

3.4 Explanations

3.4.1 Basis of Preparation 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 liras at the exchange rates prevailing on transaction dates. During the preparation of financial statements, foreign currency-denominated assets and liabilities are converted to Turkish liras 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, 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 liras.

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 the BIST.

With regard to gold reserve management, the CBRT can execute transactions such as direct purchases and sales, gold custody accounts, term gold deposit transactions, FX swaps against gold and gold swaps against FX, location swaps, physical transportation of gold, etc.

Gold deposited by banks and finance companies for the maintenance of required reserves is monitored at banks abroad and the BIST.

Gold is initially recognized at prices prevailing on the recognition date, and measured at fair value in the following periods. Fair value is calculated on the last business day of the respective week and month based on the last available gold price quoted at 10.30 am in the London Bullion Market, with one ounce of gold equaling 31.1035 grams, and is reported on the balance sheet after being converted daily to Turkish liras from these revalued amounts. Fair value differences arising from both price and exchange rate differences 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 securities in Turkish liras and foreign currency held for the purpose of liquidity management and reserve management.

Pursuant to Articles 52 (on open market operations) and 53 (on operations in gold and foreign exchange) of the CBRT Law No. 1211, securities purchased by the CBRT on its own account are classified in this group. After initial recognition, financial assets at fair value through profit or loss are revalued at their fair values at the end of each month, and gains and losses arising from revaluation are transferred to profit and loss accounts. The differences between acquisition costs and fair values of these financial assets are reflected in the "3. Foreign Correspondents" and "5. Securities Portfolio" items on the balance sheet.

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

Interest earned during the holding period of financial assets at fair value through profit or loss is recorded within 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) Participation Shares

These are initially recognized at their acquisition costs. Subsequent to the initial recognition, fair values are determined based on market prices or other valuation techniques. Unrealized gains and losses arising from changes in the fair value are monitored in "12. Other Liabilities". 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 item "6. Lending Related to Monetary Policy Operations / 6.1 Open Market Operations" 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

For financial assets other than those at fair value through profit or loss, the expected credit impairment model is used. Calculation of the expected credit loss is based on the transition matrix data published each year by CARs. The rate of loss given default is taken as 45% as suggested by Basel regulations. The expected credit impairment is calculated by using the amount in default, the probability of default and the rate of loss given default.

f) Derecognition of 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 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 recognized at amortized cost with interest expense calculated 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 portfolio" in the assets of the balance sheet, cash debts are monitored in "2. Liabilities Related to Monetary Policy Operations / 2.1 Open Market Operations" item in the liabilities as the amount received on the transaction date. The interest paid to the banks is accrued at month ends using the effective interest method. The interest expense paid for the transaction on the maturity date is reflected on the profit and loss statement.

j) Foreign Exchange Deposits Against Turkish Lira Deposits Transactions

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

k) TL-Settled Forward Foreign Exchange Sales

At value date, TL receivables and foreign exchange commitments are recognized under the regulating accounts. At month ends, gains and losses are monitored in and "13. Other Assets / 13.4 Other" on the asset side, respectively. TL payments/collections due to the exchange rate difference from transactions on the maturity date are reflected in the profit and loss statement.

Regarding TL-settled forward foreign exchange purchase and sale transactions at the BIST Derivatives Market (VIOP), gains and losses are reflected in the profit and loss statement on a daily basis.

l) Currency Swaps

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

m) Swap Transactions

Sales/purchases of assets (TL, FX or gold) related to swap transactions carried out at the CBRT and BIST are conducted at value date. Payables/receivables are recognized under the regulating accounts at the value date. At month ends, gains and losses are monitored in "12. Other Liabilities/ 12.4 Other" on the balance sheet and in the profit and loss statement. Amounts indicating gains/losses and interest arising from transactions on the maturity date are reflected in the profit and loss statement.

3.4.1.3 Income and Expenses

a) Interest Income/Expenses

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 Ministry of Treasury and Finance, 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. The land in the balance sheet of the CBRT is carried at acquisition cost, while 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 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 item "1. Currency Issued" on the balance sheet of the 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 "13. 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 the 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.

Paid temporary taxes and taxes imposed on repo-reverse repo revenues and deducted from temporary taxes are monitored in item “13. Other Assets / 13.4 Other” on the balance sheet.

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 the current year includes the related period’s corporate tax and the change in the deferred tax income.

Pursuant to Article 61 of the CBRT Law No.1211, the calculation of deferred taxes is not done over the “Revaluation Account”, which is not subject to the corporate tax base.

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

Gold holdings are composed of 553,193,013.48 net grams of gold in international standards equivalent to TRY 160,904,576,084 and 2,832,327.42 net grams of gold in non-international standards equivalent to TRY 823,825,377. While some part of the gold of international standards belongs to the CBRT, the rest is placed with the CBRT by banks to satisfy their reserve requirements. Gold holdings of international standards are stored in the vaults of the CBRT, held with the BIST and foreign correspondents.

Table 3.4.2.1.1: Gold

| | 2019 | | 2018 | |
|---|-------------|-----------------|-------------|-----------------|
| | Net Gram | TRY | Net Gram | TRY |
| Of international standards | 553,193,013 | 160,904,576,084 | 488,531,099 | 105,904,019,148 |
| Owned by CBRT | 411,815,078 | 119,782,659,733 | 253,290,053 | 54,908,346,038 |
| at BoE | 5,939,153 | 1,727,492,715 | 5,939,153 | 1,287,492,602 |
| at CBRT | 34,015,936 | 9,894,050,862 | 33,670,645 | 7,299,139,491 |
| at BIST | 371,859,988 | 108,161,116,156 | 213,680,255 | 46,321,713,945 |
| Reserve requirements of banks | 140,681,436 | 40,919,328,764 | 234,404,638 | 50,814,356,190 |
| at BoE | 42,959,521 | 12,495,428,120 | 90,013,832 | 19,513,244,093 |
| at BIST | 97,721,915 | 28,423,900,645 | 144,390,806 | 31,301,112,098 |
| Reserve requirements of financing companies | - | - | 654,653 | 141,916,050 |
| at BoE | - | - | 654,653 | 141,916,050 |
| Lent as collateral | 696,500 | 202,587,586 | - | - |
| At BIST | 696,500 | 202,587,586 | - | - |
| Owned by Treasury | - | - | 181,755 | 39,400,869 |
| at BIST | - | - | 181,755 | 39,400,869 |
| Of non-international standards | 2,832,327 | 823,825,377 | 3,177,798 | 688,884,578 |
| Owned by CBRT | 2,832,218 | 823,793,533 | 2,832,113 | 613,946,990 |
| Collection (Owned by CBRT) | 109 | 31,844 | 109 | 23,733 |
| Owned by Treasury | - | - | 345,575 | 74,913,854 |

Note: Gold holdings are valued based on 1 ounce of gold = 31.1035 grams using the price 1,523.00 USD/Ounce (2018: 1,281.65) and USD buying rate of TRY 5.9402 as of 31 December 2019 (2018: TRY 5.2609). Accordingly, the price of 1 net gram of gold is $(1,523.00 \times 5.9402) / 31.1035 = \text{TRY } 290.87$.

Gold holdings of international standards are held by the CBRT as part of foreign currency reserves and they account for 25.64% (2018: 22.12%) of total foreign currency reserves.

The gold deposited by banks for required reserves, which amounts to 140,681,435.79 net grams equivalent to TRY 40,919,328,764, and the gold lent as collateral, which amounts to 696,500 net grams equivalent to TRY 202,587,586 are also followed under this item.

Gold holdings of non-international standards belong to the CBRT and all are stored in the vaults of the Head Office. These are recognized in the assets of the balance sheet under “13. Other Assets”. The Treasury’s gold holdings of non-international standards, which amounted to 345,574.68 net grams equivalent to TRY 74,913,854 in 2018, had no balance in 2019.

3.4.2.2 Foreign Banknotes

As of the end of 2019, the Turkish lira equivalent of foreign banknotes kept in the vaults of the CBRT branches was TRY 22,336,577,675.

Table 3.4.2.2.1: Foreign Banknotes

| | 2019 | 2018 |
|-------------------|----------------|----------------|
| Foreign banknotes | 22,336,577,675 | 18,069,286,283 |

3.4.2.3 Foreign Correspondents

Item “3. Foreign Correspondents”, which represents the main part of the FX reserves of the CBRT and is 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)

| | 2019 | | 2018 | |
|---------------------|------------------------|-----------------------|------------------------|-----------------------|
| | TRY | USD Equivalent | TRY | USD Equivalent |
| FX Securities | 200,924,502,192 | 33,824,534,897 | 129,717,482,052 | 24,656,899,400 |
| Deposits | 82,011,234,133 | 13,806,140,220 | 49,324,206,589 | 9,375,621,394 |
| Other | 160,375,795,609 | 26,998,383,154 | 185,506,622,289 | 35,261,385,369 |
| Demand deposits | 152,437,298,467 | 25,661,980,820 | 178,435,328,338 | 33,917,262,890 |
| SDR holding account | 7,935,977,193 | 1,335,978,114 | 7,070,035,653 | 1,343,883,300 |
| Other | 2,519,949 | 424,220 | 1,258,297 | 239,179 |
| TOTAL | 443,311,531,935 | 74,629,058,270 | 364,548,310,930 | 69,293,906,162 |

Balances of “4. Foreign Banks” in the liabilities of the balance sheet as of the end of 2019 and 2018 are presented below.

Table 3.4.2.3.2: Foreign Banks (Liabilities)

| | 2019 | | 2018 | |
|---------------|----------------|----------------|----------------|----------------|
| | TRY | USD Equivalent | TRY | USD Equivalent |
| Foreign Banks | 11,967,962,527 | 2,014,740,670 | 10,614,051,729 | 2,017,535,351 |

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, Turkey's quota paid in gold and foreign currency is represented on the balance sheet under "4. Reserve Tranche Position" under assets and "5. Reserve Tranche Means" under liabilities. SDR 37,750,000 part of this total SDR 112,775,000 was paid in gold. Turkey's IMF quota reached SDR 4,658.6 million by 18 February 2016.

Table 3.4.2.4.1: Balances Arising from Turkey's Membership in the IMF

| | 2019 | | 2018 | |
|--|---------------|---------------|---------------|---------------|
| | TRY | SDR | TRY | SDR |
| Assets | | | | |
| Reserve tranche position | 927,190,940 | 112,775,000 | 825,727,273 | 112,775,000 |
| Treasury liabilities due to SDR allocation | 8,808,044,500 | 1,071,329,729 | 7,844,169,143 | 1,071,329,729 |
| Liabilities | | | | |
| Reserve tranche facility | 927,190,940 | 112,775,000 | 825,727,273 | 112,775,000 |
| SDR allocation | 8,808,044,500 | 1,071,329,729 | 7,844,169,143 | 1,071,329,729 |

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

3.4.2.5 Securities

By end-2019, the fair value of securities was TRY 19,407,464,420.

Table 3.4.2.5.1: Securities

| | 2019 | | 2018 | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Government bonds and Treasury bills issued by the Ministry of Treasury and Finance | 16,197,760,700 | 18,425,983,850 | 13,884,021,970 | 13,372,059,760 |
| Lease Certificates issued by the Ministry of Treasury and Finance Asset Leasing Company | 889,822,820 | 981,480,570 | 326,810,540 | 331,725,150 |
| TOTAL | 17,087,583,520 | 19,407,464,420 | 14,210,832,510 | 13,703,784,910 |

3.4.2.6 Lending and Liabilities Related to Monetary Policy Operations

The “6. Receivables Related to Monetary Policy Operations” item on the assets of the balance sheet, which represents cash receivables of the CBRT, had a balance of TRY 14,698,175,697 as of the end of 2019. The income accruals reflected in this item are TRY 4,872,306 for repurchase agreements (2018: TRY 100,419,439) and TRY 4,303,406 for Interbank Money Market operations (2018: TRY 196,678,242).

The “2. Liabilities Related to Monetary Policy Operations” item on the liabilities of the balance sheet, which represents cash debts of the CBRT, had a balance of TRY 4,768,788,392. The expense accruals reflected in this item are TRY 136,624 for reverse repurchase agreements (2018: Null) and TRY 1,251,768 for Interbank Money Market operations (2018: TRY 4,562,137). FX deposits against TL deposits operations did not show a balance as of 31.12.2019.

Table 3.4.2.6.1: Lending/Liabilities Related to Monetary Policy Operations

| | 2019 | 2018 |
|--|-----------------------|------------------------|
| Assets | | |
| Lending/Receivables Related to Monetary Policy Operations | 14,698,175,697 | 109,297,097,563 |
| Open Market Operations | 11,527,205,625 | 34,940,725,173 |
| Interbank Money Market Operations | 3,170,970,072 | 74,356,372,390 |
| Liabilities | | |
| Liabilities Related to Monetary Policy Operations | 4,768,788,392 | 13,597,425,610 |
| Open Market Operations | 475,136,624 | - |
| Interbank Money Market Operations | 4,293,651,768 | 7,306,262,137 |
| Other | - | 6,291,163,473 |
| Receivables Related to Monetary Policy Operations (Net) | 9,929,387,305 | 95,699,671,953 |

3.4.2.7 Domestic Banks

The “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. The domestic banks item had no balance as of 31 December 2019 (2018: TRY 6,230,499,299).

Table 3.4.2.7.1: Domestic Banks

| | 2019 | 2018 |
|---|----------|----------------------|
| FX deposits against Turkish lira deposits | - | 6,230,499,299 |
| TOTAL | - | 6,230,499,299 |

3.4.2.8 Credits and Claims under Legal Proceedings

Domestic credits, which are extended to banks against rediscounted bills, consist of USD 6,850,762,441 (2018: USD 6,841,369,399), EUR 9,312,705,782 (2018: EUR 7,482,368,624), GBP 27,468,475 (2018: GBP 29,972,474), JPY 345,600,000 (2018: JPY 76,000,000), CNY 17,130,899 (2018: CNY 36,165,706) equivalent to TRY 102,876,835,012 (2018: TRY 81,326,052,136). The year-end balance of domestic credits including accruals is TRY 102,586,379,378 (2018: TRY 80,934,618,898.)

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 (2018: USD 9,061,417) equivalent to TRY 53,826,627 (2018: TRY 47,671,207)

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

| | 2019 | 2018 |
|---|------------------------|-----------------------|
| Domestic Credits | 102,586,379,378 | 80,934,618,898 |
| Foreign Credits | 53,826,627 | 47,671,207 |
| Claims under Legal Proceedings (Net) | - | - |
| Claims under Legal Proceedings | 9,293,901,566 | 8,188,811,020 |
| Provisions for Claims under Legal Proceedings | -9,293,901,566 | -8,188,811,020 |
| TOTAL | 102,640,206,006 | 80,982,290,104 |

NOTE: Interest accrued to the claims on the Central Bank of Iraq is USD 8,035,364 (2018: USD 7,336,311) equivalent to TRY 45,682,063 (2018: TRY 36,045,032)

The claims on the Central Bank of Iraq are TRY 8,743,990,667 (2018: TRY 7,701,785,962) equivalent to USD 1,472,002,738 (2018 USD 1,463,967,375). The total of claims arising from the credit extended against bills for the Iraq Bekhme Dam Project is TRY 549,910,899 (2018: TRY 487,025,058) equivalent to USD 92,574,475 (2018: USD 92,574,475). The principal of and the monthly interest accrued on the amount of the loan extended to the Central Bank of Iraq are valued on a daily basis and a provision is set aside for the resulting exchange rate difference as per Article 323 of the Tax Procedure Law No. 213. These provisions are tracked in profit-loss accounts. As the claim amounting to TRY 9,293,901,566 was netted with the provision, the Non-Performing Loans item had no balance as of 31.12.2019.

3.4.2.9 Share Participations

The CBRT has share participations in the BIS, SWIFT (Society for Worldwide Interbank Financial Telecommunications) and the IILM (International Islamic Liquidity Management Corporation).

The share participation in the BIS, which was acquired under the scope of central banking activities, is recognized at fair value calculated as 70% of the net asset value of the BIS.

Table 3.4.2.9.1: Share Participations

| Participation | Nature of Business | 2019 | | | 2018 | | |
|---------------|-----------------------------------|---------------|----------------------|------------------|---------------|----------------------|------------------|
| | | Ownership (%) | TRY | Foreign Currency | Ownership (%) | TRY | Foreign Currency |
| BIS | Banking regulation services | 1.43 | 1,700,705,508 | SDR 10,000,000 | 1.43 | 1,415,968,835 | SDR 10,000,000 |
| SWIFT | Electronic fund transfer services | 0,007 | 286,774 | EUR 43,120 | 0.007 | 248,836 | EUR 41,280 |
| IILM | Liquidity management | 13.33 | 59,402,000 | USD 10,000,000 | 13.33 | 52,609,000 | USD 10,000,000 |
| | TOTAL | | 1,760,394,282 | | | 1,468,826,671 | |

Movements in share participations are shown below:

Table 3.4.2.9.2: Movements in Share Participations

| | 2019 | 2018 |
|-------------------------------|----------------------|----------------------|
| Balance on 1 January | 1,468,826,671 | 1,064,813,130 |
| Fair value changes | 291,567,611 | 404,013,541 |
| Balance on 31 December | 1,760,394,282 | 1,468,826,671 |

3.4.2.10 Fixed Assets (Net)

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

Table 3.4.2.10.1: Movements in Fixed Assets

| | Land and Buildings | Furniture and Fixtures | Software | TOTAL |
|--------------------------------------|--------------------|------------------------|-------------------|--------------------|
| Net book value on 1 January | 377,084,638 | 137,061,565 | 27,832,388 | 541,978,591 |
| Additions | 42,175,989 | 90,328,879 | 21,188,276 | 153,693,144 |
| Disposals (net) (*) | -8,920,572 | -272,062 | - | -9,192,634 |
| Depreciation charge | -7,734,524 | -46,891,179 | -10,633,759 | -65,259,462 |
| Net book value on 31 December | 402,605,531 | 180,227,203 | 38,386,906 | 621,219,640 |

(*) Disposals are shown net of accumulated depreciation.

| 2019 | Land and Buildings | Furniture and Fixtures | Software | TOTAL |
|--------------------------|--------------------|------------------------|-------------------|--------------------|
| Book value | 576,092,613 | 402,676,617 | 89,275,567 | 1,068,044,797 |
| Accumulated depreciation | -173,487,082 | -222,449,414 | -50,888,661 | -446,825,157 |
| Net book value | 402,605,531 | 180,227,203 | 38,386,906 | 621,219,640 |
| 2018 | Land and Buildings | Furniture and Fixtures | Software | Total |
| Book value | 542,837,195 | 323,882,063 | 69,102,499 | 935,821,757 |
| Accumulated depreciation | -165,752,557 | -186,820,498 | -41,270,111 | -393,843,166 |
| Net book value | 377,084,638 | 137,061,565 | 27,832,388 | 541,978,591 |

3.4.2.11 Other Assets

Table 3.4.2.11.1: Other Assets

| | 2019 | 2018 |
|--|-----------------------|-----------------------|
| Gold of non-international standard | 823,825,377 | 688,884,578 |
| Coins | 122,160,554 | 83,669,894 |
| Income accruals | 86,116,658 | 68,490,602 |
| Charges and commissions due from the Treasury | 47,236,207 | 32,608,323 |
| EFT fees | 27,522,275 | 20,677,860 |
| Other | 11,358,176 | 15,204,419 |
| Other | 9,565,719,455 | 11,242,763,656 |
| Prepaid taxes to be deducted from corporate tax | 6,074,105,823 | 7,222,981,210 |
| Income tax withholding to be deducted from corporate tax | 79,199,921 | 502,021,428 |
| Depots | 92,261,261 | 71,981,094 |
| Prepaid expenses | 3,781,891 | 3,889,674 |
| Other | 3,316,370,558 | 3,441,890,250 |
| TOTAL | 10,597,822,044 | 12,083,808,730 |

3.4.2.12 Currency Issued

Table 3.4.2.12.1: Currency Issued

| | 2019 | 2018 |
|--|------------------------|------------------------|
| Balance on 1 January | 132,261,722,385 | 131,457,662,382 |
| Banknotes put in circulation | 62,303,350,732 | 48,951,300,434 |
| Banknotes withdrawn, and destroyed banknotes | -41,202,696,930 | -48,147,240,431 |
| Balance on 31 December | 153,362,376,187 | 132,261,722,385 |

The total balance of banknotes in circulation at the end of-2019 was TRY 153,362,376,187.

3.4.2.13 Deposits

Table 3.4.2.13.1: Deposits

| | 2019 | 2018 |
|--|------------------------|------------------------|
| Public sector deposits | 73,654,995,083 | 39,591,687,989 |
| Treasury, general and special budget administrations | 73,643,384,043 | 39,583,629,564 |
| Other | 11,611,040 | 8,058,425 |
| Banking sector deposits | 412,597,687,713 | 368,580,902,886 |
| Domestic banks | 184,450,123,630 | 189,583,160,844 |
| Deposits of banks | 9,048,542,622 | 27,963,987,094 |
| Cash | 383,293,235 | 848,704,494 |
| Collaterals | 8,665,249,386 | 27,115,282,600 |
| Cash | 8,462,661,800 | 27,115,282,600 |
| Gold | 202,587,586 | - |
| Free required reserves | 175,401,581,008 | 161,619,173,750 |
| Foreign correspondents | 34,123,186,173 | 20,316,851,259 |
| Required reserves in blocked accounts | 194,024,377,911 | 158,680,890,783 |
| Cash | 153,105,049,147 | 107,724,618,540 |
| Gold | 40,919,328,764 | 50,956,272,243 |
| Other deposits | 2,452,310,403 | 4,107,083,482 |
| Deposits by citizens abroad | 2,137,782,224 | 2,396,693,504 |
| Deposits by international institutions | 138,101,416 | 91,036,932 |
| IMF | 95,790,468 | 67,975,325 |
| Other | 42,310,948 | 23,061,607 |
| Extra budgetary funds | 175,870,210 | 212,338,931 |
| Other | 556,552 | 1,407,014,115 |
| Financing companies | 44,266 | 1,406,364,250 |
| Deposits by embassies | 6,270 | 5,758 |
| Other | 506,016 | 644,107 |
| TOTAL | 488,704,993,198 | 412,279,674,358 |

3.4.2.14 Tax Liability

The CBRT is subject to corporate tax. The amount of corporate tax to be charged on taxable corporate income is calculated over the tax base generated by adding non-deductible expenses to the profit and deducting non-taxable income and allowances.

Table 3.4.2.14.1: Taxes to be Paid

| | 2019 | 2018 |
|--|-----------------------|-----------------------|
| Corporate tax | 11,051,920,643 | 10,610,547,065 |
| Other taxes | 691,973,763 | 166,326,142 |
| Obligations as a taxpayer | 544,593,009 | 36,476,712 |
| Obligations as withholding tax collector | 147,380,754 | 129,849,430 |
| TOTAL | 11,743,894,405 | 10,776,873,207 |

The effective corporate tax rate in 2019 was 22% (2018: 22%). In Turkey, the advance tax is calculated and accrued on a quarterly basis. Advance corporate income tax rate applied in 2019 was 22% (2018: 22%).

For temporary differences arising from the differences in the provisions of the TCC and the tax legislation, deferred tax asset or liability is calculated over the effective corporate tax rate of 22% (2018: 22%).

The breakdown of temporary differences and the resulting deferred income tax assets / liabilities as of the end of 2019 is as follows:

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

| | 2019 | | 2018 | |
|--|-----------------------------------|--|-----------------------------------|--|
| | Total Temporary Differences | Deferred Tax Assets/ Liabilities | Total Temporary Differences | Deferred Tax Assets/ Liabilities |
| Total assets | 214,026,051 | 47,085,731 | 197,167,415 | 43,376,831 |
| Retirement pay and employment termination benefit obligations | 209,545,034 | 46,099,908 | 173,605,469 | 38,193,203 |
| Depreciation adjustment for fixed assets | 4,481,017 | 985,824 | 23,561,946 | 5,183,628 |
| Total liabilities | -1,618,489,508 | -89,016,923 | -1,342,749,835 | -73,851,241 |
| Fair value adjustment of the BIS participation share | -1,618,489,508 | -89,016,923 | -1,342,749,835 | -73,851,241 |
| Net Assets/Liabilities | -1,404,463,457 | -41,931,192 | -1,145,582,419 | -30,474,410 |

Table 3.4.2.14.3: Deferred Tax Asset / Liability Movements

| | 2019 | 2018 |
|---|--------------------|--------------------|
| Balance on 1 January | -30,474,410 | -13,916,694 |
| Deferred tax related to profit and loss statement (net) | 3,709,564 | 8,635,306 |
| Deferred tax related to other liability accounts | -15,166,346 | -25,193,021 |
| Balance on 31 December | -41,931,192 | -30,474,410 |

3.4.2.15 Provisions**Table 3.4.2.15.1: Provisions**

| | 2019 | 2018 |
|--|--------------------|--------------------|
| Retirement pay and employment termination benefit provisions | 209,545,034 | 173,605,469 |
| Insurance provision for money in transit | 243,056,337 | 243,056,337 |
| TOTAL | 452,601,372 | 416,661,807 |

The 2019 year-end balance of the insurance provision for the money in transit, which is set aside pursuant to Article 59 of the CBRT Law No. 1211, is TRY 243,056,337.

As per the Turkish Labor Law No. 1475 and the Pension Fund Law No. 5434, employers are obliged to pay retirement pay or employment termination benefits to their employees whose contracts have expired, and who are eligible to retire with a right to receive retirement and employment termination benefits.

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

The principal actuarial assumption is that the maximum liability for each year of service will increase in tandem with the inflation rate. Therefore, the discount rate applied represents the expected real rate adjusted for future inflation effects. For this reason, provisions in the financial statements as of the end of 2019 have been calculated by estimating the present value of the prospective future liability arising from retiring employees.

The ceiling amount of termination benefit is revised every six months. While calculating the provision for the termination benefit obligation of the CBRT's employees, the ceiling amount of TRY 6,380 (2018: TRY 5,434) that took effect as of 1 July 2019 was taken into account.

The change in the retirement pay and employment termination benefit obligations is shown below:

Table 3.4.2.15.2: Change in Retirement Pay and Employment Termination Benefit Liabilities

| | 2019 | 2018 |
|--|--------------------|--------------------|
| Provision by 1 January | 173,605,469 | 143,394,309 |
| Provision set aside | 40,895,614 | 32,553,264 |
| Retirement pay and employment termination benefit paid | -4,956,049 | -2,342,103 |
| Provision by 31 December | 209,545,034 | 173,605,469 |

3.4.2.16 Capital and Reserves

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

Table 3.4.2.16.1: Capital and Reserves

| | 2019 | 2018 |
|--|----------------------|-----------------------|
| Paid-in capital | 25,000 | 25,000 |
| Inflation adjustment for paid-in capital | 46,208,524 | 46,208,524 |
| Reserves | 5,511,149,904 | 27,555,926,908 |
| Reserves | 5,349,978,340 | 27,394,755,344 |
| Special reserves | 161,171,564 | 161,171,564 |
| TOTAL | 5,557,383,428 | 27,602,160,432 |

Pursuant to Article 6 of the Law No.7186 on Amendments to the Income Tax Law and Other Laws that took effect on the date of publication (19 July 2019) in the Official Gazette No. 30836 (reiterated) and pursuant to Provisional Article 12 of the CBRT Law No. 1211, all of the accumulated reserve funds plus all of the accumulated extraordinary reserve funds excluding the portion earmarked from last year's profit, totaling TRY 40,769,701,569.60 was transferred to the Ministry of Treasury and Finance.

In line with the decision taken at the CBRT Shareholders Extraordinary General Assembly Meeting on 20 January 2020, the entirety of the reserve funds earmarked from the profit of 2018, totaling TRY 5,349,978,340.19 was distributed along with the profit.

The shareholders of the CBRT by the end of 2019 and 2018 are as follows:

Table 3.4.2.16.2: Shareholders of the CBRT

| | 2019 | | 2018 | |
|----------------------------------|---------------|---------------|---------------|---------------|
| | Share (TRY) | Share (%) | Share (TRY) | Share (%) |
| Ministry of Treasury and Finance | 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 A.Ş. | 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 |
| Türk 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

| | 2019 | 2018 |
|---------------------|----------------|----------------|
| Revaluation account | 50,660,800,568 | 45,004,664,079 |

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 lira against the foreign currencies and changes in gold prices in international markets, had a balance of unrealized gain amounting to TRY 50,660,800,568 at the end of the year.

3.4.2.18 Other Liabilities

Table 3.4.2.18.1: Other Liabilities

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Treasury Gold | - | 114,314,724 |
| Letters of Credit | 161,425,298 | 115,917,447 |
| Expense accruals | 24,389,256 | 49,467,737 |
| Other | 4,098,615,216 | 3,686,938,870 |
| Difference arising from accounting policy changes | 1,532,030,163 | 1,271,444,770 |
| Blocked accounts as per the decisions of tax offices and courts | 5,554,516 | 5,523,264 |
| Amounts to be debited to foreign correspondent accounts on next year's value date | 367,411,413 | 182,045,309 |
| Other | 2,193,619,124 | 2,227,924,999 |
| TOTAL | 4,284,429,770 | 3,966,638,778 |

3.4.2.19 Regulating Accounts

Regulating accounts, which are expressed in terms of Turkish lira, FX and units, had a balance of 1,682,682,315,694 (2018: 1,497,251,202,204) at the end of 2019. The nominal value of the securities received from banks as collateral for repurchase agreements was TRY 8,177,300,161 (2018: TRY 30,326,643,778); the fair value of these securities was TRY 11,592,471,455 (2018: TRY 34,917,974,858), whereas they are shown in their nominal values under regulating accounts.

3.4.2.20 Profit/Loss Accounts

Table 3.4.2.20.1: Profit / Loss Statement

| | 2019 | 2018 |
|---|------------------------|------------------------|
| NET INTEREST INCOME/EXPENSE | 18,968,625,670 | 17,832,803,707 |
| Interest Income | 30,964,836,304 | 30,135,305,125 |
| TL and FX securities portfolio | 3,733,945,327 | 5,070,791,093 |
| Securities purchased under agreements to resell | 6,056,497,894 | 11,713,015,184 |
| Interbank money market operations | 7,628,826,996 | 11,356,862,149 |
| Credits | 985,519,059 | 605,204,985 |
| Banks | 12,560,047,029 | 1,389,431,714 |
| Interest Expenses | -11,996,210,634 | -12,302,501,417 |
| FX deposits by citizens abroad | -33 | -7,394 |
| Securities sold under agreements to repurchase | -34,025,309 | -18,208,996 |
| Interbank money market operations | -1,010,999,739 | -381,565,836 |
| Ministry of Treasury and Finance accounts | -5,029,130,606 | -4,296,484,972 |
| IMF general resource account (GRA) charges | -84,213,618 | -68,391,037 |
| TL required reserves | -2,192,276,758 | -2,408,331,065 |
| FX required reserves | -749,009,712 | -1,802,137,545 |
| Banks | -2,896,554,859 | -3,327,374,573 |
| NET FEE AND COMMISSION INCOME/EXPENSES | 772,359,973 | 676,184,695 |
| Fee and Commission Income | 827,391,458 | 713,448,983 |
| EFT transaction fees and commissions | 403,160,771 | 353,690,326 |
| Commissions to be due from the Ministry of Treasury and Finance | 325,389,331 | 237,905,409 |
| Commission and maintenance fees due from banks | 54,444,229 | 85,646,269 |
| Other fund transfer fees | 4,074,004 | 3,095,660 |
| Fees charged to banks within the context of CMS | 40,076,976 | 32,663,555 |
| Other | 246,147 | 447,764 |
| Fee and commission expenses | -55,031,485 | -37,264,289 |
| Commission and maintenance fees paid to banks | -54,145,404 | -36,318,246 |
| Other | -886,081 | -946,042 |
| NET NON-INTEREST INCOME/EXPENSE | 36,040,032,179 | 48,372,478,791 |
| Non-Interest Income | 72,665,390,994 | 75,941,945,672 |
| Profit on purchase and sale of FX | 45,039,037,963 | 71,655,717,880 |
| Securities portfolio trading income and increase in fair value | 3,215,466,397 | 189,295,750 |
| Dividend income | 14,429,106 | 11,631,728 |
| Other | 24,396,457,529 | 4,085,300,314 |
| Non-Interest Expenses | -36,625,358,815 | -27,569,466,882 |
| Loss on purchase and sale of FX | -5,632,188,130 | -5,006,626,881 |
| Securities portfolio trading loss and decrease in fair value | -1,126,274,899 | -1,666,929,325 |
| Provision expenses for claims under legal proceedings | -1,105,090,546 | -2,345,362,647 |
| Wages and salaries | -954,076,364 | -766,355,162 |
| Social security costs | -129,205,169 | -93,888,834 |
| Operating expenses | -188,336,750 | -174,594,461 |
| Banknote paper and ink expenses | -185,839,916 | -151,586,286 |
| Depreciation charges | -65,676,997 | -55,021,468 |
| Other | -27,238,670,044 | -17,309,101,818 |
| PROFIT BEFORE TAX | 55,781,017,822 | 66,881,467,192 |
| DEFERRED TAX INCOME/EXPENSE | 3,709,564 | 8,635,306 |
| REPORTED PROFIT OF THE PERIOD | 55,784,727,386 | 66,890,102,499 |

3.4.2.21. Profit Distribution

Paragraph 5 of Article 64 of the TCC No. 6102 amended with Law No. 6335 stipulates that natural and legal persons, who are subject to the TCC, are also obliged to conform to the provisions of the Tax Procedure Law No. 213 concerning book keeping and recording time as well as the regulations made based on the powers given by Article 175 and the repeated 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 Law No. 213 and the related provisions of other tax laws, nor do they impede the determination of the tax base in compliance with tax laws and the preparation of related financial statements.

The profit of the CBRT for the 2019 period is TRY 55,761,948,959 and it has been stated in its accounting books kept according to the provisions of the Tax Procedure Law No. 213. Taking into account Article 60 of the CBRT Law No. 1211, and the provisions of Article 64 of the TCC No. 6102 amended with Law No. 6335, distribution of the profit shall be made as follows:

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

| | 2019 | 2018 |
|---|-----------------------|-----------------------|
| Reported profit of the period (TCC No. 6102) | 55,784,727,386 | 66,890,102,499 |
| Reporting adjustments | 22,778,427 | 15,371,371 |
| Profit to be distributed (Tax Procedure Law No. 213) | 55,761,948,959 | 66,874,731,127 |
| Tax provisions (-) | 11,051,920,643 | 10,610,547,065 |
| Corporate income tax | 11,051,920,643 | 10,610,547,065 |
| Profit after tax | 44,710,028,316 | 56,264,184,062 |
| Other distributions (-) | 5,600,488,157 | 18,745,588,199 |
| 1-Reserves | 5,576,194,746 | 18,724,924,566 |
| 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) | 24,290,411 | 20,660,634 |
| The amount to be transferred to the Ministry of Treasury and Finance | 39,109,540,159 | 37,518,595,863 |

As per the decision made at the Extraordinary General Assembly Meeting of the CBRT held on 20 January 2020, an advance dividend totaling TRY 35,198,588,843.36 was paid to shareholders and the paid amount will be set off during profit distribution.