



**THE CENTRAL BANK OF THE
REPUBLIC OF TURKEY
FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR
ENDED 31 DECEMBER 2019
TOGETHER WITH INDEPENDENT
AUDITORS' REPORT**



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(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH)

Independent Auditors' Report

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

Audit of the Financial Statements

Opinion

We have audited the financial statements of the Central Bank of the Republic of Turkey ("the Bank"), which comprise the balance sheet as at 31 December 2019, the statements of profit or loss, changes in equity and cash flows for the year then ended, and notes, to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with the Law of the Central Bank of the Republic of Turkey and related legislation (Note I. A. (2)).

Basis for Opinion

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



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

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

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

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

Auditors' Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.



If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Additional paragraph for convenience translation to English:

The accounting principles summarized in (Note I. A. (2)), differ from the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

A member firm of KPMG International Cooperative


Erdal Tıkmak, SMMM
Partner
Istanbul, 27 February 2020

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEETS AS OF 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

	Note (Section II)	Audited 31 December 2019	Audited 31 December 2018
1. GOLD RESERVES	1	160,904,576	105,904,019
1.1 International Standards		160,904,576	105,904,019
2. FOREIGN CURRENCY BANKNOTES		22,336,578	18,069,286
3. FOREIGN CORRESPONDENTS	2	443,311,532	364,548,311
3.1 Foreign Currency Securities		200,924,502	129,717,482
3.2 Deposit		82,011,234	49,324,207
3.3 Other		160,375,796	185,506,622
4. RESERVE TRANCHE POSITION	10	927,191	825,727
5. SECURITIES PORTFOLIO	3	19,407,464	13,703,785
5.1 Government Domestic Debt Securities		18,425,984	13,372,060
5.2 Other		981,480	331,725
6. RECEIVABLES FROM MONETARY POLICY OPERATIONS	3	14,698,176	109,297,097
6.1 Open Market Operations		11,527,206	34,940,725
6.2 Interbank Money Market Operations		3,170,970	74,356,372
7. DOMESTIC CORRESPONDENTS	4	-	6,230,499
8. LOANS	5	102,640,206	80,982,290
8.1 Domestic Loans		102,586,379	80,934,619
8.1.1 Discount Loans		102,586,379	80,934,619
8.1.2 Other Loans		-	-
8.2 Foreign Loans		53,827	47,671
9. EQUITY PARTICIPATIONS	6	1,760,394	1,468,827
10. TREASURY LIABILITIES DUE TO SDR ALLOCATION	10	8,808,044	7,844,169
11. FIXED ASSETS (Net)	7	621,220	541,979
12. LOANS UNDER LEGAL FOLLOW-UP (Net)	5	-	-
12.1 Loans Under Legal Follow-Up		9,293,902	8,188,811
12.2 Provision for Loans Under Legal Follow-Up (-)		(9,293,902)	(8,188,811)
13. OTHER ASSETS	8	10,597,822	12,083,810
13.1 Gold Reserve in Non-International Standards	1	823,825	688,885
13.2 Coins		122,161	83,670
13.3 Income Accruals		86,117	68,491
13.4 Other		9,565,719	11,242,764
TOTAL ASSETS		786,013,203	721,499,799

The accompanying notes are integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEETS AS OF 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

	Note (Section II)	Audited 31 December 2019	Audited 31 December 2018
1. CURRENCY IN CIRCULATION	9	153,362,376	132,261,722
2. PAYABLES DUE TO MONETARY POLICY OPERATIONS	3	4,768,788	13,597,426
2.1 Open Market Operations		475,137	-
2.2 Interbank Money Market Operations		4,293,651	7,306,262
2.3 Liquidity Bills		-	-
2.4 Other		-	6,291,164
3. DEPOSITS	11	488,704,993	412,279,674
3.1 Public Sector		73,654,995	39,591,688
3.1.1 Treasury, General and Annexed Budget Administrations		73,643,384	39,583,630
3.1.2 Other		11,611	8,058
3.2 Banking Sector		412,597,688	368,580,903
3.2.1 Domestic Banks		184,450,124	189,583,161
3.2.1.1 Cash		175,784,874	162,467,878
3.2.1.2 Guarantees		8,665,249	27,115,283
3.2.1.2.1 Cash		8,462,662	27,115,283
3.2.1.2.2 Gold		202,588	-
3.2.2 Foreign Banks		34,123,186	20,316,851
3.2.3 Reserve Requirements		194,024,378	158,680,891
3.2.3.1 Cash		153,105,049	107,724,619
3.2.3.2 Gold		40,919,329	50,956,272
3.2.4 Other		-	-
3.3 Other Deposits		2,452,310	4,107,083
3.3.1 Foreign Exchange Deposits By Citizens Abroad		2,137,782	2,396,694
3.3.2 International Institutions		138,101	91,037
3.3.3 Funds		175,870	212,339
3.3.4 Other		557	1,407,013
4. FOREIGN CORRESPONDENTS	17	11,967,963	10,614,052
5. RESERVE TRANCHE POSITION	10	927,191	825,727
6. SDR ALLOCATION	10	8,808,044	7,844,169
7. TAX LIABILITY	14	11,785,826	10,807,347
7.1 Taxes Payable		11,743,894	10,776,873
7.2 Deferred Tax Liabilities		41,931	30,474
8. PROVISIONS	13	452,601	416,662
9. SHARE CAPITAL AND LEGAL RESERVES	12	5,557,383	27,602,161
9.1 Paid-in Share Capital		25	25
9.2 Adjustment to Paid-in Share Capital		46,209	46,209
9.3 Legal Reserves		5,511,150	27,555,927
10. VALUATION ACCOUNT	15	50,660,801	45,004,665
11. PROFIT FOR THE YEAR		44,732,807	56,279,555
12. OTHER LIABILITIES	16	4,284,430	3,966,639
12.1 Treasury Gold		-	114,315
12.2 Letter of Credits		161,425	115,917
12.3 Expense Accruals		24,390	49,468
12.4 Other		4,098,615	3,686,939
TOTAL LIABILITIES		786,013,203	721,499,799

The accompanying notes are integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF PROFIT OR LOSS

FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

	Note	Audited 1 January - 31 December 2019	Audited 1 January - 31 December 2018
	(Section III)		
I- INTEREST INCOME		30,964,836	30,135,305
II- INTEREST EXPENSE	2	(11,996,210)	(12,302,501)
III- NET INTEREST INCOME / (EXPENSE)		18,968,626	17,832,804
IV- NET COMMISSION AND SERVICE INCOME		772,360	676,185
- Commission and Service Income		827,391	713,449
- Commission and Service Expenses		(55,031)	(37,264)
V- NON-INTEREST INCOME	3	72,665,391	75,941,946
VI- NON-INTEREST EXPENSES	4	(36,625,359)	(27,569,468)
VII- PROFIT BEFORE TAX {III+IV+V-VI}		55,781,018	66,881,467
VIII- TAX EXPENSE	Section II Note 14	(11,048,211)	(10,601,912)
- Tax Provision		(11,051,921)	(10,610,547)
- Deferred Tax Income/(Expense)		3,710	8,635
IX- NET PROFIT FOR THE YEAR {VII-VIII}		44,732,807	56,279,555

The accompanying notes are integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF OFF-BALANCE SHEET ACCOUNTS AS OF 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

31 December 2019						31 December 2018			
OFF-BALANCE SHEET ACCOUNTS		FC	FC	Unit		FC	FC	Unit	
	TL	(Original Currency)	(TL Equivalent)	(Thousand)		(Original Currency)	(TL Equivalent)	(Thousand)	
		(Thousand)	(Thousand)			(Thousand)	(Thousand)		
A. Securities in Custody	298,703,858	68,297	371,024	70	190,918,506	14,865	18,043	69	
1. Marketable Securities in Custody – Free	264,054,069	51,005	338,499	-	177,635,829	1,005	5,286	-	
2. Deal Securities	13,889,529	-	-	55	11	-	-	55	
3. Government Debt Security Depot of Savings Deposits Insurance Fund, Exempt from Income Tax	19,383,210	-	-	-	11,893,617	-	-	-	
4. Other	1,377,049	17,292	32,525	15	1,389,049	13,860	12,757	14	
B. Guarantees Received	42,840,499	33,694,844	110,396,433	209	96,020,735	34,670,898	106,515,092	209	
1. Government Debt Security Depots of Bank under Foreign Exchange Market Guarantee	-	-	-	-	-	-	-	-	
2. Bonds as Interbank Money Market Operations Guarantees	41,719,828	17,103,882	7,295,343	-	95,607,269	18,397,409	14,933,845	-	
3. Other	1,120,671	16,590,962	103,101,090	209	413,466	16,273,489	91,581,247	209	
C. Obsolete and Reserve Banknotes	112,816,150	-	-	-	104,348,854	-	-	-	
1. Reserve Banknotes - Head Office	46,052,165	-	-	-	30,507,622	-	-	-	
2. Reserve Banknotes – Branches, Banknotes Depots and Other Units	66,763,629	-	-	-	73,840,973	-	-	-	
3. Obsolete Banknotes – Branches, Banknotes depots and Other Units	355	-	-	-	259	-	-	-	
D. Other	497,325,089	39,027,853	116,293,317	657,675	360,649,626	133,943,133	29,358,751	506,967	
1. Repurchase Agreements Pledge Account	-	-	-	-	-	-	-	-	
2. Bank Treasury Bonds Portfolio and Security Depots Received Through Repo Transactions	27,127,438	-	-	-	45,728,644	-	-	-	
3. Customer Transactions Portfolio – Takasbank and MKK	360,999,184	-	-	-	283,355,968	-	-	-	
4. Other	109,198,468	39,027,853	116,293,317	657,675	31,565,014	133,943,133	29,358,751	506,967	
E. Unpublished Marketable Securities Depots in Electronic Marketable Security Transfer Recording	657,547,772	-	-	-	576,177,339	-	-	-	
TOTAL (A+B+C+D+E)	1,609,233,368	72,790,994	227,060,774	657,954	1,328,115,060	168,628,896	135,891,886	507,245	

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

	Share Capital	Capital Reserves Due to Inflation Accounting	Legal Reserves	Equity Participations Value Increase Fund(*)	Retirement Pay Actuarial Gains /(Losses) (*)	Retained Earnings/ (Accumulated Deficit) (*)	Net Profit For the Year	Total Shareholders' Equity
Balance at 1 January 2018	25	46,209	21,540,940	924,540	2,490	18,392,626	-	40,906,830
Fair Value Increase /(Decrease) in Equity Participations	-	-	-	344,359	-	-	-	344,359
Profit Distribution								
Dividends	-	-	-	-	-	(12,375,742)	-	(12,375,742)
- Treasury	-	-	-	-	-	(12,356,541)	-	(12,356,541)
- Other Shareholders	-	-	-	-	-	(3)	-	(3)
- Employees	-	-	-	-	-	(19,198)	-	(19,198)
Transferred to Equity Reserves	-	-	6,014,987	-	-	(6,014,987)	--	-
Net Profit for the Year							56,279,555	56,279,555
Balance at 31 December 2018	25	46,209	27,555,927	1,268,899	2,490	1,897	56,279,555	85,155,002
Balance at 1 January 2019	25	46,209	27,555,927	1,268,899	2,490	56,281,452	-	85,155,002
Fair Value Increase /(Decrease) in Equity Participations	-	-	-	260,573	-	-	-	260,573
Profit Distribution								
Dividends	-	-	-	-	-	(37,539,259)	-	(37,539,259)
- Treasury	-	-	-	-	-	(37,518,596)	-	(37,518,596)
- Other Shareholders	-	-	-	-	-	(3)	-	(3)
- Employees	-	-	-	-	-	(20,660)	-	(20,660)
Transferred to Equity Reserves	-	-	18,724,925	-	-	(18,724,925)	-	-
Paid to Treasury	-	-	(40,769,702)	-	-	-	-	(40,769,702)
Net Profit for the Year	-	-	-	-	-	-	44,732,807	44,732,807
Balance at 31 December 2019	25	46,209	5,511,150	1,529,472	2,490	17,268	44,732,807	51,839,421

(*) Presented within other liabilities in balance sheet. (Refer to Note II.16).

The accompanying notes are integral part of these financial statements.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

PROFIT DISTRIBUTION TABLES FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

	Audited 01.01. - 31.12.2019 (*)	Audited 01.01.- 31.12.2018(**)
A. DISTRIBUTION OF PROFIT FOR THE YEAR		
1. Profit for the year	55,781,018	66,881,467
2. Taxes Payable and Legal Liabilities	(11,051,921)	(10,610,547)
- Corporate Tax (Income Tax)	(11,051,921)	(10,610,547)
- Income Tax Deduction	-	-
- Other Taxes and Legal Liabilities	3,710	8,635
NET PROFIT FOR THE YEAR	44,732,807	56,279,555
3. Prior Year Profit/(Loss)	17,268	1,897
4. Legal Reserves	-	18,724,925
5. Other Legal Funds	-	-
DISTRIBUTABLE PROFIT FOR THE YEAR		
6. Dividends to Shareholders	-	3
7. Dividends to Employees	-	20,660
AMOUNT OF PAYABLE TO REPUBLIC OF TURKEY, MINISTRY OF TREASURY AND FINANCE ("TREASURY") ACCORDING TO THE CENTRAL BANK OF THE REPUBLIC OF TURKEY ("CBRT") LAW NO. 1211		
	-	37,518,596

(*) As of the date of these financial statements, there is no declared decision of the Board of the Bank related to the distribution of the profit for the year 2019. However, corporate tax provision is calculated based on the assumption that employees will be paid 2 months of salary as dividend. The profit distribution of the Bank for the year 2019 will be decided based on the resolution of the General Assembly to be held in 2020. Advance dividend payment is approved in the Extraordinary General Assembly of Central Bank of the Republic of Turkey held on 20 January 2020, it is decided to pay dividends in advance and TL 35.2 billion is distributed to shareholders with respect to legislation.

(**) According to the decision taken at the General Assembly held on 15 March 2019, ordinary and extraordinary reserve funds have been allocated pursuant to Article 60 of the Bank Law, and the remaining balance has been transferred to the Treasury after dividend to shareholders and employees.

6% of the Bank's annual net profit is transferred to the shareholders as the first shareholder share, 5% of the remaining amount is transferred to the employees on condition that it does not exceed the two-month salary amount, and 10% to the reserve fund. With the decision of the General Assembly over the nominal amount of the shares, the remaining amount is transferred to the Treasury after the second dividend of maximum 6% is distributed.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

	Note (Section II. III. IV)	Audited 1 January – 31 December 2019	Audited 1 January – 31 December 2018
Cash flows (used in) / from operations			
Net profit for the year		44,732,807	56,279,555
Adjustments:			
Depreciation of fixed assets and amortization expenses	III. 4	65,259	55,022
Retirement pay provision	II. 13	40,896	32,552
Net interest income		(18,968,626)	(17,832,804)
Dividend income	III. 3	(14,429)	(11,632)
Net commission income		(772,360)	(676,185)
Tax expense/income	II. 14	11,048,211	10,601,912
Increase/decrease in value of financial assets, net		4,021,417	819,255
(Profit) / loss resulting from fixed asset sales		(980)	(20)
Other		(12,506,121)	(2,350,461)
Cash flows from operating income before changes in operating assets and liabilities		27,646,074	46,917,194
Changes in operating assets and liabilities:			
Changes in gold reserves		(58,006,148)	(3,714,473)
Changes in marketable securities		(61,486,829)	187,152,705
Net change in loans and advances given		(16,282,193)	(22,740,910)
Net change in other assets		(23,610)	(7,211,023)
Net change in currency in circulation		21,100,654	804,060
Changes in liabilities due to money market operations		(8,806,745)	(6,199,723)
Net change in deposits		37,294,754	(54,570,492)
Net change in other liabilities		1,249,884	(40,106,826)
Taxes paid		(10,084,900)	(8,155,554)
Retirement payments made	II. 13	(4,956)	(2,342)
Interest received		30,861,206	30,060,186
Interest paid		(11,374,852)	(12,399,033)
Commissions received		827,391	705,133
Commissions paid		(55,033)	(37,264)
Cash flows from / (used in) operations, net		(47,145,303)	110,501,638
Cash flows related to investments activities			
Fixed asset purchases		(153,693)	(945,463)
Cash generated from fixed asset sales		10,173	2,842
Dividend received	III. 3	14,429	11,632
Cash flows used in investments activities, net		(129,091)	(930,989)
Cash flows related to financing activities			
Dividends paid		(37,539,259)	(12,375,742)
Legal reserves paid to Treasury		(40,769,702)	-
Net cash used in financing activities, net		(78,308,961)	(12,375,742)
Effect of changes in exchange rates on cash and cash equivalents		36,957,385	48,936,759
Changes in cash and cash equivalents		(88,625,970)	146,131,666
Cash and cash equivalents at the beginning of the year	IV. 1	368,132,589	222,000,923
Cash and cash equivalents at the end of the year	IV. 2	279,506,619	368,132,589

The accompanying notes are integral part of these financial statements.

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE

A. Notes and explanations related to current year

(1) The accompanying financial statements of the Central Bank of the Republic of Turkey ("the Bank" or "CBRT") as of 31 December 2019 have been approved by the Board of the Bank on 27 February 2020.

(2) Detailed explanations of principal accounting policies applied by the Bank:

The basis of presentation of the financial statements and accounting policies which are integral part of the accompanying financial statements are as follows:

i. Basis of Presentation of the Financial Statements

The Bank maintains its books of account in accordance with the Turkish Commercial Code numbered 6102, Tax Legislation and Law of the Central Bank of the Republic of Turkey numbered 1211 ("CBRT Law") and prepares its financial statements in accordance with the accounting policies below, which are in conformity with the aforementioned legislation. According to the 57th and 58th articles of the Central Bank Law, the accounting period of the Bank is the calendar year. At the end of each calendar year, the Bank submits its balance sheet and income statement to the Presidency of the Republic of Turkey along with the annual report prior to the General Assembly meeting and publishes the balance sheet in the Official Gazette.

Additional paragraph for convenience translation into English

The differences between accounting principles, as described in the preceding paragraphs, and accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying financial statements. Accordingly, these financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

ii. Accounting Principles

Significant accounting principles applied in the preparation of the financial statements are as follows:

a. Accounting of Income and Expenses

Interest income and expense that are calculated by using the effective interest rate method are accounted for on an accrual basis.

The effective interest rate 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 exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate a shorter period.

Commissions and service fees collected or paid due to the transaction of CBRT with the domestic and foreign banks, Treasury, public entities and various persons or entities are recognized as income or expense in the period in which they are paid or collected. Income or expense accruals are recognized for those which will be collected or paid in the subsequent period. Commission and service income and expenses are accounted for on an accrual basis or recognized as income and expenses in the income statement in the period in which they are paid or collected depending on their nature.

In accordance with the article 61 of the CBRT Law amended with the Law No:6009 on 23 July 2010, in the event of a change in the value of the TL against the foreign currencies and a change in the gold prices in the international markets, the unrealized gains and losses arising from the revaluation of gold, foreign exchange and other assets and liabilities of the Bank those are originated in foreign currencies are classified into "Valuation Account" which is a transitory account on the balance sheet.

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

a. Accounting of Income and Expenses (continued)

The Valuation Account is not considered as income and expense during computation of corporate tax base. Realized foreign exchange gains and losses from foreign currency sales and purchase transactions are reflected to the income statement at the date of transaction.

b. Foreign Currency Transactions

The Bank's foreign currency transactions are converted into Turkish Lira over the foreign exchange rates at the date of the transaction. During the preparation of the financial statements, the assets and liabilities in foreign currency accounts are converted into Turkish Lira based on the foreign exchange rates and effective buying rates as of the balance sheet date.

As described in article a. above, according to Article 61 of the Central Bank Law, unrealized foreign exchange gains and losses are presented in "Valuation Account". In case of realization such gains and losses are transferred to profit or loss accounts.

c. Gold Reserves

Gold reserves of the Bank consists of international standards of gold held in the Bank vault, in international banks and in Istanbul Stock Exchange ("BIST") and non-international standard of gold held in the Bank vault. Gold reserves held abroad for the purpose of reserve management policy are kept in free depots. In addition, gold deposited for reserve requirement establishment by banks and finance companies are followed at banks abroad and BIST. The Bank, can make direct buying and selling transactions, gold custody accounts, forward gold deposit transactions, gold equivalent foreign currency and foreign currency equivalent gold swaps, location swaps, physical gold transfer operations and similar transactions for the purpose of gold reserves management.

Gold is initially recorded with the prices prevailing at the date of acquisition and is valued with fair value in subsequent periods. Fair value is determined on the last business day of the week and month, based on the gold price quoted at the London Bullion market exchange at 10:30 (2018: based on the gold price quoted at the London Bullion market exchange at 10:30) (2019:1,523.00 US Dollars/2018: 1,281.65 US Dollars) and on the basis of 1 ounce being equal to 31.1035 grams, presented on the balance sheet after being converted to Turkish Lira. Fair value changes of gold reserves both arising from changes in price and exchange rates are accounted for as unrealized gains or losses under "Valuation Account" in accordance with the Article 61 of the CBRT Law. Realized gains and losses are transferred to statement of profit or loss.

As of the end of year 2019, gold rate used in the valuation is TL/ounce 9,047 (2018: TL/ounce 6,743).

d. Financial Instruments

Turkish Lira and foreign currency securities held for the purpose of liquidity and reserve management are financial assets measured at fair value through profit or loss ("FVTPL"). Financial assets at FVTPL, are subjected to fair value valuation at the end of the month after initial recognition and profit or loss arising from valuation is reflected in profit/loss accounts. Interest earned from holding Financial assets at FVTPL is recognized in interest income.

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

d. Financial Instruments (Continued)

Securities Portfolio

The Bank's securities portfolio consists of securities purchased on Bank's own behalf in line with the article 52 about open market operations and article 53 about foreign currency operations of the CBRT Law. The securities are initially carried at their cost values including their transaction costs. After the initial recognition, profit or loss arising from revaluation according to their fair value is recognized in profit/loss accounts. Valuation differences between acquisition costs and revalued amounts according to their fair value are reflected to "3.Foreign Correspondents/3.1 Foreign Currency Securities" and "5.Securities Portfolio" captions in the balance sheet.

Fair value of the securities is determined with reference to quoted market prices in BIST; in case the quoted prices are not available fair value is determined using prices declared daily by the Bank and published in the Official Gazette. Foreign securities are valued with fair values determined with reference to quoted market prices in the international markets at the end of the month. Interest accrued during the holding of the securities, are shown as interest income.

Open Market Operations - Securities Purchased Under Agreements to Resell

The transactions of domestic currency securities purchased under agreements to resell are carried out by the Bank within the framework of open market operations.

Securities purchased under agreements to resell are accounted for as collateralized loans. Cash receivables originated from the transaction are classified as "6. Receivables Due to Monetary Policy Operations / 6.1 Open Market Operations" in the asset side where the securities received as collateral are classified under the off balance sheet accounts. Interest income is calculated on an accrual basis using the effective interest method at the end of each month. Interest income generated from the securities purchased under agreements to resell operations at maturity is recorded in the statement of profit or loss.

Open Market Operations - Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are accounted for as collateralized deposits received by the Bank. Securities given as collateral are classified under "5. Securities Portfolio" in the asset side where the cash that will be paid at the maturity is classified under "2. Payables Due to Monetary Policy Operations / 2.1 Open Market Operations" in the liability side. Interest amount to be paid to the banks are accrued at the end of each month using effective interest method. Interest expense for the securities sold under agreements to repurchase operations at maturity is recorded in the statement of profit or loss.

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

d. Financial Instruments (Continued)

Foreign Exchange Deposits Operations Against Turkish Lira Deposits

Exchange deposits given is classified under "7. Domestic Correspondents" in the asset side and TL deposits received is classified under "2. Payables Due to Monetary Policy Transactions/ 2.4 Other" in the liability side. Interest amount collected from exchange deposits and paid to the TL deposits are accrued at the end of each month using effective interest method. Interest income arising from the operations at maturity and interest expense paid for the related operations are recorded in the statement of profit or loss.

TL Based Forward Foreign Exchange Sales

At effective date, TL receivables with foreign exchange sales commitment is recognized under the off-balance sheet items. At the end of months, gains from the increase in value and loss decrease in value are classified under "13. Other Assets / 13.4 Other" in the asset. TL payments/collections related to foreign currency exchange rate difference arising from the operations at maturity are recorded in the statement of profit or loss.

For Turkish Lira based forward foreign exchange buy-sell transactions at BIST VIOP, appreciation and depreciation of contracts are reflected daily in statement of profit/loss.

Money Exchange Transactions

FC debts and TL receivables subjected to the money exchange agreement are recognized under the off-balance sheet at value date and classified under "3. Foreign Correspondents / 3.3. Other" in the asset side and "3. Deposits at Bank / 3.2 Banking Sector Deposits / 3.2.2 Foreign Banks in the liability side respectively. Interest collected/paid in the framework of money exchange agreement is accrued at the end of each month using effective interest method. Interest collected/paid within the maturity date is recorded in the statement of profit or loss.

Swap Transactions

The purchase / sale of the relevant assets (TL, foreign exchange, gold) is carried out on the date of swap transactions made at the CBRT and BIST. At value date, foreign currency buy/sell commitments and liabilities/receivables are recognized under the off-balance sheet items. The fair value increases/decrease are followed in balance sheet under "13. Other Assets / 13.4 Other" and in the statement of profit or loss at the end of each month gain and interest, arising from the transaction are reflected to the statement of profit / loss at the maturity.

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

d. Financial Instruments (Continued)

Loans and Impairment

Loans granted by the Bank, are financial assets generated by lending money to the borrower. At the initial recognition, they are measured at cost. After the initial recognition, they are measured at amortized cost using the "effective interest rate" method. All loans and advances given, are recognized when cash is transferred to the debtor.

Loans that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost.

Interest income from loans measured at amortized cost is recognized in the statement of profit or loss.

Impairment

The Bank, has implemented incurred loss model in the calculation of provision for impairment. Expected credit loss model is probability-weighted and includes reasonable and supportable information on past events, current conditions and forecast of future economic conditions.

The expected credit loss model includes instruments that are recorded financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income and, debt securities, contract assets, credit commitments and financial guarantee contracts.

Expected credit loss is an estimate of the expected credit losses over the life of a financial instrument also the following aspects are important for the measurement.

- 1) Probability-weighted and neutral amount determined by taking into account possible outcomes,
- 2) Time value of money
- 3) Reasonable and supportable information on past events, current conditions and forecast of future economic conditions, at the time of reporting, without excessive cost and effort.

The expected 12 month loss values (within 12 months after the reporting date or within a shorter period if the life of a financial instrument is shorter than 12 months) are part of the estimation of loss of life expectancy.

The main principle of the expected credit loss model is to reflect the general outlook of deterioration or improvement in the credit quality of financial instruments. The amount of expected credit losses known as loss provision or provision varies according to the degree of increase in credit risk. There are two measurements according to the general approach:

-12 Month Expected Credit Losses (Stage 1), applies to all assets unless there is a significant deterioration in credit quality.

-Lifetime Expected Credit Losses (Stage 2 and 3), is applied when a significant increase in credit risk.

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL
STRUCTURE (Continued)

d. Financial Instruments (Continued)

Impairment (continued)

In the calculation of the expected credit loss, parameters used are presented below:

Probability of Default: It refers to the likelihood that a loan will default at the related maturity. In the calculation of probability of default, transition matrix data of credit rating agencies are used.

Loss Given Default: It refers to the ratio of loss resulting from the default of a loan.

Exposure at Default: It represents amount of risk for cash loans

Definition of Default

The Bank considers a debt as default on the conditions stated below (Stage 3), and defaulted loans are subjected to lifetime impairment and classified as Stage 3 by the Bank.

- 1) Deterioration of financial position of counterparty and economic conditions
- 2) Other objective criteria approved by management
- 3) Loans are more than 90 days past due

Definition of Significant Increase in Credit Risk

Loans that are not expected to have default risk in the future and that do not have a significant increase in credit risk are subject to 12 month expected credit loss and classified as Stage 1.

Loans which debtors have deterioration in their solvency and cash flows, problems in fulfilling the contract conditions (principal and/or interest payments delaying more than 30 days) and there is significant increase in credit risk of the debtor, are subjected to lifetime credit loss and classified as Stage 2.

Provision provided in a period are recorded in statement of profit or loss of the related period. At the date when legal actions are completed and receivables are identified as uncollectible, loans are removed from financial statements. If loans and advances, which provision had been provided in the prior periods, are collected, the amount of collection is recognized by decreasing provision provided in the period.

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

d. Financial Instruments (Continued)

Equity Participations

The Bank classified its investments in the Bank for International Settlements ("BIS"), Society for Worldwide Interbank Financial Telecommunication ("SWIFT"), International Islamic Liquidity Management ("IILM") as equity participations.

Equity participations are initially recorded with their acquisition costs. In subsequent periods to initial recognition, equity participations are measured at fair value and classified as fair value through other comprehensive income, irrevocably.

The fair value of BIS's shares that Bank holds are calculated as 70% the Bank's net asset on the BIS shares and converted to Turkish Lira with TL/SDR exchange rate at the end of the year. This valuation method is the method that determines purchase and sales prices of BIS shares.

The fair value of SWIFT's shares is determined by using the per share value announced by SWIFT.

Income and expenses arising from changes in fair value are recognized under other liabilities. A dividend related to investments in equity participations are recorded to the statement of profit or loss in the period when the right to receive dividend occurs.

Financial Liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

e. Banknotes in Circulation

According to the article 4 of Central Bank Law, the Bank has the exclusive privilege of issuing banknotes in Turkey. According to the article 36 of CBRT Law, banknotes in circulation are recognized in "1.Banknotes in Circulation" under liabilities. The Bank may change the banknotes in circulation with the new banknotes, if necessary. Banknotes in circulation are presented at nominal value in the financial statements.

The Bank's semi-finished banknote inventory produced in banknote printing office are presented under "15.Other Assets" at cost. The expenses related to banknotes are capitalized and the banknotes are recorded as expense when the banknotes are transferred to reserve depot. Cost of finished and semi-finished goods consist of general expenses such as; direct cost, depreciation expense, payroll expense, banknote transportation cost and other production cost.

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

e. Banknotes in Circulation (Continued)

Demonetized Currency - Turkish Lira and New Turkish Lira

With the Council of Ministers' decision issued in Official Gazette on 5 May 2007, it was decided that the phrase "New" on the New Turkish Lira and New Kuruş that were put into circulation on 1 January 2005, are removed as of 1 January 2009, and Turkish Lira banknotes have been put into circulation as of the same date. Accordingly, the legal circulation period of New Turkish Lira banknotes that were in circulation between 1 January 2009 and 31 December 2009 along with Turkish Lira banknotes expired as of 31 December 2009.

f. Fixed Assets

Fixed assets consist of land, buildings, fixtures, vehicles and software products.

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The depreciation rates of the fixed assets are as follows:

Buildings	2-6 %
Vehicles, Furniture and Fixture	2-100 %
Leasehold Improvements	10-20 %
Software	6-100 %

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

g. Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provisions include amounts provided for future probable losses in accordance with the article 59 of the CBRT Law for insurance, money in transit, retirement pay and taxation.

Retirement Bonus and Severance Payments

According to the Turkish legislation and labor union agreements, employment termination benefits are paid upon the retirement of employees or in the case of layoff. The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation. The actuarial gains and losses are recognized under actuarial gain/loss account in other liabilities.

h. Taxes

The Bank is subject to corporation tax in accordance with the Turkish tax legislation. In addition, the Bank is liable for income withholding tax of third parties.

The Corporate Tax Law No.5520 has come into effect with the announcement at the Official Gazette No: 26205 dated 21 June 2007. Most of the articles of the Corporate Tax Law are effective from 1 January 2006. Accordingly, in accordance with No:32 corporation tax is payable, at a rate of 20% effective from 1 January 2006, on the total income of the Bank after adjusting for certain disallowable expenses and exempt income in accordance with tax legislation and Central Bank Law No:1211.

The law numbered 7061 on amendment on certain taxes and laws and other acts was published on the Official Gazette dated 5 December 2017 and numbered 30261, the 20% corporate tax rate, will be applied as 22% for entities' corporate income belonging to the taxation periods of 2018, 2019 and 2020 as amended in the provisional clause of article 10 of the Law. Current year tax liabilities, are paid as the amount after offsetting prepaid taxes. Tax amounts deducted from the repo-reverse repo income and deducted from temporary tax and temporary tax amounts paid are recognised in the balance sheet under "13. Other Assets / 13.4 Other".

Except changes on corporate tax rate, the exemption of 75% applied to gains from the sales of properties held by the entities has been reduced to rate of 50% with deferred tax rate to be applied on temporary differences arising on the revaluation of assets will be considered 10% instead of 5% in case of carrying amount of properties recovered through sales.

Income taxes stated in the financial statements include the change in the current tax and deferred tax.

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

h. Taxes (continued)

Deferred tax liability or asset is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit by using balance sheet method and by using prevailing tax rates. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. According to article 61 of CBRT Law, deferred tax is not calculated for "valuation account" which is not subjected to corporate tax base.

Deferred tax liability or asset are indicated at financial statements considering their estimated effects on increase or decrease rate of tax amount that will pay future period which no temporary differences. Deferred tax asset are accounted when the probability of providing tax advantages are occurred in future period. When it is understood as being utilized that deducting from related assets made provision.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority intends to settle its current tax assets and liabilities on a net basis.

i. Custody Operations

The assets belonging to several individuals and organizations are classified in the off balance sheet accounts, since these assets are held for custody purposes only.

j. Comparative Information and Restatement of Prior Year Financial Statements

In order to allow the determination of the financial position and performance trends, the financial statements of the Bank are prepared comparatively with the prior period. Certain classifications are made in the previous year financial statements and the significant differences are disclosed in order to maintain comparability with the current year financial statement. The Bank hasn't made any reclassification on the previous year's financial statements.

k. Change in Accounting Estimates and Errors

If changes in accounting estimates are related to only one period, they are applied in the period when changes in estimates are made. If the changes are related to future periods, they are applied both in the period when changes in estimates are made and future periods prospectively. There is no significant change in accounting estimates of Bank in current year. Significant changes in accounting policy are applied retrospectively and prior period financial statements are restated. There is no significant accounting error identified by the Bank in current year.

l. Changes in Accounting Policies

Significant changes in accounting policy are applied retrospectively and prior period financial statements are restated.

**NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2019**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

(3) Changes in accounting policies in the current period and their financial effects:

There is no change in accounting policies in the current period.

(4) Compliance of the Bank with the fundamental accounting principles of going concern, matching and consistency:

These financial statements have been prepared based on the fundamental principles of accounting; going concern assumption, matching principle, and consistency; assuming that the Bank will continue its operations without interruption in the future.

(5) The US dollar ("US Dollar") and Euro ("EUR") bid rates used in the preparation of the balance sheet at year-end and the US\$ and EUR bid rates announced by the Bank for the last five working days prior to balance sheet date are as follows:

a. The Bank's "Exchange Rate for the Translation of Foreign Currency Items"

	31 December 2019	31 December 2018
(1 Euro = TL)	TL 6.6506	TL 6.0280
(1 US Dollar = TL)	TL 5.9402	TL 5.2609

b. EUR and US Dollar bid rates announced by the Bank as of the balance sheet date and for the last five working days prior to balance sheet date are as follows:

EUR and US Dollar bid rates as of the balance sheet date:

	31 December 2019	31 December 2018
Euro	TL 6.6506	TL 6.0280
US Dollar	TL 5.9402	TL 5.2609

	31 December 2019	31 December 2018
Prior to Balance Sheet Date (Euro)		
Bid rate of the 1st Day	TL 6.6506	TL 6.0280
Bid rate of the 2nd Day	TL 6.6117	TL 6.0245
Bid rate of the 3rd Day	TL 6.5759	TL 6.0185
Bid rate of the 4th Day	TL 6.5755	TL 6.0419
Bid rate of the 5th Day	TL 6.5773	TL 6.0291

	31 December 2019	31 December 2018
Prior to Balance Sheet Date (US Dollar)		
Bid rate of the 1st Day	5.9402 TL	5.2609 TL
Bid rate of the 2nd Day	5.9370 TL	5.2889 TL
Bid rate of the 3rd Day	5.9302 TL	5.2832 TL
Bid rate of the 4th Day	5.9293 TL	5.3034 TL
Bid rate of the 5th Day	5.9364 TL	5.2926 TL

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise stated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

(6) Information on assets and liabilities denominated in foreign currencies, their US Dollar and TL equivalents and the foreign currency position are as follows:

	<u>31 December 2019</u>		<u>31 December 2018</u>	
	Thousand TL	Million US Dollar	Thousand TL	Million US Dollar
I- Foreign Currency Assets				
1) Gold Reserves	160,904,576	27,087	105,904,019	20.130
2) Foreign Currency Banknotes	22,336,578	3,760	18,069,286	3.435
3) Foreign Correspondents	443,311,532	74,629	364,548,311	69.294
4) Reserve Tranche Position	927,191	156	825,727	157
5) Securities Portfolio	-	-	-	-
6) Receivables From Monetary Policy Operations	-	-	-	-
7) Domestic Correspondents	-	-	6,230,499	1.184
8) Loans	102,640,206	17,279	80,982,290	15.393
9) Equity Participations	1,760,394	296	1,468,827	279
10) Treasury Liabilities Due to SDR Allocation	8,808,044	1,483	7,844,169	1.491
11) Fixed Assets (Net)	-	-	-	-
12) Loans Under Legal Follow-Up (Net)	-	-	-	-
13) Deferred Tax Assets	-	-	-	-
14) Other Assets	857,259	145	1,377,531	262
Total Foreign Currency Assets	741,545,780	124,835	587,250,659	111,625
II- Foreign Currency Liabilities				
1) Currency in Circulation	-	-	-	-
2) Payables Due to Monetary Policy Operations	-	-	-	-
3) Deposits	405,436,314	68,253	334,846,390	63.648
a) Public Sector	40,794,985	6,868	22,097,912	4.200
b) Banking Sector	362,503,496	61,025	309,251,672	58.783
c) Other Deposits	2,137,832	360	3,496,806	665
4) Foreign Correspondents	11,967,963	2,015	10,614,052	2.018
5) Reserve Tranche Position	927,191	156	825,727	157
6) SDR Allocation	8,808,044	1,483	7,844,169	1.491
7) Tax Liability	-	-	-	-
8) Provisions	-	-	-	-
9) Share Capital and Legal Reserves	-	-	-	-
10) Valuation Account	-	-	-	-
11) Profit for the Year	-	-	-	-
12) Other Liabilities	1,852,978	312	923,376	176
Total Foreign Currency Liabilities	428,992,490	72,219	355,053,714	67,490
Net Balance Sheet Foreign Currency Position	312,553,290	52,617	232,196,945	44,136

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

(7) Book value of property and equipment, accumulated depreciation and their insurance coverage:

	31 December 2019				31 December 2018			
	Cost	Accumulated depreciation	Net book value	Insurance coverage	Cost	Accumulated depreciation	Net book value	Insurance Coverage
Furniture								
And Fixture	491,952	273,338	218,614	360,792	392,985	228,090	164,895	290,343
Property	576,093	173,487	402,606	289,968	542,837	165,753	377,084	332,473
	1,068,045	446,825	621,220	650,760	935,822	393,843	541,979	622,816

(8) Information on significant contingent losses and gains that cannot be quantified:

As of 31 December 2019, there is a number of legal proceedings outstanding against the Bank amounting to TL 10,500, US Dollar 703,582 and EUR 114,650 (31 December 2018: TL 6,025, US Dollar 64,578,582 and EUR 114,600). No provisions are provided in the accompanying financial statements for such legal proceedings based on the views of legal counsel.

(9) Other matters which may have a material impact on the financial statements, or which should be explained for facilitating a better understanding of the financial statements:

Valuation Account

As explained in the article 2-ii-b, Section "A. Notes and Explanations related to Current Year" of the Section - I "Notes and Explanations related to the Bank and its Financial Structure", the "Valuation Account" in the balance sheet represents the unrealized foreign exchange gains and losses as at the balance sheet date. Realized foreign exchange gains and losses are recognized in the statement of profit or loss during the period.

B. Other notes and explanations

(1) Events occurred after the balance sheet date, affecting the financial activities and/or financial structure significantly and therefore require explanation:

Advance dividend payment is approved in the Extraordinary General Assembly of CBRT held on 20 January 2020, it is decided to pay dividends in advance and TL 35.2 billion is distributed to shareholders with respect to legislation.

(2) Information on the Bank's foreign branches:

There are no foreign branches; however the Bank has representatives working in Turkish Representations of the Republic of Turkey Ministry of Foreign Affairs in Frankfurt, London, New York, Beijing, Tokyo, Washington, Doha and Kuala Lumpur.

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

I. NOTES AND EXPLANATIONS RELATED TO THE BANK AND ITS FINANCIAL STRUCTURE (Continued)

C. The independent audit firm that audits the financial statements:

The financial statements for the year ended 31 December 2019 have been audited by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (the Turkish member firm of KPMG International Cooperative, a Swiss entity). The independent auditors' report is presented in front of the financial statements and notes to the financial statements.

II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS

(1) Gold Reserves

In accordance with the article 53 of the CBRT Law, the Bank manages gold and foreign exchange reserves of the Country in the context of the monetary policy targets and applications. For this purpose the Bank performs banking operations in domestic and foreign markets including forward or spot purchase/sale of gold, foreign currency, marketable securities, derivative instruments and lending/borrowing transactions in accordance with the procedures and rules determined by its own safe investment, liquidity and yield priorities.

As of 31 December 2019, the Bank has 553,193,013 grams pure gold which meets international standards (31 December 2018: 488,531,099), 2,832,327 grams pure gold which does not meet the international standards. All of the gold reserve which does not meet the international standards is kept in Bank's Head Office and belongs to Bank as of 31 December 2019 (345,575 grams at this reserve belongs to Treasury and is also presented in the balance sheet under "Other Liabilities" account).

The gold reserve as of 31 December 2019 is valued with the gold prices quoted in the London Bullion Market at 10:30 a.m. (2018: the gold prices quoted in the London Bullion Market at 10:30 a.m.) and on the basis of 1 ounce being equal to 31.1035 grams.

Gold	31 December 2019		31 December 2018	
	Pure Gram	Amount	Pure Gram	Amount
Gold in International Standards	553,193,013	160,904,576	488,531,099	105,904,019
CBRT's own gold	411,815,078	119,782,660	253,290,053	54,908,346
Held at BOE	5,939,153	1,727,493	5,939,153	1,287,493
Held at CBRT	34,015,937	9,894,050	33,670,645	7,299,140
Held at BIST	371,859,988	108,161,117	213,680,255	46,321,713
Required reserves of the banks	140,681,436	40,919,329	235,059,291	50,956,272
Held at BOE	42,959,521	12,495,428	90,668,485	19,655,160
Held at BIST	97,721,915	28,423,901	144,390,806	31,301,112
Given as collateral	696,500	202,588	-	-
Held at BIST	696,500	202,588	-	-
Treasury's gold	-	-	181,755	39,401
Gold in Non-International Standard	2,832,327	823,825	3,177,798	688,885
CBRT	2,832,327	823,825	2,832,223	613,971
Treasury	-	-	345,575	74,914

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

(2) Foreign Correspondents

	<u>31 December 2019</u>		<u>31 December 2018</u>	
	Thousand TL	Million US Dollar	Thousand TL	Million US Dollar
Foreign currency securities	200,924,502	33,825	129,717,482	24,657
Deposit	82,011,234	13,806	49,324,207	9,376
Other	160,375,796	26,998	185,506,622	35,261
- Demand deposits	152,437,298	25,662	178,435,328	33,917
- SDR holdings account	7,935,977	1,336	7,070,036	1,344
- Other	2,521	-	1,258	-
Total	443,311,532	74,629	364,548,311	69,294

Foreign Correspondents account consists of foreign currency securities held as foreign currency reserves and the current accounts of the Bank held on its foreign correspondents. Foreign currency securities consist of government bonds and treasury bills issued by foreign government and kept in custody at foreign banks.

As of 31 December 2019, foreign currency securities held for reserve purpose amounting to TL 200,924,502 (31 December 2018: TL 129,717,482) are valued with the prices quoted in the international markets where they are traded at the balance sheet date.

(3) Securities Portfolio and Receivables/Payables Due to Monetary Policy Operations

(a) Information on Securities Portfolio

As of 31 December 2019, securities portfolio amounting to TL 19,407,464 consists of government bonds with outright purchase. (As of 31 December 2018: securities portfolio amounting to TL 13,703,785 consists of government bonds with outright purchase.)

Breakdown of securities portfolio as of 31 December 2019 are as follows:

	<u>31 December 2019</u>			
	Acquisition Cost	Accrual (net)	Carrying Amount	Fair Value
<u>Purchases under Agreements to Resell:</u>				
Treasury Bills and Government Bonds				
1. Fixed Income	-	-	-	-
2. Indexed to Inflation	-	-	-	-
3. Indexed to Foreign Currency	-	-	-	-
4. Foreign Currency	-	-	-	-
5. Floating Rate	-	-	-	-
<u>Outright Purchases:</u>				
Treasury Bills and Government Bonds				
1. Fixed Income	17,087,584	2,319,881	19,407,464	19,407,464
2. Indexed to Inflation	-	-	-	-
3. Indexed to Foreign Currency	-	-	-	-
4. Foreign Currency	-	-	-	-
5. Floating Rate	-	-	-	-
TOTAL	17,087,584	2,319,881	19,407,464	19,407,464

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

(3) Securities Portfolio and Receivables/Payables Due to Monetary Policy Operations (continued)

(a) Information on Securities Portfolio (continued)

As of 31 December 2019 the nominal values of TL securities acquired by outright purchases amounts to TL 19,374,000. (31 December 2018: 15,402,000 TL)

Breakdown of securities portfolio as of 31 December 2018 are as follows:

	31 December 2018			
	Acquisition Cost	Accrual (net)	Carrying Amount	Fair Value
<u>Purchases under Agreements to Resell:</u>				
Treasury Bills and Government Bonds				
1. Fixed Income	-	-	-	-
2. Indexed to Inflation	-	-	-	-
3. Indexed to Foreign Currency	-	-	-	-
4. Foreign Currency	-	-	-	-
5. Floating Rate	-	-	-	-
<u>Outright Purchases:</u>				
Treasury Bills and Government Bonds				
1. Fixed Income	14,210,833	(507,048)	13,703,785	13,703,785
2. Indexed to Inflation	-	-	-	-
3. Indexed to Foreign Currency	-	-	-	-
4. Foreign Currency	-	-	-	-
5. Floating Rate	-	-	-	-
TOTAL	14,210,833	(507,048)	13,703,785	13,703,785

(b) Receivables/Payables Due to Monetary Policy Operations

As of 31 December 2019, breakdown of the securities purchased under agreement to resell recognized in off-balance sheet is as follows:

	31 December 2019	
	Nominal	Fair value
<u>Purchases under Agreements to Resell:</u>		
Treasury Bills and Government Bonds		
1 Fixed Income	8,177,300	11,592,471
2 Inflation-Indexed	-	-
3 Indexed	-	-
4 Foreign Currency	-	-
5 Floating Rate	-	-
TOTAL	8,177,300	11,592,471
	31 December 2018	
	Nominal	Fair value
<u>Purchases under Agreements to Resell:</u>		
Treasury Bills and Government Bonds		
1 Fixed Income	30,326,644	34,917,974
2 Inflation-Indexed	-	-
3 Indexed	-	-
4 Foreign Currency	-	-
5 Floating Rate	-	-
TOTAL	30,326,644	34,917,974

II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS

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SHEET ACCOUNTS (Continued)

(3) Securities Portfolio and Receivables/Payables Due to Monetary Policy Operations (continued)

(b) Receivables/Payables Due to Monetary Policy Operations (continued)

Receivables Due to Monetary Policy- Open Market Operations at the asset side of the balance sheet as of 31 December 2019 – Securities purchased under agreements to resell presented under Open Market Operations consists of TL 11,527,206 of cost and the accrued interest income (31 December 2018: TL 34,940,725). As of 31 December 2019, the accrued interest on securities purchased under agreements to resell amounting to TL 4,872 (31 December 2018: TL 100,419) is presented in the Receivables from Monetary Policy Operations - Open Market Operations.

In addition, as of 31 December 2019, there is TL 3,170,970 of Money Market receivable including income accruals due from the transactions which the Bank entered into on its behalf (31 December 2018: TL 74,356,372). Interest income accrual amounting to TL 4,303 (31 December 2018: TL 196,678) are accounted in the same account.

As of 31 December 2019, securities sold under agreements to repurchase which is followed under the monetary policy transactions-Open Market Transactions in the liabilities of the balance sheet consists of the sum of transaction cost and expense accrual amounting to TL 475,137 (31 December 2018: None). As of 31 December 2019, 137 TL expense accrual from the securities sold under agreements to repurchase, is followed under the open market transactions in monetary policy transactions (31 December 2018: None).

As of 31 December 2019, the monetary policy transactions amount of TL 4,293,651 which is received by the Bank from Interbank Money Market including expense accruals as the counterparty of the transaction is accounted under the liabilities as a Monetary Policy Operations-Interbank Money Market Operations (31 December 2018: TL 7,306,262). Accrued interest expense of this liability; TL 1,252 (31 December 2018: TL 4,562) is also accounted in the same account.

There is no balance in the foreign exchange deposits transactions against TL as of 31 December 2019 (31 December 2018: TL 6,291,164 and the accrued interest income for this account is TL 18,719).

(4) Domestic Correspondents

Under domestic correspondents caption, CBRT foreign currency deposit operations and Turkish Lira depots and TL deposit equivalent foreign currency deposits are represented and as of 31 December 2019 there is not any amount in this account (31 December 2018: TL 6,230,499 and accrued income of foreign exchange deposits against Turkish Lira deposits: TL 1,936)

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

5) Loans

(a) Information on domestic loans:

As of 31 December 2019 loans to domestic banks comprised of discount loans amounting to TL 102,586,379 (31 December 2018: TL 80,934,619).

(b) Information on loans and advances given to shareholders and employees

None (31 December 2018: None).

(c) Information on Foreign Loans:

Foreign loans represent the receivables initially originated from the commercial transactions made under treaties with the foreign central banks and subsequently converted to loans.

(d) Information on loans under legal follow-up (net):

The total balance consists of receivables related with the trading transactions with Iraq and became uncollectible due to the Gulf Crisis. The balance is classified as loans under legal follow-up and it is fully provisioned.

Movements in the allowance for loans and receivables under legal follow-up:

	31 December 2019		31 December 2018	
	Thousand TL	Thousand US Dollar	Thousand TL	Thousand US Dollar
Opening balance	8,188,811	1,556,542	5,843,448	1,549,205
- Increases during the Period (+) (*)	45,682	8,035	36,045	7,336
- Transfers from Other Follow-up Accounts (+)	-	-	-	-
- Transfers to Other Follow-up Accounts (-)	-	-	-	-
- Collections during the Period (-)	-	-	-	-
- Write-offs (-)	-	-	-	-
- Foreign Exchange Differences	1,059,409	-	2,309,318	-
Closing balance	9,293,902	1,564,577	8,188,811	1,556,541
- Allowance (-)	(9,293,902)	(1,564,577)	(8,188,811)	(1,556,541)
Net balance after allowance	-	-	-	-

(*) As of 31 December 2019, TL 45,682 of increase during the period (31 December 2018: TL 36,045) represents accrued interest on the loans and receivables under follow-up.

According to the article 61 of the CBRT Law, foreign currency denominated loans under follow-up are revalued at period ends and unrealized gains and losses arising from the revaluation are classified into the "Valuation Differences" which is a transitory account. Allowances for the related receivables including foreign currency valuation differences are recognized in the statement of profit or loss in accordance with Tax law numbered 213 and article 59 of the Central Bank of the Republic of Turkey Law.

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

6) Equity Participations

As of 31 December 2019 and 2018, the Bank’s equity participations are as follows:

Title	Share rate (%)	31 December 2019 Acquisition Cost	31 December 2018 Acquisition Cost	31 December 2019 Carrying Value	31 December 2018 Carrying Value
Bank for International Settlements (BIS) (*) (**)	1.43	(*) 10,000,000 SDR	(*) 10,000,000 SDR	1,700,705	1,415,969
International Islamic Liquidity Management Corporation (IILM)	13.33	10,000,000 USD	10,000,000 USD	59,402	52,609
S.W.I.F.T.	0.007	43,120 Euro	43,120 Euro	287	249
Total Equity Participations				1,760,394	1,468,827

(*) In BIS, against 8,000 shares of Bank, paid is SDR 10,000,000, unpaid is SDR 30,000,000.

(**) Its fair value is calculated as 70% of Bank’s right on net worths.

The Bank, carries the investments in BIS and SWIFT, at their fair value in the financial statements. The Bank’s recognize revaluated cost of IILM as its fair value. In current year, TL 291,567 of valuation increase; which is TL 180,822 the foreign currency valuation difference; was accounted for in the “Valuation Account”; and the remaining TL 110,745 after deducting deferred tax effect of TL 15,166 and amounting to TL 95,579 was accounted for as “Fair value increase/(decrease) in equity participations” under “Other Liabilities”. (Refer to Note II. 16)

Movement of equity participations	2019	2018
Opening balance (1 January)	1,468,827	1,064,813
Change in fair value for the year	110,745	376,739
The effect of foreign currency valuation for the year	180,822	27,275
Ending Balance (31 December)	1,760,394	1,468,827

During 2019, there is not any purchase or disposal of equity participation.

During 2019 the dividend amounting to TL 14,429 was collected from Bank for International Settlements (2018: TL 11,632).

(7) Fixed Assets

As of 31 December 2019, the cost of property and related accumulated depreciation amounts to TL 576,093 (31 December 2018: TL 542,837) and TL 173,487 (31 December 2018: TL 165,753) respectively, whereas the cost of furniture and fixture and related accumulated depreciation amounts to TL 491,952 (31 December 2018: TL 392,985) and TL 273,338 (31 December 2018: TL 228,090) respectively.

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

The movements of fixed assets as of 31 December 2019 and 2018 are as below:

	Immovables	Fixture	Software	Total
Net balance sheet value as of 1 January 2019	377,085	137,062	27,832	541,979
Purchases	42,176	90,329	21,188	153,693
Disposals (net) (*)	(8,921)	(272)	-	(9,193)
Current year charge	(7,735)	(46,892)	(10,633)	(65,259)
Net balance sheet value as of 31 December 2019	402,606	180,227	38,387	621,220

	Immovables	Fixture	Software	Total
Net balance sheet value as of 1 January 2018	235,511	80,461	8,890	324,862
Purchases	148,907	90,439	35,614	274,960
Disposals (net) (*)	(2,771)	(50)	--	(2,821)
Current year charge	(4,562)	(33,789)	(16,671)	(55,022)
Net balance sheet value as of 31 December 2018	377,085	137,061	27,833	541,979

(*) Disposals are presented at net amounts.

(8) Other Assets

The breakdown of other assets-other account is presented below:

	31 December 2019	31 December 2018
Temporary tax to be deducted from corporate tax	6,074,106	7,222,981
Receivables from foreign exchange sales with future value date	2,097,169	1,844,115
Construction in progress expenses	1,105,552	1,120,548
Other materials and warehouses	5,325	-
Banknote printing inventory	83,030	66,861
Taxes to be deducted from income tax withholding	79,200	502,021
Letter of credit expenses of banknote printing office	23,140	214
Collection banknote depot	3,794	3,668
Medallion depot	112	112
Difference on increase in value of Turkish Lira-settled forward foreign exchange	-	305,883
Other	94,291	176,361
Total	9,565,719	11,242,764

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

(8) Other Assets (Continued)

The breakdown of other assets accrued income account is presented as follows:

	31 December 2019	31 December 2018
Commissions and expenses to be collected from Treasury(*)	47,236	32,608
EFT commission income accrual	27,522	20,678
Other	11,359	15,205
Total Interest and Income Accruals	86,117	68,491

(*) With the decision of the Board of the Bank numbered 9525/19124 dated 4 October 2011, Regulation on Tariffs has been amended. According to the amendment, starting from 12 October 2011, commissions and fees are charged to the Treasury due to the transactions with the public administrations within the scope of overall budget.

(9) Currency in circulation

According to the article 1 of CBRT Law, the Bank has the exclusive privilege of issuing banknotes in Turkey. As of 31 December 2019, the banknotes in circulation amount to TL 153,362,376 (31 December 2018: TL 132,261,723).

Movement of banknotes in circulation	2019	2018
1 January Balance	132,261,722	131,457,662
Banknotes issued into circulation	62,303,351	48,951,300
Banknotes withdrawn from circulation and destroyed	(41,202,697)	(48,147,240)
31 December Balance	153,362,376	132,261,722

(10) Reserve Tranche Position

As of 18 February 2016, under the scope of the membership to the International Monetary Fund ("IMF"), the country quota of Turkey was increased by SDR 3,202,800,000, reaching SDR 4,658,600,000.

As of 31 December 2019, Reserve Tranche Position represents the prepayment of SDR 112,775,000 for the total IMF quota of SDR 4,658,600,000 and is recorded in the "Foreign Currency Reserves - Reserve Tranche Position" under the assets and in the "Reserve Tranche Position" under liabilities. As of 31 December 2019, the balance of the account amounts to TL 927,191 (31 December 2018: TL 825,727).

SDR 112,307,000 (31 December 2018: SDR 112,307,000) allocated to Turkey in accordance with the protocol signed with the IMF has been used by the Treasury and is classified as "Treasury Liabilities due to SDR Allocation" under assets and as "SDR Allocation" under liabilities. Additionally, as of 28 August 2009 and 9 September 2009, the amounts of SDR 883,122,365 and SDR 75,900,364 have been allocated as General SDR allocation and Special SDR allocation respectively to the Treasury by IMF where the Bank act as an intermediary institution and are accounted for as explained. As of 31 December 2019, the balance is TL 8,808,044 (31 December 2018: TL 7,844,169).

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

(11) Deposits

The deposits balance is composed of deposits from the Treasury, public institutions, the banking sector, citizens abroad, international institutions and funds.

Public Sector and Banking Sector Deposits

According to article 41 of the CBRT Law, deposits of the public institutions are non-interest bearing except for the deposits of the Treasury. With the amendment in article 41 of CBRT Law numbered 1211 as of 13 February 2011, principles and procedures about charging interest on deposits of Treasury in custody of the Bank are decided to be determined jointly by the Bank and the Treasury. Within this scope, protocol between the Bank and the Treasury which is entitled as "Principles and Procedures about Charging Interest on Deposits of the Republic of Turkey Ministry of Finance and Treasury in Custody of the Central Bank of Republic of Turkey" is signed as of 12 October 2011 and the interest is started to be charged on the deposits of Treasury in custody of the Bank. Public sector deposits other than the deposits of the Treasury are demand deposits.

The deposits of the banking sector consist of noticed foreign currency deposits, TL demand deposits and reserve deposits. Interest has been paid for the required reserves since 3 November 2014. Also, interest has been started to be paid for the foreign currency required reserves since 5 May 2015. However, since 19 September 2019, interest payments to foreign currency required reserve is abolished.

Deposits by citizens abroad

As of 31 December 2019, deposits by citizens abroad amounting to TL 2,137,782 (31 December 2018: TL 2,396,694) consist of deposits by Turkish citizens living abroad.

The maturity of Deposits by Citizens Abroad account is 3 years. There is no newly opened account due to liquidation process of worker remittances. The maturity date of expired accounts are not renewed as of 1 January 2015. These accounts are monitored on a non-interest bearing account with accrued interest.

Distribution of deposits by citizens abroad accounts according to type of currency is presented as follows:

	31 December 2019		31 December 2018	
	Foreign Currency Balance (000)	Thousand TL Equivalent	Foreign Currency Balance (000)	Thousand TL Equivalent
Foreign Currency				
Euro	303,910	2,021,186	375,417	2,263,011
US Dollar	14,149	84,047	19,708	103,670
CHF	5,056	30,808	5,314	28,352
Other	229	1,741	255	1,661
Total		2,137,782		2,396,694

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

(11) Deposits (Continued)

Deposits by International Institutions

Deposits by the international institutions represents the TL thousand equivalent of the balance transferred to the Bank by the IMF as "special drawing rights" ("SDR"). The Bank is designated as "the depositor" to regulate the relations of the Treasury and the IMF. As of 31 December 2019, TL 95,763 (31 December 2018: TL 67,951) which represents the minimum quota amount denominated in SDR is recorded as the deposit balance of IMF. In addition to this, the balance of the amount of TL 28 is used for tracking revenues such as IMF's sales revenues of publication and administrative expenses which took place within the limits of a member country and used only in the currency of the member country (31 December 2018: TL 24). In addition, as of 31 December 2019, there is TL 32,346 of deposit belonging to African Development Bank (AfDB) within the Bank's deposits by international institutions account (31 December 2018: TL 22,310).

Deposits of Funds

Deposits of funds consist of the demand accounts of various funds controlled by the Presidency of the Republic of Turkey.

(12) Share Capital and Legal Reserves

According to the article 5 of the CBRT Law, the nominal capital of the Bank is TL 25,000 (full TL basis) and it is divided into 250,000 shares, with a par value of Kr 10 each. The capital may be increased with the approval of the Government. The shares are divided into (A), (B), (C) and (D) classes. The (A) group shares belong solely to the Treasury and cannot be lower than 51% of the capital.

The representation of Bank's capital between 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Nominal capital	25	25
Inflation adjustment to share capital	46,209	46,209
Total capital	46,234	46,234

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

(12) Share Capital and Legal Reserves (continued)

The list of Bank's shareholders is presented below:

	31 December 2019		31 December 2018	
	Share Amount TL (*)	Share Rate %	Share Amount TL (*)	Share Rate %
Treasury	13,780	55	13,780	55
T.C. Ziraat Bankası A.Ş.	4,806	19	4,806	19
Mervak İç ve Dış Ticaret A.Ş.	1,280	5	1,280	5
Türkiye Garanti Bankası A.Ş.	621	3	621	3
Türkiye İş Bankası A.Ş.	582	2	582	2
T.C. Sosyal Güvenlik Kurumu	422	2	422	2
Türkiye Kızılay Derneği	301	1	301	1
Türkiye Halk Bankası A.Ş.	277	1	277	1
Other	2,931	12	2,931	12
Total nominal capital	25,000	100	25,000	100

(*) Share amounts are stated in full TL basis.

6% of the Bank's annual net profit is transferred to the shareholders as the first shareholder share, 5% of the remaining amount is transferred to the employees on condition that it does not exceed the two-month salary amount, and 10% to the reserve fund. With the decision of the General Assembly over the nominal amount of the shares, the remaining amount is transferred to the Treasury after the second dividend of maximum 6% is distributed.

With the Extraordinary General Assembly Decision made on 20 January 2020, TL 5,349,978, which is the entire reserve fund that has left the 2018 profit, has been distributed by participating in the profit.

Advance dividend payment is approved in the Extraordinary General Assembly of Central Bank of the Republic of Turkey held on 20 January 2020, it is decided to pay dividends in advance and TL 35.2 billion is distributed to shareholders with respect to legislation.

In accordance with the Income Tax Law No. 7186 published in the Official Gazette dated July 9, 2019 and repeating numbered 30836, and with the Article 6 of the Law on Amending Certain Laws and the Temporary Article 12 added to the Law No: 1211 of our Bank all of the accumulated reserve funds and the part of the accumulated extraordinary reserve funds except from the profit of the last year have been transferred to the Treasury is amount of TL 40,769,702.

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

(13) Provisions

Retirement Bonus and Severance Payments

As of 31 December 2019, the Bank calculated retirement pay provision amounting to TL 209,545 (31 December 2018: TL 173,605) and recorded the full provision under the provision account.

Movement of employment termination is presented below:	<u>2019</u>	<u>2018</u>
1 January balance	173,605	143,395
Interest and service cost	40,896	32,552
Paid during the year	(4,956)	(2,342)
31 December balance	209,545	173,605

Insurance Provision for Money in Transit

As of 31 December 2019, the Bank, calculated provision for the transfer insurance of banknotes, cash and securities amounting to TL 243,056 (31 December 2018: TL 243,056) and recorded the provision amount under the provision account.

(14) Tax Liability

Corporate Tax

	<u>31 December 2019</u>	<u>31 December 2018</u>
Corporate tax	11,051,921	10,610,547
Other taxes (*)	691,973	166,326
Tax obligation – net	11,743,894	10,776,873

(*) It consists of income tax, bank insurance transactions tax, stamp duty and value added tax.

The Bank is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Bank's results for the current year.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

As of 31 December 2019, the legal tax rate is 22% (2018: 22%).

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

(14) Tax Liability (Continued)

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2019 is 22%. (2018: 22%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Tax expense for the years 2019 and 2018 is as follows:

	<u>1 January – 31 December 2019</u>	<u>1 January – 31 December 2018</u>
- Corporate tax (expense)	(11,051,921)	(10,610,547)
- Deferred tax income/(expense)	3,710	8,635
Tax expense	(11,048,211)	(10,601,912)

Deferred Tax

As of 31 December 2019 and 31 December 2018, the details of temporary differences and calculated deferred tax assets/ (liabilities) are presented below:

	<u>Total temporary differences 31 December 2019</u>	<u>Deferred tax assets/(liabilities) 31 December 2019</u>
Employee benefit obligation	209,545	46,100
Fixed asset depreciation adjustment	4,481	986
Fair value increase of equity participations	(1,618,490)	(89,017)
Net Liability	(1,404,463)	(41,931)

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AS OF 31 DECEMBER 2019**

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

(14) Tax Liability (continued)

	Total temporary differences	Deferred tax assets/(liabilities)
	31 December 2018	31 December 2018
Employee benefit obligation	173,605	38,193
Fixed asset depreciation adjustment	23,562	5,184
Fair value increase/(decrease) of equity participations	(1,342,750)	(73,851)
Net Assets	(1,145,583)	(30,474)

As of 31 December 2019 and 2018, movement of deferred tax assets is presented below:

	2019	2018
1 January balance	(30,474)	(13,917)
Deferred tax associated with the income statement, net	3,710	8,635
Deferred tax associated with other liabilities (*)	(15,166)	(25,192)
31 December Balance	(41,931)	(30,474)

(*) Associated with the fair value increase/ (decrease) in equity participations and actuarial gain.

Reconciliation of tax expense is presented below:

	%	2019	%	2018
Profit before tax		55,781,018		66,881,467
Provision calculated over the corporate tax rate	22	12,271,824	22	14,713,923
Tax free income	(2.1)	(1,232,240)	(6.1)	(4,124,329)
Undeductible expenses	-	16,560	-	22,436
Other	-	(7,933)	-	(10,118)
Tax expense/(income)	19.8	11,048,211	15.9	10,601,912

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

(15) Valuation Account

As explained in the article 2-ii-a, Section "A. Notes and Explanations related to the Current Year" of the section - I "Notes and Explanations related to the Bank and its Financial Structure", the "Valuation Account" in the balance sheet represents the unrealized foreign exchange gains and losses and price changes of gold as at the balance sheet date. Foreign exchange gains and losses and price changes of gold realized during the period are recognized in the statement of profit or loss.

(16) Other Liabilities

As of 31 December 2018, the gold reserve amounting to TL 74,914 in non-international standard kept in bank on behalf of Treasury and TL 39,401 in international standard kept in BIST on behalf of Treasury are not available as of 31 December 2019.

Breakdown of other liabilities – other is presented below:

	<u>31 December</u> <u>2019</u>	<u>31 December</u> <u>2018</u>
Payables due to foreign exchange sales with future value date	2,084,261	1,819,640
Increase /(decrease) in equity participants	1,529,540	1,268,955
Account transactions with subsequent dates	367,411	182,045
Money to be liquidated to the following period	24,970	974
Interests waiting because of its being under the limit	21,288	19,285
Prior year's gains / (losses)	17,269	1,897
Payments to heirs as a result of death	15,389	16,168
Amounts waiting for the application of beneficiaries	11,213	553
Debts from bonds waiting for court decisions	5,555	5,473
Retirement pay provision actuarial gain	2,490	2,490
Seized and prudent money	639	408
Increase in value of Turkish Lira-settled forward foreign exchange	-	305,883
Other	18,591	63,168
Total	4,098,615	3,686,939

Breakdown of other liabilities accrual expenses is presented below:

	<u>31 December</u> <u>2019</u>	<u>31 December</u> <u>2018</u>
IMF payments	11,451	14,072
Exchange rate difference from foreign exchange sale with future value date	2,724	25,320
Other	10,214	10,076
Total Accrual Expenses	24,389	49,468

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II. NOTES AND EXPLANATIONS TO THE BALANCE SHEET AND OFF BALANCE SHEET ACCOUNTS (Continued)

(17) Foreign Banks

As of 31 December 2019 and 31 December 2018, foreign bank balances are presented below:

	2019		2018	
	TL	Thousand US Dollar	TL	Thousand US Dollar
Foreign banks	11,967,963	2,014,741	10,614,052	2,017,535

III. NOTES AND EXPLANATIONS TO THE STATEMENT OF PROFIT OR LOSS

(1) Interest Income

	<u>1 January – 31 December 2019</u>	<u>1 January – 31 December 2018</u>
Interest received from banks	12.560.047	1.389.432
Interest received from interbank monetary policy operations	7.628.827	11.356.862
Interests received from transactions of purchases under agreements to resell	6.056.498	11.713.015
Interests received from TL and FC securities	3.733.945	5.070.791
Interest received from loans	985.519	605.205
Total	30.964.836	30.135.305

(2) Interest Expense

	<u>1 January – 31 December 2019</u>	<u>1 January – 31 December 2018</u>
Interest paid to banks	5,871,866	7.556.052
Interest paid to Treasury accounts	5,029,131	4.296.485
Interest paid to IMF general use of resources	84,214	68.391
Interest paid to interbank monetary policy operations	1,011,000	381.566
Interest paid to deposits by citizens abroad	-	7
Total	11,996,211	12.302.501

(3) Non-Interest Income

	<u>1 January – 31 December 2019</u>	<u>1 January – 31 December 2018</u>
Foreign exchange gains	45,039,038	71.655.718
Other non-interest income	27,611,924	4.274.596
Dividend	14,429	11.632
Total	72,665,391	75.941.946

Foreign Exchange Gains account consists of realized gains on foreign currency trading transactions during the year.

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NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

III. NOTES AND EXPLANATIONS TO THE STATEMENT OF PROFIT OR LOSS (Continued)

(4) Non-Interest Expenses

	1 January - 31 December 2019	1 January - 31 December 2018
Foreign exchange transaction losses	5,632,188	5,006,626
Losses on purchase and sale of securities and fair value decreases	1,126,275	1,666,929
Provision for non-performing loans	1,105,091	2,345,363
Wages and salaries	954,076	766,355
General administrative and banknote expenses	374,177	326,181
Social security expenses	129,205	93,889
Depreciation expense	65,677	55,022
Loss from Turkish Lira-settled forward foreign exchange transactions	32,155	15,268,191
Other non-interest expenses	27,206,515	2,040,912
Total	36,625,359	27,569,468

Foreign Exchange Losses account consists of realized losses on foreign currency trading transactions during the year.

Provisions for non-performing loans consists of the provisions provided for the accrued interest income on non-performing loans amounting to TL 45,682 (2018: TL 36,045) and provision provided for the foreign exchange difference on non-performing loans amounting to TL 1,059,408 occurred due to fluctuations in foreign exchange rates during the year (2018: TL 2,309,318).

IV. NOTES AND EXPLANATIONS TO CASH FLOW STATEMENT

(1) Cash and cash equivalents at the beginning of the period:

	1 January 2019	1 January 2018
Foreign Currency Banknotes	18,069,286	10,581,358
Coins	83,670	61,492
Foreign Correspondents / Deposit	49,244,446	21,967,858
Foreign Correspondents / Other	185,506,622	32,519,549
Receivables from Money Market Operations	109,000,001	137,407,700
Domestic Correspondents	6,228,564	19,462,966
Cash and cash equivalents	368,132,589	222,000,923

(2) Cash and cash equivalents at the end of the period:

	31 December 2019	31 December 2018
Foreign Currency Banknotes	22,336,578	18,069,286
Coins	122,161	83,670
Foreign Correspondents / Deposit	81,983,084	49,244,446
Foreign Correspondents / Other	160,375,796	185,506,622
Receivables from Money Market Operations	14,689,000	109,000,001
Domestic Correspondents	-	6,228,564
Cash and cash equivalents	279,506,619	368,132,589

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

V. SUPPLEMENTARY FINANCIAL STATEMENTS

Presentation of assets and liabilities according to their remaining maturities

CURRENT PERIOD(31 December 2019)	No Maturity	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 years	5 years and over	Undistributed	Total
ASSET								
Gold Reserves	119,985,247	40,919,329	-	-	-	-	-	160,904,576
Foreign Currency Banknotes	22,336,578	-	-	-	-	-	-	22,336,578
Foreign Correspondents	160,375,796	81,320,150	27,777,073	71,412,365	102,046,872	379,276	-	443,311,532
Reserve Tranche Position	927,191	-	-	-	-	-	-	927,191
Securities Portfolio	-	1,415,016	2,082,350	1,911,544	9,649,572	4,348,982	-	19,407,464
Receivables from Money Market Operations	-	14,698,176	-	-	-	-	-	14,698,176
Domestic Correspondents	-	-	-	-	-	-	-	-
Loans	53,827	9,441,864	28,813,536	64,330,979	-	-	-	102,640,206
Equity Participations	-	-	-	-	-	-	1,760,394	1,760,394
Treasury Liability due to SDR Allocation	8,808,044	-	-	-	-	-	-	8,808,044
Fixed Assets (Net)	-	-	-	-	-	-	621,220	621,220
Loans Under Legal Follow-up (net)	-	-	-	-	-	-	-	-
Deferred Tax Asset	-	-	-	-	-	-	-	-
Other Assets	10,523,199	-	10,317	-	-	-	64,306	10,597,822
Total Assets	323,009,882	147,794,535	58,683,276	137,654,888	111,696,444	4,728,258	2,445,920	786,013,203
LIABILITY								
Currency in Circulation	153,362,376	-	-	-	-	-	-	153,362,376
Payables due to Money Market Operations	-	4,768,788	-	-	-	-	-	4,768,788
Deposits	235,288,851	253,416,142	-	-	-	-	-	488,704,993
Foreign Correspondents	7,147,947	4,820,016	-	-	-	-	-	11,967,963
Reserve Tranche Position	927,191	-	-	-	-	-	-	927,191
SDR Allocation	8,808,044	-	-	-	-	-	-	8,808,044
Tax Liability	-	-	-	-	-	-	11,785,826	11,785,826
Provisions	-	-	-	-	-	-	452,601	452,601
Share Capital and Legal Reserves	-	-	-	-	-	-	5,557,383	5,557,383
Valuation Account	-	-	-	-	-	-	50,660,801	50,660,801
Profit for the Year	-	-	-	-	-	-	44,732,807	44,732,807
Other Liabilities	2,573,706	-	-	-	-	-	1,710,724	4,284,430
Total Liabilities	408,108,115	263,004,946	-	-	-	-	114,900,142	786,013,203
Net Liquidity Position	(85,098,233)	(115,210,411)	58,683,276	137,654,888	111,696,444	4,728,258	(112,454,222)	-

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NOTES AND EXPLANATIONS TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

FV. SUPPLEMENTARY FINANCIAL STATEMENTS (Continued)

Presentation of Assets and Liabilities according to their remaining maturities

PRIOR PERIOD(31 December 2018)	No Maturity	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 years	5 years and over	Undistributed	Total
ASSET								
Gold Reserves	105,904,019	-	-	-	-	-	-	105,904,019
Foreign Currency Banknotes	18,069,286	-	-	-	-	-	-	18,069,286
Foreign Correspondents	185,506,622	52,680,170	4,673,619	32,298,912	88,722,781	666,207	-	364,548,311
Reserve Tranche Position	825,727	-	-	-	-	-	-	825,727
Securities Portfolio	-	-	1,152,289	1,454,692	8,653,673	2,443,131	-	13,703,785
Receivables from Money Market Operations	-	109,297,097	-	-	-	-	-	109,297,097
Domestic Correspondents	-	6,230,499	-	-	-	-	-	6,230,499
Loans	47,671	7,844,816	17,537,737	55,552,066	-	-	-	80,982,290
Equity Participations	1,468,827	-	-	-	-	-	-	1,468,827
Treasury Liability due to SDR Allocation	7,844,169	-	-	-	-	-	-	7,844,169
Fixed Assets (Net)	-	-	-	-	-	-	541,979	541,979
Loans Under Legal Follow-up (net)	-	-	-	-	-	-	-	-
Deferred Tax Asset	-	-	-	-	-	-	-	-
Other Assets	12,006,820	-	12,683	-	-	-	64,307	12,083,810
Total Assets	331,673,141	176,052,582	23,376,328	89,305,670	97,376,454	3,109,338	606,286	721,499,799
LIABILITY								
Currency in Circulation	132,261,722	-	-	-	-	-	-	132,261,722
Payables due to Money Market Operations	-	13,597,426	-	-	-	-	-	13,597,426
Deposits	28,811,448	383,468,226	-	-	-	-	-	412,279,674
Foreign Correspondents	10,614,052	-	-	-	-	-	-	10,614,052
Reserve Tranche Position	825,727	-	-	-	-	-	-	825,727
SDR Allocation	7,844,169	-	-	-	-	-	-	7,844,169
Tax Liability	-	-	10,807,347	-	-	-	-	10,807,347
Provisions	-	-	-	-	-	-	416,662	416,662
Share Capital and Legal Reserves	-	-	-	-	-	-	27,602,161	27,602,161
Valuation Account	-	-	-	-	-	-	45,004,665	45,004,665
Profit for the Year	-	-	-	-	-	-	56,279,555	56,279,555
Other Liabilities	1,809,322	768,057	-	-	-	-	1,389,260	3,966,639
Total Liabilities	182,166,440	397,833,709	10,807,347	-	-	-	130,692,303	721,499,799
Net Liquidity Position	149,506,701	(221,781,127)	12,568,981	89,305,670	97,376,454	3,109,338	(130,086,017)	-