

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, swaps with domestic banks against gold, location swaps, physical transportation of gold, etc.

Gold deposited by banks 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 amounts 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, TRY receivables and foreign exchange commitments are recognized under regulating accounts. At the end of each month, gains and losses at fair value are monitored under "13. Other Assets / 13.4 Other" / "12.4 Other Liabilities / 12.4 Other" on the balance sheet and under the profit/loss statement, and TRY 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 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 TRY 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. The 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 (TRY, 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 at fair value are monitored in "13. Other Assets / 13.4 Other/ 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 expenses 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 will occur in the subsequent period.

b) Fee and Commission Income/Expenses

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, and 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 will occur in the subsequent period.

c) Non-interest Income/Expenses

The differences between acquisition costs of financial assets with fair value reflected on profit/loss and fair values, fair values of swaps, income and expenses in value of TL-Settled forward foreign exchange sales, income and loss in purchase and sale of gold and FX and general costs are recognized under this item. The average cost method is used in calculating income and loss in purchase and sale of gold and FX. Interest income and expenses stemming from usages in swap agreements are included in the average cost. As per the periodicity principle, prepaid expenses are charged to the profit and loss statement on a monthly basis.

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 on 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 on 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 as 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 amount of which shall be deemed appropriate by the Board, may be set aside from the gross annual profit of the Bank in order to cover certain risks that 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 to employees in case of retirement 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, which is established as a “joint stock company” as per Article 1 of the CBRT Law No. 1211, is a corporate taxpayer. The Bank 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 Tax

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. For compatibility with the presentation of the current financial statements, when necessary, the comparative information is reclassified and any significant differences are explained.

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 Item

3.4.2.1 Gold

Gold holdings are composed of 716,334,552.95 net grams of gold in international standards equivalent to TRY 319,703,047,394 and 2,832,327.42 net grams of gold in non-international standards equivalent to TRY 1,264,079,338. 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 and as free deposit accounts. Gold holdings of international standards are stored in the vaults of the CBRT, held with the BIST and at the BoE.

Table 3.4.2.1.1: Gold

	2020		2019	
	Net Gram	TRY	Net Gram	TRY
Of international standards	716,334,553	319,703,047,394	553,193,013	160,904,576,084
Owned by CBRT	458,189,589	204,491,891,608	411,815,078	119,782,659,733
at BoE	45,551,641	20,329,884,055	5,939,153	1,727,492,715
at CBRT	34,015,936	15,181,451,814	34,015,936	9,894,050,862
at BIST	378,622,011	168,980,555,738	371,859,988	108,161,116,156
Reserve requirements of banks	172,181,552	76,845,332,535	140,681,436	40,919,328,764
at BoE	53,914,217	24,062,135,995	42,959,521	12,495,428,120
at BIST	118,267,335	52,783,196,540	97,721,915	28,423,900,645
Reserve requirements of financing companies	22,425,310	10,008,507,779	696,500	202,587,586
at BoE	22,425,310	10,008,507,779	696,500	202,587,586
Lent as collateral	3,578,020	1,596,884,993	-	-
At BIST	3,578,020	1,596,884,993	-	-
Owned by Treasury	59,960,082	26,760,430,480	-	-
at BIST	59,960,082	26,760,430,480	-	-
Of non-international standards	2,832,327	1,264,079,338	2,832,327	823,825,377
Owned by CBRT	2,832,218	1,264,030,477	2,832,218	823,793,533
Collection (Owned by CBRT)	109	48,861	109	31,844

Note: Gold holdings are valued based on 1 ounce of gold = 31.1035 grams using the price 1,891.10 USD/Ounce (31 December 2019: 1,523.00) and USD buying rate of TRY 7.3405 as of 31 December 2020 (31 December 2019: TRY 5.9402). Accordingly, the price of 1 net gram of gold is $(1,891.10 \times 7.3405) / 31.1035 = \text{TRY } 446.30$.

Gold holdings of international standards are held by the CBRT as part of foreign currency reserves and they account for 46.57% (31 December 2019: 25.64%) of total foreign currency reserves.

The gold deposited by banks for required reserves, which amounts to 172,181,552.15 net grams equivalent to TRY 76,845,332,535; gold deposited as free gold deposits which amounts to 3,578,020.00 net grams equivalent to TRY 1,596,884,993, and the gold lent as collateral, which amounts to 22,425,310.00 net grams equivalent to TRY 10,008,507,779 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".

3.4.2.2 Foreign Banknotes

As of 31 December 2020, the TRY equivalent of foreign banknotes in the vaults of the CBRT was TRY 21,578,916,170.

Table 3.4.2.2.1: Foreign Banknotes

	2020	2019
Foreign Banknotes	21,578,916,170	22,336,577,675

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 Banks (Assets)

	2020		2019	
	TRY	USD Equivalent	TRY	USD Equivalent
FX Securities	65,180,636,775	8,879,590,869	200,924,502,192	33,824,534,897
Deposits	56,344,226,388	7,675,802,246	82,011,234,133	13,806,140,220
Other	222,479,105,414	30,308,440,217	160,375,795,609	26,998,383,154
Demand deposits	212,105,599,715	28,895,252,328	152,437,298,467	25,661,980,820
SDR holding account	10,371,678,714	1,412,938,998	7,935,977,193	1,335,978,114
Other	1,826,985	248,891	2,519,949	424,220
TOTAL	344,003,968,577	46,863,833,332	443,311,531,935	74,629,058,270

The balances of item "4. Foreign Banks" presented in the liabilities of the balance sheet as of 31 December 2020 and 31 December 2019 are shown below.

Table 3.4.2.3.2: Foreign Banks (Liabilities)

	2020		2019	
	TRY	USD Equivalent	TRY	USD Equivalent
Foreign Banks	26,183,011,006	3,566,924,733	11,967,962,527	2,014,740,670

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 million by 18 February 2016.

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

	2020		2019	
	TRY	SDR	TRY	SDR
Assets				
Reserve tranche position	1,197,129,180	112,775,000	927,190,940	112,775,000
Treasury liabilities due to SDR allocation	11,372,379,339	1,071,329,729	8,808,044,500	1,071,329,729
Liabilities				
Reserve tranche facility	1,197,129,180	112,775,000	927,190,940	112,775,000
SDR allocation	11,372,379,339	1,071,329,729	8,808,044,500	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

As of 31 December 2020, the fair value of securities was TRY 89,499,890,312.

Table 3.4.2.5.1: Securities

	2020		2019	
	Cost	GUD	Cost	GUD
Government bonds and Treasury bills issued by the Ministry of Treasury and Finance	85,479,611,174	88,515,588,842	16,197,760,700	18,425,983,850
Lease Certificates issued by the Ministry of Treasury and Finance Asset Leasing Company	954,750,540	984,301,470	889,822,820	981,480,570
TOTAL	86,434,361,714	89,499,890,312	17,087,583,520	19,407,464,420

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 290,045,953,786 as of 31 December 2020. The income accruals reflected in this item are: TRY 138,004,548 for repurchase agreements (31 December 2019: TRY 4,872,306) and TRY 320,949,476 for Interbank Money Market operations (31 December 2019: TRY 4,303,406).

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 13,007,784,488. The expense accruals reflected in this item are: TRY 4,706 for reverse repurchase agreements (31 December 2019: TRY 136,624) and TRY 5,589,782 for Interbank Money Market operations (31 December 2019: TRY 1,251,768).

Table 3.4.2.6.1: Lending/Liabilities Related to Monetary Policy Operations

	2020	2019
Assets		
Lending/Receivables Related to Monetary Policy Operations	290,045,953,786	14,698,175,697
Open Market Operations	99,343,997,937	11,527,205,625
Interbank Money Market Operations	190,701,955,849	3,170,970,072
Liabilities		
Liabilities Related to Monetary Policy Operations	13,007,784,488	4,768,788,392
Open Market Operations	11,094,706	475,136,624
Interbank Money Market Operations	12,996,689,782	4,293,651,768
Lending Related to Monetary Policy Operations (Net)	277,038,169,298	9,929,387,305

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 2020 (31 December 2019: Null).

3.4.2.8 Credits and Claims under Legal Proceedings

Domestic credits, which are extended to banks against rediscounted bills in foreign currencies, consist of USD 6,748,203,445 (31 December 2019: USD 6,850,762,441), EUR 8,658,508,661 (31 December 2019: EUR 9,312,705,782), GBP 30,014,658 (31 December 2019: GBP 27,468,475), JPY 244,000,000 (31 December 2019: JPY 345,600,000), CNY 242,022,434 (31 December 2019: CNY 17,130,899) equivalent of TRY 128,116,563,721 (31 December 2019: TRY 102,876,835,012) as well as credits extended to banks against bills in Turkish lira at the amount of TRY 10,214,232,698 (31 December: Null) and Advance Loans against Investment Commitment at the amount of TRY 774,000,000 (31 December: Null).

The year-end balance of domestic credits including rediscounts is TRY 138,421,441,129 (31 December 2019: TRY 102,586,379,378).

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 (31 December 2019: USD 9,061,417) equivalent to TRY 66,515,329 (31 December 2019: TRY 53,826,627).

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

	2020	2019
Domestic Credits	138,421,441,129	102,586,379,378
Foreign Credits	66,515,329	53,826,627
Claims under Legal Proceedings (Net)		
Claims under Legal Proceedings	11,544,249,272	9,293,901,566
Provisions for Claims under Legal Proceedings	-11,544,249,272	-9,293,901,566
TOTAL	138,487,956,458	102,640,206,006

NOTE: Interest accrued to the claims on the Central Bank of Iraq is USD 8,101,660 (31 December 2019: 8,035,364) equivalent to TRY 57,113,207 (31 December 2019: TRY 45,682,063).

The claims on the Central Bank of Iraq are USD 1,480,104,398 (31 December 2019: USD 1,472,002,738) equivalent to TRY 10,864,706,335 (31 December 2019: 8,743,990,667). The total of claims arising from the credit extended against bills for the Iraq Bekhme Dam Project is USD 92,574,475 (31 December 2019: USD 92,574,475) equivalent to TRY 679,542,937 (31 December 2019: TRY 549,910,899). 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 and Article 59 of the CBRT Law No.1211. These provisions are monitored in profit-loss accounts. As the claim amounting to TRY 11,544,249,272 (31 December 2019: TRY 9,293,901,566) was netted with the provision, the Non-Performing Loans item had no balance as of 31.12.2020.

3.4.2.9 Share Participations

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

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	2020			2019		
		Ownership (%)	TRY	Foreign Currency	Ownership (%)	TRY	Foreign Currency
BIS	Banking regulation services	1.41	2,423,038,024	SDR 10,000,000	1.43	1,700,705,508	SDR 10,000,000
SWIFT	Electronic fund transfer services	0.007	411,121	EUR 45,640	0.007	286,774	EUR 43,120
IILM	Liquidity management	13.33	73,405,000	USD 10,000,000	13.33	59,402,000	USD 10,000,000
BKM	Payment Systems	51.01	90,543,079	-	-	-	-
TOTAL			2,587,397,224			1,760,394,282	

Movements in share participations are shown below:

Table 3.4.2.9.2: Movements in Share Participations

	2020	2019
Balance on 1 January	1,760,394,282	1,468,826,671
Fair value changes	736,459,863	291,567,611
BKM participation	90,543,079	-
Balance	2,587,397,224	1,760,394,282

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	402,605,531	180,227,203	38,386,906	621,219,640
Additions	368,478,480	59,717,686	15,701,998	443,898,165
Disposals (net) (*)	-26,505,661	-808,662	-	-27,314,323
Depreciation charge	-11,961,158	-46,493,008	-36,826,035	-95,280,201
Net book value on 31 December	732,617,192	192,643,219	17,262,869	942,523,281

(*) Disposals are shown net of accumulated depreciation.

2020	Land and Buildings	Furniture and Fixtures	Software	TOTAL
Book value	916,630,769	456,095,093	104,976,626	1,477,702,488
Accumulated depreciation	-184,013,576	-263,451,873	-87,713,757	-535,179,207
Net book value	732,617,192	192,643,219	17,262,869	942,523,281
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

3.4.2.11 Other Assets

Table 3.4.2.11.1: Other Assets

	2020	2019
Gold of non-international standard	1,264,079,338	823,825,377
Coins	60,849,990	122,160,554
Income accruals	102,740,321	86,116,658
Charges and commissions due from the Treasury	62,262,035	47,236,207
EFT fees	38,676,183	27,522,275
Other	1,802,104	11,358,176
Other	23,148,448,503	9,565,719,455
Prepaid taxes to be deducted from corporate tax	3,826,277,031	6,074,105,823
Income tax withholding to be deducted from corporate tax	1,037,504,097	79,199,921
Depots	127,389,425	92,261,261
Prepaid expenses	112,823	3,781,891
Other	18,157,165,127	3,316,370,558
TOTAL	24,576,118,151	10,597,822,044

3.4.2.12 Currency Issued

Table 3.4.2.12.1: Currency Issued

	2020	2019
Balance on 1 January	153,362,376,187	132,261,722,385
Banknotes put in circulation	70,309,456,227	62,303,350,732
Banknotes withdrawn, and destroyed banknotes	-35,129,388,809	-41,202,696,930
Expired Banknotes	-172,997,016	-
Balance	188,369,446,590	153,362,376,187

The total balance of banknotes in circulation by 31 December 2020 was TRY 188,369,446,590.

3.4.2.13 Deposits

Table 3.4.2.13.1: Deposits

	2020	2019
Public sector deposits	112,093,991,279	73,654,995,083
Treasury, general and special budget administrations	112,070,460,803	73,643,384,043
Other	23,530,477	11,611,040
Banking sector deposits	738,902,414,084	412,597,687,713
Domestic banks	283,836,190,187	184,450,123,630
Deposits of banks	37,431,511,579	9,048,542,622
Cash	698,866,111	383,293,235
Collaterals	35,132,882,679	8,665,249,386
Cash	25,124,374,900	8,462,661,800
Gold	10,008,507,779	202,587,586
Gold	1,599,762,789	-
Free required reserves	246,404,678,609	175,401,581,008
Foreign correspondents	135,931,611,723	34,123,186,173
Required reserves in blocked accounts	319,134,612,174	194,024,377,911
Cash	242,289,279,639	153,105,049,147
Gold	76,845,332,535	40,919,328,764
Other deposits	2,891,960,816	2,452,310,403
Deposits by citizens abroad	2,574,406,010	2,137,782,224
Deposits by international institutions	153,495,625	138,101,416
IMF	111,193,824	95,790,468
Other	42,301,801	42,310,948
Extra budgetary funds	163,667,900	175,870,210
Other	391,283	556,552
Financing companies	285,000	44,266
Deposits by embassies	7,332	6,270
Other	98,950	506,016
TOTAL	853,888,366,180	488,704,993,198

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

	2020	2019
Corporate tax	8,530,907,395	11,051,920,643
Other taxes	475,399,236	691,973,763
Obligations as a taxpayer	343,754,229	544,593,009
Obligations as withholding tax collector	131,645,006	147,380,754
TOTAL	9,006,306,631	11,743,894,405

The effective corporate tax rate in 2020 was 22% (2019: 22%). In Turkey, the advance tax is calculated and accrued on a quarterly basis. Advance corporate income tax rate applied in 2020 was 22% (2019: 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 20% (2019: 22%).

The breakdown of temporary differences and the resulting deferred income tax assets / liabilities as of 31 December 2020 is as follows:

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

	2020		2019	
	Total Temporary Differences	Deferred Tax Assets/ Liabilities	Total Temporary Differences	Deferred Tax Assets/ Liabilities
Total assets	196,959,356	39,391,871	214,026,051	47,085,731
Retirement pay and employment termination benefit obligations	186,462,909	37,292,582	209,545,034	46,099,908
Depreciation adjustment for fixed assets	10,496,447	2,099,289	4,481,017	985,824
Total liabilities	-2,316,886,024	-115,844,301	-1,618,489,508	-89,016,923
Fair value adjustment of the BIS participation share	-2,316,886,024	-115,844,301	-1,618,489,508	-89,016,923
Net Assets/Liabilities	-2,119,926,668	-76,452,430	-1,404,463,457	-41,931,192

Table 3.4.2.14.3: Deferred Tax Asset/Liability Movements

	2020	2019
Balance on 1 January	-41,931,192	-30,474,410
Deferred tax related to profit and loss statement (net)	-7,692,889	3,709,564
Deferred tax related to other liability accounts	-26,828,349	-15,166,346
Balance	-76,452,431	-41,931,192

3.4.2.15 Provisions**Table 3.4.2.15.1: Provisions**

	2020	2019
Retirement pay and employment termination benefit provisions	186,462,909	209,545,034
Insurance provision for money in transit	243,056,337	243,056,337
TOTAL	429,519,246	452,601,372

The 2020 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 Pension Fund Law No. 5434 and the Turkish Labor Law No. 1475, 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 31 December 2020 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 7,117 (31 December 2019: TRY 6,380) that took effect as of 1 July 2020 was taken into account.

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

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

	2020	2019
Provision by 1 January	209,545,034	173,605,469
Provision set aside	35,103,374	40,895,614
Retirement pay and employment termination benefit paid	-58,185,499	-4,956,049
Balance	186,462,909	209,545,034

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

	2020	2019
Paid-in capital	25,000	25,000
Inflation adjustment for paid-in capital	46,208,524	46,208,524
Reserves	5,910,363,325	5,511,149,904
Reserves	5,576,194,746	5,349,978,340
Special reserves	334,168,579	161,171,564
TOTAL	5,956,596,849	5,557,383,428

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 31 December 2020 and 31 December 2019 are as follows:

Table 3.4.2.16.2: Shareholders of the CBRT

	2020		2019	
	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

	2020	2019
Revaluation account	69,351,880,253	50,660,800,568

This item, which shows the unrealized gains and losses, arising from the valuation of FX, banknotes, other assets and obligations denominated in foreign currency and gold in the assets 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 69,351,880,253 by 31 December 2020.

3.4.2.18 Other Liabilities

Table 3.4.2.18.1: Other Liabilities

	2020	2019
Treasury Gold	26,760,430,480	-
Letters of Credit	177,112,964	161,425,298
Expense accruals	174,728,060	24,389,256
Other	3,546,204,463	4,098,615,216
Difference arising from accounting policy changes	2,203,617,754	1,532,030,163
Blocked accounts as per the decisions of tax offices and courts	6,903,895	5,554,516
Amounts to be debited to foreign correspondent accounts on next year's value date	1,188,177,580	367,411,413
Other	147,505,235	2,193,619,124
TOTAL	30,658,475,967	4,284,429,770

3.4.2.19 Regulating Accounts

Regulating accounts, which are expressed in terms of Turkish lira, FX and units, had a balance of TRY 2,457,058,188,783 (31 December 2019: TRY 1,682,682,315,694).

3.4.2.20 Profit/Loss Accounts

Table 3.4.2.20.1: Profit/Loss Statement

	2020	2019
NET INTEREST INCOME/EXPENSE	38,520,749,407	18,968,625,670
Interest Income	46,189,978,935	30,964,836,304
TL and FX securities portfolio	8,018,011,285	3,733,945,327
Securities purchased under agreements to resell	9,799,612,886	6,056,497,894
Interbank money market operations	8,084,161,293	7,628,826,996
Credits	959,839,942	985,519,059
Banks	19,328,353,529	12,560,047,029
Interest Expenses	-7,669,229,528	-11,996,210,634
FX deposits by citizens abroad	-21	-33
Securities sold under agreements to repurchase	-10,195,479	-34,025,309
Interbank money market operations	-492,083,029	-1,010,999,739
Ministry of Treasury and Finance accounts	-5,278,071,322	-5,029,130,606
IMF general resource account (GRA) charges	-13,634,687	-84,213,618
TL required reserves	-1,305,896,197	-2,192,276,758
FX required reserves	-	-749,009,712
Banks	-569,348,794	-2,896,554,859
NET FEE AND COMMISSION INCOME/EXPENSES	4,228,805,821	772,359,973
Fee and Commission Income	4,303,931,821	827,391,458
EFT transaction fees and commissions	515,059,355	403,160,771
Commissions to be due from the Ministry of Treasury and Finance	570,255,829	325,389,331
Commission and maintenance fees due from banks	3,152,228,564	54,444,229
Other fund transfer fees	18,154,649	4,074,004
Fees charged to banks within the context of CMS	38,703,714	40,076,976
Other	9,529,711	246,147
Fee and commission expenses	-75,126,000	-55,031,485
Commission and maintenance fees paid to banks	-73,838,601	-54,145,404
Other	-1,287,399	-886,081
NET NON-INTEREST INCOME/EXPENSE	286,976,768	36,040,032,179
Non-Interest Income	142,179,285,548	72,665,390,994
Profit on purchase and sale of FX	81,832,778,519	45,039,037,963
Securities portfolio trading income and increase in fair value	1,180,991,895	3,215,466,397
Dividend income	-	14,429,106
Other	59,165,515,134	24,396,457,529
Non-Interest Expenses	-141,892,308,780	-36,625,358,815
Loss on purchase and sale of FX	-39,015,216,123	-5,632,188,130
Securities portfolio trading loss and decrease in fair value	-2,161,143,309	-1,126,274,899
Provision expenses for claims under legal proceedings	-2,250,347,706	-1,105,090,546
Wages and salaries	-1,231,663,378	-954,076,364
Social security costs	-128,121,364	-129,205,169
Operating expenses	-296,407,610	-188,336,750
Banknote paper and ink expenses	-203,683,569	-185,839,916
Depreciation charges	-95,157,570	-65,676,997
Other	-96,510,568,152	-27,238,670,044
PROFIT BEFORE TAX	43,036,531,996	55,781,017,822
DEFERRED TAX INCOME/EXPENSE	-7,692,889	3,709,564
REPORTED PROFIT OF THE PERIOD	43,028,839,107	55,784,727,386

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.

As stated in its accounting books kept according to the provisions of the Tax Procedure Law No. 213, the profit of the CBRT for 2020 is TRY 43,042,566,850. Pursuant to 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)

	2020	2019
Reported profit of the period (TCC No.6102)	43,028,839,107	55,784,727,386
Reporting adjustments	-13,727,743	22,778,427
Profit to be distributed (Tax Procedure Law No.213)	43,042,566,850	55,761,948,959
Tax provisions (-)	8,530,907,395	11,051,920,643
Corporate income tax	8,530,907,395	11,051,920,643
Profit after tax	34,511,659,456	44,710,028,316
Other distributions (-)	4,317,708,905	5,600,488,157
1-Reserves	4,304,256,535	5,576,194,746
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)	13,449,370	24,290,411
The amount to be transferred to the Ministry of Treasury and Finance	30,193,950,551	39,109,540,159

As per the last paragraph of Article 60 of the CBRT Law No.1211, all of the reserve funds which were set aside from 2019 profit will be allocated to shareholders by being added to the profit amounting to TRY 5,576,194,745.87.