TÜRKİYE KALKINMA VE YATIRIM BANKASI A.Ş. AND ITS SUBSIDIARY

Consolidated Financial Statements
As at and for the Year Ended
31 December 2019
With Independent Auditors' Report

25 June 2020

This report contains 5 pages of independent auditors' report on consolidated financial statement and 61 pages of consolidated financial statements and notes to the consolidated financial statements.

Türkiye Kalkınma ve Yatırım Bankası Anonim Şirketi and Its Subsidiary

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Türkiye Kalkınma ve Yatırım Bankası A.Ş.

Qualified Opinion

We have audited the consolidated financial statements of Türkiye Kalkınma ve Yatırım Bankası A.Ş. (the "Bank") and its subsidiary (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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 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

The Bank's investment in Maksan Malatya Makina Sanayi A.Ş. ("Maksan") and Türk Suudi Holding A.Ş. ("Türk Suudi Holding"), the associates accounted for by the equity method, are carried at TL 7,460 Thousand and TL 9,537 Thousand, respectively on the consolidated statement of financial position as at 31 December 2019, and Bank's share of Maksan's and Türk Suudi Holding's net income of TL 4,195 Thousand and TL 4,843 Thousand, respectively, are included in Bank's income for the period then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of Bank's investment in Maksan and Türk Suudi Holding as at 31 December 2019 and Bank's share of Maksan's and Türk Suudi Holding's net income for the period because we were denied access to the financial information, management, and the auditors of Maksan and Turk Suudi Holding. Additionally, we were unable to obtain the audited financial information of Arıcak Turizm ve Ticaret A.Ş. ("Arıcak"), a subsidiary of the Bank, which is consolidated in the consolidated financial statement of the Group as at 31 December 2019. Total asset and net income for the period at Arıcak is TL 8,186 Thousand and TL 747 Thousand respectively. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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* (the "IESBA Code") together with ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with 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 Matter

Key audit matters are those matters that, in our professional judgment, 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 Basis for Qualified Opinion section we have determined the matters described below the key audit matter to be communicated in our report.

Impairment of loans measured at amortised cost

Refer to Note 2.17 to the consolidated financial statements for summary of accounting policies and significant judgments of for impairment of loans measured at amortised cost.

Key audit matter	How the matter is addressed in our audit
As of 31 December 2019, loans comprise 87% of Group's total assets. The Group recognizes its loans measured at amortised cost in accordance with IFRS 9 Financial Instruments standard ("Standard"). In determining the impairment of financial assets the Group applies "expected credit loss model" which contains significant assumptions and estimates. The significant assumptions and estimates of the Group's management are as follows: • determination of significant increase in credit risk since initial recognition of loans in financial statements. • incorporating the forward looking macroeconomic information in calculation of credit risk • design and implementation of expected credit loss model.	Our procedures for auditing the impairment of loans measured at amortised cost include below: • We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures are tested 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 Regulation and Standard. • We evaluated the model and methodology and the evaluation of the calculations carried out with the control testing and detail analysis by the involvement of specialist.

The determination of the impairment of loans measured at amortised cost depends on the credit default status, the model based on the change in the credit risk at the first recognition date and 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 estimates expected credit losses on a collective basis. Collective provisions consider the estimated future performance of the business and the market value of the collateral provided for credit transactions. 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 performed loan reviews for selected loan samples which include a detailed examination of loan files and related information and evaluation of their classification. In this context, the current status of the loan customer has been evaluated by including forward looking information and macroeconomic expectations. • We tested the accuracy and completeness of the data in calculation of the data in the calculation models for the loans which are assessed on collective basis. We recalculated the expected credit loss calculation. 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 subjective and objective criteria which are used in determining the significant increase in credit risk. • We evaluated the adequacy of the disclosures in the unconsolidated financial statements related to impairment provisions.

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 IFRSs, 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 auditor’s 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 judgment and maintain professional skepticism 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 auditor’s 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 auditor’s 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 to 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 year and are therefore the key audit matters. We describe these matters in our auditor's 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

Erdal Tıkmak

Partner

Istanbul, 25 June 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2019

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

	Notes	31 December 2019	31 December 2018
ASSETS			
Cash and deposits with banks and other financial institutions	4	2,336,055	419,602
Balances with Central Bank	4	594	1,357
Money market placements	4	127,246	1,203,218
Financial assets measured at fair value through profit or loss	5	90,216	57,983
Loans and advances to customers	6	11,220,231	9,867,630
Loans and advances to financial institutions	7	3,684,509	3,649,565
Investment securities	8	1,751,602	267,544
Investments in associates	9	16,997	14,617
Premises and equipment	10	56,368	37,465
Investment properties	11	850	8,501
Intangible assets	12	2,085	1,706
Deferred tax asset	16	-	25,261
Other assets	13	89,049	61,280
Total assets		**19,375,802**	**15,615,729**
LIABILITIES AND EQUITY			
LIABILITIES			
Money market funds	14	50,364	862
Funds borrowed	14	15,383,819	13,588,545
Subordinated liabilities	14	1,402,055	336,270
Income taxes payable	16	45,847	33,075
Provisions	15	25,628	40,829
Deferred tax liabilities	16	11,682	-
Other liabilities	15	104,497	71,429
Total liabilities		**17,021,609**	**14,071,010**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	17	1,126,911	776,911
Share premium		1,983	1,582
Other reserves		36,062	(2,758)
Legal reserves		47,673	39,142
Retained earnings		1,141,564	729,842
Total equity		**2,354,193**	**1,544,719**
Total liabilities and equity		**19,375,802**	**15,615,729**

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

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	1 January – 31 December 2019	1 January – 31 December 2018
Interest income			
Interest on loans and advances		750,066	496,229
Interest on securities	21	108,120	25,189
Interest on deposits with banks and other financial institutions		234,597	102,687
Interest on other money market placements		39,428	64,965
Other interest income		336	2
Total interest income		**1,133,147**	**689,072**
Interest expense			
Interest on money market operations		(429)	(67)
Interest on funds borrowed and deposits from other banks		(422,790)	(232,279)
Other interest expense		(2,208)	-
Total interest expense		**(425,427)**	**(232,346)**
Net interest income		**707,720**	**456,726**
Fees and commissions and other operating income			
Fees and commissions income	24	15,747	27,296
Fees and commissions expenses	24	(1,231)	(871)
Net fees and commissions income	24	**14,516**	**26,425**
Foreign exchange gains / (loss)		13,715	(4,944)
Net trading gain / (loss)		25,742	22,218
Other operating income	22	40,439	11,239
Other operating expenses	23	(158,714)	(99,002)
(Provisions for) impairment of loans and other assets		(52,873)	(45,676)
Operating profit		**590,545**	**366,986**
Income from associates	10	2,380	3,287
Profit before income tax		**592,925**	**370,273**
Income tax expense	16	(172,672)	(79,986)
Profit for the year		**420,253**	**290,287**
Profit attributable to:			
Equity holders of the parent		420,253	290,287
Earnings per share (per 100 shares) (Full TL)	19	**0.5575**	**0.5806**

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	1 January - 31 December 2019	1 January – 31 December 2018
Profit for the year		**420,253**	**290,287**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/(loss)		(694)	(1,394)
Tax effect of actuarial gain/(loss)		125	251
Items that may be reclassified subsequently to profit or loss:			
Net value gains / (losses) on financial assets measured at fair value through other comprehensive income (FVOCI)		48,055	(4,288)
Tax effect of net value gains/ (losses) on financial assets measured at fair value through other comprehensive income (FVOCI)		(8,666)	1,095
Other comprehensive income / (loss) for the year, net of tax		**38,820**	**(4,336)**
Total comprehensive income for the year		**459,073**	**285,951**
Total comprehensive income attributable to:			
Equity holders of the parent		459,073	285,951
Non-controlling interest		-	-

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

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Share capital	Adjustment to share capital	Share Premium	Actuarial gain/(loss)	Unrealized gains/(losses) on financial assets measured at fair value through other comprehensive income (FVOCI)	Legal Reserves	Retained earnings	Total Equity
At 1 January 2018	**500,000**	**276,911**	**1,582**	**1,864**	**(286)**	**32,150**	**458,428**	**1,270,649**
Profit for the year	-	-	-	-	-	-	290,287	290,287
Actuarial gain/(loss):	-	-	-	-	-	-	-	-
Gains/(Losses) arising during the year	-	-	-	(1,394)	-	-	-	(1,394)
Financial assets measured at fair value through other comprehensive income (FVOCI):	-	-	-	-	-	-	-	-
Gains/(Losses) arising during the year	-	-	-	-	(4,288)	-	-	(4,288)
Less: Transfer to statement of income	-	-	-	-	-	-	-	-
Income tax relating to components of other comprehensive income	-	-	-	251	1,095	-	-	1,346
Other comprehensive income	**-**	**-**	**-**	**(1,143)**	**(3,193)**	**-**	**-**	**(4,336)**
Total comprehensive income for the year	-	-	-	(1,143)	(3,193)	-	290,287	285,951
Owners' equity changes:								
Dividends paid	-	-	-	-	-	-	(11,881)	(11,881)
Transfer to legal reserves	-	-	-	-	-	6,992	(6,992)	-
At 31 December 2018	**500,000**	**276,911**	**1,582**	**721**	**(3,479)**	**39,142**	**729,842**	**1,544,719**

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

	Share capital	**Adjustment to share capital**	**Share Premium**	**Actuarial gain/(loss)**	**Unrealized gains/(losses) on financial assets measured at fair value through other comprehensive income (FVOCI)**	**Legal Reserves**	**Retained earnings**	**Total Equity**
At 31 December 2018	**500,000**	**276,911**	**1,582**	**721**	**(3,479)**	**39,142**	**729,842**	**1,544,719**
Profit for the year	-	-	-	-	-	-	420,253	420,253
Actuarial gain/(loss):	-	-	-					
Gains/(Losses) arising during the year	-	-	-	(694)	-	-	-	(694)
Financial assets measured at fair value through other comprehensive income (FVOCI):	-	-	-					
Gains/(Losses) arising during the year	-	-	-	-	48,055			48,055
Less: Transfer to statement of income	-	-	-	-	-	-	-	-
Income tax relating to components of other comprehensive income	-	-	-	125	(8,666)	-	-	(8,541)
Other comprehensive income	**-**	**-**	**-**	**(569)**	**39,389**	**-**	**-**	**38,820**
Total comprehensive income for the year	-	-	-	(569)	39,389	-	420,253	459,073
Owners' equity changes:								
Capital increase in cash	350,000	-	-	-	-	-	-	350,000
Insurance of share certificates	-	-	401	-	-	-	-	401
Dividends paid	-	-	-	-	-	-	-	-
Transfer to legal reserves	-	-	-	-	-	8,531	(8,531)	-
At 31 December 2019	**850,000**	**276,911**	**1,983**	**152**	**35,910**	**47,673**	**1,141,564**	**2,354,193**

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

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	1 January – 31 December 2019	1 January – 31 December 2018
Cash flows from operating activities			
Interest received		1,062,463	640,954
Interest paid		(82,827)	(180,014)
Fees and commissions received		15,747	27,296
Fees and commissions paid		(1,231)	(871)
Trading income		24,045	22,218
Recoveries from impairment of loans and other assets		7,847	528
Cash payments to employees and other parties		(121,505)	(67,068)
Other operating activities		61,188	(10,612)
Income taxes paid		(138,008)	(62,189)
Cash flows from operating activities before changes in operating assets and liabilities		**527,719**	**378,539**
Changes in operating assets and liabilities			
Net (increase)/decrease in financial assets on FVTPL		(25,589)	(57,983)
Net (increase)/decrease in loans and advances to customers		241,165	(742,712)
Net (increase)/decrease in loans and advances to financial institutions		(34,944)	(3,123,994)
Net (increase)/decrease in other assets		22,436	(19,073)
Net increase/(decrease) in other liabilities		81,896	15,177
Net increase/(decrease) in money market deposits		(49,502)	(3,205)
Proceeds from funds borrowed		115,520	3,430,151
Net cash used in operating activities		**878,701**	**(123,100)**
Cash flows from investing activities			
Purchases of investment securities at FVOCI		(605,718)	(107,212)
Proceeds from sale and redemption of securities at FVOCI		232,135	140,736
Purchases of investment securities at amortised cost		(1,014,457)	(48,491)
Proceeds from redemption of investment securities at amortised cost		30,932	1,908
Purchases of premises and equipment		(8,891)	(1,963)
Proceeds from sale of premises and equipment		377	8,463
Purchases of investment property		-	-
Purchases of intangible assets		(1,503)	(1,888)
Purchases of equity participations		-	(1,453)
Proceeds from equity participations		-	7,897
Net cash provided / (used in) from investing activities		**(1,367,125)**	**(2,003)**
Cash flows from financing activities			
Cash Obtained from Funds Borrowed and Securities Issued		978,570	-
Dividends paid		-	(11,881)
Capital increase		350,000	-
Payments for Finance Leases		(3,881)	-
Net cash provided by / (used in) financing activities		**1,324,689**	**(11,881)**
Effect of net foreign exchange difference		10,747	102,934
Net increase/(decrease) in cash and cash equivalents		847,012	(34,050)
Cash and cash equivalents at the beginning of the year	4	1,623,557	1,657,607
Cash and cash equivalents at the end of the year	4	**2,470,569**	**1,623,557**

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

1. GENERAL INFORMATION ABOUT THE BANK

The Bank was established on 27 November 1975 according to the Decree Based on Law numbered 13 as a related institution of the Ministry of Trade and Technology with the legal title of “Devlet Sanayi ve İşçi Yatırım Bankası A.Ş.”. Some adjustments were made on the status of the Bank with the Decree Based on Law numbered 165 dated 14 November 1983.

On 15 July 1988, its legal title was changed to Türkiye Kalkınma Bankası A.Ş. by being associated to the Prime Ministry in the context of the Decree Law numbered 329 and in parallel with the developments in its activities. The Bank had become a development and investment bank that provides financing support to companies in tourism sector as well as trade sector by taking over T.C. Turizm Bankası A.Ş. with all of its assets and liabilities with the decision of Supreme Planning Council dated 20 January 1989 and numbered 89/T-2. Also with the Decree Law numbered 401 dated 12 February 1990, some of the articles related to the Bank status were changed.

With the Law dated 14 October 1999 and numbered 4456, Decree Law numbered 13, 165, 329 and 401 were revoked and the establishment and operating principles of the Bank were rearranged.

Türkiye Kalkınma ve Yatırım Bankası A.Ş. Law dated 24 October 2018 and numbered 7147 was abolished and the Law dated 14 October 1999 and numbered 4456 was revoked. The Bank’s name was changed to Türkiye Kalkınma ve Yatırım Bankası A.Ş with the law numbered 7147.

The Bank is subject to the registered capital system. 99.08% of the capital is owned by the Republic of Turkey Ministry of Finance and the remaining shares are quoted on the Borsa İstanbul (“BIST”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The consolidated financial statements of the Group were authorized for issuance by the management on 25 June 2020.

2.2. Basis of Preparation

These consolidated financial statements have been prepared on the historical cost except for those assets and liabilities measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The accounting policies set out below have been applied consistently by the Bank and its subsidiaries to prior periods presented in these consolidated financial statements except for the impact of transition to IFRS 16 as of 1 January 2019 as explained in note 2.10.

2.3 Basis of Presentation of Consolidated Financial Statements

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These consolidated financial statements have been prepared under the historical cost convention, except those assets and liabilities that have been measured at fair value.

The Bank and its subsidiary are incorporated in Turkey and maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant law and regulations. The foreign associates maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The accompanying financial statements differ from the financial statements prepared for statutory purposes in that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with IFRS, which are not recorded in the accounting books of Group’s entity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Inflation accounting

The financial statements of the Bank and its subsidiary for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29 "Financial Reporting in Hyperinflationary Economies". Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the consolidated financial statements since 1 January 2006. Amounts expressed in the measuring unit current at 31 December 2005 were treated as the basis for the carrying amounts after 1 January 2006.

2.5 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entity controlled by the Bank (its subsidiary). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The subsidiary included in consolidation and effective shareholding percentages of the Group as of 31 December 2019 and 2018 are as follows:

	Place of Incorporation	Effective Shareholding %		Voting Rights %	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Arıcak Turizm ve Ticaret A.Ş. ("Arıcak")	İstanbul	99.71%	99.71%	100.00%	100.00%

The Bank's investment other than that stated above, in which the shareholding is 20% or greater, are accounted for using the equity method. Other investments and certain minor subsidiaries and associates are accounted for at cost.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Investments in associates

The Group's investments in associates accounted for under the equity method of accounting is as follows:

	Place of Incorporation	Effective Shareholding %		Voting Rights %	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Maksan A.Ş.	Malatya	31.14%	31.14%	20.00%	20.00%
Türk Suudi Holding A.Ş.	Istanbul	24.69%	24.69%	10.00%	10.00%

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Use of Estimates and Judgments

The preparation of the financial statements in accordance with IFRS, including International Accounting Standards ("IAS"), requires management to make estimates and assumptions that are reflected in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. Management do exercise judgment and make use of information available at the date of the preparation of the financial statements in making these estimates. The actual future results from operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the financial statements. The judgments and estimates that may have a significant effect on amounts recognized in the financial statements are discussed in the relevant sections below.

2.8 Functional and Presentation Currency

Functional currency of the Bank and its subsidiary is Turkish Lira ("TRY"). Until 31 December 2004, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies") were no longer applicable, the financial statements of these companies were restated for the changes in the general purchasing power of TRY based on IAS 29, which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms.

The functional currency of the Bank's foreign associate is its local currency.

2.9 Foreign Currency Transactions and Translation

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

Foreign currency translation rates used by the Group as of respective year-ends are as follows:

	EUR/TRY	**USD/TRY**
31 December 2019	6.649	5.932
31 December 2018	5.991	5.246

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Changes in accounting policies

The Bank has started to apply IFRS 16 Leases standard ("IFRS 16") in the accompanying financial statements starting from 1 January 2019. For the transactions the Bank is lessee, the Bank used the model the standard projects except for the low value assets and short term leasing (1 year or less).

IFRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognizing finance leases in the balance sheet whereas not recognizing operational lease. Instead, it is set forth a single model similar to the present accounting of finance leases which is balance sheet based, singular accounting model. Standard brought a single model for lease accounting to lessees. The Bank as a lessee, has shown right of use assets representing right of use of underlying assets and lease payment which the Bank is liable, in its financial statements. For lessors, the accounting stays almost the same.

The Bank recognizes a lease liability and a right-of-use asset at the date of initial implementation of IFRS 16 for leases previously classified as an operating lease while applying IAS 17. The Bank measures that lease liability by the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate at the date of initial implementation. Besides, the Bank measures that right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the financial statements immediately before the date of initial implementation.

This standard is applied with modified retrospective approach recognizing the cumulative effect of initially applying the standard at the date of initial implementation. Since the application of IFRS 16 on 1 January 2019 does not have a significant effect on the financial statements, the Bank did not restate comparative information.

2.11 Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

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

Gain or loss arising from the disposal or retirement of an item of premises and equipment is determined as the difference between the sales proceeds and the carrying amount of that asset and is recognized in profit or loss.

Ordinary maintenance and repair expenses on premises and equipment items are recognized as expenses. Investment expenditures that increase the future benefit by enhancing the capacity of tangible assets are capitalized. Investment expenditures include cost items that extend the useful life of the asset, increase the servicing capabilities of the asset, improve the quality of goods or services produced or reduce the costs.

Tangible fixed assets are amortized by using the straight-line method over their estimated useful lives. Estimated depreciation rates of tangible fixed assets are as follows:

	Depreciation Rate
Buildings	2%
Vehicles	20%
Other Tangible Assets	6.66% - 33.33%

There is no change in accounting estimations that has material effect in the current period or that is expected to have effect in the subsequent periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Intangible Assets

Intangible assets acquired are reported at cost less accumulated depreciation and accumulated impairment losses.

Amortization is charged on a straight-line basis over their estimated useful life which is 33.33%. The estimated useful life and amortization method are reviewed at the date of each annual reporting period, with the effect of changes in the estimate being accounted for on a prospective basis.

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets at the accompanying consolidated financial statements.

Gains or losses arising from 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.

2.13 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14 Investment property

Investment property, which is property, held to earn rentals and/or for capital appreciation is carried at cost less accumulated depreciation and any accumulated impairment losses. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Depreciation is provided on investment property on a straight line basis. The depreciation period for investment property is 50 years.

2.15 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 trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted at the settlement date.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial Instruments (continued)

Assessment of the business model

The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation.

The business models are divided into three categories. These categories are defined below:

- A business model whose objective is to hold assets in order to collect contractual cash flows: a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realize 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 amortised 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.
- A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: it may be held 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.

Other business models: financial assets are measured at FVPL if 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.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

A financial asset is classified 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 a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. 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 FVPL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial Instruments (continued)

Measurement categories of financial assets and liabilities

As of 1 January 2018, all financial assets are classified based on the business model for managing the financial assets. Accordingly, financial assets are classified in four main categories as listed below:

- Financial instruments measured at amortised cost,
- Financial instruments measured at FVOCI, with gains or losses recycled to profit or loss on derecognition,
- Equity instruments measured at FVOCI, with no recycling of gains or losses to profit or loss on derecognition, and
- Financial instruments measured at FVPL.

Financial instruments measured at amortised cost

Starting from 1 January 2018, financial assets are classified as measured at amortised cost if both of the following conditions are met.

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt securities measured at amortised cost: subsequent to the initial recognition, debt securities are measured at amortised cost by using the effective interest rate method.

Loans and receivables: financial assets other than those held for trading in short term or generated through providing money, commodity and services to debtors. Loans are financial assets with fixed or determinable payments and not quoted in an active market.

Loans and receivables are recognised at cost and also measured at amortised cost by using the effective interest method.

All financial liabilities are classified as subsequently measured at amortised cost except for financial liabilities at FVPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, and contingent consideration recognised by an acquirer in a business combination.

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial Instruments (continued)

Financial instruments measured at FVOCI

Financial investments are classified as measured at FVOCI if both of the following conditions are met.

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at FVOCI shall be recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. If the financial asset is reclassified, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Financial assets measured at FVOCI are measured at their fair values subsequently. However, assets for which fair values could not be determined reliably are valued at amortised cost by using the discounting method with internal rate of return for floating-rate securities; and by using valuation models or discounted cash flow techniques for fixed-rate securities. Unrecognised gain/losses derived from the difference between their fair value and the discounted values are recorded in accumulated other comprehensive income or expense to be reclassified to profit or loss under the shareholders' equity. In case of sales, the gain/losses arising from fair value measurement accumulated under shareholders' equity are recognised in statement of profit or loss and other comprehensive income.

Interests calculated and/or earned by using the effective interest method during holding of financial assets measured at FVOCI are recorded primarily in interest income. On derecognition of such financial assets, the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Equity instruments measured at FVOCI

At initial recognition, it can be made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such election is made on an instrument by instrument basis.

Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the cumulative gain or loss shall be recycled to prior period's profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. IFRS 9 impairment requirements are not applicable for equity instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial Instruments (continued)

Financial assets and liabilities measured at FVPL

Financial assets at FVPL are valued at their fair values and gain/loss arising on those assets is recorded in the statement of profit or loss. Interest income earned on these assets and the difference between their acquisition costs and amortised costs are recorded as interest income in the statement of profit or loss. The differences between the amortised costs and the fair values of such assets are recorded under net trading income/(expense) in the statement of profit or loss. In cases where such assets are sold before their maturities, the gains/losses on such sales are recorded under net trading income/(expense).

Derecognition of financial instruments

Derecognition of financial assets due to change in the contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset can 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 it is assessed the characteristics of the new contractual terms of the financial asset, it is also evaluated 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 recognised a modification gain or loss in profit or loss.

Derecognition of financial liabilities

Where all risks and rewards of ownership of the asset have not been transferred to another party and it is retained control of the asset, it is continued to be recognised the remaining portion of the asset and liabilities arising from such asset.

When it is retained substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognised in its entirety and the consideration received is recognised as a liability.

Derecognition of a financial asset without any change in the contractual terms

The asset is derecognised if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party.

Except for equity instruments measured at FVOCI, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognised in profit or loss.

A financial liability (or a part of a financial liability) shall be removed from the statement of financial position when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial Instruments (continued)

Reclassification of financial instruments

It shall be reclassified all affected financial assets based on classification principles of IFRS 9 when, and only when, it is changed the business model for managing financial assets.

Restructuring and refinancing of financial instruments

It may be changed the original contractual terms of a loan (maturity, repayment structure, guarantees and sureties) which were previously signed, in case the loan cannot be repaid or if a potential payment difficulty is encountered based on the new financing power and structure of the borrower.

Restructuring is to change the financial terms of existing loans in order to facilitate the payment of debt. Refinancing is granting a new loan which will cover either the principal or the interest payment in whole or in part of one or a few existing loans due to the anticipated financial difficulty which the customer or group encounter currently or will encounter in the future.

Changes in the original terms of a credit risk can be made in the current contract or through a new contract.

2.16 Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement (‘repos’), are recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they are part of. The counterparty liability for amounts received under these agreements is included in obligations under repurchase agreements. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Impairment of Financial Assets

The Bank recognize provisions for impairment in accordance with expected credit loss (ECL) model is used for instruments (such as bank deposits, loans and leasing receivables) carried at amortized cost and FVOCI, and in addition, credit commitments, and financial guarantee contracts.

The guiding principle of the ECL model is to reflect the general outlook of the increase or improvement in credit risk of financial instruments. The amount of ECLs defined as loss provision or provision depends on the degree of increase in credit risk since the loan was first issued.

Within the scope of IFRS 9 Financial Instruments, three basic factors regarding the measurement of expected credit loss are taken into consideration. These,

(a) the amount weighted according to the neutrality and probabilities determined by evaluating the possible outcome range

(b) time value of money

(c) reasonable and supportable information on past events, current conditions and forecasts of future economic conditions that can be obtained without incurring excessive cost or effort as of at the reporting date

Taking into consideration these three factors, the Bank's historical data is modeled and the expected loss amount is calculated for each loan. Since the expected loss represents the future value, the discounting factor and the present value of this amount are calculated.

In order to reflect the changes in credit risk since the initial recognition of credit risk, the loss provision is updated at each reporting date in which the expected loss calculations are performed.

The Bank assesses whether there has been a significant increase in credit risk in the financial instrument for the first time since it was included in the financial statements. In making this assessment, the Bank uses the change in default risk during the expected life of the financial instrument. To make this assessment, the Bank compares default risk related to the financial instrument as of the reporting date and the default risk related to the financial instrument for the first time in the financial statements, and is reasonable, which can be obtained without incurring excessive costs or efforts, which is reasonable indication of significant increases in credit risk since its introduction for the first time. and supportable information.

In the IFRS 9 impairment, a 3-step approach is used in which the credit risk level increases at each stage:

Stage 1: It refers to all accounts that have not shown any deterioration in credit quality since the loan was issued. All accounts defined as having low credit risk will be classified as Stage 1 without periodically checking whether there is a significant increase in credit risk. A 12-month provision calculation is performed for all accounts classified in Stage 1.

Stage 2: Refers to all accounts showing significant deterioration in credit quality since the loan was issued. For all accounts classified in Stage 2, lifetime provision calculations are performed.

Stage 3: Refers to all impaired assets. For all accounts classified in Stage 3, lifetime provision calculations are performed.

IFRS requires a 12-month compensation for all loans in stage 1, and a lifetime provision for all remaining loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Impairment of Financial Assets (continued)

Significant Increase in Credit Risk

If the customers classified as Stage 1 meet the following criteria, it has been decided by the Bank to be classified under Stage 2:

- The number of delay days of the customer is over 30
- Restructuring of the debtor with financial difficulties by granting concession
- Customer has Close Monitoring criteria
- There is a 35 percent or more decrease in the quantitative score to be calculated by considering the end-of-year financial statements for the customer every year, and the score in question drops below 40 (a significant increase criterion in credit risk).

Customers are periodically evaluated (at least once a year) and their ratings are updated in order to evaluate the criterion of significant increase in credit risk. The evaluation period is shortened for the borrowers who received a significant deterioration in credit risk during the year.

Classification criteria under Stage 2 work for all bank customers, in addition, in case of negative market intelligence, classification can be made under Stage 2. This process continues under IFRS 9. The classification rules determined within the scope of IFRS 9 work for all portfolios.

Treasury and Banks portfolios are among the low default portfolios, and it is decided by the Bank to classify the assets in this portfolio under Phase 1 until an opposite assessment is made.

For the numerical criteria related to the significant deterioration in the credit risk, the classification of the loans, the customer rating score calculated according to the credit rating model used within the bank has decreased by 35 percent and above, and the score in question falls below 40 determined by the Bank as the criterion of significant deterioration. In addition to these criteria, the restructuring made to the customer who has financial difficulties is used as a classification criterion under Stage 2.

Definition of Default

IFRS 9 Standard “When defining the default for the purpose of determining the business default risk according to IFRS 9, it uses a default definition consistent with the definition used for the credit risk management purposes of the related financial instrument and, if appropriate, takes into account qualitative indicators (eg financial commitments). However, unless the entity has reasonable and supportable information that reveals that default will occur when there is a longer delay, there is an otherwise demonstrable pre-acceptance that the default will not occur after the financial instrument expires after 90 days. The definition of default used for these purposes is applied consistently to all financial instruments unless information that proves that another definition of default is more appropriate for a particular financial instrument is available. ” According to the article, the definition of default is used within the scope of modeling.

The definition of default used in the Bank is as follows:

- Customers with more than 90 days of delay (The number of customer delay days represents the highest number of delay days of the customer's existing loans on the relevant reporting date.)
- Compensation of the letter of guarantee received by the bank for collateral
- Customers considered to be at high risk by the bank

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Impairment of Financial Assets (continued)

12 Month Expected Loss

12-month loan loss corresponds to some of the expected loan loss that may arise from the possible default status of the loan within 12 months of the reporting date.

Lifetime Expected Loss

Lifetime losses arise from all possible default events that may occur during the expected life span of the financial instrument after the reporting date. Life expectancy is related to the maturity of the financial instrument.

One of the risk parameters to be used in calculating the provision amounts to be set as per IFRS 9 is the Probability of Default (PD) information. Probability of Default refers to the possibility of a live loan falling into default. PD calculation is carried out by considering past data, current conditions and prospective macroeconomic expectations.

Specifically, while calculating PD, qualitative, quantitative scores, sector, bank degree and macro effect are taken into account. For the company whose quantitative evaluation is made, an objective score is produced between 0 and 100. The sector in which the company operates is determined in accordance with the NACE code (Statistical Classification of European Community Economic Activities; a reference resource for the purpose of producing and disseminating statistics on economic activities in Europe.).

After the qualitative and quantitative scores of the company are determined, the mentioned points are weighted according to the company scale and the company's score is calculated.

Banks, on the other hand, are ranked objectively by considering various criteria, namely capital, asset quality, liquidity, profitability, income-expenditure structure and capacity.

Finally, for the macro effect, a volatility index is calculated first, and then variables that act in parallel and play a role in the measurement of crisis probabilities before sudden financial shocks are identified. Afterwards, the index is created by weighting the determined variables according to the success rate.

The macro effect ultimately applied to the customer scores by the Bank is the macro note calculated on the company grade (non-macro score) calculated as a result of qualitative (partnership information, group of companies, etc.) and quantitative (liquidity, financial structure, profitability etc.) assessment of each customer. In line with the customer's score, corrections are applied. In this context, Turkey's economy made pioneering studies of vulnerability indicators for identifying crisis and some of the variables derived from various areas of the economy that have been identified by the Bank successfully predict in advance. This prediction has been accepted by the Bank as the threshold values are exceeded and the signal is produced starting at least 12 months before the crisis.

In order to obtain the macroeconomic score, which is calculated by considering the positive and negative scenarios as well as the base scenario value, values are calculated at a certain margin in accordance with the distribution of the series for positive and negative scenario values from the index values distributed between 0-100 and averaged over 12 months.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Cash and Cash Equivalents

For the purposes of the consolidated cash flows statement, cash and cash equivalents comprise cash, deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

2.19 Borrowings

All borrowings are initially recognized at the fair value of consideration received. After initial recognition interest-bearing borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

2.20 Derivative Financial Instruments

The Group enters into transactions with derivative instruments including currency swaps and forwards in the foreign exchange. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IFRS 9, they are treated as derivatives held-for-trading. Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value at the end of each reporting period. The resulting gains or losses recognized in trading gain/loss account in profit or loss immediately.

2.21 Employee Benefits – Defined Benefit Plans

Termination and Retirement Benefits:

Under Turkish legislation and union agreements, lump sum payments are made to all employees who retire or whose employment is terminated without due cause. Such payments are based on number of years’ service and final salary at the date of retirement or leaving.

International Accounting Standard No. 19 (revised) “Employee Benefits” (“IAS 19”) has been applied in the accompanying financial statements. Future retirement payments are discounted to their present value at the balance sheet date at an interest rate determined as net of an expected inflation rate and an appropriate discount rate. This standard also allows the employee benefit liability to be reduced by anticipated forfeitures by eligible employees of their benefit. The retirement benefit obligation recognized in the statement of financial position represents value of the defined benefit obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions were directly charged to statement of income in prior periods. As per revised IAS 19, actuarial gains/losses are recognized under shareholders’ equity starting from 1 January 2013.

2.22 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Leases

Based on IFRS 16, at the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the alternative borrowing interest rate.

After the commencement date, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

After the commencement date, the lease liability is remeasured to reflect changes to the lease payments. The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset.

The lease liability is remeasured by discounting the revised lease payments using a revised discount rate, if either there is a change in the lease term or there is a change in the assessment of an option to purchase the underlying asset. However, if there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments or if there is a change in the amounts expected to be payable under a residual value guarantee, an unchanged discount rate is used.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the lease liability is remeasured by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the alternative borrowing interest rate at the effective date of the modification. The carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. Any gain or loss relating to the partial or full termination of the lease is recognised in profit or loss. A corresponding adjustment to the right-of-use asset is made for all other lease modifications.

Bank as a lessee

The “TFRS 16 Leases” Standard removes financial lease and operational lease distinction for lessees and introduces a single accounting model for all leasing transactions. According to the standard, the lessees reflect a “asset that gives the right to use” and a “lease obligation” to the financial statements at the date when the lease actually begins. The initial cost of the asset that gives the right to use is measured by deducting the lease incentives from the sum of the lease obligation and the initial direct costs incurred by the lessees. The cost method is used for the measurements after the beginning of the lease. In this method, the asset that gives the right to use is measured by deducting the accumulated depreciation and accumulated depredation provisions from the cost value. The lease obligation is initially measured at the present value of the lease payments to be made during the lease period. In subsequent measurements, the book value of the liability is increased to reflect the interest on the lease obligation and decreased to reflect the lease payments made. TFRS 16 has made exemptions for leases of 12 months or less and leases related to low value assets.

The Bank, which is a lessee in financial leasing transactions, accounts for all lease transactions longer than 12 months as assets and liabilities in the statement of financial position. Depreciation expense related to the leased asset and interest expense in lease payments are reported in the income statement. The lease obligation was initially measured at the present value of the lease payments to be made during the lease period using the Bank's TL alternative source cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Leases (continued)

The bank as the lessor

According to the "TFRS 16 Leases" Standard, financial lease and operational lease distinction continues for the lessor. If the lessor transfers the significant risks and benefits arising from ownership of the asset subject to the lease to the lessee, he will classify it as a financial lease. Other leases will be classified as operational leases. The receivables that arise from leasing the assets of the Bank, which are not included in financial lease transactions and which are not used in banking transactions, are followed up in the receivables from the leasing transaction and are accounted on an accrual basis.

As of the balance sheet date, 2 of the Bank's real estates are within the scope of the operating lease agreement and these real estates are classified as investment properties in the balance sheet.

2.24 Interest Income and Expense Recognition

Interest Income and Expense

Interest income and expense are recognized 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 reprising 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 to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fee and Commission Income

Fee and commission income and expenses that are integral to the effective interest rates on a financial asset or liability are included in the measurement of the effective interest rate. All other fee and commission income and expenses are recorded as income or expense on the date of collection or payment.

Net Trading Income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, FVOCI and from trading derivatives.

Dividend Income

Dividend income is recognized in the statement of income when the right to receive payment is established.

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

The corporate tax rate of 20% implementation on the Corporate Tax Law No. 5520 was taken into effect on 1 January 2006 after being published in the Official Gazette dated 21 June 2006 numbered 26205 , will be applied as 22% for corporation earnings for three years from 1 January 2018 with the regulation dated 28 November 2017 numbered 7061. Furthermore, Cabinet is made authorized to decrease this ratio to 20% from 22%. The bank applies new regulations to its current and deferred tax responsibilities. The corporate tax rate is calculated on the total income of the Bank after adjusting for certain disallowable expenses, exempt income (like affiliate gains) and other allowances. If there is no dividend distribution, no further tax charges are made.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Income Tax (continued)

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

2.26 Fiduciary Assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the balance sheet, since such items are not treated as assets of the Group. The Bank has no fiduciary assets.

2.27 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environment.

2.28 Standards and interpretations issued but not yet effective

Standards issued but not yet effective and not early adopted

A number of new standards and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Group has not early adopted are as follows.

IFRS 17 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 Group does not expect that application of IFRS 17 will have significant impact on its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.28 Standards and interpretations issued but not yet effective (continued)

The revised Conceptual Framework

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.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 1 and IAS 8.

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 this 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 Group does not expect that application of these amendments to IFRS 3 will have significant impact on its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.28 Standards and interpretations issued but not yet effective (continued)

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.

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

3. SEGMENT INFORMATION

Business segments

The Group is organised into three main business segments, Treasury, Investment Banking and Tourism, which are organized and managed separately according to the nature of the products and services provided.

The segment results for the year ended 31 December 2019 are as follows:

	Treasury	Investment Banking	Tourism	Undistributed	Eliminations	Group
Net interest income	381,716	327,862	-	(1,858)	-	707,720
Net fees and commissions income	(1,231)	15,603	-	144	-	14,516
Foreign exchange (losses)	-	13,715	-	-	-	13,715
Other operating income	-	61,308	4,873	-	-	66,181
Other operating expenses	-	-	(13,059)	(145,655)		(158,714)
Provisions for impairment of loans and other assets	-	(52,873)	-	-	-	(52,873)
Income from associates	-	2,380	-	-	-	2,380
Profit / (loss) before income tax	**380,485**	**397,995**	**(8,186)**	**(147,369)**	-	**592,925**
					-	
Income tax	-	-	**-**	(172,672)	-	(172,672)
Net profit/(loss)	**380,485**	**355,568**	**(8,186)**	**(286,567)**	-	**420,253**

The segment assets and liabilities at 31 December 2019 are as follows:

	Treasury	Investment Banking	Tourism	Undistributed	Eliminations	Group
Assets and Liabilities						
Segment assets	4,215,496	14,994,956	747	149,505	(1,900)	19,358,806
Investment in associates	-	22,138	-	-	(5,141)	16,997
Total assets	**4,215,496**	**15,017,094**	**747**	**149,505**	**(7,041)**	**19,375,802**
Segment liabilities	(50,364)	(16,796,712)	(747)	(2,535,020)	7,041	(19,375,802)
Total liabilities and equity	**(50,364)**	**(16,796,712)**	**(747)**	**(2,535,020)**	**7,041**	**(19,375,802)**

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

3. SEGMENT INFORMATION (continued)

Business segments (continued)

The segment results for the year ended 31 December 2018 are as follows:

	Treasury	Investment Banking	Undistributed	Eliminations	Group
Net interest income	192,778	263,946	2	-	456,726
Net fees and commissions income	(871)	26,947	349	-	26,425
Foreign exchange (losses)	-	(4,944)	-	-	(4,944)
Other operating income	-	33,457	-	-	33,457
Other operating expenses	-	-	(99,002)	-	(99,002)
Provisions for impairment of loans and other assets	-	(45,676)	-	-	(45,676)
Income from associates	-	3,287	-	-	3,287
Profit / (loss) before income tax	**191,907**	**277,017**	**(98,651)**	**-**	**370,273**
Income tax	-	-	(79,986)	-	(79,986)
Net profit/(loss)	**191,907**	**277,017**	**(178,637)**	**-**	**290,287**

The segment assets and liabilities at 31 December 2018 are as follows:

	Treasury	Investment Banking	Undistributed	Eliminations	Group
Assets and Liabilities					
Segment assets	1,887,340	13,575,178	140,386	(1,792)	15,601,112
Investment in associates	-	17,818	-	(3,201)	14,617
Total assets	**1,887,340**	**13,592,996**	**140,386**	**(4,993)**	**15,615,729**
Segment liabilities	862	13,924,285	1,695,575	(4,993)	15,615,729
Total liabilities and equity	**862**	**13,924,285**	**1,695,575**	**(4,993)**	**15,615,729**

Geographical segments

The Group's operations are mainly conducted in Turkey. Accordingly, geographical segment information is not presented.

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

4. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash on hand	**17**	**73**
Demand deposits - Turkish Lira	200,606	3,324
Demand deposits - Foreign Currency	22,801	60,985
Time deposits	2,119,082	355,220
Deposits with banks and other financial institutions	**2,342,489**	**419,529**
Cash and deposits with banks and other financial institutions	**2,336,055**	**419,602**
Balances with Central Bank	577	1,357
Money market placements	122,505	1,203,218
Less: Interest accruals	(19)	(620)
Cash and cash equivalents in the statement of cash flows	**2,470,569**	**1,623,557**

The effective interest rates on deposits and placements are as follows:

	31 December 2019		31 December 2018	
	Effective interest rate		Effective interest rate	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Deposits with banks and other financial institutions (*)	11.23%	1.10%	25.41%	1.14%
Money Market Placements	11.36%	-	24.68%	-

(*) Interest rates calculated from weighted average of placements as of 31 December 2019 and 31 December 2018.

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

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31 December 2019	31 December 2018
Equity instruments	90,216	57,983
Total financial assets at fair value through profit or loss	**90,216**	**57,983**

6. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

As of 31 December 2019, majority of loans and advances to financial institutions are short-term with interest rates ranging between 1.25%-5.69% per annum for foreign currency time placements and 11.36% interest rate for TL time placements (2018: 1.33%-6.05% and 25%).

	31 December 2019	31 December 2018
Loans and advances to financial institutions		
Financial Institution Originated		
Industrial and Commercial Bank of China Originted Loan	2,404,680	2,129,575
Council of Europe Development Bank Originated Loans	1,297,367	1,233,737
World Bank Originated Loans	-	300,102
Agence Française de Développement Originated Loans	-	-
Expected credit losses on loas and advances to banks	(17,539)	(13,849)
Total loans and advances to financial institutions	**3,684,509**	**3,649,565**

The credit quality analysis of loans and advances to banks is as follows as of 31 December 2019:

		2019	
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	3,702,048	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(17,539)	-	-
Total carrying amount	**3,684,509**	**-**	**-**

The movement of loss allowances per asset class for loans and advances to financial institutions as of 31 December 2019 is as follows:

		2019	
	Stage 1	**Stage 2**	**Stage 3**
Balances at 1 January 2019	-	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	-	-	-
Provision for the period	-	-	-
Balances at the end of the period	**-**	**-**	**-**

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

6. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS (continued)

The credit quality analysis of loans and advances to banks is as follows as of 31 December 2018:

	2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	3,663,414	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(13,849)	-	-
Total carrying amount	**3,649,565**	**-**	**-**

The movement of loss allowances per asset class for loans and advances to financial institutions as of 31 December 2018 is as follows:

	2018		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 31 December 2017	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	3,244	-	-
Balances at 1 January 2018	**3,244**	**-**	**-**
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	-	-	-
Provision for the period	10,605	-	-
Balances at the end of the period	**13,849**	**-**	**-**

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

7. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2019	31 December 2018
Financial Institution Originated		
European Investment Bank Originated Loans	4,155,809	4,157,677
Islamic Development Bank Originated Loans	3,201,371	2,397,803
World Bank Originated Loans	1,443,909	1,021,479
Development Bank of Japan	238,306	238,977
KFW	141,839	115,612
Treasury Loans	97,508	93,517
Bank Sourced		
Other Bank Sourced Loans	1,546,839	1,394,525
Investment Loans	356,640	393,821
Restructured Loans	99,240	96,467
Personnel Loans	2,306	6,067
Non-performing Loans	141,957	123,142
Total loans and advances to customers	**11,425,724**	**10,039,087**
Expected credit losses on loans and advances to customers	(205,493)	(171,457)
Stage 1	*(43,696)*	*(31,256)*
Stage 2	*(43,519)*	*(27,372)*
Stage 3	*(118,278)*	*(112,829)*
Less: allowance for losses on loans and advances	-	-
Total loans and advances to customers, (net)	**11,220,231**	**9,867,630**

The credit quality analysis of loans and advances to customers is as follows as of 31 December 2019:

		2019	
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	9,787,534	-	-
Stage 2: Watch list	-	1,496,233	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	141,957
Total loans	**9,787,534**	**1,496,233**	**141,957**
Expected credit losses	(43,696)	(43,519)	(118,278)
Total carrying amount	**9,743,838**	**1,452,714**	**23,679**

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

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

The movement of expected credit losses per asset class for cash loans and advances to customers as of 31 December 2019 is as follows:

		2019	
	Stage 1	**Stage 2**	**Stage 3**
Balances at 1 January 2019	45,105	27,372	112,829
Transfer to Stage 1	-	-	-
Transfer to Stage 2	(970)	-	-
Transfer to Stage 3	-	(26)	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	(5,333)	(5,858)	(2,611)
Provision for the period	4,894	22,031	8,060
Balances at the end of the period	**43,696**	**43,519**	**118,278**

As of 31 December 2019, movement of non-performing cash loans (Stage 3) is as follows:

	Principal	**ECL**
Balance at 1 January 2019	123,142	112,829
Addition	8,562	8,060
Collection	(7,847)	(2,611)
Debt sales and write-offs	-	-
Effects of movements in exchange rates	-	-
Balance at the end of the period	**123,857**	**112,829**

8. INVESTMENT SECURITIES

	31 December 2019	**31 December 2018**
Debt and other instruments at FVOCI		
Turkish Government bonds issued by the Turkish Government	657,439	118,350
Debt securities issued by corporations	23,160	92,264
Expected credit loss	(1,280)	(445)
Equity instruments –unlisted at cost (*)	8,037	8,037
Investment securities at amortized cost		
Turkish Government bonds (quoted)	1,066,213	49,416
Expected credit loss	(1,967)	(78)
Total	**1,751,602**	**267,544**

(*) Unlisted equity securities classified as fair value through other comprehensive income securities represent the Group's equity holdings in the companies, shares of which are not publicly traded. Consequently, they are reflected at cost less reserves for impairment, as a reliable estimate of their fair values could not be made.

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

8. INVESTMENT SECURITIES (Continued)

Movement of investment securities at amortized cost

	Current Period (31.12.2019)	Prior Period (31.12.2018)
Balance at the beginning of the period	49,338	-
Foreign currency differences on monetary assets	(120,831)	-
Purchases during the year	1,168,560	51,324
Disposals through sales and redemptions	(30,854)	(1,908)
Expected credit loss	(1,967)	(78)
Provision for impairment (-)	-	-
Balance at the end of the period	**1,064,246**	**49,338**

Government bonds and treasury bills pledged under repurchase agreements with customers included investment securities at fair value through other comprehensive income amount to TRY 50,281 (31 December 2018: TRY 865). Related liability is equal to TRY 50,364 as of 31 December 2019 (31 December 2018: TRY 862). As of 31 December 2019, government securities with carrying value amounting to TRY 865 (31 December 2018: TRY 8,938) in fair value through other comprehensive income securities portfolio are pledged to the Central Bank and the IMKB Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Clearing and Custody Bank) for regulatory requirements and as a guarantee for stock exchange and money market operations.

9. INVESTMENT IN ASSOCIATES

Maksan Malatya Makina Sanayi A.Ş. is established in Malatya, Turkey in 1974 for manufacturing of transformers. The share and voting power of the Bank is 31.14% and 20% respectively (31 December, 2018: 31.14% and 20%).

Türk Suudi Holding A.Ş. is established in İstanbul, Turkey in order to operate in finance sector. By General Assembly held on 25 March 2008, liquidation process of the company was started and is on-going as at the balance sheet date. The share and voting power of the Bank is 24.69% and 10% respectively (31 December, 2018: 24.69% and 10%).

Financial information of the Group’s associates is summarized below:

	31 December 2019	31 December 2018
Total assets	72,284	74,030
Total liabilities	(9,703)	(16,362)
Net Assets	**62,581**	**57,668**
Group’s share of associates’ net assets	**16,997**	**14,617**

The Group’s share of associates’ net assets includes net assets of Maksan Malatya Makina Sanayi A.Ş. amounting to TRY 7,460 (31 December 2018: TRY 6,276) and net assets of Türk Suudi Holding A.Ş. amounting to TRY 9,537 (31 December 2018: TRY 8,341).

	31 December 2019	31 December 2018
Revenue	54,143	25,835
Profit for the year	9,038	16,313
Group’s share of associates’ income / (loss)	**2,380**	**3,287**

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

10. PREMISES AND EQUIPMENT

Current Period (31.12.2019)	**Real-Estates**	**Vehicles**	**Other**	**Total**
Cost				
Balance at the beginning of the period	121,547	739	12,212	134,498
Movements during the period				
-Additions	13,960	-	11,825	25,785
-Disposals (-)	-	-	(211)	(211)
- Recoveries from impairment	-	-	-	-
Balance at the end of the period	**135,507**	**739**	**23,826**	**160,072**
Accumulated Depreciation				
Balance at the beginning of the period	86,855	140	10,038	97,033
Movements during the period				
-Depreciation charge	4,335	122	2,314	6,871
-Disposals (-)	-	-	(200)	(200)
Balance at the end of the period	**91,290**	**262**	**12,512**	**103,704**
Net book value at the end of the period	**44,217**	**477**	**11,674**	**56,368**

Period Period (31.12.2018)	**Real-Estates**	**Vehicles**	**Other**	**Total**
Cost				
Balance at the beginning of the period	119,750	130	10,872	130,752
Movements during the period				
-Additions	-	609	1,354	1,963
-Disposals (-)	-	-	(14)	(14)
- Recoveries from impairment	1,797	-	-	1,797
Balance at the end of the period	**121,547**	**739**	**12,212**	**134,498**
Accumulated Depreciation				
Balance at the beginning of the period	84,413	124	8,181	92,718
Movements during the period				
-Depreciation charge	2,442	16	1,868	4,326
-Disposals (-)	-	-	(11)	(11)
Balance at the end of the period	**86,855**	**140**	**10,038**	**97,033**
Net book value at the end of the period	**34,692**	**599**	**2,174**	**37,465**

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

11. INVESTMENT PROPERTIES

	Current Period 31 December 2019	**Prior Period 31 December 2018**
Cost		
Balance at the beginning of the year	18,333	18,333
Movements during the year	-	-
-Additions	-	-
-Classified from premises and equipment	-	-
-Disposal	(7,607)	
Balance at the end of the year	**10,726**	**18,333**
Accumulated Depreciation		
Balance at the beginning of the year	9,832	9,465
Movements during the year		
-Depreciation charge	44	367
-Classified from premises and equipment	-	-
Balance at the end of the year	**9,876**	**9,832**
Net book value at the end of the year	**850**	**8,501**

Investment properties are accounted for at cost less accumulated depreciation and accumulated impairment, if any. Fair value of the Group's investment properties is TRY 23,036 based on valuations made as at 31 December 2019 and competent persons' report dated 2019. The fair value of the Group's investment properties has been arrived at on the basis of valuations carried out by independent appraisal who has a valuation license obtained from the Capital Markets Board of Turkey. The fair values are determined using similar transactions method. The property rental income earned by the Group from its investment properties amounts to TRY 578 (31 December 2018: TRY 587).

12. INTANGIBLE ASSETS

	Current Period 31 December 2019	**Prior Period 31 December 2018**
Cost		
Balance at the beginning of the year	7,442	5,555
Movements during the year	-	-
-Additions	1,503	1,887
-Disposal	-	-
Balance at the end of the year	**8,945**	**7,442**
Accumulated Depreciation		
Balance at the beginning of the year	5,736	4,507
Movements during the year	-	-
-Depreciation charge	1,124	1,229
-Disposal	-	-
Balance at the end of the year	**6,860**	**5,736**
Net book value at the end of the year	**2,085**	**1,706**

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

13. OTHER ASSETS

	31 December 2019	31 December 2018
Non-current assets to be disposed	38,638	22,637
Prepaid fees and commissions	36,255	36,266
Sundry debtors	13,850	2,089
Other	1,062	876
Expected credit loss	(756)	(588)
Total	**89,049**	**61,280**

14. FUNDS BORROWED AND SUBORDINATED LOANS

	31 December 2019	31 December 2018
Borrowings	15,365,664	13,570,655
Funds	18,155	17,890
Total	**15,383,819**	**13,588,545**

31 December 2019	Amount	Weighted Average Interest Rate	Maturity
USD denominated borrowings	8,561,130	2.69%	2019-2041
EUR denominated borrowings	6,804,534	0.69%	2019-2036
Total	**15,365,664**		

31 December 2018	Amount	Weighted Average Interest Rate	Maturity
USD denominated borrowings	6,917,033	4.01%	2018-2041
EUR denominated borrowings	6,653,622	0.71%	2018-2036
Total	**13,570,655**		

The amounts of funds of the Group as of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Environment fund	5,705	5,378
Other	12,450	12,512
Total	**18,155**	**17,890**

Funds borrowed include other funds obtained that are granted as loans as specified in the agreements signed between the Bank, and the Ministries or the institutions that the funds belong to.

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

14. FUNDS BORROWED AND SUBORDINATED LOANS (continued)

	31 December 2019	31 December 2018
Borrowings with no maturity	427	1,217
Short term borrowings	19,513	17,203
Short term part of long term borrowings	1,422,588	1,533,552
Long term borrowings	13,941,291	12,036,573
Total	**15,383,819**	**13,588,545**

Repayment plan of borrowings is as follows:

	31 December 2019	31 December 2018
Borrowings with no maturity	427	1,217
2020 and thereafter	1,442,101	1,550,755
2021 and thereafter	13,941,291	12,036,573
Total	**15,383,819**	**13,588,545**

Funds borrowed are unsecured. Floating rate borrowings bear interest at rates fixed in advance for periods of 6 to 12 months.

Most of the loans from international finance institutions are from European Investment Bank, World Bank, Industrial and Commercial Bank of China, Islamic Development Bank, Council of Europe Development Bank, Japan International Corporation Bank.

As the Bank is not authorized to accept deposits, liabilities are composed of funds obtained from domestic and international financial institutions, medium and long term loans.

The subardinated loans as of 31 December 2019 and 31 December 2018 is as follows;

	31 December 2019	31 December 2018
Subordinated Liabilities	1,402,555	336,270
Total	**1,402,555**	**336,270**

(*) Subordinated Liabilities consists of the grants allocated to the Bank for the same purpose as the SELP-II program implemented in order to provide financial support to small entrepreneurs within the framework of the grant agreemet which was signed between the Republic of Turkey represented by the Undersecretariat of Treasury, the KfW Development Bank, the Council of Europe Development Bank and the Bank as counterparties.

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

15. OTHER LIABILITIES AND PROVISIONS

	31 December 2019	31 December 2018
Other liabilities		
Blocked currency	40,428	25,738
Unearned revenue	26,197	29,805
Lease liabilities	15,207	-
Excess amount received from customers	9,232	4,796
Payables to public enterprises	3,728	3,728
Other transitory accounts	2,909	980
Lawsuit expenses	156	842
Subscription fee	156	72
Other	4,202	5,468
	102,214	**71,429**
Provisions		
Employee benefits provision	25,628	40,829
	25,628	**40,829**
Total	**127,842**	**112,258**

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiary incorporated in Turkey are 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 full TRY 6,379.86 and full TRY 5,434.42 at 31 December 2019 and 2018, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of 31 December 2019 and 2018, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date.

Movements in the present value of the defined benefit were as follows:

	31 December 2019	31 December 2018
Opening defined benefit obligation	40,829	35,877
Changes in current period	16,322	7,554
Actuarial profit/loss	(219)	(1,111)
Benefits paid	(32,403)	(1,783)
Closing defined benefit obligation, recognized in the balance sheet	**24,237**	**40,537**
Provision for unused vacation	1,392	292
Total	**25,628**	**40,829**

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

16. INCOME TAXES

Corporate Tax

The Group is subject to corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the period.

While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%.

The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end reporting date and taxes must be paid in one instalment by the end of the fourth month.

Corporate tax losses are allowed to be carried 5 years maximum to be deducted from the taxable profits of the following years. However, losses incurred cannot be deducted from the profits incurred in the prior years retrospectively.

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

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 15%. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

As of 31 December 2019 and 2018 advance income taxes are netted off with the current income tax liability as stated below:

	31 December 2019	**31 December 2018**
Income tax liability	144,270	85,310
Advance income taxes	(98,423)	(52,235)
	45,847	**33,075**

Major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	31 December 2019	**31 December 2018**
Current income tax expense	144,270	85,310
Deferred income tax expense / (income)	28,402	(5,324)
Income tax expense reported in the consolidated income statement	**172,672**	**79,986**

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

16. INCOME TAXES (continued)

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Bank for the year ended 31 December 2019 and 2018 are as follows:

	31 December 2019	Rate %	31 December 2018	Rate %
Profit before income tax	580,498		370,273	
At Turkish statutory income tax rate of 22%	127,709	22.00	81,460	22.00
Disallowed expenses	34,877	5.88	34	0.01
Income exempt from taxation	(19,590)	(3.30)	(6,219)	(1.68)
Other adjustments	26,942	4.54	(3,731)	1.27
Income tax	**172,672**	**29.12**	**71,544**	**21.60**

Deferred income tax

Deferred income tax as at 31 December 2019 and 31 December 2018 relates to the following:

	31 December 2019	31 December 2018
Deferred Tax Assets		
Bonus premium reserve	3,003	-
From Severence Payments	2,635	8,982
Uncollectable Loans	757	532
From Interest Rediscounts	405	245
From Depretiation	367	-
Other Non-Financial Treasury Bills and Government Bonds	291	292
Other (*)	1,206	24,070
Total Deferred Tax Assets	**8,664**	**34,121**
Deferred Tax Liabilities		
Other Non-Financial Treasury Bills and Government Bonds	(11,160)	-
Provisions	(7,757)	-
From Interest Rediscounts	(810)	39
From Depreciations	(194)	217
Subsidiaries	-	(8,442)
Other	(4,259)	162
Total Deferred Tax Liabilities	**(20,346)**	**(8,860)**
Net Deferred Tax	**(11,682)**	**25,261**

(*) As of 31 December 2018, includes the impact of adopting IFRS 9 amounting to TL 23,336.

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

16. INCOME TAXES (continued)

Movement of net deferred tax asset / (liability) can be presented as follows:

	31 December 2019	31 December 2018
Balance at January 1	25,261	18,591
Deferred income tax recognised in other comprehensive income	(8,541)	1,346
Deferred tax recognised in the profit or loss	(28,402)	5,324
Balance at period-end	**(11,682)**	**25,261**

17. SHARE CAPITAL

The capital ceiling of the Bank which is subject to registered capital system is TRY 2,500,000. The authorized paid-in share capital of the Bank amounted to TRY 850,000 as of 31 December 2019 (31 December 2018: 500,000). The Bank's capital consist of 85 Billion shares with par value of full TRY 0,01 each.

	Share (%)	31 December 2019	31 December 2018
Paid capital per statutory records			
- Republic of Turkey Ministry of Finance	99.08	842,194	495,408
- Other Shareholders	0.92	7,806	4,592
		850,000	500,000
Indexation Effect		276,911	276,911
Indexed Share Capital		**1,126,911**	**776,911**

18. DIVIDENDS PAID AND PROPOSED

As of 31 December 2019, The Bank has no paid dividend amount (31 December 2018: TRY 11,881)

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

19. EARNINGS PER SHARE

Basic earnings per share ("EPS") are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from profit reserves such as retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are regarded similarly. Accordingly, the weighted average number of shares used in the EPS calculation is derived by giving retroactive effect to the issue of such shares. The Bank has not experienced this kind of a capital increase.

	Number of Shares Issued Attributable to					
	Opening	**Cash**	**Transfers from Retained Earnings**	**Reinvestment of Dividend Payments**	**Total**	**Closing**
2014 and before	16,000,000,000	-	-	-	-	16,000,000,000
2015	16,000,000,000	-	-	-	-	16,000,000,000
2016	16,000,000,000	-	-	-	-	16,000,000,000
2017	16,000,000,000	34,000,000,000	-	-	-	50,000,000,000
2018	50,000,000,000	-	-	-	-	50,000,000,000
2019	50,000,000,000	35,000,000,000	-	-	-	85,000,000,000

There is no dilution of shares as of 31 December 2019 and 31 December 2018.

The following reflects the income (in full TRY) and share data used in the basic earnings per share computations:

	31 December 2019	**31 December 2018**
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	420,253,000	290,287,000
Weighted average number of ordinary shares for basic earnings per share	75,384,615,385	50,000,000,000
Basic earnings per 100 shares (Full TRY)	**0.5575**	**0.5806**

There have been no other transactions involving ordinary shares or potential ordinary shares as of the date of this report.

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

20. RELATED PARTIES

A party is related to an entity if: the party controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the entity that gives it significant influence over the entity or has joint control over the entity. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families and also post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

The immediate parent and ultimate controlling party of the Group is the Republic of Turkey Ministry of Finance. Transactions between the Bank and its subsidiary, which is a related party of the Bank, have been eliminated on consolidation and are not disclosed in this note.

As of 31 December 2019, subordinated loan amounting to TRY 1,402,055 was obtained from Republic of Turkey Ministry of Finance (31 December 2018: 336,270).

Transactions with key management personnel:

Key management personnel comprise of the Group's directors and key management executive officers.

As of 31 December 2019 and 2018 the Group's directors and executive officers have no outstanding personnel loans from the Bank.

Total compensation provided to key management personnel is:

	31 December 2019	31 December 2018
Salary	5,998	1,684
Dividend and fringe benefits	80	274
Total	**6,078**	**1,958**

21. INTEREST INCOME ON SECURITIES

	31 December 2019	31 December 2018
Investment securities at FVOCI	68,121	20,787
Investment securities at amortised cost	39,999	4,402
Total	**108,120**	**25,189**

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

22. OTHER OPERATING INCOME

	31 December 2019	31 December 2018
Reversal of other provisions	19,680	1,162
Income from sale of properties	280	5,018
Other	20,479	5,059
Total	**28,012**	**11,239**

23. OTHER OPERATING EXPENSES

	31 December 2019	31 December 2018
Administrative expenses	18,307	12,711
Staff costs:		
Personnel expenses	88,900	64,809
Retirement pay provision	17,615	7,671
Depreciation and amortization expense	8,038	5,599
Other	25,854	8,212
Total	**158,714**	**99,002**

24. FEES AND COMMISSIONS INCOME AND EXPENSES

	31 December 2019	31 December 2018
Fees and commissions income		
Banking	15,747	27,296
Total	**15,747**	**27,296**
Fees and commissions expenses		
Banking	(1,231)	(871)
Total	**(1,231)**	**(871)**

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

25. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	31 December 2019	31 December 2018
Letters of guarantee issued	13	37
Letters of credit	-	27,788
Total non-cash loans	**13**	**27,825**
Other commitments	19,824	11,428
Total	**19,837**	**39,253**

IVCI (A Luxemburg Investment Company Fund) (“Fund”) is founded as a stock company having variable capital and subject to laws of Luxemburg. The Bank has committed to buy "Group A" shares equal to nominal value of EUR 10 million and to pay this amount at the date determined by Fund according to its investment plan. The Fund's initial capital commitment was EUR 150 Million and its capital was increased to EUR 160 Million with new participants in March 2009. The Bank's participation was approved by the Board of Directors of IVCI on 13 November 2007 and share purchase agreement was signed as of the same date. The Bank made payment of share capital amounting to EUR 9,073,342 constituting payments equal to EUR 300,000 on 7 November 2008, EUR 218,750 on 6 July 2009 and EUR 281,250 on 12 November 2010, EUR 167,500 on 15 July 2011, EUR 437,500 on 10 November 2011, EUR 500,000 on 15 February 2012, EUR 500,000 on 25 May 2012, EUR 250,000 on 10 August 2012, EUR 500,000 on 19 September 2012, EUR 500,000 on 18 January 2013, EUR 500,000 on 27 June 2013 and EUR 500,000 on 13 December 2013, EUR 500,000 on 1 August 2014, EUR 500,000 on 29 August 2014, EUR 500,000 on 4 May 2015, EUR 500,000 on 16 October 2015, EUR 500,000 on 3 May 2016, EUR 312,500 on 30 November 2017, EUR 312,500 on 2 March 2018, EUR 312,500 on 12 December 2018 and EUR 980.842 on 13 December 2019.

With reference to the above capital contributions, out of the Bank's total commitment of EUR 10 million, EUR 9,073,342 have been paid, EUR 1,907,500 is not yet paid as of the reporting date. Such investment is recognized as financial asset measured at fair value through profit or loss.

Transactions Made on Behalf and Account of Others and Fiduciary Transactions

The Bank has no fiduciary transactions.

Litigation

As 31 December 2019, there are 137 cases which are brought against the Bank. The risk amount is TRY 7,550. As of 31 December 2019, provision on the financial tables for these cases amounting to TRY 940 (31 December 2018: None).

26. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

Risk management activities of the Bank are performed under the responsibility of Board of Directors and in accordance with "Regulation on Banks' Internal Systems" published in the Official Gazette numbered 28337 and dated 28 June 2012. Top management is responsible against Board of Directors for monitoring and management of risks. In addition, departments included in the Internal Systems, namely Internal Control Department, Risk Monitoring Department and Board of Inspection transact their responsibilities independently from the executive departments.

The general risk principles followed by the bank can be defined as including the following activities: specializing in activities in accordance with its mission, vision and its structure defined in its settlement law, taking definable, monitorable and/or manageable risks accordingly, avoiding risks other than the ones unavoidable due to the main activities. Within this scope, fundamental principle is taking risks which are defined and manageable. Additionally, current and future potential effects of the risks currently taken are measured to the extent possible by the risk measurement and reporting techniques and it is continued to be performed accordingly.

The Bank is actively using committees and risk budgeting in decision-making mechanisms and risk management processes while assessing risk management performance in addition to the functional and financial performance, which has operational mechanisms based on a wide range of activities. Within the framework of the Bank's vision, mission, strategic objectives and targets set by the Board of Directors and risk management policies and strategies; the Asset and Liability Management Committee and the Credit Participation Committee constitute two main committees that play a critical role in the execution of the Bank's activities; which the Asset and Liability Management Committee ensuring that the assets and liabilities are managed effectively and efficiently by taking into consideration the current and possible economic developments and the factors such as interest, maturity and currency, and establishing coordination and communication between the Senior Management and the Bank's units, and the Credit Participation Committee with the function of determining the principles of lending, evaluating the credit-participation risk and the situation of the investment, evaluating the reports prepared on the loan appraisal and in summary taking care of all the lending activities. Within the framework of the short-term strategies determined by the Asset and Liability Management Committee in line with the vision and strategic objectives of the Bank's Strategic Plan, each of the units in the Bank comply with these targets and the risk budgeting application based on the consolidation of these budgets are applied to contribute to the basic activities of the Bank.

Considering the best practices, the Bank executes measuring, monitoring activities, testing and scenario analysis confirming with the volume, character and complexity of transactions, within the legal regulations and limits of the authority, and provides reporting to top management.

26. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk

The Bank manages its credit risk by limiting its risk through involvement with highly credible banks and organizations. Credibility of the counterparties is analyzed by different methods depending on the type of credit. Detailed analyses are performed and loan limits are submitted to the approval of Board of Directors or Loan Investment Committee depending on the amount of the loan to be disbursed. The limits of counter parties are determined for the total loans of a single company; and there is no special limit set for the sectoral or concentration basis. If the counterpart is not credible, no new credit is extended or limit is decreased to risk level. Since the placements of the Bank are in the form of project financing, the amount of loan that can be disbursed to a firm is basically determined during project assessment stage and disbursements are made in a controlled manner through monitoring of expenditures.

Under the risk management, the Bank obtains adequate collateral for loans given and other receivables. Such collateral comprises of real estate and tangible assets mortgages, business company liens, foreign currency notes and other liquid assets, bank guarantee letters and surety ships of reals persons or companies.

The sectoral distribution of the loan customers is monitored and those distributions are taken into account during placement decisions and goals.

The Bank is not subject to the general loan restrictions defined by the 53th article of the Banking Law numbered 5411. However, the loan limits are determined mostly in parallel with the limitations set out in the 53th article of the Banking Law.

Credit risk is analyzed by different group of loans and guarantees received for those loans. Also, the credibility of the debtors of the Group is assessed periodically in accordance with the prevailing regulations on lending and provisioning.

The primary purpose of credit related commitments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit.

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank bears low credit risk due to its foreign banking transactions as its credit risk is mainly concentrated in Turkey.

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

2. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Impairment assessment based on IFRS 9

As of 1 January 2018, the Group recognizes provisions for impairment in accordance with IFRS 9 requirements. The expected credit losses are estimated to be unbiased, weighted according to probabilities, and include information that can be supported about past events, current conditions and future economic conditions. Risk parameters used in IFRS 9 calculations are included in the future macroeconomic information. These financial assets are divided into three categories depending on the gradual. The Group calculates expected credit losses based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Sectoral breakdown of cash loans is as follows:

	Cash	
	31 December 2019	**31 December 2018**
Manufacturing	**9,962,314**	**8,520,251**
Electric, gas and water	2,085,602	2,066,639
Production	7,876,712	6,453,612
Services	**5,005,962**	**5,059,108**
Financial institutions	1,083,455	1,154,910
Hotel, food and beverage services	3,702,048	3,663,414
Health and social services	87,549	83,272
Education Services	125,919	145,633
Other	6,991	11,879
Total loans	**14,968,276**	**13,579,359**
Non-performing loans	141,957	123,142
Expected credit loss	(205,493)	(185,306)
Total	**14,904,740**	**13,517,195**

Maximum exposure to credit risk for the components of the financial statements:

Maximum Exposure	**31 December 2019**	**31 December 2018**
Cash and deposits with banks and other financial institutions	2,336,038	419,529
Money market placements	127,505	1,203,218
Balances with the Central Bank	577	1,357
Financial assets measured at FVOCI	687,356	218,206
Loans and advances to customers and financial institutions	14,904,740	13,517,195
Investment securities at amortised cost	1,064,246	49,338
Total	**19,120,461**	**15,408,843**
Contingent liabilities	13	27,825
Total	**13**	**27,825**
Total credit risk exposure	**19,120,474**	**15,436,668**

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

26. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit quality per class of financial assets as of 31 December 2019 and 2018:

As of 31 December 2019	**Neither past due nor impaired**	**Past due but not impaired**	**Total**
Cash and deposits with banks and other financial institutions	2,336,038	-	2,336,038
Loans and advances to customers and financial institutions	14,878,726	26,014	14,904,740
Financial assets measured at fair value through other comprehensive income (FVOCI)	687,356	-	687,356
Investments securities at amortised cost	1,064,246	-	1,064,246
As of 31 December 2018	**Neither past due nor impaired**	**Past due but not impaired**	**Total**
Cash and deposits with banks and other financial institutions	419,529	-	419,529
Loans and advances to customers and financial institutions	13,505,880	11,315	13,517,195
Financial assets measured at fair value through other comprehensive income (FVOCI)	218,206	-	218,206
Investments securities at amortised cost	49,338	-	49,338

Aging analysis of past due but not impaired financial assets per classes of financial instruments:

As of 31 December 2019	**Less than 30 Days**	**Between 31 and 60 Days**	**Between 61 and 90 Days**	**Total**
Loans				
Corporate Loans	12,344	5,251	1,065	**18,660**
Specialized Loans	7,354	-	-	**7,354**
Total	**19,698**	**5,251**	**1,065**	**26,014**

As of 31 December 2018	**Less than 30 Days**	**Between 31 and 60 Days**	**Between 61 and 90 Days**	**Total**
Loans				
Corporate Loans	5,172	4,720	947	10,839
Specialized Loans	476	-	-	476
Total	**5,648**	**4,720**	**947**	**11,315**

The net value and type of the collaterals of closely monitored loans is as follows:

Collateral Type	**31 December 2019**	**31 December 2018**
Real estate mortgage (*)	602,319	518,951
Financial collaterals (Cash, securities pledge, etc,)	877,503	593,209
Total	**1,479,822**	**1,112,160**

(*) Amount of collateral is stated at the lower of appraisal value or mortgage value. When the collateral value exceeds the credit risk loan balance, credit risk loan balance is presented.

The net value and type of the collaterals of non-performing loans is as follows:

Collateral Type	**31 December 2019**	**31 December 2018**
Real estate mortgage (*)	94,538	99,185
Other (**)	7,332	16,942
Total	**101,870**	**116,127**

(*) Amount of collateral is stated at the lower of appraisal value or mortgage value, when the collateral value exceeds the credit risk loan balance, credit risk loan balance is presented.

(**) As collateral, real estate mortgages have been obtained for loans.

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

26. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

In the Bank, liquidity risk management is performed through projected cash flows. These cash flows are prepared using forecasted data considering the maturity structure of assets and liabilities. The projected cash flows includes information required to determine liquidity needs (if any) that would arise in the coming periods and/or extraordinary situations, alternative liquidity sources and placement areas. During preparation of projections for future cash flows based on these information, liquidity risk exposure of the Bank is measured using different scenarios (for example, credit collection ratios).

Besides, monthly projected cash flows related to coverage ratios for medium and long term liabilities and balance sheet durations are monitored continuously in order to identify risk factors in advance. In the case situations creating risk are present; initiatives are taken by related departments to eliminate this situation. In order to evaluate the effects of negative developments at the parameters that affect the financial strength of the Bank to operations and market risks, it is essential to apply stress tests and to use the results within the Bank's strategic decision making process.

Analyzing the structure of the Bank's assets and borrowings, loans provided by international financial institutions consists of medium and long-term loans with floating interest rate, and these funds are disbursed by taking into account the re-pricing period. Balance sheet mainly consists of loans that, given the impact of interest rate shocks on the profitability is thought to be limited to a portfolio of liquid assets and liabilities. In addition, the share of the equity in liabilities thus released funds is high and it makes the Bank advantageous in the liquidity risk management. Assessment of maturity/yield alternatives for the placement of liquidity surplus and maturity/cost alternatives to meet liquidity needs is the basic principle of the Bank liquidity management.

Analysis of financial liabilities by remaining contractual maturities:

As of 31 December 2019	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustment	Total
Liabilities							
Funds borrowed	166,679	235,443	1,271,985	10,907,184	6,239,786	(3,437,258)	15,383,819
Money market funds	50,364	-	-	-	-	-	50,364
Total	**217,043**	**235,443**	**1,271,985**	**10,907,184**	**6,239,786**	**(3,437,258)**	**15,434,183**

As of 31 December 2018	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustment	Total
Liabilities							
Funds borrowed	117,490	168,377	1,227,179	8,220,372	5,821,470	(1,966,343)	13,588,545
Money market funds	862	-	-	-	-	-	862
Total	**118,352**	**168,377**	**1,227,179**	**8,220,372**	**5,821,470**	**(1,966,343)**	**13,589,407**

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

26. FINANCIAL RISK MANAGEMENT (continued)

Presentation according to remaining period at balance sheet date to contractual maturities:

As of 31 December 2019	Demand	Up to 1 Month	1-3 Months	3-12 Months	1 year to 5 years	Over 5 years	Undistributed (*)	Total
Assets								
Cash and cash equivalents	23,407	2,312,648	-	-	-	-	-	2,336,055
Balances with Central Bank	594	-	-	-	-	-	-	594
Money market placements	-	127,246	-	-	-	-	-	127,246
Financial assets at fair value through profit and loss	90,216	-	-	-	-	-	-	90,216
Investment securities - FVOCI	6,758	1,568	3,730	257,562	417,738	-	-	687,356
Loans and advances to customers and financial institutions	-	440,401	245,474	1,609,746	9,220,686	3,383,611	4,822	14,904,740
Investments securities - amortised cost	-	12,540	12,923	189	1,028,594	11,967	(1,967)	1,064,246
Other assets	-	-	-	-	-	-	165,349	165,349
Total assets	**120,974**	**2,894,403**	**262,127**	**1,867,497**	**10,667,018**	**3,395,578**	**168,2014**	**19,375,801**
Liabilities and equity								
Funds borrowed	-	164,444	225,634	1,052,094	8,439,200	5,502,091	356	15,383,819
Money market funds	-	50,364	-	-	-	-	-	50,364
Subordinated loans							1,402,055	1,402,055
Other liabilities	53,773	4,366	41,477	-	-	-	85,755	185,371
Total liabilities	**53,773**	**219,174**	**267,111**	**1,052,094**	**8,439,200**	**5,502,091**	**1,488,166**	**17,021,609**
Liquidity gap	**67,201**	**2,675,229**	**(4,984)**	**815,403**	**2,227,818**	**(2,106,513)**	**(1,319,962)**	**2,354,192**

As of 31 December 2018	Demand	Up to 1 Month	1-3 Months	3-12 Months	1 year to 5 years	Over 5 years	Undistributed	Total
Total assets	**131,314**	**1,914,505**	**203,591**	**1,512,842**	**8,534,894**	**3,247,019**	**80,006**	**15,624,171**
Total liabilities	**33,875**	**114,814**	**189,752**	**1,282,984**	**6,963,779**	**5,072,794**	**413,012**	**14,071,010**
Liquidity gap	**97,439**	**1,799,691**	**13,839**	**229,858**	**1,571,115**	**(1,825,775)**	**(333,006)**	**1,553,161**

(*) Assets which are required for banking operations and could not be converted into cash in short-term, such as; tangible assets, associates, subsidiaries, office supply inventory, prepaid expenses and non-performing loans; and other liabilities such as provisions which are not considered as payables are classified as undistributed.

(**) Deferred tax asset is included under the "Undistributed" column.

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

26. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

Market risk is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 28 June 2012 and numbered 28337 and legally reported.

Besides monthly calculation made as per standard method, market risk is calculated daily as per Value at Risk ("VaR") method and reported to top management. Calculations are made using Historical Simulation method. In order to test the reliability of the VaR model, back tests are performed. Stress tests are also applied in order to reflect the effects of prospective severe market fluctuations in the market parameters on income statement.

In compliance with the "Regulation on Banks' Internal Control and Risk Management Systems" published in the Official Gazette dated 28 June 2012 and numbered 28337, Board of Directors determine risk limits considering the major risks beared by the Bank and revise these limits based the market conditions and the strategies of the Bank.

The reports prepared for the monitoring of the risk limits are regularly submitted to the Board of Directors, Audit Committee and top management.

Currency Risk

Foreign currency risk indicates the possibilities of potential losses that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Group are taken into account, net short and long position of the Turkish Lira equivalent to each foreign currency is calculated.

Standard method determined for legal reporting is used in the calculation of the exchange rate risk faced by the Bank.

In addition, daily currency risk faced by the Bank can be determined by the foreign currency balance sheets that are prepared to include singular positions. Projected foreign currency balance sheets are used in the calculation of the future possible exchange rate risk (including foreign currency based assets and liabilities). To limit the amount of currency risk exposed, a non-speculat0ve foreign currency position risk management is adopted and used in the distribution of balance sheet and off-balance sheet assets according to their currencies.

Foreign currency sensitivity:

The Group is mainly exposed to EUR and USD currency risk.

The following table details the Group's sensitivity to a 10% increase and decrease in the USD or EUR foreign exchange rates, 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

	Change in currency rate in %	Increase/(Decrease) Effect on profit / loss (*)		Increase/(Decrease) Effect on equity (**)	
		31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
USD	10 increase	(3,596)	(1,686)	832	1,456
USD	10 decrease	3,596	1,686	(832)	(1,456)
EURO	10 increase	(17,968)	(14,150)	640	1,970
EURO	10 decrease	17,968	14,150	(640)	(1,970)
Other	10 increase	39	40	-	40
Other	10 decrease	(39)	(40)	-	(40)

(*) Tax effect excluded.

(**) Profit/loss effect included.

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

26. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

The Group's sensitivity to foreign currency rates has not changed much during the current period. The positions taken in line with market expectations can increase the foreign currency sensitivity from period to period.

The concentrations of assets, liabilities and off balance sheet items in various currencies are:

	EURO	USD	Other FC	Total
As of 31 December 2019				
Assets				
Cash and deposits with banks and other financial institutions	452,928	287,663	386	740,977
Investment securities at FVOCI	186,078	44,280	-	230,358
Financial assets at fair value through profit and loss	90,216	-	-	90,216
Loans and advances to customers and financial institutions	6,398,222	8,263,047	-	14,661,269
Money market placements	66,486	-	-	66,486
Financial assets at FVPL	-	-	-	-
Financial Assets Measured at Amortised Cost	1,028,893	-	-	1,028,893
Other assets	1,580	28,058	-	29,638
Total assets	**8,224,403**	**8,623,048**	**386**	**16,847,837**
Liabilities				
Funds borrowed	6,803,063	8,561,130	-	15,364,193
Subordinated loans	1,402,055	-	-	1,402,055
Other liabilities	12,881	53,595	-	66,476
Total liabilities	**8,217,999**	**8,614,725**	**-**	**16,832,724**
Net on balance sheet position	**6,404**	**8,324**	**385**	**15,113**
Net off balance sheet position	-	-	-	-
Non-cash loans	-	-	-	-
As of 31 December 2018				
Total assets	**7,026,222**	**6,982,705**	**399**	**14,009,326**
Total liabilities	**7,011,667**	**6,963,003**	**-**	**13,974,670**
Net on balance sheet position	**14,555**	**19,702**	**399**	**34,656**
Net off balance sheet position	**-**	**-**	**-**	**-**
Non-cash loans	27,788	-	-	27,788

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

26. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk

Bank calculates the interest rate risk on banking book according to "Regulation on Measurement and Evaluation of Interest Rate Risk on Banking Book as per Standard Shock Method" and reports to the BRSA monthly.

Interest Rate Risk on Banking Book report includes Receivables from Central Bank, Money Market Placements, Receivables from Banks, Available for Sale Financial Assets (excluding government bonds), Receivables from Reverse-repo, Loans and Receivables, Investments Held to Maturity and Other Receivables in the asset side, and Payables to Central Bank, Money Market Borrowings, Payables to Banks, Funds Obtained from Repo Transactions, Issued Bonds; Borrowings, Subordinated Debt and Other Payables on the liabilities side.

Economic value differences due to the interest rate instabilities calculated according to "Regulation on Measurement and Evaluation of Interest Rate Risk on Banking Book as per Standard Shock Method" are presented below for each currency.

	Current Period (31.12.2019) Currency	Applied Shock (+/- x base points)	Gains / Losses	Gains / Equity – Losses / Equity
1	TL	(+) 500 base points	(26,626)	(0.69) %
2	TL	(-) 400 base points	25,636	0.67%
3	EURO	(+) 200 base points	45,785	1.19%
4	EURO	(-) 200 base points	(53,575)	(1.39) %
5	USD	(+) 200 base points	21,685	0.56%
6	USD	(-) 200 base points	(30,449)	(0.79) %
	Total (Of Negative Shocks)		**40,844**	1.06%
	Total (Of Positive Shocks)		**(58,389)**	(1.52) %

	Current Period (31.12.2018) Currency	Applied Shock (+/- x base points)	Gains / Losses	Gains / Equity – Losses / Equity
1	TL	(+) 500 base points	(26,467)	(1.38) %
2	TL	(-) 400 base points	24,230	1.26 %
3	EURO	(+) 200 base points	30,011	1.56 %
4	EURO	(-) 200 base points	(36,494)	(1.90) %
5	USD	(+) 200 base points	(9,115)	(0.47) %
6	USD	(-) 200 base points	10,319	0.54 %
	Total (Of Negative Shocks)		**(5,570)**	**(0.29) %**
	Total (Of Positive Shocks)		**(1,944)**	**(0.10) %**

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

26. FINANCIAL RISK MANAGEMENT (continued)

Interest rate sensitivity based on repricing dates:

As of 31 December 2019	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest Bearing	Total
Assets							
Cash and deposits with banks and other financial institutions	2,312,648	-	-	-	-	23,407	2,336,055
Balances with Central Bank	-	-	-	-	-	594	594
Money market placements	127,246	-	-	-	-	-	127,246
Financial assets at fair value through profit and loss	-	-	-	-	-	90,216	90,216
Investment securities available-for-sale	498	-	213,684	466,416	-	6,758	687,356
Loans and advances to customers and financial institutions	5,351,652	1,914,411	2,853,378	1,282,266	3,498,211	4,822	14,904,740
Investment securities held to maturity	12,540	12,731	-	1,028,786	10,189	-	1,064,246
Other assets						165,349	165,349
Total assets	**7,804,584**	**1,927,142**	**3,067,062**	**2,777,468**	**3,508,400**	**291,146**	**19,375,802**
Liabilities							
Money market funds	50,364	-	-	-	-	-	50,364
Subordinated dept instrument	-	-	-	-	-	1,402,055	1,402,055
Funds borrowed	3,651,879	2,246,663	4,689,396	2,896,690	1,899,191	-	15,383,819
Other liabilities	-	-	-	-	-	185,371	185,371
Total liabilities	**3,702,243**	**2,246,663**	**4,689,396**	**2,896,690**	**1,899,191**	**1,587,426**	**17,021,609**
On balance sheet interest sensitivity gap – Long	4,102,341	-	-	-	1,609,209	-	5,711,550
On balance sheet interest sensitivity gap – Short	-	(319,521)	(1,622,334)	(117,437)	-	(3,652,258)	(5,711,550)
Off balance sheet interest sensitivity gap – Long	-	-	-	-	-	-	-
Off balance sheet interest sensitivity gap – Short	-	-	-	-	-	-	-
Total position	**4,102,341**	**(319,521)**	**(1,622,334)**	**(117,437)**	**1,609,209**	**(3,652,258)**	**-**

As of 31 December 2018	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest Bearing	Total
Total assets	7,217,853	1,677,050	2,561,809	589,384	3,366,755	211,320	15,624,171
Total liabilities	3,366,136	1,964,877	4,318,491	2,267,531	1,672,372	481,603	14,071,010
Total position	**3,851,717**	**(287,827)**	**(1,756,682)**	**(1,677,087)**	**1,694,383**	**(270,283)**	**1,553,161**

26. FINANCIAL RISK MANAGEMENT (continued)

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency ("BRSA"). The minimum ratio is 8%. 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 Bank operates only in domestic markets.

Beginning from 1 July 2012, capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" (the "Regulation") published in the Official Gazette dated 28 June 2012 and numbered 28337 and "Communiqué on Credit Risk Mitigation Techniques" published in the Official Gazette dated 5 September 2013 and numbered 28756.

In capital adequacy standard ratio calculation, based upon the data prepared from accounting records in compliance with the current legislation, the Standard Method is used to calculate capital adequacy for Credit Risk and Market Risk and Basic Indicator Approach is used annually for Operational Risk.

In calculation of value at credit risk, the Bank assesses credit items in related risk weights by considering risk categories, rating notes and other risk reducing factors under the framework of "Communiqué on Credit Risk Mitigation Techniques".

The non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are calculated based on the "Regulation on Procedures and Principles for Determination of Qualification of Loans and Other Receivables, and Allocation of Provisions" and classified under liabilities. The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the "Communiqué on Credit Risk Mitigation Techniques" and then included in the relevant risk classification defined in the article 6 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 and reverse repurchase agreements.

As of 31 December 2019, its capital adequacy ratio on an unconsolidated basis is 22.29% (31 December 2018: 14.18%).

Operational Risk

Operational risk is defined as the probability of loss or damage due to the overlooked errors and irregularities arising from failures of the internal controls of the Bank, and not responding timely by the Bank's management and the personnel, errors and irregularities of the information systems, and due to the disasters like earthquake, fire or flood, or terrorist attacks. From this point, all major operation groups include operational risk.

The Bank manages operational risk according to volume, nature and complexity of operations and within the context of BRSA regulations; accepts that operational risk management covers all operations and personnel. The basic principle of operational risk management policy is to take precautions to prevent realization of risks. Intensification of controls over each stage of business processes that are determined by the Bank is the most effective policy tool of operational risk management.

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

26. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial instruments

	31 December 2019	
	Carrying amount	**Fair value**
Financial assets		
Loans and advances to customers and financial institutions	14,904,740	14,951,256
Investment securities at FVOCI	687,356	687,356
Investment securities at amortised cost	1,064,246	1,066,501
Money market placements	1,203,218	1,203,218
Cash at banks	419,602	419,602
	18,279,161	**18,327,932**
Financial liabilities		
Money market funds	50,364	50,364
Funds borrowed	15,382,034	16,420,466
Subordinated dept instrument	1,402,055	1,402,055
Other liabilities	53,773	53,773
	16,888,226	**17,926,658**

	31 December 2018	
	Carrying amount	**Fair value**
Financial assets		
Loans and advances to customers and financial institutions	13,517,195	13,608,430
Investment securities at FVOCI	218,206	218,206
Investment securities at amortised cost	49,338	48,682
Money market placements	1,203,218	1,203,218
Cash at banks	419,602	419,602
	15,407,559	**15,498,138**
Financial liabilities		
Money market funds	862	862
Funds borrowed	13,588,015	13,645,000
Subordinated dept instrument	336,270	336,270
Other liabilities	33,875	33,875
	13,959,022	**14,016,007**

(*) Financial assets and liabilities presented above include interest accruals.

Methods and estimations used for the fair value determination of financial instruments which are not presented with their fair values in financial statements:

i- For the fair value determination of loans, interest rates as of balance sheet date are considered,
ii- For the fair value determination of banks, interest rates as of balance sheet date are considered,
iii- For the fair value determination of investments held-to-maturity, market prices as of balance sheet date are considered.

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

26. FINANCIAL RISK MANAGEMENT (continued)

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 (excluding derivative instruments) 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 derivative instruments, are calculated using quoted prices, Where such prices are not available use is made of 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	Level 1	Level 2	Level 3
Financial assets FVOCI (*)	**680,599**	**-**	**-**
Debt securities	680,599	-	-
Other	-	-	-
Financial assets FVPL	**-**	**-**	**90,216**

(*) Since they are not traded in an active market, share certificates under financial assets available-for-sale are shown in the financial statements with their acquisition costs, therefore not included in the table.

31 December 2018	Level 1	Level 2	Level 3
Financial assets FVOCI (*)	**210,704**	**-**	**-**
Debt securities	210,704	-	-
Other	-	-	-
Financial assets FVPL	**-**	**-**	**57,983**

(*) Since they are not traded in an active market, share certificates under financial assets available-for-sale are shown in the financial statements with their acquisition costs, therefore not included in the table.

The table below shows the movement table of level 3 financial assets.

Level 3 Movement Table	Current Period (31.12.2019)
Balance at the Beginning of the period	**57,983**
IFRS 9 implementation effect	**-**
Purchases During the Period	-
Disposals Through Sale/Redemptions	-
Valuation Effect	32,233
Transfers	-
Balance at the End of the period	**90,216**

27. SUBSEQUENT EVENTS

As of 29 May 2020, the Bank has 100% participation in Kalkınma Yatırım Varlık Kiralama Anonim Şirketi, which was established with a nominal capital of TL 50,000.

The new coronavirus disease (COVID-19), which emerged in the People's Republic of China in the end of December 2019 and spread to other countries, was declared a pandemic on 11 March 2020 by the World Health Organization. In order to keep the negative economic effects of the epidemic to a minimum, some measures are taken both in our country and around the world. The effects of these developments on the Bank's financial status and activities are closely monitored by the relevant units and the Bank's Top Management.