

3.4 Explanations

3.4.1. Basis of Presentation of the Financial Statements

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

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

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

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

The financial statements are presented in Turkish lira.

3.4.1.1. Gold Reserves

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

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

3.4.1.2 Financial Assets and Liabilities

a) Financial Assets at Fair Value through Profit or Loss

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

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

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

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

b) Loans

Loans extended by the CBRT are recognized when cash is advanced to borrowers. Loans are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial asset, or, where appropriate, through a shorter period, exactly to the net present value of the financial asset.

c) Available-for-Sale Financial Assets

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

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

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

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

d) Repurchase Transactions

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

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

e) Impairment of Financial Assets

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

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

f) Derecognition of the Financial Assets

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

g) Financial Liabilities at Fair Value through Profit or Loss

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

h) Other Financial Liabilities

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

i) Reverse Repurchase Transactions

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

j) Foreign Exchange Deposits Against Turkish Lira Deposits Transactions

Foreign exchange deposits given are classified under "7. Domestic Banks" in the asset side and TL deposits received are classified under "2. Liabilities Related to Monetary Policy Operations/ 2.3 Other" in the liability side. Interest amount collected from foreign exchange deposits and paid to the TL deposits are accrued at the end of each month using the effective interest method. Interest income arising from the operations at maturity and interest expense paid for the related operations are recorded in the profit and loss statement.

k) TL-Settled Forward Foreign Exchange Sales

At effective date, TL receivables with foreign exchange sales commitment are recognized under the regulating accounts. At the end of months, gains from the increase in value and losses from the decrease in value are classified under "12. Other Liabilities / 12.4 Other" in the liability side and "15. Other Assets / 15.4 Other" in the asset side, respectively. TL payments/collections related to exchange rate difference arising from the operations at maturity are recorded in the profit and loss statement.

l) Currency Swap Transactions

Foreign currency payables and TL receivables subjected to the currency swap agreement are recognized under the regulating accounts at effective date and classified under "3. Foreign Correspondents / 3.3. Other" in the asset side and "3. Deposits / 3.2 Banking Sector / 3.2.2 Foreign Banks" in the liability side, respectively. Interest collected/paid in the framework of the swap agreement is accrued at the end of each month using the effective interest method. Interest collected/paid on the maturity date is recorded in the profit and loss statement.

3.4.1.3. Income and Expense

a) Interest Income / Expense

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

b) Fee and Commission Income and Expense

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

3.4.1.4. Fixed Assets

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

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

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

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

3.4.1.5. Currency Issued

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

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

3.4.1.6. Provisions

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

3.4.1.7. Employee Benefits

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

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

3.4.1.8. Taxes

a) Current Taxes

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

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

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

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

b) Deferred Taxes

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

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

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

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

3.4.1.10 Custody Operations

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

3.4.2 Explanations Related to Financial Statement Items

3.4.2.1 Gold

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

Table 3.4.2.1.1: Gold

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

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

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

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

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

3.4.2.2. Foreign Banknotes

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

Table 3.4.2.2.1: Foreign Banknotes

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

3.4.2.3. Foreign Correspondents

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

Table 3.4.2.3.1: Foreign Correspondents (Assets)

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

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

Table 3.4.2.3.2: Foreign Banks (Liabilities)

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

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

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

Table 3.4.2.4.1: Balances Arising from Membership in the IMF

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

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

3.4.2.5. Securities

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

Table 3.4.2.5.1: Securities

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

3.4.2.6. Lending and Liabilities Related to Monetary Policy Operations

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

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

Table 3.4.2.6.1: Lending/Liabilities Related to Monetary Policy Operations

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

3.4.2.7 Domestic Banks

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

Table 3.4.2.7.1: Domestic Banks

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

3.4.2.8. Credits and Claims under Legal Proceedings

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

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

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

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

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

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

3.4.2.9. Share Participations

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

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

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

Table 3.4.2.9.1: Share Participations

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

The movement in share participations is as follows:

Table 3.4.2.9.2: Movement in Share Participations

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

3.4.2.10. Fixed Assets (Net)

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

Table 3.4.2.10.1: Movement in Fixed Assets

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

(*) Disposals are shown net of accumulated depreciation.

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

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

3.4.2.11 Other Assets

Table 3.4.2.11.1: Other Assets

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

3.4.2.12 Currency Issued

Table 3.4.2.12.1: Currency Issued

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

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

3.4.2.13 Deposits

Table 3.4.2.13.1: Deposits

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

3.4.2.14 Tax Liability

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

Table 3.4.2.14.1: Taxes to be Paid

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

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

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

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

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

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

The movement of deferred income tax asset is as follows:

Table 3.4.2.14.3: Deferred Tax Asset/Liability Movement

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

3.4.2.15 Provisions

Table 3.4.2.15.1: Provisions

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

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

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

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

The principal actuarial assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after the effects of future inflation are adjusted. Therefore, as of the year-end, provisions in the financial statements are calculated by estimating the present value of the probable future obligation arising from the retirement of the employees. The provisions on the respective balance sheet dates have been calculated based on the discount rate of 1.28 percent (2016: 1.28 percent), using the estimated annual inflation rate of 5.88 percent and interest rate of 7.23 percent.

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

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

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

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

3.4.2.16 Capital and Reserves

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

Table 3.4.2.16.1: Capital and Reserves

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

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

Table 3.4.2.16.2: Shareholders

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

3.4.2.17 Revaluation Account

Table 3.4.2.17.1: Revaluation

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

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

3.4.2.18 Other Liabilities

Table 3.4.2.18.1: Other Liabilities

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

3.4.2.19 Regulating Accounts

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

3.4.2.20 Profit/Loss Accounts

Table 3.4.2.20.1: Profit/Loss Statement

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

3.4.2.21 Profit Distribution

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

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

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

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