auditing Committee was held in May and December of this year.

Audits Conducted by External Parties

Article 42 of the Bank Law constitutes the legal basis of external auditing of the Bank. Accordingly, the Prime Minister may request an audit of the Bank's transactions and accounts.

In accordance with the Article No. 42 of the Bank Law, 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 Bank furnishes information regarding its operations to the Planning and Budget Commission of the Grand National Assembly of Turkey twice a year.

In accordance with the second paragraph of the same Article, the Bank may assign external auditors to audit the balance sheet and profit and loss statement 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 Bank's website.

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

3.6.2. CBRT Auditing Committee Report

CENTRAL BANK OF THE REPUBLIC OF TURKEY
JOINT STOCK COMPANY
AUDITING COMMITTEE

AUDITING COMMITTEE REPORT
FOR THE EIGHTY-THIRD ACCOUNTING YEAR OF THE
CENTRAL BANK OF THE REPUBLIC OF TURKEY

The Auditing Committee has audited the activities and resulting statements of the 2014 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 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, and the domestic loans extended by the Bank were within the limits set forth,
3. The Balance Sheet dated 31 December 2014 and the Profit and Loss Statement created for the period between 01/01/2014 and 31/12/2014 are in compliance with the Valuation Principles and the generally accepted standards of accounting stipulated by the Turkish Commercial Code, the Central Bank Law and the Tax Laws,
4. The financial statements compiled to present the financial position of the Central Bank of the Republic of Turkey by 31 December 2014, 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,
5. The trial for the legal liability lawsuit filed by the Bank continues.

In conclusion, we hereby submit the Balance Sheet and the Profit and Loss Statement dated 31 December 2014 for approval of the General Assembly.

Ankara, 13/03/2015

Mustafa Saim UYSAL
Auditing Committee Member

Mehmet Ziya GÖKALP
Auditing Committee Member

Yasin AYDIN
Auditing Committee Member

Ahmet Fethi TOPTAŞ
Auditing Committee Member

3.6.3. Independent Audit Report Drawn up in Compliance with the Central Bank Law and Related Legislation*

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

Ankara

We have audited the accompanying financial statements of the Central Bank of the Republic of Turkey (the "Bank") which comprise the balance sheet as of 31 December 2014 and statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

The Bank Management's responsibility for the financial statements

The Bank Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Central Bank of the Republic of Turkey and related legislation 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the entity management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014 and of 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.

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.

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

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Müjde Şehsuvaroğlu

Partner

İstanbul, 27 February 2015

(*) The full report takes place on the on 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
Ankara

We have audited the accompanying financial statements of the Central Bank of the Republic of Turkey (the "Bank") which comprise the statement of financial position as of 31 December 2014 and the statement of profit or loss, statement of other comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Bank Management's Responsibility for the Financial Statements

The Bank management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

İstanbul, 9 March 2015

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

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

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