Fibabanka A.Ş.
and Its Subsidiaries

Consolidated Financial Statements
As of and for the year ended
31 December 2019 with
Independent Auditor's Report Thereon

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Independent Auditors' Report

To the General Assembly of Fibabanka Anonim Şirketi,

Qualified Opinion

We have audited the consolidated financial statements of Fibabanka Anonim Şirketi ("the Bank") and its subsidiaries (together will be referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Qualified Opinion

As stated in Note 21, the accompanying consolidated financial statements as at 31 December 2019 include a general provision of total of TL 44.500 thousands, of which TL 65.000 thousands was recognised as expense in prior years and TL 20.500 thousands has been reversed in the current period, which does not meet the requirements of International Accounting Standard ("IAS") 37 "Provisions, Contingent Liabilities and Contingent Assets". This general provision is provided by the Bank management for the possible effects of the negative circumstances which may arise in economy or market conditions. Additionally, the accompanying consolidated financial statements as at 31 December 2019 include a deferred tax asset for aforementioned general reserve provision of total of TL 9.790 thousand, of which TL 14.300 thousand was recognised in prior years and TL 4.510 thousands has been reversed in the current period.

We conducted our audit in accordance with International Standards on Auditing ("ISA"s). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of loans and advances to customers

Refer to "Significant accounting policies" Note 3.10 to the consolidated financial statements relating to the impairment of loans and advances to customers.

Key audit matter	*How the matter is addressed in our audit*
As at 31 December 2019, loans measured at amortised cost comprise 65% of the Group's total assets. The Group recognizes its loans and advances to customers in accordance with IFRS 9 Financial Instruments ("Standard"). The Group applies the "expected credit loss model" in determining the impairment of loans and advances to customers in accordance with the Standard. The model which contains significant assumptions and estimates is reviewed by the Group management annually. The significant assumptions and estimates of the Group's management are as follows: - significant increase in credit risk; - incorporating the forward looking macroeconomic information in calculation of credit risk; and - design and implementation of expected credit loss model.	Our procedures for testing impairment of loans and advances to customers included below: • We tested the design, implementation and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment process with the involvement of information risk management specialists. • We evaluated the adequacy of the subjective and objective criteria that is defined in the Group's impairment accounting policy compared with the Standard. • We evaluated the Group's business model and methodology and the evaluation of the calculations were carried out with the control testing and detailed analysis by the involvement of specialist. • We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information and tested their classification. In this context, the current status of the loan customer has been evaluated by including prospective information and macroeconomic variables.

The determination of the impairment of loans measured at amortised cost depends on the (i) credit default status, (ii) the model based on the change in the credit risk at the first recognition date and (iii) the classification of the loans measured at amortised cost according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets. The Group calculates expected credit losses on both an individual and a collective basis. Individual provisions consider the estimated future performance of the business and the fair value of the collateral provided for credit transactions. The collective basis expected credit loss calculation is based on complex processes which are modelled by using current and past data sets and expectations. The completeness and accuracy of data sets in the model are also considered and the forward looking expectations are reflected by macroeconomic models. Impairment on loans measured at amortised cost was considered to be a key audit matter, due to the significance of the estimates, assumptions, the level of judgements and its complex structure as explained above.	• We evaluated the accuracy of the expected credit loss calculations by selecting sample for the loans which are assessed on individual basis and discussed the assumptions and estimates with the Group management. • We tested the accuracy and completeness of the data in the calculation models for the loans which are assessed on collective basis. The expected credit loss calculation was tested through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters for the selected sample portfolios were recalculated. • We assessed the macroeconomic models which are used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method. • We evaluated the qualitative and quantitative assessments which are used in determining the significant increase in credit risk. • We also evaluated the adequacy of the consolidated financial statements' disclosures related to impairment provisions.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2018 was audited by another auditor who expressed a qualified opinion due to the general reserve provisions provided by the Group Management on 30 May 2019.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member firm of KPMG International Cooperative

Alper Güvenç
Partner

30 July 2020
Istanbul, Turkey

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Consolidated Statement of Financial Position as at 31 December 2019

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

	Notes	31 December 2019	31 December 2018
Assets			
Cash and balances with Central Bank	7	2,707,721	1,764,460
Due from banks		520,489	1,271,631
-Due from banks	8	*490,479*	*965,431*
-Money market placements	8	*30,010*	*306,200*
Financial assets at fair value through profit and loss (Net)		2,697,120	3,073,375
-Loans	*13*	*1,948,020*	*1,516,819*
-Debt instruments	*9*	*97,737*	*75,800*
-Derivative financial assets held for trading	*10*	*651,363*	*1,480,756*
Financial assets measured at FVOCI	11	807,568	704,338
Financial assets measured at amortised cost	12	575,010	363,032
Loans and advances to customers	13	13,650,946	12,572,795
Derivative financial assets held for hedging	14	87,539	--
Investments in equity instruments	15	27,743	24,052
Property and equipment	17	355,401	258,165
Intangible assets	18	69,895	35,002
Deferred tax assets	27	54,308	79,155
Other assets	16	302,665	440,106
Total Assets		**21,856,405**	**20,586,111**
Liabilities			
Deposits from customers	20	13,508,890	10,671,634
Deposits from banks		782,383	1,135,691
-Deposits from banks	19	*49,126*	*639,755*
-Obligations under repurchase commitments	19	*733,257*	*495,936*
Funds borrowed	22	859,381	1,339,212
Securities issued	23	1,718,332	1,842,585
Derivative financial liabilities held for trading	24	674,761	1,314,414
Derivative financial liabilities held for hedging	25	113,444	201,839
Subordinated debts	26	1,789,018	1,596,143
Other liabilities and provisions	21	750,854	1,161,918
Total Liabilities		**20,197,063**	**19,263,436**
Equity			
Share capital	28	943,684	943,684
Share premium	28	128,678	128,678
Other capital reserves	28	81,575	--
Items that may be reclassified subsequently to profit or loss			
-Unrealized gains(losses) on financial assets measured at FVOCI, net of tax	28	15,774	(26,572)
Items that will not be reclassified subsequently to profit or loss			
-Actuarial losses on employee termination benefits		(7,777)	(5,743)
Retained earnings	28	497,321	282,570
Equity attributable to owners of the bank		**1,659,255**	**1,322,617**
Non-controlling interest		87	58
Total Shareholders' Equity		**1,659,342**	**1,322,675**
Total Liabilities and Shareholders' Equity		**21,856,405**	**20,586,111**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss for the year ended 31 December 2019

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

	Notes	1 January – 31 December 2019	1 January – 31 December 2018
Interest income	31	2,778,318	2,842,409
Interest expense	31	(2,063,890)	(2,142,424)
Net interest income		**714,428**	**699,985**
Fees and commission income	32	268,315	164,058
Fees and commission expenses	32	(34,614)	(37,003)
Net fee and commission income		**233,701**	**127,055**
Net trading income	33	161,995	165,487
Other operating income	34	132,171	38,863
		294,166	**204,350**
Operating income		**1,242,295**	**1,031,390**
Personnel expenses	35	(276,941)	(243,226)
Depreciation and amortisation	17,18	(55,013)	(19,202)
Impairment losses on loans and advances	13	(482,997)	(405,626)
Other expenses	36	(173,654)	(181,037)
Profit before income tax		**253,690**	**182,299**
Income tax	27	(38,910)	(39,529)
Profit for the period		**214,780**	**142,770**
Profit attributable to:			
Equity holders of the Bank		214,751	142,766
Non-controlling interests		29	4
		214,780	**142,770**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Other Compehensive Income for the year ended 31 December 2019

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

	1 January-31 December 2019	**1 January-31 December 2018**
Profit for the year	**214,780**	**142,770**
Other comprehensive income / (expense)	**--**	**--**
Items that maybe reclassified subsequently to profit or loss	**42,346**	**15,673**
-Unrealized gains / losses on financial assets measured at FVOCI	*52,393*	*(19,660)*
-Tax effect of unrealized gains / losses on financial assets measured at FVOCI	*(10,047)*	*3,987*
Items that will not be reclassified subsequently to profit or loss	**2,034**	**1,107**
-Actuarial losses on employee termination benefits	*(2,542)*	*(1,384)*
-Tax effect of actuarial losses on employee termination benefits	*508*	*277*
Other comprehensive income / (expense) for the year, net of tax	**40,312**	**(16,780)**
Total comprehensive income for the year	**255,092**	**125,990**
Attributable to:		
Equity Holders of the Bank	255,063	125,986
Non – controlling interest	29	4

The accompanying notes are an integral part of these consolidated financial statements.

Fibabanka Anonim Şirketi and its Subsidiary

Consolidated Statement of Changes in Equity for the year ended 31 December 2019

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

	Share Capital	Share premium	Other capital reserves	Retained earnings / (accumulated losses)	Items that maybe reclassified subsequently to profit or loss	Items that will not be reclassified subsequently to profit or loss	Non-controlling Interest	Total
					Unrealized gains (losses) on financial assets measured at FVOCI	Actuarial gains / (losses)		
Balances at 1 January 2018	**943,684**	**128,678**	--	**336,345**	**(10,899)**	**(4,636)**	**54**	**1,393,226**
Share capital increase	--	--	--	--	--	--	--	--
Impact of adopting IFRS 9	--	--	--	(196,541)	--	--	--	(196,541)
Total comprehensive income for the year	--	--	--	**142,766**	**(15,673)**	**(1,107)**	**4**	**125,990**
Additions to unrealized gains / (losses) on financial assets measured at FVOCI, net of deferred tax	--	--	--	--	(15,673)	--	--	(15,673)
Actuarial losses on employee termination benefits, net of deferred tax	--	--	--	--	--	(1,107)	--	(1,107)
Net profit for the year	--	--	--	142,766	--	--	4	142,770
Balances at 31 December 2018	**943,684**	**128,678**	--	**282,570**	**(26,572)**	**(5,743)**	**58**	**1,322,675**
Total comprehensive income for the year	--	--	--	**214,751**	**42,346**	**(2,034)**	**29**	**255,092**
Additions to unrealized gains / (losses) on financial assets measured at FVOCI, net of deferred tax	--	--	--	--	42,346	--	--	42,346
Actuarial losses on employee termination benefits, net of deferred tax	--	--	--	--	--	(2,034)	--	(2,034)
Subordinated debt(*)	--	--	81,575	--	--	--	--	81,575
Net profit for the year	--	--	--	214,751	--	--	29	214,780
Balances at 31 December 2019	**943,684**	**128,678**	**81,575**	**497,321**	**15,774**	**(7,777)**	**87**	**1,659,342**

Group has classified the additional borrowing of TL 100,000 nominal and its interest expense, which has a capital stock character, under "other capital reserves" according to the "IAS 32 Financial Instruments: Presentation" Standards ("IAS 32").

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year ended 31 December 2019

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

	Notes	1 January-31 December 2019	1 January-31 December 2018
Net profit/(loss) for the year		**214,780**	**142,770**
Adjustments for:			
Depreciation of property and equipment	17	42,225	12,970
Amortization of intangible assets	18	12,788	6,280
Impairment losses on loans and advances, net		234,329	339,188
Unearned revenue		2,683	(9,515)
Employment termination benefits	21	6,409	3,544
Unused vacation pay provision		1,558	507
Other provisions (net)		(5,374)	1,038
Bonus provision		1,001	7,750
Unrealized gains on financial assets/liabilities		3,392	15,673
Taxation	27	38,910	39,529
Operating profit before changes in operating assets/liabilities		**552,701**	**559,734**
Changes in operating assets and liabilities:			
Net increase in balances with banks and central bank		(221,234)	940,948
Net decrease in financial assets at fair value through profit & loss		(453,135)	800,369
Net increase in loans		(1,312,481)	278,356
Net increase in other assets		161,495	(903,384)
Net increase in deposits		2,918,268	(1,018,314)
Net increase in other taxes & liabilities		(1,251,928)	(787,106)
Employment termination benefits paid	21	(4,984)	(5,309)
Taxes paid		(48,849)	(32,361)
Bonuses paid		(12,000)	(8,157)
Net cash used in operating activities		**327,853**	**(175,226)**
Cash flow from investing activities:			
Purchase of financial assets measured at FVOCI		(203,590)	(92,549)
Proceeds from sale of financial assets measured at FVOCI		257,817	158,477
Purchase of financial assets measured at amortised cost		(275,388)	193,392
Proceeds from sale of financial assets measured at amortised cost		63,410	--
Purchase of property & equipment	17	(109,357)	(78,303)
Purchase of intangible assets	18	(50,298)	(35,332)
Net cash used in investing activities		**(317,406)**	**145,685**
Cash flow from financing activities:			
Proceeds from borrowing funding loans		191,995	776,839
Payments of borrowing funding loans		(233,788)	(189,320)
Proceeds from issue of subordinated liabilities		77,295	--
Net cash provided by financing activities		**35,502**	**587,519**
Net (decrease)/increase in cash & cash equivalents		**45,949**	**557,980**
Cash & cash equivalents at the beginning of the year	7	**2,087,665**	**1,296,272**
Foreign exchange effect on cash and cash equivalents		(75,064)	233,413
Cash & cash equivalents at the end of the year	7	**2,058,550**	**2,087,665**

The accompanying notes are an integral part of these consolidated financial statements.

1. General Information

On 21 December 2001, Share Transfer Agreement was signed with Novabank S.A. for the sale of all shares of Sitebank A.Ş. under the control of the Savings Deposit Insurance Fund ("SDIF") and the sale transaction was approved by the decision of the Banking Regulation and Supervision Agency ("BRSA") No: 596 on 16 January 2002.

In the General Assembly held on 4 March 2003, the name of Sitebank A.Ş. was amended as BankEuropa Bankası A.Ş.

In the extraordinary General Assembly held on 28 November 2006, the name of BankEuropa Bankası A.Ş. was amended as Millennium Bank A.Ş.

On 10 February 2010, Banco Comercial Portugues S.A. and Credit Europe Bank N.V., which is an affiliate of Fiba Group, signed a share purchase agreement to transfer 95% of Millennium Bank A.Ş.'s shares to Credit Europe Bank N.V. and the legal approval process has been completed as of 27 December 2010. Credit Europe Bank N.V. is 100% owned by Credit Europe Group N.V. which is a banking group incorporated in Netherlands and an affiliate of Fiba Holding A.Ş.

In the extraordinary General Assembly held on 25 April 2011 the name of Millennium Bank A.Ş. has been amended as Fibabanka A.Ş. ("the Bank").

As of December 2012, Fiba Holding A.Ş. became the ultimate parent of the Bank after acquiring 97.6% of the shares from Credit Europe Bank N.V. on 3 December 2012 and 2.4% of the shares from Banco Comercial Portugues S.A. on 7 December 2012. There were sales of equity shares to the management of the Bank in 2013. Total share of the management is 0.6% as of 31 December 2019.

The Parent Bank applied to the BRSA on 14 January 2015 for permission of the subordinated loan provided from Fiba Holding A.Ş. in the amount of USD 50 million to be converted to share capital. Following the authorization of the BRSA on 4 March 2015, the Board of Directors decision was taken on 5 March 2015 regarding share capital increase of TL 128,860, TL 127,045 of the increase was provided by the subordinated loan granted by Fiba Holding A.Ş. which had been approved to be converted to capital and TL 1,815 of total capital was paid in cash by the other shareholders, capital increase was recognised in financial satements following the completion of the legal procedures on 7 May 2015.

The Bank's paid-in capital was increased by TL 168,655 in total on 23 December 2015 with equal contributions from International Finance Corporation ("IFC") and European Bank for Reconstruction and Development ("EBRD"). In addition, share issuance premium of TL 73,379 was recognised in the shareholders' equity.

The Bank's paid-in capital amounting to TL 850,038 was increased to TL 943,684 on 7 September 2016 with the capital contribution of TurkFinance B.V. by TL 93,646. In addition, share issuance premium of TL 55,299 was recognised in the shareholders' equity.

As of 31 December 2019, the Bank's full paid in capital is TL 943,684.

As of 31 December 2019, the Bank has 63 domestic branches and its head office is located at the following address: Esentepe Mah. Büyükdere Cad. No: 129 Şişli / İstanbul (31 December 2018: 72 domestic branches).

1. General Information (continued)

Explanations on Subsidiaries

Fiba Portföy Yönetimi A.Ş.

Fiba Portföy Yönetimi A.Ş. ("Fiba Portföy") which is a 99% owned subsidiary of the Bank, established in September 2013 in İstanbul, was consolidated by using full consolidation method in the consolidated financial statements as at 31 December 2019.

Fiba Portföy's application to Capital Market Board ("CMB") about portfolio management authorization certificate was issued successfully and PYŞ. PY 56/1267 numbered 12 December 2013 dated authorization certificate was given to Fiba Portföy.

The aim of Fiba Portföy is to manage portfolios which consist of financial assets within the implementation of CMB's laws and relevant legislation rules with portfolio management contract as a representative and trade in capital markets. Besides, Fiba Portföy can manage local and foreign investment funds, investment trusts, local/foreign natural and legal people, investment firms and similar enterprises within the circle of legislation conditions as portfolio management activities. Fiba Portföy can also function on investment consulting activity, market consultancy and trading on shares of investment funds at Borsa İstanbul A.Ş. Emerging Companies Market on the condition that articles of the capital market legislation is fulfilled and necessary permission and authorization certificates are taken from Capital Markets Board. The Bank owns 99% of the equity of Fiba Portföy whose headquarters is located in Istanbul.

Finberg Araştırma Geliştirme Danışmanlık Yatırım Hizmetleri A.Ş.

Finberg Araştırma Geliştirme Danışmanlık Yatırım Hizmetleri Anonim Şirketi ("Finberg") which is a 100% owned subsidiary of the Bank, established in 2018 in İstanbul, was consolidated by using full consolidation method in the consolidated financial statements as at 31 December 2019.

Finberg is an investment and financial technology venture. Achieving a first in the Turkish banking industry, Finberg is intended to promote entrepreneurship and financial technologies. Aiming to partner with medium-scale companies and offer consultancy services in areas with growth potential, Fibabanka provides financing and added value to enterprises in the fields of mobile payment, income-expense monitoring and money transfer.

Finberg's aim is to offer customers both conventional banking products and the new products emerging from the combination of financial services and technology. As well, Finberg is designed to reach new customers and extend the Bank's knowledge of existing customers through such technological products, providing services to them with the right products. Furthermore, other purposes include minimizing the high costs and long timelines posed by the provision of products and services, while eliminating the challenges associated with accessing customer information and incorrect information, as encountered in conventional banking products.

Fibabanka A.Ş., Fiba Portföy Yönetimi A.Ş. and Finberg Araştırma Geliştirme Danışmanlık Yatırım Hizmetleri A.Ş. are together stated as the "Group" in this report.

The Group has 1,554 employees as of 31 December 2019 (31 December 2018: 1,602 employees).

2. The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2019 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2019. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2019 are as follows:

IFRS 16 Leases

IFRS 16 Leases standard was promulgated in Official Gazette No. 29826, dated 16 April 2018 to be applied in the accounting period starting after 31 December 2018. The Parent Bank applied IFRS 16 Leases standard as of 1 January 2019, the date of first implementation.

The Group has adopted new standard, changes and commands, which are valid as of 1 January 2019, in line with the IFRS 16 Leases standard's first time applying transition commands.

The Group, as a lessee, reflected its right and liability to use the asset pertaining to the lease to its financial tables. The new accounting principles is similar with the prior principles for the leaser.

The Group applied "partial conversion approach" which led to equalization of beneficial property and leasing liabilities, during the first transition to IFRS 16, by taking all benefits of easing conditions. According to this, comparative information presented in the context of IAS 17 and related interpretations were not restated.

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

IFRS 17 - The new Standard for insurance contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2023 but companies can apply it earlier.

The standard is not applicable for the Group and will not have any impact on the financial position or performance of the Group.

2. The new standards, amendments and interpretations (continued)

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 4 has been amended by IASB to reduce the impact of the differing effective dates of the new insurance contracts standard and IFRS 9. These amendments to IFRS 4 provide two optional solutions for insurers to reduce concerns about implementations: i) when applying IFRS 9 by insurers to its financial assets, an insurer will be permitted to reclassify the difference between profit or loss and other comprehensive income and the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39; or ii) an optional temporary exemption from applying IFRS 9 for companies whose activities are predominantly connected with insurance before January 1, 2021. These companies will be permitted to continue to apply existing requirements for financial instruments in IAS 39.

The standard is not applicable for the Group and will not have any impact on the financial position or performance of the Group.

The revised Conceptual Framework (Version 2018)

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018, IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amended “definition of material “was added to the important definition and it was stated that this expression could lead to similar results by not giving and giving misstating information. In addition, with this amendment, the terminology used in its definition of material has been aligned with the terminology used in the Conceptual Framework for Financial Reporting (Version 2018). Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.

2. The new standards, amendments and interpretations (continued)

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. IASB has issued amendments to IFRS 3 Business Combinations to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. With these amendments confirmed that a business must include inputs and a process, and clarified that the process shall be substantive and the inputs and process must together significantly contribute to creating outputs. It narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a concentration test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This is a simplified assessment that results in an asset acquisition of substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020; with earlier application permitted.

The amendment is not applicable for the Group and will not have any impact on the financial position or performance of the Group.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Interest Rate Benchmark Reform, which amended IFRS 9, IAS 39 and IFRS 7 issued in September 2019, added Section 6.8 and amended paragraph 7.2.26. About this issue, IASB identified two groups of accounting issues that could affect financial reporting. These are:

• pre-replacement issues—issues affecting financial reporting in the period before the reform; and
• replacement issues—issues that might affect financial reporting when an existing interest rate benchmark is either reformed or replaced.

IASB considered the pre-replacement issues to be more urgent and decided to address the following hedge accounting requirements as a priority in the first phase of the project:
(a) The highly probable requirement;
(b) Prospective assessments;
(c) IAS 39 retrospective assessment; and
(d) Separately identifiable risk components.

All other hedge accounting requirements remain unchanged. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2020 with earlier application permitted.

3 Significant Accounting Policies

i. Statement of Compliance

The Bank and its subsidiaries maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Accounting Practice Regulations as promulgated by BRSA, the Turkish Commercial Code and the Turkish Tax Legislation (collectively, Turkish GAAP).

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS"). The accompanying financial statements are authorized for issue by the directors on 30 July 2020.

ii. Basis of Preparation

The accompanying financial statements are presented in thousands of TL, which is the Group's functional currency.

The financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair value if reliable measures are available: derivative financial assets held for trading, derivative financial assets held for hedging, financial assets at fair value through profit or loss, financial assets measured at FVOCI,derivative financial liabilities held for trading and derivative financial liabilities held for hedging.

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

iii. Basis of Consolidation

According to full consolidation method, the subsidiaries' 100% of assets, liabilities, revenues, expenditures and off-balance sheet liabilities were combined with the Parent Bank's assets, liabilities, revenues, expenditures and off-balance sheet liabilities. Book value of the investment in the Group's subsidiaries and the portion of the cost of subsidiaries' capital belonging to the Group are eliminated. All intragroup balances and income and expenses relating to transactions between the Bank and its subsidiaries are eliminated in full on consolidation. Non-controlling interest shares in the net income of consolidated subsidiaries determined the net income of the Group and were demonstrated as a separate item in the income statement. Non-controlling interest shares were presented under equity in the consolidated financial statement.

iv. Use of Estimates and Judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these financial statements, the significant judgments such as loan loss provision and deferred tax recoverability made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2019.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(Amounts expressed in thousands of TL unless otherwise indicated.)

3 Significant Accounting Policies (continued)

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the effect on the amounts recognised in the financial statements are described in notes "vi" to "xx".

v. Reclassification of Comparative Information

In order to comply with the presentation of the current period financial statements, comparative information is reclassified when necessary and significant differences are explained.

vi. Foreign Currency Translation

For the purpose of the accompanying financial statements, the consolidated results and consolidated financial position of the Group is expressed in Turkish Lira, which is the functional currency of the Group, and the presentation currency for the accompanying consolidated financial statements.

Transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts, swaps and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

As at 31 December 2019 and 31 December 2018 foreign currency assets and liabilities of the Group are mainly in USD, EUR and CHF. Foreign currency translation rates used by the Group as of respective year-ends are as follows:

	EUR / TL	USD / TL
31 December 2019	6.6506	5.9402
31 December 2018	6.0280	5.2609

3 Significant Accounting Policies (continued)

vii. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Property	50 years
Vehicles	5 years
Furniture, fixtures and office equipment and others	4-50 years

The residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each year end.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognized in the income statement. There is no impairment recorded related to property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

viii. Intangible Assets

Intangible assets acquired are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful lives of 3 to 10 years. There are no intangible assets with indefinite useful lives.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

(Amounts expressed in thousands of TL unless otherwise indicated.)

3 Significant Accounting Policies (continued)

ix. Earnings per share

Earnings per share disclosed in the statement of profit or loss are calculated by dividing net profit for the year by the weighted average number of shares outstanding during the related period concerned

	31 December 2019	**31 December 2018**
Net Profit distributable to Common Shares	214,780	142,770
Average Number of Issued Common Shares (Thousand)	94,116,055	94,116,055
Earnings Per Share (Amounts presented as full TL)	**0.00228**	**0.00152**

In Turkey, companies can increase their share capital by distributing "bonus shares" to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the year in which they were issued and for each earlier period. In case bonus shares are distributed after the balance sheet date but before the preparation of the financial statements, earnings per share is calculated considering the new number of shares.

There are no bonus shares issued by the Group in 2019 (31 December 2018: None).

x. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

xi. Financial Instruments

Initial recognition of financial instruments

It shall be recognised a financial asset or a financial liability in the statement of financial position when, and only when, an entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using settlement date accounting.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. At initial recognition, the Group shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification of financial instruments

On which category a financial instrument shall be classified at initial recognition depends on both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

3 Significant Accounting Policies (continued)

As per IFRS 9, the Parent Bank classifies a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at fair value through profit or loss. The Parent Bank tested all financial assets whether their "contractual cash-flows solely represent payments of principal and interest" and assessed the asset classification within the business model.

Assessment of business model

As per IFRS 9, the Parent Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Parent Bank's business models are divided into three categories:

Business model aimed to hold assets in order to collect contractual cash flows

This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Receivables from the Central Bank, banks, money market placements, investments under financial assets measured at amortized cost, large part of the loans, leasing receivables, factoring receivables and other receivables are assessed within this business model.

Business model aimed to collect contractual cash flows and sell financial assets

This is a model whose objective is achieved by both collecting contractual cash flows and selling financial assets: the Parent Bank may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial Assets Measured at Fair Value through Other Comprehensive Income are assessed in this business model.

Other business models

Financial assets are measured at fair value through profit or loss when they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial Assets Measured at Fair Value Through Profit/Loss are assessed in this business model.

3 Significant Accounting Policies (continued)

a) <u>Financial Assets</u>

Financial assets include cash on hand, contractual rights to receive cash or another financial asset from the counterparty or the right to exchange of financial instruments or equity instrument transactions of the counterparty. Financial assets are classified into three groups as financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and financial assets measured at amortized cost. The Group classifies its financial assets based on the Group's business model and characteristics of the contractual cash flows in accordance with IFRS 9 and uses significant judgment on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments.The Group determines the classification of its financial assets at initial recognition.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date i.e. the date that the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

- ***Financial assets measured at fair value through profit or loss***

Financial assets measured at fair value through profit or loss are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets measured at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair values after recognition. All gains and losses arising from these valuations are reflected in the statement of profit or loss.

Loans measured at fair value through profit or loss are subject to valuation in accordance with fair value principles and profit or losses, emerging as a result of valuation, are recognized under profit/loss accounts.

3 Significant Accounting Policies (continued)

➢ ***Financial assets measured at fair value through other comprehensive income***

Financial assets are measured at fair value through other comprehensive income if financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on principal amount outstanding.

Financial assets measured at fair value through other comprehensive income are recognized by adding transaction costs to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets measured at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the “Accumulated other comprehensive income or loss to be reclassified through profit or loss” under shareholders’ equity. When these securities are collected or disposed of, the accumulated fair value differences reflected in the equity are recognized in the income statement.

Equity securities, which are classified as financial assets measured at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

As of 31 December 2019, total amount of financial assets measured at fair value through other comprehensive income is TL 807,568 (31 December 2018: TL 704,338), of which TL 502,506 comprises of private bank and corporate bonds denominated in foreign currencies with maturity more than 1 year (31 December 2018: TL 498,124).

➢ ***Financial assets measured at amortized cost***

Financial assets 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.

Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is accounted in income statement.

3 Significant Accounting Policies (continued)

➢ ***Loans and Receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Except for loans and advances designated as hedged item in qualifying hedging relationships and carried at fair value, such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

➢ ***Explanations on expected credit loss***

The Parent Bank recognizes expected credit loss allowance for financial assets measured at amortized cost and measured at fair value through other comprehensive income.

As of 1 January 2018, the Parent Bank recognizes provisions for impairment in accordance with IFRS 9 requirements by applying the expected credit loss model under IFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

The financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1
For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk will be recorded in the amount of 12-month expected credit losses.

Stage 2
In the event of a significant increase in credit risk since initial recognition, the financial asset will be transferred to Stage 2. Impairment for credit risk will be determined on the basis of the instrument's lifetime expected credit losses.

Stage 3

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized.

As part of IFRS 9, expected credit loss models are improved in process of exposure at default, probability of default and loss given default. These models are formed by taking into consideration internal ratings systems, past data and prospective expectations and considering below factors;

- Costumer type (individual, corporate, commercial and SME)
- Product type
- Ratings used as part of internal ratings systems
- Collaterals
- Collection period
- Exposure at default
- Time passed from loan disbursement
- Time to maturity

3. Significant Accounting Policies (continued)

Exposure at Default: Expresses the exposure amount when debtor defaults. It accounts along with the maturity of the borrower.
The amount of additional risk that may occur in case of default is added to the amount of risk and included in the calculations by using the credit conversion rates (CCR) for irrevocable commitments.

Probability of Default: Refers to the probability of default due to the inability of the debtor to fulfill its obligations. 12-month or lifetime estimation is performed according to whether there is an increase in credit risk or not.

Loss Given Default: In the default of the borrower, it is calculated as the expected credit loss to exposure at default. Loss given default models include inputs such as product type, customer segment, collateral structure, customer payment performance.

Macroeconomic Factors: Macroeconomic indicators are taken into account in determining the probability of default component in the expected credit loss calculation. Future macroeconomic forecasts are reflected in the expected credit loss calculations using more than one scenario.

While macroeconomic information is included, models and estimates reflecting the relationships between model risk parameters and macroeconomic variables are taken into consideration. The main macroeconomic indicators that make up these estimation models are the Gross Domestic Product (GDP) and the unemployment rate.

Macroeconomic estimation models include more than one scenario and the related scenarios are taken into account in the expected credit loss calculations.

Future expectations are determined based on 2 scenarios, base and negative. Each scenario has predetermined weights, and the final provisions are calculated by weighting on these probabilities.

Calculation of Expected Loss Period: In determining the lifetime expected credit loss, the period in which the Parent Bank will be exposed to credit risk is taken into consideration. Behavioral maturity analysis was performed on credit cards and overdraft accounts. The maximum period for which credit losses are to be recognized, except for credit cards and other rotative loans, is the contractual life of the financial instrument unless a legal right is required to recall the loan.

Significant Increase in Credit Risk: Due to the significant increase in credit risk, the Parent Bank performs quantitative and qualitative assessments to determine the financial assets to be classified as Stage 2 (Significant Increase in Credit Risk).

Within the scope of the quantitative assesments made for the corporate segment, the Parent Bank compares the change between the starting date and the date of the report by taking into account the time passed since the opening date. In order to make this comparison, the Parent Bank specifies threshold values to determine which changes are accepted as significant change. The decision to classify financial assets as Stage 2 due to a significant increase in credit risk by exceeding these threshold values is taken by the opinion of the Credit Department.

Within the scope of qualitative evaluations, financial assets included in the scope of close monitoring as of the reporting date are classified as Stage 2.

➢ ***Derecognition of Financial Assets***

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset could lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. When the Parent Bank assesses the characteristics of the new contractual terms of the financial asset, it evaluates the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognized a modification gain or loss in profit or loss.

b) Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

➢ ***Financial Liabilities at Fair Value through Profit or Loss***

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in 'other gains/losses' line in the statement of comprehensive income.

➢ ***Other Financial Liabilities***

Other financial liabilities, including borrowings and deposits, are initially measured at fair value, net of transaction costs.

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

➢ ***Derecognition of Financial Liabilities***

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3 Significant Accounting Policies (continued)

- ***Off- Balance Sheet Commitments and Contingencies***

The Parent Bank deals with off-balance sheet risk in the normal course of business such as letters of guarantee, letters of credit, pre-financing loans, etc. The Group's exposure to credit losses arising from these instruments is represented by the contractual amount of those instruments.

Derivative Financial Instruments

The Group's derivative transactions mainly consist of interest rate swaps, foreign currency swaps, foreign currency options and foreign currency forward contracts. The Group does not have any embedded derivatives separated from the host contract.

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", forward foreign currency purchase/sale contracts, swaps and options are classified as "hedging purpose" and "trading purpose" transactions. Derivative contracts of the Group are all classified as trading purpose derivatives. Derivatives are initially recognized at cost including the transaction costs. Also, the assets and liabilities arising from the derivative transactions are recorded as off-balance sheet items at their contractual notional amounts. The derivative transactions held for trading are valued at fair-value using market prices or pricing models subsequent to initial recognition and are presented in "derivatives held for trading purpose". Gains and losses arising from a change in the fair value are recognized in the income statement.

- **Netting of Financial Assets and Liabilities**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

xii. Fair Value Considerations

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms length transaction. Fair value is best evidenced by a market price, being the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market, if one exists.

Various financial instruments are accounted for at fair value. Other financial instruments are accounted at amortized cost but disclosure is required of fair value for comparison purposes, wherever practicable.

Due to economic conditions and volatility or low trading volumes in markets, the Parent Bank may be unable, in certain cases, to find a market price in an actively traded market. In such cases, other measures of fair value are considered. These include comparisons with similar financial instruments that do have active markets. As there are wide ranges of valuation techniques, it may be inappropriate to compare the Group's fair value information to independent markets or to other financial institutions' fair value information.

For certain financial assets and liabilities carried at cost, the fair values are assumed not to differ significantly from cost, due to the short-term nature of the items involved or because interest rates applicable to such items are variable at such short notice that interest income or expense on such items would not differ significantly from market rates.

3 Significant Accounting Policies (continued)

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

- Central Bank accounts and balances with banks: The carrying amount is a reasonable estimate of fair value.
- Securities investments: Fair value is estimated using quoted market prices wherever applicable.
- Derivatives: Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and the fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Parent Bank uses that technique. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

  In the absence of forward foreign currency market rates and reliable forward rate estimations in a volatile market, values of foreign currency swap transactions are determined by comparing forward rates with contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected to the income statement. In determination of the fair values of interest rate swaps, discounted values calculated using the fixed and floating interest rates between the transaction date and repricing date are used.

- Loans and Receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

  The Group management believes that the risk factors embedded in the initial interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair value calculation of loans.

- Deposits: Estimated fair value of demand deposits, saving deposits and interbank deposits is the amount payable on demand at the reporting date.

- Borrowings: Borrowings have interest rates that are fixed on an entry value basis but may be subject to fluctuation in accordance with prevailing interest rates in the market. Interest-bearing borrowings and overdrafts are recorded at the proceeds received. Interests on borrowings are accounted for on an accrual basis and are added to the carrying amount of instruments to the extent they are not settled in the period in which they arise.

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

3 Significant Accounting Policies (continued)

Level 2: Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, as well as debt securities without quoted prices and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and corporate debt securities with prices in markets that are not active and certain OTC derivative contracts.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

xiii. Non-current Assets Held for Sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

xiv. Employee Benefits

- ***Employee Termination Benefits***

In accordance with existing social legislation in Turkey, the Group is required to pay lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

These payments are qualified as recognized retirement benefit plan according to revised IAS 19 Employee Benefits. Severance payment liability recognized in the balance sheet is calculated according to net present value of expected amount in the future arising from all employees' retirements and presented in the financial statements. All actuarial gains and losses are recognized immediately through other comprehensive income.

As of 31 December 2019, the Group's severance payment provision is calculated by an actuarial firm and the actuarial loss of TL 7,777 (net of deferred taxes) is accounted for under Equity (31 December 2018: Actuarial loss of TL 5,743).

(Amounts expressed in thousands of TL unless otherwise indicated.)

3 Significant Accounting Policies (continued)

The principal actuarial assumptions used at 31 December 2019 and 31 December 2018 are as follows;

	31 December 2019	31 December 2018
	%	%
Discount rate	13.5	13.5
Inflation rate	6.0	6.0

The computation of the liability is predicated upon retirement pay ceiling announced by the Government. The ceiling amount at 31 December 2019 was TL 6,379.86 (full basis) (31 December 2018: TL 5,434.42 (full basis)).

➢ ***Other Contributions***

The Group pays contributions to Social Security Funds on a mandatory basis. There are no other liabilities related to employee benefits to be provisioned.

xv. Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

xvi. Leases

➢ ***The Group as Lessee***

Operating Leases: Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch and head office premises, which are cancellable subject to a period of notice. With the "IFRS 16 Leases" standard valid from 1 January 2019, the difference between operating leases and finance leases has been eliminated and the lease transactions have been expressed under the "Lease Payables" as liability by leases.

➢ ***IFRS 16 Leases***

The Group has adopted new standard, changes and commands, which are valid as of 1 January 2019, in line with the "IFRS 16 Leases" standard's first time applying transition commands.
IFRS 16 "Lease" Standard

The Group as a lessee according to "Lease" Standard:

The Group assesses whether the contract has the quality of a lease or whether the lease includes the transaction at the beginning of a contract. In case the contract is transferred for a certain period of time to control the use of the asset defined for a price, it is either leased or includes a lease. The Group reflects the existence of a right of use and a lease liability to the financial statements at the effective date of the lease.

3 Significant Accounting Policies (continued)

Existence of right to use:

The right to use asset is first recognized by cost method and includes:
a) the initial measurement amount of the lease obligation,
b) the amount obtained by deducting all the rental incentives received from all lease payments made at or before the beginning of the lease;
c) all initial direct costs incurred by the Group.

When applying the cost method, the Group measures the right to use as follows:
a) deducts accumulated depreciation and accumulated impairment losses and
b) measures the restatement of the lease obligation at the restated cost.

The Group applies depreciation clauses of IAS 16 Tangible Assets standard when measuring the depreciation of the right to use.

Lease obligations:
At the effective date of the lease, the Group measures its leasing liability at the present value of the lease payments not paid at that time. Lease payments are discounted using the Group's average borrowing interest rates.
The lease payments included in the measurement of the lease liability consist of the payments to be made for the right of use during the lease term of the underlying asset and the unpaid payments at the effective date of the lease.

After the effective date of the lease, the Group measures the leasing liability as follows:

a) Increase the book value to reflect the interest on the lease obligation
b) Reduces the book value to reflect the lease payments made and
c) The book value is measured to reflect reassessments and restructuring, or reflect to fixed lease payments as of revised nature.

The interest on the lease liability for each period in the lease period is the amount calculated by applying a fixed periodic interest rate to the remaining balance of the lease liability.

First Transition to IFRS 16 Leasing Standard

The Group, as a lessee, reflected its right and liability to use the asset pertaining to the lease to its financial tables. The new accounting principles is similar with the prior principles for the leaser.
The Group applied "partial conversion approach" which led to equalization of beneficial property and leasing liabilities, during the first transition to IFRS 16, by taking all benefits of easing conditions. According to this, comparative information presented in the context of IAS 17 and related comments were not rearranged for 2018.

(Amounts expressed in thousands of TL unless otherwise indicated.)

3 Significant Accounting Policies (continued)

The classifications and adjustments related with the first application to IFRS 16 Leases Standard as of 1 January 2019 is presented below:

	31 December 2018	IFRS 16 Classification Effect	IFRS 16 Transition Effect	1 January 2019	31 December 2019
Property and equipment (net) (*)(**)	258,165	1,557	75,901	**335,623**	**355,401**
Other assets (net) (**)	223,889	(1,557)	--	**222,332**	**222,332**
Other liabilities and provisions (Net) (***)	463	--	75,901	**76,364**	**68,636**

(*) TL 75,901 of right and liability to use the asset pertaining to the lease, which were previously classified as financial leasing according to IAS 17, were reflected to Group's financials according to IFRS 16 as of 1 January 2019.
(**) The Group classified TL 1,557 as right to use asset under property and equipment asset according to IFRS 16 as of 1 January 2019, which were prepaid lease before.
(***) The weighted average of interest rates applied by the Group as of 1 January 2019, to the lease liabilities in TL and EUR were 23.9% and 1.7% respectively.

xvii. Income and Expense Recognition

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, throughout the period to the next repricing date. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees paid or received between parties in the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Interest income and expenses presented in the statement of profit or loss and other comprehensive income include interest income and expenses arising from currency swaps, cross currency swaps, futures and interest rate cap/floor agreements which are presented as other interest income and expense in the accompanying consolidated financial statements.

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized ratably over the period service is provided.

Fee for bank transfers and other banking transaction services are recorded as income when collected. Net trading income comprises gains minus losses related to financial assets and liabilities held for trading and includes all realised and unrealised fair value changes and foreign exchange differences.

xviii. Related party transactions

Related parties include entities, which the Group has the ability to exercise significant influence in making financial and operating decisions. Related parties include, directors, shareholders, close members of their families, companies owned or controlled by them and companies over which they can influence the financial and operating policies.

3 Significant Accounting Policies (continued)

xix. Income Tax

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

- ***Current Tax***

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

- ***Deferred Tax***

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

In accordance with the provisional article, added to Corporate Tax Law, corporate tax, which is 20% for the year 2017, has changed as 22% for the profit of company belonging to 2018, 2019 and 2020 fiscal periods. In accordance with this applicable law, 22% tax rate shall be calculated for periods, in which the deferred tax assets and liabilities emerges and liabilities are met, while it is calculated with 20% for 2021 and following periods.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

xx. Subsequent Events

Post-balance sheet events that provide additional information about the Group's position at the balance sheet dates (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4 Segment Reporting

A segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Segment information is presented in respect of the Group's business segments. The Group comprises Retail, Corporate & Commercial Banking and Treasury as main business segments; Fiba Portföy and Finberg, the Bank's consolidated subsidiaries, are operating in the area of portfolio management and entrepreneurship, new business fields and technologies respectively.

Major financial statement items according to business segments:

1 January - 31 December 2019	Corporate & Commercial Banking	Retail Banking	Treasury & Head Office	Total
Operating income	872,415	212,020	157,860	1,242,295
Profit/loss before tax	259,912	(176,072)	169,850	253,690
Tax charge				(38,910)
Net profit				**214,780**
31 December 2019				
Segment assets	13,441,734	2,066,449	6,348,222	21,856,405
Unallocated assets				--
Total assets				**21,856,405**
Segment liabilities	2,499,553	11,018,021	6,679,489	20,197,063
Unallocated liabilities				--
Equity				1,659,342
Total liabilities and equity				**21,856,405**

1 January - 31 December 2018	Corporate & Commercial Banking	Retail Banking	Treasury & Head Office	Total
Operating income	473,714	281,862	275,814	1,031,390
Profit before tax	211,173	(126,624)	97,750	182,299
Tax income				(39,529)
Net profit				**142,770**
31 December 2018				
Segment assets	10,541,060	3,528,275	6,516,776	20,586,111
Unallocated assets				--
Total assets				**20,586,111**
Segment liabilities	2,653,055	8,020,416	8,589,965	19,263,436
Unallocated liabilities				--
Equity				1,322,675
Total liabilities and equity				**20,586,111**

5 Financial Risk Management

(a) Introduction and Overview

The Group has exposure to the following risks due to its operations:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Risk Committee of the Bank is responsible for developing and monitoring the Group's risk management policies in their specified areas. All board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its directives, procedures and regular trainings aims to develop a disciplined and constructive control environment, in which all employees understand their roles and responsibilities.

The Bank Audit Committee is responsible to monitor the efficiency and adequacy of the Group's Internal Control Systems framework on behalf of the Board of Directors. The Bank Audit Committee is assisted in these functions by Risk Management, Internal Control and Operational Risk, Legislation & Compliance and Internal Audit departments.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5 Financial Risk Management (continued)

(b) Credit Risk

Credit risk is the risk of financial loss of the Group if a customer or counterparty fails to meet its contractual obligations to a financial instrument, among the Group's corporate, retail bank sovereign loan portfolio. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure such as individual risk, counterparty risk, group risk as well as country & sector risks.

The Group's counterparty credit exposure at the balance sheet date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the balance sheet.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group only deals with counterparties which have good credit worthiness.

The Group has defined rating models, and validation standards in order to estimate, identify, measure, monitor, dispose, reduce and manage the credit risk. These standards have been developed to determine the quality of credit customers in line with the Group's credit policy. Credit risk reports and concentration & risk limits concerning the Bank's loan portfolio are reviewed periodically by the Risk Management Department.

	31 December 2019
Performing loans	13,659,003
Loans under close monitoring (stage 2)	1,823,734
Non-performing loans (stage 3)	920,338
Gross	**16,403,075**
ECL allowance for stage 3 loans	515,118
ECL allowance for stage 1 and stage 2 loans	288,991
Total	**15,598,966**

(*) Loans at fair value through profit or loss amounting to TL 1,948,020 are also included.

	31 December 2018
Performing loans	12,350,248
Loans under close monitoring (stage 2)	1,687,283
Non-performing loans (stage 3)	621,863
Gross	**14,659,394**
ECL allowance for stage 3 loans	295,835
ECL allowance for stage 1 and stage 2 loans	273,945
Total	**14,089,614**

(*) Loans at fair value through profit or loss amounting to TL 1,516,819 are also included.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5 Financial Risk Management (continued)

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

The breakdown of cash loans and advances to customers by type of collateral is as follows:

	31 December 2019		
Cash Loans-Gross	**Performing**	**Non - Performing**	**Total**
Secured loans	15,110,942	471,321	15,582,263
Secured by cash collateral	411,093	--	411,093
Secured by mortgages	3,809,281	412,932	4,222,213
Other collateral (pledge on assets, vehicle, corporate and personal guarantees, promissory notes)	10,890,568	58,389	10,948,957
Unsecured loans	371,795	449,017	820,812
Total Cash Loans-Gross	**15,482,737**	**920,338**	**16,403,075**

	31 December 2018		
Cash Loans-Gross	**Performing**	**Non - Performing**	**Total**
Secured loans	13,967,783	350,220	14,318,003
Secured by cash collateral	405,626	--	405,626
Secured by mortgages	3,251,440	295,568	3,547,008
Other collateral (pledge on assets, vehicle, corporate and personal guarantees, promissory notes)	10,310,717	54,652	10,365,369
Unsecured loans	69,748	271,643	341,391
Total Cash Loans-Gross	**14,037,531**	**621,863**	**14,659,394**

The breakdown of non-cash loans by type of collateral is as follows:

Non-Cash Loans	**31 December 2019**	**31 December 2018**
Secured loans	972,667	833,100
Secured by cash collateral	--	5,602
Secured by mortgages	58,824	66,753
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	913,843	760,745
Unsecured loans	52,001	38,450
Total Non-Cash Loans	**1,024,668**	**871,550**

Sectoral concentration of loans and advances to customers

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of performing loans and advances to customers is shown below:

	31 December 2019	**31 December 2018**
Consumer	1,622,644	1,095,951
Manufacturing	3,052,099	3,068,081
Service	6,754,025	6,139,772
Construction	2,955,926	2,625,382
Agriculture and stockbreeding	291,805	405,235
Other	806,238	703,110
Total performing loans and advances to customers	**15,482,737**	**14,037,531**

(Amounts expressed in thousands of TL unless otherwise indicated.)

5 Financial Risk Management (continued)
(b) Credit Risk (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the financial statements;

Gross maximum exposure	31 December 2019	31 December 2018
Balances with the Central Bank (including reserve deposits)(*)	2,448,081	1,626,231
Deposits with and loans due from banks and other financial institutions	520,836	1,272,022
Financial assets at fair value through profit and loss	2,045,761	1,592,626
Financial assets at fair value through other comprehensive income	807,568	704,338
Financial assets measured at amortised cost	575,098	363,099
Loans and receivables	14,455,055	13,142,575
Total	**20,852,399**	**18,700,891**
Contingent liabilities	1,024,668	871,550
Commitments	1,117,888	921,579
Total	**2,142,556**	**1,793,129**
Total credit risk exposure	**22,994,955**	**20,494,020**

(*) Balances with the Central Bank (including reserve deposits) excludes cash in TL /foreign currency amount.

Information by major sectors and type of counterparties

Current Period	**Loans**		**Provisions**
	Impaired		
Major Sector / Counterparties	**Significant Increase in Credit Risk (Stage 2)**	**Credit Impaired (Stage 3)**	**Expected Credit Losses**
Agriculture	**84,994**	**60,781**	**35,955**
Farming and Stockbreeding	81,802	48,260	27,445
Forestry	3,192	12,521	8,510
Fishery	--	--	--
Manufacturing	**106,834**	**201,682**	**123,367**
Mining and Quarrying	31,444	62,585	40,076
Production	74,804	133,484	79,332
Electricity, Gas and Water	586	5,613	3,959
Construction	**630,492**	**144,241**	**178,827**
Services	**883,661**	**417,420**	**275,825**
Wholesale and Retail Trade	295,624	220,831	155,203
Accommodation and Dining	125,524	112,285	38,749
Transportation and Telecommunication	154,102	27,748	41,551
Financial Institutions	4,177	98	261
Real Estate and Rental Services	240,931	20,616	15,917
Self-Employment Services	1,389	4,712	3,624
Educational Services	7,580	8,018	4,450
Health and Social Services	54,334	23,112	16,070
Other	**117,753**	**96,214**	**72,762**
Total	**1,823,734**	**920,338**	**686,736**

(Amounts expressed in thousands of TL unless otherwise indicated.)

5 Financial Risk Management (continued)

Credit quality of loans and receivables as of 31 December 2019 and 2018 are as follows;

31 December 2019	**Neither past due nor impaired**	**Past due but not impaired**	**Individually impaired (gross)**	**Total**
Loans and receivables				
Commercial	13,434,073	406,806	867,554	14,708,433
Consumer	1,568,043	46,765	52,784	1,667,592
Credit cards	24,177	2,873	--	27,050
Total	**15,026,293**	**456,444**	**920,338**	**16,403,075**

31 December 2018	**Neither past due nor impaired**	**Past due but not impaired**	**Individually impaired (gross)**	**Total**
Loans and receivables				
Commercial	11,894,827	958,389	568,470	13,421,686
Consumer	1,023,669	63,851	42,571	1,130,091
Credit cards	84,390	12,405	10,822	107,617
Total	**13,002,886**	**1,034,645**	**621,863**	**14,659,394**

(Amounts expressed in thousands of TL unless otherwise indicated.)

5 Financial Risk Management (continued)

(b) Credit Risk (continued)

Carrying amount per class of loans and receivables assets whose terms have been renegotiated:

	31 December 2019	31 December 2018
Loans and receivables		
Commercial	837,748	363,819
Consumer	4,549	5,087
Total	**842,297**	**368,906**

Aging analysis of past due but not impaired loans per class of financial instruments:

31 December 2019	Less than 31 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	250,051	57,928	98,827	406,806
Consumer	4,362	23,249	19,154	46,765
Credit cards	1,012	1,113	748	2,873
Total	**255,425**	**82,290**	**118,729**	**456,444**

31 December 2018	Less than 31 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	380,982	385,810	191,597	958,389
Consumer	10,081	30,453	23,317	63,851
Credit cards	8,789	3,615	1	12,405
Total	**399,852**	**419,878**	**214,915**	**1,034,645**

(c) Liquidity Risk

Liquidity risk reflects the potential inability both to finance assets over appropriate times to maturity and at suitable rates and to liquidate portfolio positions at the proper time and at reasonable prices.

The Group maintains liquidity facilities with the Central Bank of Turkey and other banks that are available immediately when needed. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Liquidity risk is continuously assessed by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall strategy.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5 Financial Risk Management (continued)

(c) Liquidity Risk (continued)

The table below shows the undiscounted cash flows on the Group's non-derivative financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal inflow / (outflow) disclosed in the below table represents the contractual undiscounted cash flows relating to the principal and interest on the financial liability.

31 December 2019	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities								
Deposits from banks	782,383	784,534	22,159	280,240	482,135	--	--	--
Deposits from customers	13,508,890	13,554,010	1,258,569	9,778,079	2,226,549	290,008	805	--
Borrowed funds	859,381	955,232	--	3,038	30,678	428,540	492,976	--
Securities issued	1,718,332	1,957,608	--	139,018	283,867	39,018	1,495,705	--
Subordinated debts	1,789,018	2,576,717	--	--	61,147	61,147	489,175	1,965,248
Total	**18,658,004**	**19,828,101**	**1,280,728**	**10,200,375**	**3,084,376**	**818,713**	**2,478,661**	**1,965,248**

31 December 2018	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities								
Deposits from banks	1,135,691	1,138,869	88,411	555,653	449,791	45,014	--	--
Deposits from customers	10,671,634	10,907,453	703,830	5,660,285	3,237,711	1,244,665	59,210	--
Borrowed funds	1,339,212	1,584,779	--	199,722	204,774	878,979	301,303	--
Securities issued	1,842,585	2,176,361	--	212,480	346,140	39,139	1,578,602	--
Subordinated debts	1,596,143	2,674,528	--	--	60,592	60,592	484,738	2,068,606
Total	**16,585,265**	**18,481,990**	**792,241**	**6,628,140**	**4,299,008**	**2,268,389**	**2,423,853**	**2,068,606**

Maturity analysis of balance sheet items is as follows:

As at 31 December 2019	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Unallocated	Total
Assets:							
Cash and balances with the Central bank	1,071,324	1,636,551	--	--	--	(154)	2,707,721
Due from banks	111,209	409,627	--	--	--	(347)	520,489
Financial assets at FVTPL	--	116,151	64,654	120,712	447,587	(4)	749,100
Financial assets at FVOCI	3,800	98,944	1,027	21,275	682,522	--	807,568
Financial Assets measured at amortised cost	--	--	--	--	575,098	(88)	575,010
Loans and advances to customers (*)	--	1,902,851	2,355,419	5,603,060	5,621,408	116,228	15,598,966
Derivative assets held for hedging	--	--	--	37,722	49,817	--	87,539
Other assets	--	--	--	--	--	810,012	810,012
Total assets	**1,186,333**	**4,164,124**	**2,421,100**	**5,782,769**	**7,376,432**	**925,647**	**21,856,405**
Liabilities:							
Deposits from customers	1,258,569	9,763,543	2,208,980	277,179	619	--	13,508,890
Deposits from banks	22,159	279,917	480,307	--	--	--	782,383
Borrowed funds	--	5,737	28,929	385,127	439,588	--	859,381
Securities issued	--	133,255	284,464	--	1,300,613	--	1,718,332
Derivatives held for trading purpose	--	70,399	61,710	118,769	423,883	--	674,761
Derivative financial liabilities held for hedging	--	--	--	31,820	81,624	--	113,444
Subordinated debts	--	--	32,771	57	1,756,190	--	1,789,018
Lease liabilities		14,392	4,673	18,626	30,702		68,393
Other liabilities and equity	--	41,047	1,456	--	--	2,299,300	2,341,803
Total liabilities	**1,280,728**	**10,308,290**	**3,103,290**	**831,578**	**4,033,219**	**2,299,300**	**21,856,405**
Net liquidity surplus/(gap)	**(94,395)**	**(6,144,166)**	**(682,190)**	**4,951,191**	**3,343,213**	**(1,373,653)**	**--**
As at 31 December 2018							
Total assets	**974,392**	**5,221,637**	**2,363,525**	**5,252,500**	**5,889,455**	**884,602**	**20,586,111**
Total liabilities	**792,243**	**6,736,330**	**4,232,102**	**2,031,754**	**4,348,566**	**2,445,116**	**20,586,111**
Net liquidity surplus/(gap)	**182,149**	**(1,514,693)**	**(1,868,577)**	**3,220,746**	**1,540,889**	**(1,560,514)**	**--**

(*) Loans at fair value through profit or loss amounting to TL 1,948,020 are also included.

5 Financial Risk Management (continued)

(d) Market Risk

In order to provide hedge against the market risk within the context of the risk management objectives, the Group sets its activities related with market risk management in accordance with "Regulations on Banks' Internal Control and Risk Management Systems and ICAAP" published in the Official Gazette no. 29057 dated 11 July 2014 and "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette no. 29511 dated 23 October 2015.

Being exposed to market risk, Bank's Board of Directors has defined risk management strategies and policies about risk managements in line with application and recommendation of group and have led to follow-up strategies periodically. The limits of risks are identified and these limits are revised periodically. Board of Directors ensures that risk management group and executive managers should identify, measure, control and manage the Group's risk.

Market risk arising from trading transactions is limited through the risk appetite policy approved by Board of Directors as "low" and measured by taking into consideration BRSA's standard methodology. Additionally Financial Control Department reports the market value of daily purchases and sales and realized profit. The risk management and asset liability committee continuously monitor compliance of trading transactions with the risk appetite policy. Market risk occurred between mismatches of asset-liability maturity is also monitored through GAP report.

Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations. Risk measurement methods such as cash flow projection, GAP analysis are also applied.

Capital to be kept for general market risk and specific risk are calculated by using a standard method in accordance with "Measurement and Assessment of Bank Capital Adequacy Regulation" and reported monthly.

In the calculation of the value at credit risk for the derivative financial instruments, the receivables from counterparties are multiplied by the rates stated in the Article 21 and Appendix-2 of "the Regulation on Measurement and Assessment of Capital Adequacy of Banks", reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category and weighted for a second time. The risk amount related to the Group's derivative financial instruments are calculated using the "Fair Value Method".

(i) Interest Rate Risk

"Interest rate risk" is the probability of loss due to changes in interest rates depending on the Group's position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between rate sensitive assets and liabilities.

Within the scope of Asset and Liability Management Policy, Group's assets and liabilities are re-priced according to the remaining maturities and determined interest rate shocks' effect on the net economic value is calculated.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5 Financial Risk Management (continued)
(d) Market Risk (continued)

(i) Interest Rate Risk

With the interest rate risk reports and stress tests on the interest rate risk of the Group, willing to relocate risk levels are tested due to the sensitivity of the risk levels in the presence of crisis scenarios and keeping them under control is provided.

Interest rate gap analysis

The following tables indicate the periods in which financial assets and liabilities are repriced as at 31 December 2019 and 31 December 2018;

31 December 2019:	**Less than three months**	**Between three and twelve months**	**Over one year**	**Non-interest bearing**	**Total**
Financial assets					
Cash and balances with the Central Bank	1,793,051	--	--	914,670	2,707,721
Due from banks	409,627	--	--	110,862	520,489
Financial assets at FVTPL	205,126	120,718	423,260	(4)	749,100
Financial assets at fair value through other comprehensive income	99,971	23,741	680,056	3,800	807,568
Financial assets measured at amortised cost	20,983	--	554,115	(88)	575,010
Derivative assets held for hedging	--	37,723	49,816	--	87,539
Loans and advances to customers (*)	5,859,154	3,752,178	5,871,406	116,228	15,598,966
Financial liabilities					
Deposits from customers	11,972,523	277,179	619	1,258,569	13,508,890
Deposits from banks	760,224	--	--	22,159	782,383
Borrowed funds	340,533	208,036	310,812	--	859,381
Securities issued	417,719	--	1,300,613	--	1,718,332
Derivatives held for trading	132,107	118,771	423,883	--	674,761
Derivative financial liabilities held for hedging	--	31,820	81,624	--	113,444
Subordinated debts	32,771	57	1,756,190	--	1,789,018

(*) Loans at fair value through profit or loss amounting to TL 1,948,020 are also included.

31 December 2018:	**Less than three months**	**Between three and twelve months**	**Over one year**	**Non-interest bearing**	**Total**
Financial assets					
Cash and balances with the Central Bank	1,031,089	--	--	733,371	1,764,460
Due from banks	1,030,688	--	--	240,943	1,271,631
Financial assets at FVTPL	214,439	242,369	1,099,755	(7)	1,556,556
Financial assets measured at fair value through other comprehensive income	--	179,034	525,985	(681)	704,338
Financial assets measured at amortised cost	20,635	--	342,464	(67)	363,032
Loans and advances to customers (*)	6,880,465	2,911,807	4,245,259	52,083	14,089,614
Financial liabilities					
Deposits from customers	8,799,656	1,121,893	46,253	703,832	10,671,634
Deposits from banks	1,002,266	45,014	--	88,411	1,135,691
Borrowed funds	823,434	515,778	--	--	1,339,212
Securities issued	537,955	--	1,304,630	--	1,842,585
Derivatives held for trading	159,327	114,431	1,040,656	--	1,314,414
Derivative financial liabilities held for hedging	--	--	201,839	--	201,839
Subordinated debts	32,472	--	1,563,671	--	1,596,143

(*) Loans at fair value through profit or loss amounting to TL 1,516,819 are also included.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5 Financial Risk Management (continued)

(d) Market Risk (continued)

(i) Interest Rate Risk

The following table indicates the interest rates by major currencies for the major balance sheet components as at 31 December 2019 and 31 December 2018:

31 December 2019	**EUR %**	**USD %**	**Other Currencies %**	**TL %**
Cash and balances with the Central Bank	--	--	--	--
Financial assets at FVTPL	2.43	6.68	--	31.29
Financial assets at fair value through other comprehensive income	3.28	5.55	--	8.79
Financial assets measured at amortised cost	5.22	--	--	9.10
Due from banks	--	--	--	11.00
Loans and advances to customers	6.03	6.14	5.82	18.47
Deposits from banks	--	1.75	0.60	10.09
Borrowed funds	2.62	4.44	--	11.84
Repurchase agreements	0.47	3.45	--	--
Deposits from customers	0.36	2.66	0.94	12.10
Securities issued	--	6.00	--	14.59
Subordinated debts	--	8.18	--	--
31 December 2018				
Cash and balances with the Central Bank	--	2.00	--	13.00
Financial assets at FVTPL	2.04	5.34	--	24.37
Financial assets at fair value through other comprehensive income	3.43	5.39	--	8.38
Financial assets measured at amortised cost	5.38	--	--	8.96
Due from banks	--	--	--	24.11
Loans and advances to customers	6.25	7.91	5.64	24.82
Deposits from banks	--	2.45	--	22.46
Borrowed funds	3.15	4.00	3.71	10.76
Repurchase agreements	0.80	4.53	--	--
Deposits from customers	1.66	4.65	1.53	23.96
Securities issued	--	6.00	--	24.76
Subordinated debts	--	7.75	--	--

(Amounts expressed in thousands of TL unless otherwise indicated.)

5 Financial Risk Management (continued)

(d) Market Risk (continued)

The Group analyses and reports to the Group's senior management the interest rate sensitivity of equity on a monthly basis by applying positive and negative shocks to the interest sensitive on balance sheet and off-balance sheet positions which are distributed into groups based on their cashflows.

	31 December 2019			2018
	Shock Applied (+ / - x bps)	**Gains/ Losses**	**Gains / Equity - Losses / Equity**	**Gains / Equity - Losses / Equity**
TRY	500	(107,159)	(2.92)%	1.00%
TRY	-400	94,296	2.57%	(1.16)%
USD	200	96,116	2.62%	2.11%
USD	-200	(102,254)	(2.79) %	(2.30) %
EUR	200	(193,924)	(5.29) %	(3.26) %
EUR	-200	215,017	5.87%	3.63%
Total (For Positive Shocks)		**(204,968)**	**(5.59) %**	**(0.15) %**
Total (For Negative Shocks)		**207,059**	**5.65%**	**0.17%**

(ii) Currency Risk

The Group is exposed to currency risk through transactions in foreign currencies. The main measurement currencies of its foreign exchange operations are EUR and USD. As the currency in which the Group presents its financial statements is the Turkish Lira (TL), the financial statements are affected by movements in the exchange rates between these currencies and TL. Currency risk is managed through VaR limits.

At 31 December 2019 and 31 December 2018, the Group's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

	2019				
	EUR	**USD**	**Other**	**Total**	**Total in 2018**
Foreign currency denominated assets:					
Cash and balances with Central Bank	984,364	1,291,768	230,757	2,506,889	1,360,909
Due from banks	34,162	41,549	12,484	88,195	234,105
Financial assets at FVTPL	384	334	--	718	5,315
Financial assets at fair value through other comprehensive income	162,406	633,210	--	795,616	696,939
Financial assets measured at amortised cost	386,592	--	--	386,592	174,168
Loans and advances to customers	5,617,520	1,686,013	9,254	7,312,787	5,288,418
Other assets	2,103	591	--	2,694	1,269
	7,187,531	**3,653,465**	**252,495**	**11,093,491**	**7,761,123**
Foreign currency denominated liabilities:					
Deposits from customers	825,897	5,959,529	85,773	6,871,199	4,485,153
Deposits from banks	312,437	442,251	14,191	768,879	1,009,262
Borrowed funds	302,762	539,846	--	842,608	1,328,914
Securities issued	--	1,334,395	--	1,334,395	1,338,856
Subordinated debts	--	1,789,018	--	1,789,018	1,596,143
Other liabilities	24,025	151,721	1,480	177,226	330,645
	1,465,121	**10,216,760**	**101,444**	**11,783,325**	**10,088,973**
Net on-balance sheet position	5,722,410	(6,563,295)	151,051	(689,834)	(2,327,850)
Net off-balance sheet position	(5,718,363)	6,593,739	(151,203)	724,173	2,520,937
Net position	**4,047**	**30,444**	**(152)**	**34,339**	**193,087**

(Amounts expressed in thousands of TL unless otherwise indicated.)

5 Financial Risk Management (continued)

A 10 percent strengthening of the foreign currencies against TL would have decreased profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. A 10 percent weakening of the foreign currencies against TL would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

	31 December 2019		31 December 2018	
	Profit or Loss	**Equity**	**Profit or Loss**	**Equity**
USD	3,044	3,754	21,183	18,372
EUR	405	969	968	1,158
Other currencies	(15)	(15)	(2,843)	(2,843)
Total. net	**3,434**	**4,708**	**19,308**	**16,687**

(e) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business areas.

The Group practices policies in accordance with local regulations and in the context of best international practices for operational risk identification, measurement, mitigation, reporting and control of international best practices in the context of implementing.

Under the umbrella of operational risk, business continuity policies and procedures have been created. Business impact analysis has been made to ensure process based business continuity, critical activities of the institution and necessary resources to carry out these activities have been identified. Creation of infrastructure for the implementation of the plans is in progress through business continuity plans.

(f) Capital Adequacy

The BRSA sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets (12% for banks operating in offshore markets). These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The Group's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, tier-1 security, legal reserves, retained earnings, translation reserve, tier1 security and minority interest after deductions for goodwill and certain cost items.

- Tier 2 capital, which includes qualifying subordinated liabilities, general impairment allowances and the element of the fair value reserve relating to unrealized gains on securities classified as financial assets measured at FVOCI.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5 Financial Risk Management (continued)

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Group and its individually regulated operations have complied with externally imposed capital requirements throughout the period and its capital adequacy ratio calculated in accordance with local regulations is above the minimum required ratio which is 8%.

The capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the "Regulation")", "Regulation on Credit Risk Mitigation Techniques", "Regulation on Calculation of Risk Weighted Amounts for Securitization's" and the "Regulation on Equities of Banks". In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as "trading book" and "banking book" according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortization or impairment, are taken into account on a net basis after being reduced by the related amortizations and provisions.

In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the "Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables". The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

In the calculation of the value at credit risk for the derivative financial instruments and the credit derivatives classified in banking book, the receivables from counterparties are multiplied by the rates stated in the Appendix-2 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the article 5 of the Regulation. the "counterparty credit risk" is calculated for repurchase transactions, securities and commodities borrowing agreements.

Summary information related to the consolidated capital adequacy ratio

	Bank		Group	
	Current Period	**Prior Period**	**Current Period**	**Prior Period**
Capital Requirement for Credit Risk (Value at Credit Risk*0.08) (CRCR)	1,337,311	1,159,043	1,337,565	1,159,043
Capital Requirement for Market Risk (CRMR)	44,197	72,931	44,197	72,931
Capital Requirement for Operational Risk (CROR)	118,470	88,911	118,842	89,171
Equity	3,664,995	3,215,081	3,667,384	3,215,203
Equity/((CRCR+MRCR+ORCR) * 12.5 * 100)	19.55%	19.47%	19.55%	19.47%

(Amounts expressed in thousands of TL unless otherwise indicated.)

6 Fair Value of Financial Instruments

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

31 December 2019	**Financial instruments at fair value**	**Loans and receivables**	**Financial instruments at amortized cost**	**Total carrying amount**	**Fair value**
Cash and balances with the Central Bank	--	2,707,721	--	2,707,721	2,707,721
Due from banks	--	520,489	--	520,489	520,489
Financial assets at FVTPL	749,100	--	--	749,100	749,100
Financial assets measured at FVOCI	807,568	--	--	807,568	807,568
Financial assets measured at amortised cost	575,010	--	--	575,010	605,621
Derivative assets held for hedging	87,539	--	--	87,539	87,539
Loans and advances to customers:					
Measured at fair value	--	1,948,020	--	1,948,020	1,948,020
Measured at amortized cost	--	13,650,946	--	13,650,946	13,802,785
	2,219,217	**18,827,176**	**--**	**21,046,393**	**21,228,843**
Deposits from customers	--	--	13,508,890	13,508,890	13,508,890
Deposits from banks	--	--	782,383	782,383	782,383
Borrowed funds	--	--	859,381	859,381	859,381
Securities issued	--	--	1,718,332	1,718,332	1,718,332
Derivatives held for trading	674,761	--	--	674,761	674,761
Derivative liabilities held for hedging	113,444	--	--	113,444	113,444
Subordinated debts	--	--	1,789,018	1,789,018	1,789,018
	788,205	**--**	**18,658,004**	**19,446,209**	**19,446,209**

31 December 2018	**Financial instruments at fair value**	**Loans and receivables**	**Financial instruments at amortized cost**	**Total carrying amount**	**Fair value**
Cash and balances with the Central Bank	--	1,764,460	--	1,764,460	1,764,460
Due from banks	--	1,271,631	--	1,271,631	1,271,631
Financial assets at FVTPL	1,556,556	--	--	1,556,556	1,556,556
Financial assets measured at FVOCI	704,338	--	--	704,338	704,338
Financial assets measured at amortised cost	363,032	--	--	363,032	332,424
Loans and advances to customers:	--	--	--	--	--
Measured at fair value	--	1,516,819	--	1,516,819	1,516,819
Measured at amortized cost	--	12,572,795	--	12,572,795	12,308,142
	2,623,926	**17,125,705**	**--**	**19,749,631**	**19,454,370**
Deposits from customers	--	--	10,671,634	10,671,634	10,671,634
Deposits from banks	--	--	1,135,691	1,135,691	1,135,691
Borrowed funds	--	--	1,339,212	1,339,212	1,339,212
Securities issued	--	--	1,842,585	1,842,585	1,842,585
Derivatives held for trading	1,314,414	--	--	1,314,414	1,314,414
Derivatives liabilities held for hedging	201,839	--	--	201,839	201,839
Subordinated debts	--	--	1,596,143	1,596,143	1,596,143
	1,516,253	**--**	**16,585,265**	**18,101,518**	**18,101,518**

Fair values of the financial assets and liabilities carried at amortized cost, except for loans and advances to customers, are considered to approximate their respective carrying values due to their short-term nature.

(Amounts expressed in thousands of TL unless otherwise indicated.)

6 Fair Value of Financial Instruments (continued)

The fair values of financial assets and financial liabilities are determined as follows:

• Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

• Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

• Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives.

	31 December 2019			31 December 2018		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial Assets						
Financial assets at fair value through profit and loss	97,737	651,363	--	75,800	1,480,756	--
Financial assets at fair value through other comprehensive income	807,568	--	--	704,338	--	--
Loans and advances to customers (*)	--	15,598,966	--	--	14,089,614	--
Financial Liabilities						
Deposit from banks & customers	--	14,291,273	--	--	11,807,325	--
Funds borrowed	--	859,381	--	--	1,339,212	--
Securities issued	--	1,718,332	--	--	1,842,585	--
Subordinated debts	--	1,789,018	--	--	1,596,143	--
Derivatives held for trading	--	674,761	--	--	1,314,414	--
Derivatives used for hedging purposes	--	113,444	--	--	201,839	--

(*)Loans at fair value through profit or loss amounting to TL 1,948,020 are also included (31 December 2018: TL 1,516,819)

There is no transition between Level 1 and Level 2 in the current year.

7 Cash and Balances with Central Bank

At 31 December 2019 and 31 December 2018, cash and balances with the Central Bank are as follows:

	31 December 2019	**31 December 2018**
Cash on hand	259,794	138,331
Reserve deposits at the Central Bank-unrestricted	1,310,397	877,366
Reserve deposits at the Central Bank-restricted	1,137,684	748,865
Expected credit loss	(154)	(102)
Cash and balances with the Central Bank	**2,707,721**	**1,764,460**
Due from other banks	520,836	1,272,022
Less: Reserve deposits-restricted	(1,137,684)	(748,865)
Less: Restricted deposits	(31,976)	(199,561)
Expected credit loss	(347)	(391)
Cash and cash equivalents in the statements of cash flows	**2,058,550**	**2,087,665**

(Amounts expressed in thousands of TL unless otherwise indicated.)

7 Cash and Balances with Central Bank (continued)

Reserve deposits at the Central Bank represent the minimum cash reserve maintained with the Central Bank of Turkey (the Central Bank), as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the Central Bank. At 31 December 2019, reserve deposit ratios for Turkish Lira and foreign currency deposits are 1%-7% and 5%-21% (31 December 2018: 1.5%-8% and 4%-20%). Restricted reserve deposits are not available for the daily business of the Group. As of 31 December 2019, there is no interest payment for TL and USD reserve deposits (31 December 2018: 13.00% for TL reserves and 2.00% for USD reserves).

8 Due from Banks

At 31 December 2019 and 31 December 2018, due from banks are as follows:

	31 December 2019	**31 December 2018**
Turkish Lira	23,004	6,929
Foreign Currency	88,204	234,405
Demand	**111,208**	**241,334**
Turkish Lira	379,618	724,480
Foreign Currency	--	--
Time	**379,618**	**724,480**
Turkish Lira	30,010	306,208
Foreign Currency	--	--
Money market placements	**30,010**	**306,208**
Expected credit loss	**(347)**	**(391)**
Total due from banks	**520,489**	**1,271,631**

As at 31 December 2019, TL currency time placements have 3 days maturity and 11.00% interest rate on the average (31 December 2018: 2 days maturity and 23.85%). As at 31 December 2019. there are no foreign currency time placements (31 December 2018: none). As at 31 December 2019, TL money market placements have 3 days maturity and 12.25% interest rate on the average (31 December 2018: 2 days maturity and 24.81%). As at 31 December 2019, there are no foreign currency money market placements (31 December 2018: none). The Group has TL 31,976 blocked deposit accounts for the derivative contracts with the banks abroad (31 December 2018: TL 199,562).

(Amounts expressed in thousands of TL unless otherwise indicated.)

9 Financial Assets at Fair Value Through Profit and Loss

At 31 December 2019 and 31 December 2018, debt securities at FVTPL are as follows:

	31 December 2019			31 December 2018		
	Pledged	**Non-pledged**	**Total**	**Pledged**	**Non-pledged**	**Total**
Debt instruments	**24,575**	**73,162**	**97,737**	**21,942**	**53,858**	**75,800**
Government bonds	24,579	260	24,839	21,946	156	22,102
Eurobonds	--	706	706	--	3,986	3,986
Corporate and bank bonds	--	12	12	--	1,329	1,329
Investment fund		72,184	72,184		48,390	48,390
Expected credit loss	(4)	--	(4)	(4)	(3)	(7)
Total	**24,575**	**73,162**	**97,737**	**21,942**	**53,858**	**75,800**

As of 31 December 2019, government securities with carrying values of TL 24,579 (31 December 2018: TL 21,946) are pledged to the Central Bank and İstanbul Takas ve Saklama Bankası Anonim Şirketi (Clearing and Custody Incorporation) for regulatory requirements and as a guarantee for money market transactions. As of 31 December 2019 there is no pledged financial asset subject to repo transactions (31 December 2018: None).

TL 24,601 (31 December 2018: TL 21,905) of debt securities have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

Average interest rates for TL, EUR and USD denominated financial assets at FVTPL are 31.29%. 2.43% and 6.68% respectively (31 December 2018: 24.37%. 2.04% and 5.34% respectively).

Loans recognized at fair value through profit or loss

As of 31 December 2019, loans measured at fair value through profit or loss is TL 1,948,020 (31 December 2018: TL 1,516,819).

The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortized to statement of profit or loss over the life of the hedged item from that date of the hedge accounting is discontinued.

(Amounts expressed in thousands of TL unless otherwise indicated.)

10. Derivative financial assets

	31 December 2019	31 December 2018
Derivatives held for trading		
- Forwards	59,591	98,585
- Swaps	368,713	1,015,077
- Options	223,059	367,094
Total	**651,363**	**1,480,756**

11. Financial assets measured at FVOCI

	31 December 2019	31 December 2018
Debt instruments		
Share certificates	3,800	2,713
Corporate and bank bonds	614,270	674,455
Government bonds	189,498	27,170
Total	**807,568**	**704,338**

(*) ECL amount is TL 2,436 as of 31 December 2019 (TL 3,394 as of 31 December 2018).

As of 31 December 2019 TL 2,466 of financial assets at fair value through other comprehensive income have floating interest rates whereas the rest of the debt securities have fixed interest rates (31 December 2018: TL 2,113).

As of 31 December 2019, government securities with carrying values of TL 154,708 (31 December 2018: TL 10,794) are pledged to the Central Bank and İstanbul Takas ve Saklama Bankası Anonim Şirketi (Clearing and Custody Incorporation) for regulatory requirements and as a guarantee for money market transactions. As of 31 December 2019 securities with carrying values TL 632,281 (31 December 2018: TL 642,482) are pledged subject to repo transactions.

Average interest rates for TL, EUR and USD denominated financial assets at FVTPL are 8.79%. 3.28% and 5.55% respectively (31 December 2018: 8.38%. 3.43% and 5.39% respectively).

12. Financial assets measured at amortised cost

	31 December 2019	31 December 2018
Debt instruments		
Government bonds	575,098	363,099
Expected credit loss	(88)	(67)
Total	**575,010**	**363,032**

(Amounts expressed in thousands of TL unless otherwise indicated.)

13 Loans and Advances to Customers

At 31 December 2019 and 31 December 2018, details of loans and advances to customers are as follows:

Consumer loans and individual credit cards	**31 December 2019**	**31 December 2018**
Consumer loans-TL		
Real estate loans	314,057	375,968
Vehicle loans	3,777	2,431
General purpose loans	1,250,024	642,013
Others	--	--
Consumer loans FC and FC Indexed		
Real estate loans	12,107	39,714
Vehicle loans	--	--
General purpose loans	447	956
Individual credit cards-TL		
With installment	1,094	1,298
Without installment	6,632	7,073
Individual credit cards-FC		
With installment	--	--
Without installment	112	60
Personnel loans	**3,799**	**3,779**
Overdraft account-TL	**30,595**	**22,659**
Total consumer loans and individual credit cards	**1,622,644**	**1,095,951**
Commercial loans and corporate credit cards		
Commercial loans with installments-TL		
Real estate loans	1,018	2,432
Vehicle loans	71,772	44,396
General purpose loans	3,340,835	3,069,586
Commercial loans with installments-FC Indexed		
Real estate loans	0	278
Vehicle loans	12,425	21,782
General purpose loans	5,603,409	4,328,201
Corporate credit cards-TL		
With installment	2,234	10,414
Without installment	16,978	77,951
Overdraft accounts-TL	49,359	106,796
Spot loans	1,444,616	2,364,345
Revolving loans	2,026,326	2,186,641
Investment loans	231,268	92,976
Export loans	192,384	127,313
Other loans	892,914	540,272
Total commercial loans and corporate credit cards	**13,885,538**	**12,973,383**
Total performing loans	**15,508,182**	**14,069,334**
Non-performing loans	**920,338**	**621,863**
Unearned commission income	**(25,445)**	**(31,803)**
Total gross loans	**16,403,075**	**14,659,394**
Allowance for loan losses	(804,109)	(569,780)
Loans and advances to customers	**15,598,966**	**14,089,614**

(*) Loans at fair value through profit or loss amounting to TL 1,948,020 are also included (31 December 2018: TL 1,516,819).

(Amounts expressed in thousands of TL unless otherwise indicated.)

13 Loans and Advances to Customers (continued)

Information on expected credit losses

	Stage 1	Stage 2	Stage 3
Beginning of period (1 January 2019)	**104,447**	**169,498**	**295,835**
Transfers to stage 1	9,712	(9,712)	--
Transfers to stage 2	(21,192)	21,192	--
Transfers to stage 3	(3,265)	(47,812)	51,077
Provision for the year	27,671	38,452	416,874
Amounts written off			(248,668)
Period end (31 December 2019)	**117,373**	**171,618**	**515,118**

(*) The loan amounting to TL 236,192 has been written off from assets by transferring to asset management company in 2019.

Expected Credit Loss Measurement of On-Balance Sheet Financial Assets

	Carrying Amount				Expected Credit Loss			
	Stage I	Stage II	Stage III	Total	Stage I	Stage II	Stage III	Total
Cash and balances with Central Bank	2,707,875	--	--	**2,707,875**	154	--	--	**154**
Due from banks	520,836	--	--	**520,836**	347	--	--	**347**
Financial assets at FVTPL	749,104	--	--	**749,104**	4	--	--	**4**
Financial assets at fair value through other comprehensive income	807,568	--	--	**807,568**	2,436	--	--	**2,436**
Financial assets measured at amortised cost	575,098	--	--	**575,098**	88	--	--	**88**
Derivative assets held for hedging	87,539	--	--	**87,539**	--	--	--	**--**
Loans and advances to customers	13,659,003	1,823,734	920,338	**16,403,075**	117,373	171,618	515,118	**804,109**

Movement on non-performing loans

	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Balances at Beginning of Period	**203,821**	**167,547**	**250,495**
Additions (+)	692,046	5,342	20,940
Transfers from other categories of non-performing loans (+)	921	529,029	370,583
Transfers to other categories of non-performing loans (-)	530,390	363,905	6,239
Collections (-)	49,880	36,048	84,710
Write-offs (-)	--	--	13,022
Sold (-)(*)	48,436	85,914	101,842
Corporate and commercial Loans	48,217	84,619	83,786
Retail loans	41	322	9,030
Credit cards	178	973	9,026
Other	--	--	--
Balances at End of the Period	**268,082**	**216,051**	**436,205**
Expected credit losses (-)	165,920	133,848	215,350
Net Balance on Balance Sheet	**102,162**	**82,203**	**220,855**

(*) The loan amounting to TL 236,192 has been written off from assets by transferring to asset management company in 2019.

(Amounts expressed in thousands of TL unless otherwise indicated.)

14 Derivative Financial Assets Held For Hedging

At 31 December 2019 and 31 December 2018, derivative financial assets held for hedging purposes are as follows:

	31 December 2019		31 December 2018	
Derivative financial assets held for hedging				
	TL	**FC**	**TL**	**FC**
Fair Value Hedge	87,539	--	--	--
Cash Flow Hedge	--	--	--	--
Foreign Net Investment Hedge	--	--	--	--
Total	**87,539**	--	--	--

(*) The Group has derivative financial liability held for hedging purposes as of 31 December 2018.

The Group's Asset Liability Committee aims to hedge the interest risk through hedging its TL denominated fixed rate credit portfolio with cross currency swaps by linking the high correlated part of the fair value changes of hedging instruments after prospective tests.

15 Investments in Equity Instruments

The Group has TL 27,743 investments in equity instruments as of 31 December 2019 (31 December 2018: TL 24,052).

The associates of Finberg were not consolidated since the share amounts are immaterial and the Bank has no control over those companies.

Company	**Address (City / Country)**	**Amount (31 December 2019)**	**Amount (31 December 2018)**
Kredi Garanti Fonu A.Ş.	Ankara	4,897	4,897
Bizim Hesap A.Ş.	İstanbul	1,913	1,913
Araba Sepeti Otomotiv Bil.Dan.Hizm.A.Ş.	İstanbul	724	724
Revo Capital Fund I B.V.	İstanbul	12,293	16,518
Compay Ödeme Çözümleri A.Ş.	İstanbul	188	--
Birleşik Ödeme Sistemleri A.Ş.	İstanbul	7,728	--

(Amounts expressed in thousands of TL unless otherwise indicated.)

16 Other Assets

At 31 December 2019 and 31 December 2018, other assets comprised the following items:

	31 December 2019	31 December 2018
Non-current assets held for sale	153,718	222,731
Check clearance balance	81,414	165,706
Prepaid commissions	28,453	19,636
Other prepaid expenses	13,565	9,418
Prepaid rent	--	1,503
Other	25,515	21,112
Total	**302,665**	**440,106**

Movement of non-current assets held for sale is as follows:

	2019	2018
Opening balance, 1 January	**222,731**	**26,505**
Additions	101,528	226,987
Disposal	(170,541)	(30,761)
Balance at 31 December	**153,718**	**222,731**

17 Property and Equipment

Movement in property and equipment during the year ended 31 December 2019 is as follows:

	Premises	Furniture, fixture and equipment	Construction in progress	Total
Balance at 1 January 2019:				
Cost	223,097	89,975	--	313,072
Accumulated depreciation	(6,542)	(48,365)	--	(54,907)
Opening net carrying amount	**216,555**	**41,610**	**--**	**258,165**
Cost				
Additions	72,279	37,078	30,170	139,527
Disposals	--	(6,101)	--	(6,101)
Accumulated depreciation				
Depreciation charge	(22,404)	(19,821)	--	42,225)
Disposals	(110)	6,145	--	6,035
Balance at 31 December 2019:	**266,320**	**58,911**	**30,170**	**355,401**

(Amounts expressed in thousands of TL unless otherwise indicated.)

17 Property and Equipment (continued)

Movement in property and equipment during the year ended 31 December 2018 is as follows:

	Premises	Furniture, fixture and equipment	Total
Balance at 1 January 2018:			
Cost	171,563	76,933	248,496
Accumulated depreciation	(4,683)	(50,756)	(55,439)
Opening net carrying amount	**166,880**	**26,177**	**193,057**
Cost			
Additions	51,534	26,769	78,303
Disposals	--	(13,728)	(13,728)
Accumulated depreciation			
Depreciation charge	(1,813)	(11,157)	(12,970)
Disposals	(46)	13,549	13,503
Balance at 31 December 2018:	**216,555**	**41,610**	**258,165**

18 Intangible Assets

Movement in intangible assets during the year ended 31 December 2019 is as follows:

	Software	Other	Carrying Value
Balance at 1 January 2019:			
Cost	84,566	5,955	90,521
Accumulated depreciation	(49,564)	(5,955)	(55,519)
Opening net carrying amount	**35,002**	**--**	**35,002**
Cost			
Additions	50,298	--	50,298
Disposals	(2,617)	--	(2,617)
Accumulated depreciation			
Depreciation charge	(12,788)	--	(12,788)
Disposals	--		--
Balance at 31 December 2019:	**69,895**	**--**	**69,895**

(Amounts expressed in thousands of TL unless otherwise indicated.)

18 Intangible Assets (continued)

Movement in intangible assets during the year ended 31 December 2018 is as follows:

	Software	Other	Carrying Value
Balance at 1 January 2018:			
Cost	49,388	5,955	55,343
Accumulated depreciation	(43,440)	(5,954)	(49,394)
Opening net carrying amount	**5,948**	**1**	**5,949**
Cost			
Additions	35,285	--	35,285
Disposals	(107)	--	(107)
Accumulated depreciation			
Depreciation charge	(6,231)	(1)	(6,232)
Disposals	107		107
Balance at 31 December 2018:	**35,002**	**--**	**35,002**

19 Deposits from Banks

At 31 December 2019 and 31 December 2018, deposits from banks comprised the following items:

	31 December 2019	31 December 2018
Demand deposits in FC	20,678	81,695
Demand deposits in TL	1,480	6,715
Time deposits in FC	14,943	431,630
Time deposits in TL	12,025	119,715
Money market deposits	733,257	495,936
Total	**782,383**	**1,135,691**

20 Deposits from Customers

At 31 December 2019 and 31 December 2018, deposits from customers comprised the following items:

	31 December 2019			31 December 2018		
	Demand	**Time**	**Total**	**Demand**	**Time**	**Total**
Saving Deposits	**841,776**	**11,497,223**	**12,338,999**	**491,894**	**8,465,489**	**8,957,383**
FC Deposits	624,521	6,222,486	6,847,007	395,655	4,077,183	4,472,838
TL Deposits	217,255	5,274,737	5,491,992	96,239	4,388,306	4,484,545
Commercial deposits	**329,407**	**727,161**	**1,056,568**	**197,054**	**1,413,998**	**1,611,052**
Public sector and other inst. deposit	**62,240**	**25,937**	**88,177**	**2,516**	**88,315**	**90,831**
Precious metals	**25,146**	**--**	**25,146**	**12,368**	**--**	**12,368**
Total deposits from customers	**1,258,569**	**12,250,321**	**13,508,890**	**703,832**	**9,967,802**	**10,671,634**

(Amounts expressed in thousands of TL unless otherwise indicated.)

21 Other Liabilities and Provisions

At 31 December 2019 and 31 December 2018, other liabilities comprised of the following items:

	31 December 2019	31 December 2018
Blocked accounts	199,526	368,192
Check clearance account	148,879	298,400
Miscellaneous payables	151,330	319,478
Financial leases	68,636	463
Taxes and duties withheld	40,580	39,376
Unused vacation pay liability and personnel bonus accrual	14,870	12,143
Payables to consultants and suppliers	7,477	10,749
Blocked cheques	298	644
Other	36,991	15,117
Other liabilities	**668,587**	**1,064,562**
Provision for taxes	1,456	--
Employee termination benefits	15,083	11,116
General reserve provision	44,500	65,000
Provision for non-cash loans	19,121	19,084
Provision for lawsuits	2,107	2,156
Provisions	**82,267**	**97,356**
Total	**750,854**	**1,161,918**

With the "IFRS 16 Leases" standard valid from 1 January 2019, the difference between operating leases and finance leases has been eliminated so that leasing transactions will be recognized as right-of-use assets and will be recognized under "Property and Equipment" and corresponding liability under "Other Liabilities. Implementation and impacts on transition of IFRS 16 are presented in note xvi of section 3.

Employee Termination Benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 6,379.86 (full TL) and TL 5,434.42 (full TL) at 31 December 2019 and 2018 respectively) per year of employment at the rate of pay applicable at the date of retirement or termination.

The principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:
- Calculation is based on discount rate of 13.50%, inflation rate of 6.00% and real rate of rise in salary of 0.00%.
- Individuals' earliest retirement age is considered as retirement age.
- CSO 1980 mortality table is used for the death probabilities of male and female employees.

Movements in the present value of the employee termination benefits were as follows:

	2019	2018
Opening, 1 January	11,116	11,497
Current service cost	5,003	1,992
Interest cost	1,406	1,552
Benefits paid	(4,984)	(5,309)
Actuarial losses on employee termination benefits	2,542	1,384
Closing, 31 December	**15,083**	**11,116**

(Amounts expressed in thousands of TL unless otherwise indicated.)

22 Borrowed Funds

Borrowed funds as of 31 December 2019 and 2018 comprised the following items:

	31 December 2019	31 December 2018
Borrowings from Banks		
Turkish Lira	16,773	10,298
Foreign Currency	842,608	1,328,914
Total	**859,381**	**1,339,212**

23 Securities Issued

31 December 2019	TL		FC	
	Short Term	Medium and Long Term	Short Term	Medium and Long Term
Nominal	383,867	--	--	1,300,613
Carrying Amount	383,937	--	--	1,334,395

31 December 2018	TL		FC	
	Short Term	Medium and Long Term	Short Term	Medium and Long Term
Nominal	519,481	--	--	1,304,630
Carrying Amount	503,729	--	--	1,338,856

24 Derivative Financial Liabilities Held for Trading

At 31 December 2019 and 31 December 2018, derivative liabilities held for trading are as follows:

	31 December 2019	31 December 2018
Derivatives held for trading		
- Forwards	65,341	101,503
- Swaps	386,379	846,126
- Options	223,041	366,785
Total	**674,761**	**1,314,414**

(Amounts expressed in thousands of TL unless otherwise indicated.)

25 Derivative Financial Liabilities Held For Hedging

At 31 December 2019 and 31 December 2018, derivative financial liabilities held for hedging purposes are as follows:

	31 December 2019		31 December 2018	
Derivative financial liabilities held for hedging	**TL**	**FC**	**TL**	**FC**
Fair Value Hedge	113,444	--	201,839	--
Cash Flow Hedge	--	--	--	--
Foreign Net Investment Hedge	--	--	--	--
Total	**113,444**	**--**	**201,839**	**--**

26 Subordinated Debts

	31 December 2019		31 December 2018	
	TL	**FC**	**TL**	**FC**
Debt instruments subject to Tier 1 equity	100,000	178,263	--	--
Subordinated loans	--	--	--	--
Subordinated debt instruments	100,000	178,263	--	--
Debt instruments subject to Tier 2 equity	--	1,610,755	--	1,596,143
Subordinated loans	--	--	--	--
Subordinated debt instruments	--	1,610,755	--	1,596,143
Total	**100,000**	**1,789,018**	**--**	**1,596,143**

Additional Tier 1 Capital

The Group has recognised the issued Tier 1 securities of TL 100,000 nominal and related interest expense, as “other capital reserves” within the scope of “IAS 32 Financial Instruments: Presentation”. It has recognised the issued Tier 1 securities of USD 30,000 nominal and related interest expense as “subordinated debt”.

(Amounts expressed in thousands of TL unless otherwise indicated.)

Debt instruments included in shareholder's equity calculation:

Issuer	Fibabanka A.Ş.	Fibabanka A.Ş.	Fibabanka A.Ş.
Code of debt instrument (CUSIP, ISIN etc.)	XS1386178237	TRSFIBA10016	XS2096028571
Regulation of debt instrument	BRSA's "Regulation on Equities of Banks" dated 1 November 2006" and English Law	BRSA's "Regulation on Equities of Banks" dated 1 November 2006"	BRSA's "Regulation on Equities of Banks" dated 1 November 2006" and English law
Consideration Status in Shareholders' Equity Calculation			
Situation of being subject to practice of being taken into consideration with 10% deduction after1/1/2015	No	No	No
Eligible at unconsolidated / consolidated	Unconsolidated and Consolidated	Unconsolidated and Consolidated	Unconsolidated and Consolidated
Type of debt instrument	Subordinated Security	Subordinated Security	Subordinated Security
Recognized amount in shareholders' equity calculation (As of the most recent reporting date – Thousand TL)	1,577,984	100,000	178,206
Nominal value of debt instrument (Thousand TL)	1,782,060	100,000	178,206
Related account of debt instrument	Subordinated Debt Instruments	Shareholders' Equity	Subordinated Debt Instruments
Issuing date of debt instrument	24/03/16-10/05/17	20/03/19	31/12/19
Maturity structure of debt instrument (Demand/Time)	Time	Demand	Demand
Initial term of of debt instrument	11 years	--	--
Issuer call subject to prior BRSA approval	Has repayment right	Has repayment right	Has repayment right
Optional call date, reimbursement amount	24/11/2022; USD 300 million	13/03/2024; TL 100 million	31/12/2024; USD 30 million
Subsequent call date, if any	None	At the end of every 5th year following	On each interest payments date after first 5 years

Interest/Dividend Payments

Fixed or floating interest/dividend payments	Floating interest	Floating interest	Floating interest
Interest rate or index value of interest rate	Upto pay back option date 7.75% (5 years mid-swap rate+5.758%); afterwards current 5 years mid-swap rate+5.758%	8% additional return on TRLibor	10% additional return on Libor
Whether there is any restriction to stop dividend payments or not	None	None	None
Feature of being fully optional, partially optional or obligatory	Obligatory	Optional	Optional
Whether there is any stimulant to repayment like interest rate hike or not	None	None	None
Feature of being cumulative or noncumulative	--	--	--
Feature of being convertible bonds			
If there is convertible bonds, trigger incidents cause this conversion	--	--	--
If there is convertible bonds, feature of full or partially conversion	--	--	--
If there is convertible bonds, rate of conversion	--	--	--
If there is convertible bonds, feature of conversion –oligatory or optional-	--	--	--
If there is convertible bonds, types of convertible instruments	--	--	--
If there is convertible bonds, exporter of convertible debt instruments	--	--	--
Feature of value reducement			
If there is a feature of value reducement, trigger incidents cause this reducement	--	Under the condition that unconsolidated and/or consolidated Tier I capital adequacy ratio drop below BRSA's ratio	Under the condition that unconsolidated and/or consolidated Tier I capital adequacy ratio drop below BRSA's ratio
If there is a feature of value reducement, feature of full or partially reducement of value	--	Partially and totally	Partially and totally
If there is a feature of value reducement, feature of being constant of temporary	--	--	--
If there is a feature of value reducement, mechanism of value incrementation	--	--	--
Claiming rank in case of winding up (Instrument that is just above debt instrument)	After the other borrowers except depositors	After depositors, other borrowers and Tier II capital	After depositors, other borrowers and Tier II capital
Whether meeting the conditions defined by 7th or 8th articles of Shareholders' Equity of Banks Regulation	Meets the conditions defined by 8th article, does not meet the conditions defined by 7th article.	Meets the conditions defined by 7th article, does not meet the conditions defined by 8th article.	Meets the conditions defined by 7th article, does not meet the conditions defined by 8th article.
The conditions not met which were defined by 7th or 8th of the 7th or 8th articles of Shareholders' Equity of Banks Regulation	--	Can not be converted to stock.	Can not be converted to stock.

(Amounts expressed in thousands of TL unless otherwise indicated.)

27 Taxation

The Bank and its subsidiaries are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporation tax is computed on the statutory income tax base determined in accordance with Tax Procedural Law. Effective from 1 January 2006, Corporate tax rate is 20%.

It is mentioned in provisional article 91 of Law numbered 7061, which is added to Corporate Tax Law numbered 5520 that tax rate for profit of the company regarding 2018, 2019 and 2020 fiscal periods (accounting periods starting within the related period for companies which are assigned special accounting period) shall be implemented as 22%.

In Turkey, tax legislation does not permit a parent group and its subsidiaries to file a consolidated tax return. Therefore, the taxation charge as reflected in the accompanying consolidated financial statements, represents the total amount of taxation change of the Bank and its subsidiaries.

Turkish tax legislation provides for a temporary tax to be calculated and paid based on earnings generated for each quarter. The temporary tax rates used in determining the temporary tax are 20% and 22%. The temporary taxes paid quarterly are offset against the final tax liability for the year.

In Turkey, the Tax Procedural Law does not provide a procedure for final agreement of tax assessments. Tax returns are required to be filed within the fourth month following the balance sheet date. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

Tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred.

Provision for corporate taxes for current and previous year is presented below:

	2019	**2018**
Total tax liability	16,858	--
Prepaid taxes	(16,296)	--
Provision for taxes	**562**	**--**

For the years ended 31 December 2019 and 2018, taxation comprised the following:

	2019	**2018**
Current tax expense	(23,601)	(117)
Deferred tax income / (expense)	(15,309)	(39,412)
Total	**(38,910)**	**(39,529)**

(Amounts expressed in thousands of TL unless otherwise indicated.)

27 Taxation (continued)

The total provision for taxes on income is different than the amount computed by applying the statutory tax rate to loss from operations before provision for taxes on income as shown in the following reconciliation:

	2019	%	2018	%
Profit before income tax	**253,690**	**100%**	**182,299**	**100%**
At statutory income tax rate	(55,812)	(22)%	(40,106)	(22)%
Nondeductible expenses	(1,727)	(1)%	(810)	(0)%
Other tax exempt income	18,629	7%	1,387	1%
Taxation	**(38,910)**	**(15)%**	**(39,529)**	**(22)%**

Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities at 31 December 2019 and 31 December 2018 are attributable to the items detailed in the table below:

	31 December 2019	31 December 2018
Deferred tax assets/ liabilities		
Valuation of financial assets	(24,066)	(19,938)
Statutory losses carried forward	--	23,457
Allowance for loan losses	73,403	75,366
Reserve for employee termination benefits	3,017	2,238
Provision for vacation pay	1,092	749
Unearned loan commissions	3,041	4,570
Others	(2,179)	(7,287)
Net deferred tax assets (liabilities)	**54,308**	**79,155**

The movements of deferred tax assets are as follows:

	2019	2018
Balance at the beginning of the period	**79,155**	**58,871**
Deferred tax recognised in profit or loss	(15,309)	(39,412)
Deferred tax recognised in OCI	(9,538)	59,696
Balance at the end of the period	**54,308**	**79,155**

(Amounts expressed in thousands of TL unless otherwise indicated.)

28 Share Capital and Share Premium

Share capital structure of the Group is as follows:

	31 December 2019		31 December 2018	
Name / Commercial Title	**Share Amount (Nominal)**	**Share Ratios**	**Share Amount (Nominal)**	**Share Ratios**
Fiba Holding A.Ş.	675,379	71.57%	675,379	71.57%
International Finance Corporation ("IFC")	84,554	8.96%	84,554	8.96%
European Bank for Reconstruction and Development ("EBRD")	84,554	8.96%	84,554	8.96%
Turk Finance B.V. ("Abraaj")	93,897	9.95%	93,897	9.95%
Others	5,300	0.56%	5,300	0.56%
Total	**943,684**	**100.00%**	**943,684**	**100.00%**

In May 2015, the Parent Bank's capital was increased by TL 128,860 TL; TL 127,045 of the increase was provided by the subordinated loan granted by Fiba Holding A.Ş. which had been approved to be converted to capital and TL 1,815 of total capital was paid in cash by the other shareholders.

In December 2015, the Parent Bank's paid-in capital was increased to TL 850,038 by an increase of TL 168,655 in total, with equal contributions from International Finance Corporation and European Bank for Reconstruction and Development. In addition, share issuance premium of TL 73,379 was recognised in the shareholders' equity.

The Parent Bank's paid-in capital amounting to TL 850,038 was increased to TL 943,684 on 7 September 2016 with the capital contribution of TurkFinance B.V. by TL 93,646. In addition, share issuance premium of TL 55,299 was recognised in the shareholders' equity.

As of 31 December 2019, Parent Bank's paid in capital is TL 943,684.

Retained Earnings / (Accumulated Losses) and Other Capital Reserves

At 31 December 2019 retained earnings are TL 497,321 (31 December 2018: TL 282,570).

The Parent Bank has issued a TL-denominated debt instrument on 20 March 2019 with nominal amount of TL 100.000 with a floating interest rate, which fulfills the conditions of 7th section-2nd paragraph of BRSA's "Regulation on Equities of Banks", has equity characteristics and with related interest expense, it is included in Tier I capital calculations. It is presented under "Other Capital Reserves" in statement of financial position.

Unrealized Losses on Financial Assets measured at FVOCI, Net of Tax

At 31 December 2019, unrealized gains / (losses) on financial assets measured at FVOCI are TL 19,111 gain (31 December 2018: TL 33,382 loss). The tax effect of unrealized gain on financial assets measured at FVOCI is TL 3,336 (31 December 2018: TL 6,711), and the net unrealized gain amount is TL 15,774 (31 December 2018: TL 26,572 loss).

(Amounts expressed in thousands of TL unless otherwise indicated.)

29 Commitments and Contingent Liabilities

29.1 Letters of guarantee and credit

As at 31 December 2019, the Group is contingently liable for letters of guarantee and credit given amounting to TL 1,024,668 (31 December 2018: TL 871,550).

	Carrying Amount			Expected Credit Loss(*)		
	Stage I	**Stage II**	**Stage III**	**Stage I**	**Stage II**	**Stage III**
Letters of Guarantee	707,597	31,351	11,665	2,648	4,039	6,336
Bills of Exchange and Bank Acceptances	105,847	--	--	231	--	--
Letters of Credit	168,208	--	--	77	--	--
Total	**981,652**	**31,351**	**11,665**	**2,956**	**4,039**	**6,336**

(*) ECL allowance for off-balance sheet financial assets are recognized in Liabilities' "Provisions" line.

29.2 Other commitments

	31 December 2019	31 December 2018
Irrevocable credit facilities	876,316	615,901
Payment commitments for cheques	187,578	199,635
Commitments for credit card expenditure limits	32,901	85,881
Other irrevocable commitments	15,152	13,659
Tax and fund liabilities from export commitments	5,940	6,502
Commitments for credit card and banking promotions	1	1
Total	**1,117,888**	**921,579**

29.3 Derivative contracts

Commitments for purchase of foreign currencies under option, forward and swap contracts at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
	Purchases	**Purchases**
Spot buy-sell commitments	2,263,390	1,539,559
Swap agreements	10,967,115	13,024,284
Forward agreements	2,220,775	2,670,332
Options	2,754,642	3,375,226
Futures	--	9,509
Others	578,516	--
Total	**18,784,438**	**20,618,910**

Maturity analysis of derivative instruments is as follows:

31 December 2019	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Interest rate swaps	--	--	--	--	322,010	**322,010**
Spot. forward and swap exchange contracts	5,526,910	4,815,147	1,009,645	1,331,695	2,445,873	**15,129,270**
Options	851,776	261,989	209,851	385,584	1,045,442	**2,754,642**
Futures	--	--	--	--	--	**--**
Others	--	--	7,012	216,518	354,986	**578,516**
Total	**6,378,686**	**5,077,136**	**1,226,508**	**1,933,797**	**4,168,311**	**18,784,438**

(Amounts expressed in thousands of TL unless otherwise indicated.)

29 Commitments and Contingent Liabilities (continued)

31 December 2018	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Interest rate swaps	--	--	--	--	288,045	**288,045**
Spot, forward and swap exchange contracts	8,632,424	1,619,242	1,124,070	663,301	4,907,093	**16,946,130**
Options	585,507	430,310	271,426	392,470	1,695,513	**3,375,226**
Futures	--	9,509	--	--	--	**9,509**
Total	**9,217,931**	**2,059,061**	**1,395,496**	**1,055,771**	**6,890,651**	**20,618,910**

30 Related Parties

For the purpose of this report, the Group's ultimate parent group, Fiba Holding A.Ş. and all its subsidiaries, and the ultimate owners, directors of Fibabanka A.Ş. are referred to as related parties. During the course of the business, the Group has made placements with and also received deposits from them at various terms.

(a) Transactions with direct related parties

	31 December 2019	31 December 2018
Interest income	--	--
Interest expense on deposits (*)	26,828	17,753
Non - cash loan commission income	--	--

(*) TL 6,251 is related to IFC and EBRD (31 December 2018: TL 10,326).

(b) Balances with direct related parties

	31 December 2019	31 December 2018
Non cash loans to related parties	20	20
Deposits from related parties	57,840	80,750
Subordinated loans	--	--
Other borrowings (*)	--	216,991

(*) TL 216,991 was related to IFC and EBRD on 31 December 2018.

(c) Transactions with other related parties

	31 December 2019	31 December 2018
Interest income	39,265	51,949
Interest expense	49,756	54,703
Net trading income	(37,456)	(45,511)
Non - cash loan commission income	105	171

(Amounts expressed in thousands of TL unless otherwise indicated.)

30 Related Parties (continued)

(d) Balances with other related parties

	31 December 2019	31 December 2018
Cash loans to other related parties	331,014	402,272
Non - cash loans to other related parties	61,073	55,468
Deposits from other related parties	231,137	460,871

(e) Derivative transactions with other related parties

	31 December 2019	31 December 2018
	Purchase (*)	**Purchase(*)**
Spot, swap, forward and option agreements for trading purposes	381,159	422,202

(*) Stated in notional amounts

(f) Remuneration and benefits of key management

The key management and the members of the Board of Directors received remuneration and fees amounting to TL 16,295 in the current period (2018: TL 12,693).

31 Net Interest Income

	2019	2018
Interest income		
Loans and advances to customers	2,205,377	2,289,729
Due from banks	146,203	150,163
Derivative assets	308,597	311,109
Debt instruments	89,227	59,003
Others	28,914	32,405
	2,778,318	**2,842,409**
Interest expense		
Deposits from banks and customers	1,278,187	1,242,973
Saving deposits insurance	19,312	10,135
Funds borrowed	184,436	217,688
Derivative liabilities	364,424	385,226
Obligations under repurchase agreements	19,854	15,575
Securities issued	179,864	270,389
Others	17,813	438
	2,063,890	**2,142,424**
Net interest income	**714,428**	**699,985**

(Amounts expressed in thousands of TL unless otherwise indicated.)

32 Fees and Commission Income and Expenses

Fees and commission income for the years ended 31 December 2019 and 31 December 2018 are as follows:

	2019	2018
Insurance commissions	116,999	51,667
Limit allocation.revision and appraisal fees	77,257	22,056
Commissions from non-cash loans	14,650	16,850
FibaTarife commissions	11,359	17,225
Credit card commissions	10,706	14,625
Periodical service commissions	10,594	14,038
Asset management fees (*)	4,752	1,234
Transfer commissions	2,384	2,238
Account maintenance fees	1,711	2,065
Others	17,903	22,060
Fees and commission income	**268,315**	**164,058**

(*) Asset management fees relate to fees earned by the Group on investment funds.

Fees and commission expenses for the year ended 31 December 2019 and 31 December 2018 are as follows:

	2019	2018
Credit card fees	10,954	12,745
Commissions for debt issued	6,721	8,041
Commissions to correspondent banks	3,821	3,764
Debit card fees	3,418	3,781
Payment and transaction fees	2,225	2,046
Other	7,475	6,626
Fees and commission expense	**34,614**	**37,003**

33 Net Trading Income

	2019	2018
Gains on derivative transactions	87,792	27,874
Foreign exchange gains /(losses)	11,863	73,027
Gains / (losses) on debt instruments, net	62,340	64,586
Total	**161,995**	**165,487**

34 Other Operating Income

	2019	2018
Gain on sale of non-current assets held for sale and tangible assets	57,838	5,129
Gain on sale of loans	25,283	5,321
Reversal of general reserve provision	20,500	--
Intermediary fees	6,826	2,502
Others	21,724	25,911
Total	**132,171**	**38,863**

(Amounts expressed in thousands of TL unless otherwise indicated.)

35 Personnel Expenses

	2019	2018
Wages and salaries	184,294	162,057
Social security premiums	31,545	26,745
Personnel bonuses	12,000	10,000
Employee health insurance expenses	7,054	7,053
Food and beverage	7,039	5,614
Transportation	4,600	3,613
Termination and vacation pay expenses	2,912	508
Others	27,497	27,636
Total	**276,941**	**243,226**

36 Other Expenses

	2019	2018
Information technology expenses	26,852	16,533
Taxes other than on income	25,671	24,820
Communication expenses	24,816	17,780
Consultancy expenses	16,460	16,580
Advertisement expenses	13,392	14,999
Representation hospitality expense	8,253	7,270
Outsource service expenses	7,047	2,988
Cleaning expenses	6,703	6,368
Transportation expenses	6,514	5,956
Electricity expenses	4,159	3,229
Regulatory agency expense	4,124	4,023
Maintenance expenses	3,522	3,091
Office supplies	1,527	2,048
Rent expenses (*)	882	39,841
Others	23,732	15,511
Total	**173,654**	**181,037**

(*) 31 December 2018 amounts include all operational leases expenses.

37 Subsequent Events

The Covid-19 epidemic is spreading across the world and in our country and the precautions taken against the epidemic cause the disruptions in operations in all countries exposed to the epidemic. It affects the economic conditions negatively all over the world. Since the economic effects of this situation are uncertain as of the reporting date, the effects on the Group's consolidated financial statements due to its operations cannot be reasonably estimated.

Between 31 December 2019 and 30 July 2020, which is the publishing date of the IFRS report, Turkish Lira has been substantially depreciated against main foreign currencies. It has been depreciated by 15% against USD, by 17% against Euro.