

**TÜRKİYE SİNAİ KALKINMA BANKASI
ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES**

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

17 April 2020

This report contains 5 pages of independent auditors' report on audit of consolidated financial information and 118 pages of consolidated financial information.

Türkiye Sınai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

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REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

Report on the Audit of the Consolidated Financial Statements

To the Shareholders of Türkiye Sınai Kalkınma Bankası A.Ş.:

Qualified Opinion

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

In our opinion, except for the effects of the matter on the consolidated financial statements described in the Basis for Qualified Opinion paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 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

As explained in Note 26, the accompanying consolidated financial statements as at 31 December 2019 include a free reserve for possible risks amounting to TL 120,000 thousands which were provided in prior years by the Group management for possible results of the circumstances which may arise from possible changes in the economy and market conditions that is not permitted by IAS 37. Had the Group did not provide such provision, “Retained earnings” and “Provisions” would increase and decrease by TL 120,000 thousands respectively.

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 financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. Key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How the matter is addressed in our audit
<i>Related important disclosures about recognition of impairment on financial assets in accordance with IFRS 9</i>	
<p>As presented in Note 3.8.2, the Group recognizes the IFRS 9 "Financial Instruments" standard. We considered the impairment of financial assets as a key audit matter due to:</p> <ul style="list-style-type: none"> - Balance sheet and off balance sheet items that are subject to expected credit loss calculation is material for the financial statements - Complex accounting requirements of IFRS 9 - The classification of the financial assets is based on the Group's business model and characteristics of the contractual cash flows in accordance with IFRS 9 and the Group uses significant judgment on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments. - The Group determines the fair value of financial assets measured at fair value by level 3 related business model category non-observable in fair value measurement due to the existence of significant estimates and assumptions determination - The model that is established by the Group management to calculate the expected credit losses has the compliance risk whether it is established based on the requirements of IFRS 9 and other practices - Have complex and intensive control environment 	<p>Our audit procedures included among others include:</p> <ul style="list-style-type: none"> -Evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding and industry practice. -Identifying and testing relevant controls and new IT systems by involving Information technology and Process audit specialists -Evaluating the reasonableness of management's key judgements and estimates made in expected credit loss calculations, including selection of methods, models, assumptions and data sources and evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding and industry practice -Evaluating the understanding and the control of the Group's business model assessment and the test on the contractual cash flows -Examining the financial instruments classification and measurement models (fair value hierarchy Level 3 financial instruments) and comparing them with IFRS 9 standard requirements -Involving Financial risk management specialists to challenge significant assumptions / judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, macro-economic variables, and recovery rates and performing loan review from the selected samples

<ul style="list-style-type: none"> - Judgments and estimations needed for the calculation of expected credit losses and - The complex disclosure requirements of IFRS. 	<ul style="list-style-type: none"> -Assessing the completeness, accuracy and relevance of the data used for the calculation of expected credit loss -Evaluating the appropriateness and tested the mathematical accuracy of Expected credit loss models applied. -Evaluating the judgments and estimates used for the individually assessed financial assets - Evaluating the reasonableness of and tested the post-model adjustments. -Auditing of the IFRS 9 disclosures.
<i>Pension Fund Obligations</i>	
<p>As presented in Note 3.19 “Employee benefits” and Note 22 “Employee Benefits – Pension scheme”, the valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, demographic assumptions, inflation rate estimates and the impact of any changes in individual pension plans. The Bank Management uses Fund actuaries to assist in assessing these assumptions.</p> <p>Considering the subjectivity of key assumptions and estimate used in the calculations of transferrable liabilities and the effects of the potential changes in the estimates used together with the uncertainty around the transfer date and given the fact that technical interest rate is prescribed under the law, we considered this to be a key audit matter.</p>	<p>It has been addressed whether there have been any significant changes in regulations governing pension liabilities, employee benefits plans during the period, that could lead to adjust the valuation of employee benefits.</p> <p>Support from actuarial auditor who is in the same audit network within our firm, has been taken to assess the appropriateness of the actuarial assumptions and calculations performed by the external actuary. We further focused on the accuracy and adequacy of the deficit and also disclosures on key assumptions related to pension fund.</p>
<i>Derivative Financial Instruments</i>	
<p>Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency and interest rate options, futures and other derivative financial instruments which are held for trading are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Details of related amounts are explained in differences related to derivative financial assets/liabilities held-for-trading disclosures in Note 36 “Derivative financial instruments”.</p> <p>Fair value of the derivative financial instruments is determined by selecting most convenient market data and applying valuation techniques to those particular derivative products. Derivative Financial Instruments are considered by us as a key audit matter because of the subjectivity in the estimates, assumptions and judgements used.</p>	<p>Our audit procedures involve obtaining written confirmations from the third parties and comparing the details of the related derivative transactions. Our audit procedures included among others involve reviewing policies regarding fair value measurement accepted by the bank management fair value calculations of the selected derivative financial instruments which is carried out by valuation experts in our audit team and the assessment of used estimations and the judgements and testing of operating effectiveness of the key controls in the process of fair value determination.</p> <p>Our procedures included, amongst others, recalculating fair value calculation and disclosures relating to derivative financial instruments considering the requirements of International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS").</p>

Responsibilities of the Board of Directors for the consolidated financial statements

The 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the 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.

The Board of Directors 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 the Board of Directors
- Conclude on the appropriateness of the Board of Director'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.

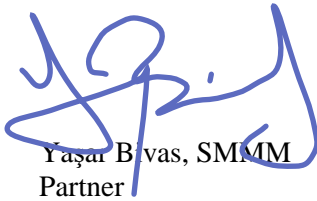
We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors 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 the Board of Directors we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

The engagement partner who supervised and concluded this independent auditor's report is Yaşar Bivas.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited



Yaşar Bivas, SMMM
Partner

17 April 2020
Istanbul, Turkey

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

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

ASSETS	Notes	31 December 2019	31 December 2018
Cash and cash equivalents	7	791,533	1,393,542
Reserve deposits at Central Bank	7	795,638	730,030
Financial assets measured at fair value through profit or loss	8, 10	278,918	300,519
Financial assets measured at fair value through other comprehensive income	10	4,194,688	3,427,495
-Financial assets measured at fair value through other comprehensive income as pledge	18	829,817	171,653
Financial assets measured at amortized cost	10	2,581,799	2,153,313
-Financial assets measured at amortized cost as pledge	18	431,343	248,394
Derivative financial assets	36	894,447	979,221
Derivatives used for hedging purposes	36	67,884	-
Loans and advances to customers	9	30,761,544	27,552,420
Investments in equity-accounted investees	11	464,920	428,490
Goodwill	12	383	383
Property and equipment	13	347,206	292,651
Investment property	14	273,918	247,793
Intangible assets	15	4,069	3,867
Deferred tax assets	22	39,930	3,844
Assets held for sale	17	64,403	1
Other assets	16	691,109	755,249
Total assets		42,252,389	38,268,818

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

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

LIABILITIES	Notes	31 December 2019	31 December 2018
Funds borrowed	19	26,628,325	23,819,670
Money market balances	25	1,197,367	402,278
Debt securities issued	20	6,277,368	6,949,189
Derivative financial liabilities	36	468,289	620,082
Derivatives used for hedging purposes	36	16,545	172,258
Current account of loan customers		58,950	32,529
Taxes and dues payable		15,750	11,741
Employee benefits	23	36,205	43,605
Corporate tax liability	22	67,608	82,363
Provisions	26	145,911	132,562
Lease liability		4,913	-
Other liabilities	21	226,746	169,310
Subordinated debt instrument	24	1,830,045	1,549,774
Total liabilities		36,974,022	33,985,361
EQUITY			
Share capital			
Nominal paid in capital	27	2,800,000	2,800,000
Inflation adjustment to capital	27	13,563	13,563
Total capital	27	2,813,563	2,813,563
Share premium		530	516
Legal reserves		307,099	273,239
Fair value reserve		83,268	(127,817)
Revaluation reserve		309,478	260,373
Translation reserve		20,714	15,704
Actuarial gain/(loss)		(1,393)	(566)
Retained earnings		1,707,018	1,009,823
Total equity attributable to equity holders of the Bank		5,240,277	4,244,835
Non-controlling interests	27	38,090	38,622
Total equity		5,278,367	4,283,457
Total liabilities and equity		42,252,389	38,268,818
Commitments and contingencies	37	65,271,742	65,537,851

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	1 January – 31 December 2019	1 January – 31 December 2018
Interest income calculated using the effective interest method		2,260,048	2,133,352
Other interest and similar income		1,052,953	976,757
Interest expense calculated using the effective interest method		1,392,967	1,379,980
Other interest and similar income		8,750	1,411
Net interest income	30	1,911,284	1,728,718
Fee and commission income		78,154	63,929
Fee and commission expense		(13,051)	(12,531)
Net fee and commission income	31	65,103	51,398
Securities trading income / (loss), net		3,737	2,202
Derivative trading income / (loss), net		(489,078)	(616,348)
Foreign exchange gains / (loss), net		66,218	284,946
Net trading income / (loss), net		(419,123)	(329,200)
Net impairment loss	32	(460,631)	(472,649)
Net operating income after impairment loss		1,096,633	978,267
Other operating income	33	65,550	19,093
Other operating expenses	35	(255,408)	(209,944)
Dividend income	34	6,754	5,525
Share of profit of equity-accounted investees	11	19,944	90,705
Profit before income tax	22	933,473	883,646
Income tax expense	22	(197,332)	(221,597)
Profit for the period		736,141	662,049

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	1 January – 31 December 2019	1 January – 31 December 2018
Profit for the period		736,141	662,049
Items that will never be reclassified to profit or loss:			
Remeasurement of employee termination benefits		(1,034)	(684)
Revaluation of tangible assets		49,105	47,172
Other comprehensive income items not reclassified through profit or loss		4,339	7,639
Related tax		207	(1,877)
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		5,010	7,857
Net change in fair value of financial assets at fair value through other comprehensive income		243,694	(157,047)
Other comprehensive income items reclassified through profit or losses		16,678	(2,431)
Related tax		(53,626)	34,393
Other comprehensive income for the period, net of tax		264,373	64,978
Total comprehensive income for the period		1,000,514	597,071
	Notes	1 January – 31 December 2019	1 January – 31 December 2018
Profit attributable to:			
Equity holders of the Bank		730,504	669,542
Non-controlling interests		5,637	(7,493)
Profit for the period		736,141	662,049
Total comprehensive income attributable to:			
Equity holders of the Bank		994,877	604,564
Non-controlling interests		5,637	(7,493)
Total comprehensive income for the period		1,000,514	597,071
Earnings per share			
Basic earnings per share (in full TL)	29	0.2609	0.2391

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

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

Attributable to equity holders of the Bank													
	Notes	Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Revaluation reserve	Actuarial Gain/(Loss)	Translation Reserve	Fair value reserve	Retained earnings	Total	Non-controlling interests	Total Equity
Balance at 1 January 2018		2,400,000	13,563	428	241,758	214,231	(30)	7,847	(32,477)	1,046,452	3,891,772	52,719	3,944,491
Corrections and accounting policy changes		-	-	-	-	-	-	-	23,101	(169,096)	(145,995)	(87)	(146,082)
Balance at 1 January 2018		2,400,000	13,563	428	241,758	214,231	(30)	7,847	(9,376)	877,356	3,745,777	52,632	3,798,409
Total comprehensive income for the period													
Profit for the period		-	-	-	-	-	-	-	-	669,542	669,542	(7,493)	662,049
Other comprehensive income													
Remeasurement of defined benefit liability		-	-	-	-	-	(684)	-	-	-	(684)	-	(684)
Net change in fair value financial assets at fair value through other comprehensive income		-	-	-	-	-	-	7,857	(149,408)	-	(141,551)	-	(141,551)
Revaluation of tangible assets		-	-	-	-	47,172	-	-	-	-	47,172	-	47,172
Equity-accounted investees - share of OCI		-	-	-	-	-	-	-	(2,431)	-	(2,431)	-	(2,431)
Tax on other comprehensive income		-	-	-	-	(1,030)	148	-	33,398	-	32,516	-	32,516
Total other comprehensive income		-	-	-	-	46,142	(536)	7,857	(118,441)	-	(64,978)	-	(64,978)
Total comprehensive income for the period		-	-	-	-	46,142	(536)	7,857	(118,441)	669,542	604,564	(7,493)	597,071
Transactions with owners of the Bank													
Contributions and distributions													
Capital increase	27	400,000	-	-	-	-	-	-	-	(400,000)	-	-	-
Dividend distribution		-	-	-	-	-	-	-	-	(109,505)	(109,505)	-	(109,505)
Transfer to legal reserves		-	-	-	31,481	-	-	-	-	(31,481)	-	-	-
Other changes		-	-	88	-	-	-	-	-	3,911	3,999	(6,517)	(2,518)
Total transactions with the owners of the Company													
		400,000	-	88	31,481	-	-	-	-	(537,075)	(105,506)	(6,517)	(112,023)
Balance at 31 December 2018	27	2,800,000	13,563	516	273,239	260,373	(566)	15,704	(127,817)	1,009,823	4,244,835	38,622	4,283,457

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

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

Attributable to equity holders of the Bank													
	Notes	Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Revaluation reserve	Actuarial Gain/(Loss)	Translation Reserve	Fair value reserve	Retained earnings	Total	Non-controlling interests	Total Equity
Balance at 1 January 2019		2,800,000	13,563	516	273,239	260,373	(566)	15,704	(127,817)	1,009,823	4,244,835	38,622	4,283,457
Corrections and accounting policy changes		-	-	-	-	-	-	-	-	-	-	-	-
Balance at 1 January 2019		2,800,000	13,563	516	273,239	260,373	(566)	15,704	(127,817)	1,009,823	4,244,835	38,622	4,283,457
Total comprehensive income for the period													
Profit for the period		-	-	-	-	-	-	-	-	730,504	730,504	5,637	736,141
Other comprehensive income													
Remeasurement of defined benefit liability		-	-	-	-	-	(827)	-	-	-	(827)	-	(827)
Net change in fair value financial assets at fair value through other comprehensive income		-	-	-	-	-	-	5,010	243,694	-	248,704	-	248,704
Revaluation of tangible assets		-	-	-	-	49,105	-	-	-	-	49,105	-	49,105
Equity-accounted investees - share of OCI		-	-	-	-	-	-	-	21,017	-	21,017	-	21,017
Tax on other comprehensive income		-	-	-	-	-	-	-	(53,626)	-	(53,626)	-	(53,626)
Total other comprehensive income		-	-	-	-	49,105	(827)	5,010	211,085	-	264,373	-	264,373
Total comprehensive income for the period		-	-	-	-	49,105	(827)	5,010	211,085	730,504	994,877	5,637	1,000,514
Transactions with owners of the Bank													
Contributions and distributions													
Capital increase	27	-	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution		-	-	-	-	-	-	-	-	(134)	(134)	-	(134)
Transfer to legal reserves		-	-	-	33,860	-	-	-	-	(33,860)	-	-	-
Other changes		-	-	14	-	-	-	-	-	685	699	(6,169)	(5,470)
Total transactions with the owners of the Company													
		-	-	14	33,860	-	-	-	-	(33,309)	565	(6,169)	(5,604)
Balance at 31 December 2019	27	2,800,000	13,563	530	307,099	309,478	(1,393)	20,714	83,268	1,707,018	5,240,277	38,090	5,278,367

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	31 December 2019	31 December 2018
Cash flows from operating activities:			
Interests and commissions received		3,049,927	2,601,223
Other operating activities, net		(1,250,464)	(1,342,871)
Cash payments to employees and suppliers		(216,759)	675,059
Interests and commissions paid		(182,369)	(155,153)
Dividends received		6,754	5,525
Operating profit before changes in operating assets / liabilities		1,407,089	1,783,783
(Increase)/decrease in operating assets:			
Loans and advances to customers		-	1,204,032
Balances with central banks		(65,793)	102,478
Financial assets at fair value through profit or loss		(5,157)	(1,541)
Other assets		502,473	(494,768)
(Increase)/decrease in operating liabilities:			
Funds borrowed		(319,292)	(1,621,868)
Obligations under repurchase agreements and money market fundings		794,965	(909,263)
Other liabilities		(217,282)	(3,020)
Net cash outflows from operating activities before taxes and duties paid		2,097,003	59,833
Income taxes and other duties paid		(288,619)	(104,310)
Net cash outflows from operating activities		1,808,384	(44,477)
Cash flows from investing activities:			
Cash paid for purchase of investment securities		(990)	(3,000)
Cash obtained from sale of investment securities		-	-
Proceeds from sale of tangible assets		5,592	94
Purchase of tangible assets		(9,698)	(4,924)
Sale of financial assets measured at Fair Value through Other Comprehensive Income		772,368	590,195
Purchase of financial assets measured at Fair Value through Other Comprehensive Income		(1,048,151)	(680,955)
Sale of financial assets measured at amortized cost		195,251	-
Purchase of financial assets measured at amortized cost		(433,812)	(227,528)
Other		(2,080)	(2,543)
Net cash inflows/ outflows from investing activities		(521,520)	(328,661)
Cash flows from financing activities:			
Increase in loans and advances from banks and other institutions, net		(1,895,354)	1,318,590
Dividends paid		(134)	(109,865)
Other		(1,753)	20
Net cash inflows from financing activities		(1,897,241)	1,208,745
Effect of exchange rate changes		4,354	45,970
Net increase in cash and cash equivalents		(606,023)	881,577
Cash and cash equivalents at 1 January	(7)	1,385,825	504,248
Cash and cash equivalents at 31 December	(7)	779,802	1,385,825

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

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

1. REPORTING ENTITY

Türkiye Sınai Kalkınma Bankası AŞ (“TSKB” or the “Bank”) was established on 31 May 1950 with the support of the World Bank and the cooperation of the Government of the Republic of Turkey, the Central Bank of Turkey and the leading Turkish commercial banks of Turkey. TSKB is the first investment and development bank of Turkey. TSKB is operating with the mission of providing assistance to private sector enterprises in all sectors of the economy primarily in the industrial sector, encouraging and assisting the participation of private and foreign capital incorporations established and to be established in Turkey, and assisting the development of the capital markets in Turkey. TSKB and Sınai Yatırım Bankası AŞ (“SYB”), sister bank with similar mission, were merged pursuant to the decisions of the respective shareholders as sanctioned by the Banking Regulation and Supervision Agency (“BRSA”) decision no: 659 dated 27 March 2002, in accordance with Article 18 of the Banking Act no: 4389. The registered office of the Bank is at Meclisi Mebusan Cad. 81 Fındıklı, Istanbul, Turkey.

The Bank and its subsidiaries are hereinafter referred to as the “Group”.

TSKB started its activities in 1950 financing the private sector investments in Turkey and today it provides loans and project finance with the goal of sustainable development to corporations in different fields. As a leader in meeting the long term finance needs of the private sector, TSKB also continues to offer solutions with respect to the newest needs and client demands. Furthermore, through offering the equity shares of such companies to the public, TSKB has been a significant milestone in this field and thus assumed a prominent and vital role in fostering the development of capital markets.

Türkiye İş Bankası A.Ş. has the authority of managing and controlling power of the Parent Bank directly or indirectly, alone or together with other shareholders. Shareholders of the Parent Bank are as follows:

Current Period				
Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	1,425,780	50.92	1,425,780	-
T. Vakıflar Bankası T.A.O.	234,570	8.38	234,570	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	1,139,650	40.70	1,139,650	-
Total	2,800,000	100.00	2,800,000	-

Prior Period				
Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	1,425,780	50.92	1,425,780	-
T. Vakıflar Bankası T.A.O.	234,570	8.38	234,570	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	1,139,650	40.70	1,139,650	-
Total	2,800,000	100.00	2,800,000	-

The Parent Bank shares are traded in Istanbul Stock Exchange (“BIST”) since 26 December 1986. The Parent Bank’s 50.92% of the shares belongs to İş Bank Group and 38.62% of these shares are in free floating and traded in BIST National Market with “TSKB” ticker.

The consolidated financial statements of the Bank as at and for the period ended 31 December 2019 are available upon request from the Bank’s registered office and website.

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1. REPORTING ENTITY (Continued)

Information about the consolidated subsidiaries and equity accounted associates

Yatırım Finansman Menkul Değerler AŞ

Yatırım Finansman Menkul Değerler AŞ was established and registered with Istanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. The company's objective is to perform capital market operations specified in the Company's main contract in accordance with the Capital Markets Board ("CMB") and the related legislation. The company was merged with TSKB Menkul Değerler AŞ on 29 December 2006. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 95.78%. The company's headquarters is located at Istanbul/Turkey.

TSKB Gayrimenkul Yatırım Ortaklığı AŞ

The core business of TSKB Gayrimenkul Yatırım Ortaklığı AŞ ("TSKB GYO") is real estate trust to construct and develop a portfolio of properties and invest in capital market instruments linked to properties. The company was established on 3 February 2006. The company's shares are traded in BIST since April 2010. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 88.67%. The company's headquarters is located at Istanbul/Turkey.

Yatırım Varlık Kiralama AŞ

Yatırım Varlık Kiralama A.Ş. was established on 20 September 2019. Core business of the Company is to issue a lease certificate exclusively in accordance with the provisions of the Capital Market Law and the relevant Communiqué. The share of Yatırım Finansman Menkul Değerler A.Ş. is 100%.

İş Finansal Kiralama AŞ

İş Finansal Kiralama AŞ was established on 8 February 1988 and it has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company started its leasing operations in July 1998. The company's headquarters is located at Istanbul/Turkey. The share of the Bank in the Company is 29.46%.

İş Faktoring AŞ

İş Faktoring AŞ was incorporated in Turkey on 4 July 1993 and started its operations in October 1993 and is conducting its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company's main operation is domestic and export factoring transactions. The direct share of Türkiye Sınai Kalkınma Bankası AŞ is 21.75%. The company's headquarters is located at Istanbul/Turkey.

İş Girişim Sermayesi Yatırım Ortaklığı AŞ

The principal business of İş Girişim Sermayesi Yatırım Ortaklığı AŞ is to make long-term investments in existing companies in Turkey or to be established in Turkey, having a development potential and are in need of financing. The direct share of Türkiye Sınai Kalkınma Bankası AŞ is 16.67%. The company's headquarters is located at Istanbul/Turkey.

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2. BASIS OF PREPARATION

2.1. Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by Public Oversight Accounting and Auditing Standards Authority “POAASA” and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency (“BRSA”) and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdictions. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of presentation in accordance with IFRS. The accompanying consolidated financial statements were authorized for issue by the Bank management on 17 April 2020.

2.2. Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following;

- derivative financial instruments are measured at fair value
- financial assets measured at fair value through profit or loss are measured at fair value
- financial assets measured at fair value through other comprehensive income are measured at fair value
- investment property and property and equipment are measured at fair value.

The methods used to measure fair values are discussed further in Note 3.8, 3.10, 3.12, 3.13.

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2. BASIS OF PREPARATION (Continued)

2.2. Basis of Measurement (continued)

International Accounting Standard (“IAS”) 29, which deals with the effects of inflation in the financial statements, requires that financial statements prepared in the currency of a hyperinflationary economy to be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%.

The cumulative three-year inflation rate in Turkey has been 35.61% at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by Turkish Statistical Institute. This, together with the sustained positive trend in the quantitative factors such as financial and economical stabilization, decrease in the interest rates and the appreciation of TL against the US Dollars (“USD”), have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006. Therefore, IAS 29 has not been applied to the financial statements of the Company as at and for the year ended 31 December 2006 and thereafter.

2.3 Functional and Presentation Currency

These consolidated financial statements are presented in TL, which is the Bank’s functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

2.4 Use of Estimates and Judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Critical accounting judgements made in applying the Bank’s accounting policies include:

Calculation of Expected credit losses

Financial assets accounted for at amortized cost and at fair value through other comprehensive income are evaluated for impairment on a basis described in accounting policy Note 3.8.2.

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2. BASIS OF PREPARATION (Continued)

2.4 Use of Estimates and Judgments (continued)

Key sources of estimation uncertainty

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group's accounting policy on fair value measurements is discussed in Note 3.8 – *measurement*.

Income taxes

The Bank is subject to income taxes. Significant estimates are required in determining the provision for income taxes. Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly.

Reserve for employee severance payments

In accordance with the existing social legislation, the Bank is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements, the Bank uses assumptions such as discount rate, turnover of employees and future change in salaries/limits in order to make the best estimate. These estimations disclosed in Note 3.19 are reviewed regularly.

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3. SIGNIFICANT ACCOUNTING POLICIES

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

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3.1 Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Bank and entities controlled by the Bank (its subsidiaries). 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 statement of profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the consolidated 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.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling share of changes in equity since the date of the combination. The consolidated financial statements of the entities below have been consolidated with those of the Bank in the accompanying consolidated financial statements. The ownership percentages stated below comprise the total of the Group's holdings used in consolidation:

<u>Subsidiaries</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
Yatırım Finansman Menkul Değerler AŞ	Securities brokerage	95.78
TSKB Gayrimenkul Yatırım Ortaklığı AŞ	Real estate investment trust	88.67
Yatırım Varlık Kiralama AŞ	Rent certificate issuance	100.00

The financial statements of the companies below are accounted for under the equity method:

<u>Associates</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
İş Finansal Kiralama AŞ	Leasing	29.46
İş Girişim Sermayesi Yatırım Ortaklığı AŞ	Private equity	21.75
İş Faktoring AŞ	Factoring	16.67

The following equity investments have been accounted at cost; they have not been consolidated their consolidation would not have a material effect on income for the year or on equity.

<u>Entity</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
TSKB Gayrimenkul Değerleme AŞ	Real-Estate Appraiser	99.99
TSKB Sürdürülebilirlik Danışmanlığı AŞ	Consultancy	99.83

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of Consolidation (continued)

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Investments in Associates (Equity-accounted Investees)

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.

As at the reporting date, the Group has investments in associates with a position to exercise significant influence through participation in the financial and operating policy decisions of the investee. Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of Consolidation (continued)

Investments in Associates (Equity-accounted Investees) (continued)

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of equity instruments measured at fair value through other comprehensive income, which are recognized directly in equity.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Foreign currency (continued)

Foreign currency transactions (continued)

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the accompanying consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira, which is the functional currency of the Group, and the presentation currency for the accompanying consolidated financial statements.

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

As at 31 December 2019 and 31 December 2018, foreign currency assets and liabilities of the Group are mainly in US Dollar and Euro. As at 31 December 2019 and 31 December 2018, exchange rates of US Dollar and Euro are as follows:

	2019		2018	
	Period End	Average	Period End	Average
1 US Dollar	5.9160	5.8183	5.1350	4.7827
1 Euro	6.6289	6.4652	5.8678	5.6243

3.3 Interest

Interest income and expense are recognised in the profit or loss using the effective interest method. Interest income is recorded according to the effective interest rate method (rate equal to net present value of future cash flows or financial assets and liabilities) defined in the IFRS 9 "Financial Instruments" standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets.

If the financial asset is impaired and classified as a non-performing receivable, the Parent Bank applies the effective interest rate on the amortized cost of the asset for subsequent reporting periods. Such interest income calculation is made on an individual contract basis for all financial assets subject to impairment calculation. It is used effective interest rate during calculation of loss given default rate in expected credit loss models and accordingly, the calculation of expected credit losses includes an interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), interest income at subsequent reporting periods are calculated by applying the effective interest rate to the gross amount.

Interest income and expense presented in the statement of comprehensive income statement include:

- The interest income on financial assets and liabilities at amortized cost on an effective interest rate basis
- The interest income on held for trading investments and fair value through other comprehensive income investments.
- Coupons earned on fixed income securities and accrued discount and premium on treasury bills and other discounted instruments

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Fees and commissions

Except for fees and commissions that are integral part of the effective interest rates of financial instruments measured at amortized costs, the fees and commissions are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. Except for certain fees related with certain banking transactions and recognized when the related service is given, fees and commissions received or paid, and other fees and commissions paid to financial institutions are accounted under accrual basis of accounting throughout the service period. Income from asset purchases to a third party or by natural or legal persons contracts are recognized in the period they occur.

3.5 Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, the disposal of financial assets through other comprehensive income, gains and losses on derivative financial instruments held for trading purpose and foreign exchange differences.

3.6 Dividends

Dividend income is recognized when the right to receive the income is established.

3.7 Income tax

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Income tax (continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Turkish tax legislation does not permit a parent company and its subsidiaries 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.

Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax position and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.8 Financial assets and financial liabilities

Initial measurement of financial instruments

Initial recognition of financial instruments the Parent Bank shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted at the settlement date.

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. Except for the assets in the scope of IFRS 15 Revenue from contracts with customers, at initial recognition, the Parent Bank measures financial asset or financial liabilities at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit/loss, 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 instruments 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.

Assessment of business model

As per IFRS 9, the Parent Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on the intent of the management on an individual financial intermediary, so the condition is not a classification approach on the basis of a financial instrument but an evaluation by combining the financial assets. When the business model used for the management of financial assets is being evaluated, all evidence is taken into account. Such evidence includes the following:

- How the performance of financial assets held by the business model and business model is reported by the key executive personnel,
- Risks affecting the performance of the business model (financial assets held within the business model) and, in particular type of management,

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Assessment of business model (continued)

- How the additional payments to the managers are determined (for example, whether additional payments are determined according to the fair value of the assets being managed or on the contractual cash flows collected).

Business model evaluation is not based on scenarios in which the operator is not expected to be at a reasonable level, such as the "worst case" or "pressure case" scenarios. The same business model does not require a change in the classification of other financial assets as long as the cash flows are realized differently from the expected future date when the business model is assessed, the error correction is made in the financial statements or all relevant information available at the time of the valuation of the business model is taken into account. However, when evaluating the business model for newly created or newly acquired financial assets, information about how past cash flows have been taken into account along with other relevant information is also taken into account. The business models that comprise the bet are composed of three categories. These categories are as follows:

- Business model aimed to hold assets in order to collect contractual cash flows: This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Business model whose objective is to hold assets in order to collect contractual cash flows: The Parent Bank may hold financial assets in this 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 Model: Financial assets are measured at fair value through profit or loss 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

The contractual cash flows including solely principle and interest on principle

As per IFRS 9, the Parent Bank classifies a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set. When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at fair value through profit or loss.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities

Financial Assets

Financial assets are classified in three main categories as listed below:

- Financial assets measured at fair value through profit/loss
- Financial assets measured at fair value through other comprehensive income and
- Financial assets measured at amortized cost

Financial assets measured at the fair value through profit or loss

Financial assets at fair value through profit/loss are financial assets other than the ones that are managed with business model that aimed to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and in case of the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from shortterm fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement. According to uniform chart of accounts explanations interest income earned on financial asset and the difference between their acquisition costs and amortized costs are recorded as interest income in the statement of profit or loss. The differences between the amortized costs and the fair values of such assets are recorded under trading account income/losses 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 trading account income/losses.

Financial assets measured at fair value through other comprehensive income

In addition to Financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are measured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement.

“Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the “Accumulated Other Comprehensive Income or Loss Reclassified Through Profit or Loss” under shareholders’ equity. Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Financial Assets (continued)

Financial Assets at Fair Value Through Other Comprehensive Income (Continued)

During initial recognition an entity can choose in a irrevocable was to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

Financial Assets Measured at Amortized Cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost. Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is accounted in income statement.

In the “Fair value through other comprehensive income” and “measured at amortized cost” securities portfolio of the Bank, there are Consumer Price Indexed (CPI) Bonds.

The Parent Bank considered expected inflation index of future cash flows prevailing at the reporting date while calculating internal rate of return of the Consumer Price Indexed (CPI) marketable securities. The effect of this application is accounted as interest received from marketable securities in the consolidated financial statements. These securities are valued and accounted according to the effective interest method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate. As stated in the Investor’s Guide of CPI Government Bonds by Republic of Turkey Undersecretariat of Treasury the reference indices used to calculate the actual coupon payment amounts of these securities are based on the previous two months CPI’s. The Parent Bank determines the estimated inflation rate accordingly. The inflation rate is estimated by considering the expectancies of the Central Bank and the Bank which are updated as needed within the year.

Loans and Advances to Customers

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within loans and advances.

Loans and advances are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method".

All loans and advances of the Parent Bank has classified under Measured at Amortized Cost, after loan portfolio passed the test of “All cash flows from contracts are made only by interest and principal” during the transition period.

The Bank classifies its loans and advances, which do not pass solely payments of principal and interest on the principal amount test (SPPI), under Financial Assets at Fair Value Through Profit and Loss.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.2 Explanations on expected credit losses

The Group allocates the expected loss provision for impairment on assets and loans measured at amortized cost and fair value through other comprehensive income and loan commitments not measured at fair value through profit/loss based and non cash loans on IFRS 9. IFRS 9 introduces a forward-looking expected credit loss (ECL) approach, which is intended to result in an earlier recognition of credit losses based on an ECL impairment approach compared with the incurred-loss impairment approach for financial instruments under IAS 39, Financial Instruments: Recognition and Measurement and the loss-provisioning approach for financial guarantees and loan commitments.

At each reporting date, the Group shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. The Group Bank considers the changes in the default risk of financial instrument, when making the assessment.

The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets are divided into three categories depending on increase in credit risk observed since their initial recognition;

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses. 12-month expected credit loss is calculated based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate.

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses. Calculation of expected credit losses is similar to descriptions above, but probability of default and loss given default rates are estimated through the life of the instrument.

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount. The probability of default is taken into account as 100%.

The default assessment of the Bank is made according to the following conditions:

1. Objective Default Definition: It means debt having past due more than 90 days. Current definition of default in the Bank and its consolidated financial subsidiaries is based on a more than 90 days past due definition.
2. Subjective Default Definition: It means a debt is considered is unlikely to be paid. Whenever an obligor is considered is unlikely to pay its credit obligations, it should be considered as defaulted regardless of the existence of any past-due amount or of the number of days past due.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.2 Explanations on expected credit losses (continued)

Debt instruments measured at fair value through other comprehensive income

The impairment requirements in accordance with IFRS 9 are applies for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income. However, the loss allowance shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position. The expected credit loss is reflected in other comprehensive income and the accumulated amount is recycled to statement of profit/loss following the derecognition of related financial asset.

Calculation of expected credit losses

The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions. Risk parameters used in IFRS 9 calculations are included in the future macroeconomic information. While macroeconomic information is included, macroeconomic forecasting models and multiple scenarios used in the Internal Capital Assessment Process (“ICAAP”) are considered.

Within the scope of IFRS 9, the probability of default (PD), Loss given default (LGD) and Exposure at default (EAD) models have been developed. The models developed under IFRS 9 are based on the following segmentation elements:

- Loan portfolio (corporate /specilization)
- Product type
- Credit risk rating notes (ratings)
- Colleteral type
- Duration since origination of a loan
- Remaining time to maturity
- Exposure at default

Probability of Default (PD): PD refers to the likelihood that a loan will default within a specified time horizon given certain characteristics. Based on IFRS 9, two different PDs are used in order to calculate expected credit losses:

- 12-month PD: as the estimated probability of default occurring within the next 12 months following the balance sheet date.
- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

The Bank uses internal rating systems for loan portfolio. The internal rating models used include customer financial information and knowledge of survey responses based on expert judgement. Probability of default calculation has been carried out based on past information, current conditions and forward looking macroeconomic parameters.

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

Exposure at Default (EAD): For cash loans, it corresponds to the amount of loan granted as of the reporting date. For non-cash loans and commitments, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor which adjusts the potential increase of the exposure between the current date and the default date.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.2 Explanations on expected credit losses (continued)

Significant increase in credit risk

As of the reporting date, if the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument is measured at an amount equal to 12-month expected credit losses. However, if there is a significant increase in credit risk of a financial instrument since initial recognition, the Bank measures loss allowance regarding such instrument at an amount equal to lifetime expected credit losses.

The Bank makes qualitative and quantitative assessments regarding assessment of significant increase in credit risk of financial assets to be classified as stage 2 (Significant Increase in Credit Risk). Credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date.

If there is a significant deterioration in PD, it is considered that there is a significant increase in credit risk and the financial asset is classified as stage 2. In this context, the Bank has calculated thresholds at which point the relative change is a significant deterioration.

When determining the significant increase in the parent bank credit risk, The Parent Bank also assessed the absolute change in the PD date on the transaction date and on the reporting date. If the absolute change in the PD ratio is above the threshold values, the related financial asset is classified as stage 2.

The Bank classifies the financial asset as Stage 2 (Significant Increase in Credit Risk) where any of the following conditions are satisfied as a result of a qualitative assessment:

- Loans overdue more than 30 days as of the reporting date
- Loans classified as watchlist
- When there is a change in the payment plan due to restructuring

Financial Liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Financial liabilities are classified as either equity instruments or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

Funds borrowed, debt securities issued and subordinated liabilities

Debt securities issued and subordinated liabilities are the Group's main sources of debt funding, funds borrowed, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Offsetting, derecognition and restructuring of financial instruments

a. Offsetting of financial instruments

Financial assets and liabilities are offset when the Bank has a legally enforceable right to set off, and when the Bank has the intention of collecting or paying the net amount of related assets and liabilities or when the Bank has the right to offset the assets and liabilities simultaneously. Otherwise, there is not any offsetting transaction about financial assets and liabilities.

b. Derecognition of financial instruments

Derecognition of financial assets due to change in 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 the Bank assesses the characteristics of the new contractual terms of the financial asset, it evaluates the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognized a modification gain or loss in profit or loss.

Where all risks and rewards of ownership of the asset have not been transferred to another party and the Bank retains control of the asset, the Bank continues to recognize the remaining portion of the asset and liabilities arising from such asset. When the Bank retains substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognized in its entirety and the consideration received is recognized as a liability.

Derecognition of financial assets without any change in contractual terms

The asset is derecognized 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 fair value through other comprehensive income, 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 recognized in profit/loss.

Derecognition of financial liabilities

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

c. Reclassification of financial instruments

Based on IFRS 9, the Parent Bank shall reclassify all affected financial assets at amortised cost to financial assets measured at fair value through other comprehensive income and fair value through profit or loss in the subsequent accounting when, and only when, it changes its business model for managing financial assets.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Offsetting, derecognition and restructuring of financial instruments (Continued)

d. Restructuring and refinancing of financial instruments

The Parent Bank may change 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 by the Parent Bank 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.

Restructured Loans can be classified in standart loans unless the firm has difficulty in payment. Companies which have been restructured and refinanced can be removed from the watchlist when the following conditions are met:

- Subsequent to the through review of company's financial data and its owners' equity position, at circumstances when it is not anticipated that the owner of the company will face financial difficulties; and it is assessed that the restructured debt will be paid on time (starting from the date when the debt is restructured all due principal and interest payments are made on time).
- At least 2 years should pass over the date of restructuring (or if it is later), the date of removal from non-performing loan category, at least 10% (or the ratio specified in the legislation) of the total principal amount at the time restructuring /refinancing shall be paid and no overdue amount (principal and interest) shall remain at the date of restructuring / refinancing.

In order for the restructured non-performing loans to be classified to the watchlist category, the following conditions must be met:

Recovery in debt service.

- At least one year should pass over the date of restructuring
- Payment of all accrued and overdue amounts by debtor (interest and principal) since the date of restructuring /refinancing or the date when the debtor is classified as nonperforming (earlier date to be considered) and fulfillment of the payment condition of all overdue amounts as of the date of restructuring /refinancing
- Collection of all overdue amounts, disappearance of the reasons for classification as nonperforming receivable (based on the conditions mentioned above) and having no overdue more than 30 days as of the date of reclassification

During the follow-up period of at least two years following the date of restructuring / refinancing, if there is a new restructuring / refinancing or a delay of more than 30 days, the transactions which were non-performing at the beginning of the follow-up period are classified as non-performing loans again.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Derivatives held for risk management purposes and hedge accounting

The Parent Bank is exposed to financial risk which depends on changes in foreign exchange rates and interest rates due to activities and as part of banking activities uses derivative instruments to manage financial risk that especially associated with fluctuations in foreign exchange and interest rate. Mainly derivative instruments used by the Group are foreign currency forwards, swaps, and option agreements.

IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting in accordance with IAS 39 as a policy choice. Accordingly, the Parent Bank continue to apply hedge accounting in accordance with IAS 39 in this context. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

Fair value hedge: A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in income relating to the hedged item. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or a liability with corresponding gain or loss recognised in profit or loss. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to income from that date.

3.11 Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy for either financial assets at fair value through profit or loss, financial assets measured at amortised cost or financial assets at fair value through other comprehensive income as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accruals basis over the period of the transaction and are included in “interest income” or “interest expense”.

3.12 Property and equipment

Recognition and measurement

Items of property and equipment except land and building are measured at cost less accumulated depreciation and accumulated impairment losses.

Items of property and equipment, which have been acquired before 31 December 2005, are measured at restated cost for the effects of inflation as at 31 December 2005, less accumulated depreciation and accumulated impairment losses. Items of property and equipment acquired after 31 December 2005 are measured at cost less accumulated depreciation and accumulated impairment losses.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Property and equipment (continued)

Recognition and measurement

As of the third quarter of the 2015, the Group changed its accounting policy and adopted revaluation method for land and buildings under scope of IAS 16. The useful life of real estates are mentioned in expertise reports. In case of the cost of tangible assets are over the fair value of the assets, within the framework of “Impairment of Assets” (IAS 36), the value of the asset is reduced to its “fair value” and the impairment is recognised in expense accounts. The positive difference between the net book value of real estate property and the expertise values which are determined by the independent expert companies are recognised under shareholders’ equity. Related valuation models such as cost model, market value and discounted cash flow projections approaches are used in valuation of real estates.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized in other income/other expenses in profit or loss.

Subsequent costs

The cost of replacing a component of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

Buildings	50 years
Vehicles	5 years
Furniture and Fittings	5 years
Computer Equipment	4 years
Software	3 years
Leasehold and Leasehold Improvements	lease term or 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise. Fair value of investment properties are determined by using market value, discounted cash flow projections approach and cost model.

3.14 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.15 Intangible assets

Intangible assets acquired before 31 December 2005 are measured at restated cost for the effects of inflation as at 31 December 2005 less accumulated amortisation and accumulated impairment losses. Intangible assets acquired after 31 December 2005 are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful life of intangible assets is 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. Finance leases

Assets acquired under finance lease agreements are capitalised at the commencement of the lease at the fair value of the leased asset, which is the amount of cash consideration given for the leased asset. Lease payments are treated as comprising capital and interest elements; the capital element is treated as reducing the capitalised obligation under the lease and the interest element is charged to income. Depreciation on the leased asset is also charged to income on a straight-line basis over the useful life of the asset.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Lease receivables are classified under loans in the accompanying statement of financial position.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

b. Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit and loss on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

Explanations on "IFRS 16 Leases" are explained in Note 3.23

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

3.19 Employee benefits

Defined benefit plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his / her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A provision is maintained for the present value of the defined benefit obligation, in respect of service up to the reporting date, based on the projected unit credit method. The charge in the income statement comprises current service cost and interest on the obligation.

“T. Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı” and “T. Sınai Kalkınma Bankası AŞ Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı” (the “Pension Funds”) are separate legal entities and foundations recognized by an official decree, providing all qualified Bank employees with pension plan benefits. The Pension Funds are defined benefit plan under which the Bank pays fixed contributions as employer share of monthly premium contributions, and is not obliged to pay any other additional obligation.

The liability to be recognized in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of assets. The Bank does not have the legal right to access the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognized in the accompanying statement of financial position in respect of any surplus in the fund. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using expected interest rates for Turkish Lira.

Paragraph 1 of the provisional Article 23 of the Banking Act (“Banking Act”) No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution within 3 years as of the enactment date of the Banking Act.

Under the Banking Act, in order to account for obligations, actuarial calculations will be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions. Such calculated obligation shall be settled in equal instalments in maximum 15 years. Nonetheless, the related Article of the Banking Law was annulled by the Constitutional Court’s decision No: E. 2005/39 and K. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as of the release of the related decision, and the execution of this article was cancelled as of its publication of the decision and the underlying reasoning for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007. After the publication of the reasoning of the cancellation decision of the Constitutional Court, articles related with the transfer of banks pension fund participants to Social Security Institution based on Social Security Law numbered 5754 were accepted by the Grand National Assembly of Turkey on 17 April 2008 and published in the Official Gazette No: 26870 on 8 May 2008.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Employee benefits (continued)

Present value for the liabilities of the transferees as of the transfer date would be calculated by a commission that involves representatives of Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, SDIF, banks and banks' pension fund institutions and technical interest rate, used in actuarial account, would be 9.80%. If salaries and benefits paid by the pension fund of banks and income and expenses of the pension funds in respect of the insurance branches, stated in the Law, exceeds the salaries and benefits paid under the regulations of Social Security Institution, such differences would be considered while calculating the present value for the liabilities of the transferees and the transfers are completed within 3 years beginning from 1 January 2008.

According to the provisional Article 20 of 73th article of Law No. 5754 dated 17 April 2008, has become effective on 8 May 2008 and was published in the Official Gazette No: 26870, transfer of Pension Funds to Social Security Institution in three years has been anticipated. Related resolution of the Council of Ministers related to four-year extension was published in the Official Gazette No: 28277 dated 8 March 2012. It has been resolved that the transfer process has been extended two year with Council of Ministers' Decree, has become effective on 9 April 2011 and was published in the Official Gazette No: 27900. The transfer had to be completed until 8 May 2013. Accordingly, it has been resolved that, one more year extension with Council of Minister Decree No:2013/467, has become effective on 3 May 2013 and was published in the Official Gazette No:28636 and transfer need to be completed until 8 May 2014. However, it has been decided to extend the time related to transfer by the decision of the Council of Ministers published in the Official Gazette No. 28987 dated 30 April 2014 for one more year due to not to realize the transfer process.

In accordance with the Health and Safety Law which became effective on 4 April 2015 and published in the Official Gazette No: 29335 and dated 23 April 2015 and together with some amendments and statutory decree, Council of Ministers authorized for the determination of transfer date to the Social Security institution and there is no decision taken by the Cabinet with regards to issue date of financial statements.

Unmet social benefits and payments of the pension fund participants and other employees that receive monthly income although they are within the scope of the related settlement deeds would be met by pension funds and the institutions employ these participants after the transfer of pension funds to the Social Security Institution.

The present value of the liabilities, subject to the transfer to the Social Security Institution, of the Pension Fund as of 31 December 2019 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 17 January 2020. There is no need for technical or actual deficit to book provision as of 31 December 2019.

In addition, the Bank's management anticipates that any liability that may come out during the transfer period and after, in the context expressed above, would be financed by the assets of the Pension Fund and would not cause any extra burden on the Bank. The income tax charge is composed of the sum of current tax and deferred tax.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Employee benefits (continued)

Employment termination benefits

In accordance with the existing labour law in Turkey, the Group entities are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay maximum of pay ceiling announced by the Government per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for employee severance indemnity is computed and reflected in the consolidated financial statements on a current basis. The management of the Group used some assumptions in the calculation of the reserve for employee severance indemnity.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.20 Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated income statement is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

3.21 Fiduciary assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the consolidated statement of financial position, since such items are not treated as assets of the Group.

3.22 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 The new standards, amendments and interpretations

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

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

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted.

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognizes an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. The Group has started to apply "IFRS 16 Leases" Standard starting from 1 January 2019. As of 31 December 2019, The Group recognized right of use asset classified under tangible assets and lease liability amounting to TL 4,617 and TL 4,913, respectively due to application of IFRS 16. The new accounting policies of the Group regarding to application IFRS 16 are stated below.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes

- (a) the amount of lease liabilities recognised,
- (b) initial direct costs incurred,
- (c) lease payments made at or before the commencement date less any lease incentives received.

Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 The new standards, amendments and interpretations (continued)

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

Lease Liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

The lease payments include

- a) fixed payments (including in-substance fixed payments) less any lease incentives receivable,
- b) variable lease payments that depend on an index or a rate,
- c) amounts expected to be paid under residual value guarantees.
- d) the exercise price of a purchase option reasonably certain to be exercised by the the Group and payments of penalties for terminating a lease,
- e) if the lease term reflects the the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the effective date of the lease, the Bank measures the lease obligation as follows:

- a) The book value is increased to reflect the accretion of interest of lease liabilities
- b) The book value is reduced to reflect the lease payments made

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group has started to apply TFRS 16, the usage rights assets classified under tangible assets as of December 31, 2019 amounted to TL 4,617, lease liability amounted to TL 4,913, financing expense amounted to TL 1,143 and depreciation expense amounted to TL 1,925.

The following table shows the movement of lease liability as of 31 December 2019.

	31 December 2019
Opening Balance – 1 January 2019	5,523
Additions	-
Payments	(1,753)
Interest expense	1,143
FX gain/losses	-
Total	4,913

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 The new standards, amendments and interpretations (continued)

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

Amendments to IAS 28 Investments in Associates and Joint Ventures (Amendments)

In October 2017, the IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures. In this amendment the IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

The amendments did not have a significant impact on the balance sheet and equity of the Group.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in “IAS 12 Income Taxes” when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:

- (a) whether an entity considers uncertain tax treatments separately;
- (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- (d) how an entity considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The interpretation did not have a significant impact on the financial position or performance of the Group.

Annual Improvements – 2015–2017 Cycle

In January 2019, the IASB announced Annual Improvements to IFRS Standards 2015–2017 Cycle, containing the following amendments to IFRSs:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 Borrowing Costs — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments are effective from annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the Group.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 The new standards, amendments and interpretations (continued)

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

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

In 1 January 2019, the IASB published Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” to harmonise accounting practices and to provide more relevant information for decision-making. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the Group.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The IASB issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortized cost.

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortized cost some prepayable financial assets with so-called negative compensation.

These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the Group.

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

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

IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In December 2017, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. An entity shall apply those amendments prospectively. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 The new standards, amendments and interpretations (continued)

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

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test.

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted.

Overall, the amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

Overall, the amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

The amendments issued to IFRS 9 and IAS 39 which are effective for periods beginning on or after 1 January 2020 provide certain reliefs for 4 fundamental matters in connection with interest rate benchmark reform. These reliefs are related to hedge accounting as follows:

- Highly probable requirement
- Prospective Assessments
- Retrospective Assessments
- Separately identifiable risk components

Reliefs used as a result of amendments in IFRS 9 and IAS 39 is aimed to be disclosed in financial statements based on the amendments made in IFRS 7. The Group expects no significant impact on its balance sheet and equity.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 The new standards, amendments and interpretations (continued)

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

Amendments to IAS 1- Classification of Liabilities as Current and Non-Current Liabilities

23 January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2022, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted. The Group expects no significant impact on its balance sheet and equity.

Explanations on Other Matters

Reclassifications made on Previous Period Financial Statements

The Bank reclassified it's loan exposure which was granted to a Special Purpose Entity ("SPV") from "Loans and advances to customers" line item to "Financial assets at fair value through profit or loss" line item as the loan does not pass the contractual cash flow characteristic test and therefore is measured at fair value through profit or loss. According to the reclassification below stated changes are made in the financial statements prepared as of December 31, 2018:

31 December 2018	Previously Reported	Reclassification Effect	Reclassified
Loans and advances to customers	27,843,080	(290,660)	27,552,420
Financial assets measured at fair value through profit / loss	9,859	290,660	300,519

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4. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- operational risk.

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

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the Audit Committee. Consequently, the Risk Management Department of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

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

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. The risk management group exercises its functions according to the International Regulations of the Risk Management Group, and directly reports to the Board of Directors. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Bank's general management and appropriate sub-committees.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk

The sectoral breakdown of loans is documented monthly and limitations are made according to evaluations. There is no limitation applied geographically. Monitoring and checking is made for the treasury operations. Risk limits are identified for the operations implemented.

The credit monitoring department screens the creditworthiness of loan customers once every six months regularly. The debtors' creditworthiness is screened regularly in accordance with the related legislation. Their financial statements are obtained as prescribed in the legislation. The credit limits have been set by the Board of Directors, the Banks credit committee and the credit management. The Bank takes enough collateral for the loans and other receivables extended. The collaterals obtained consist of personal surety ship, mortgage, cash blockage and client checks.

Limits have also been set for transactions with banks. Credit risks are managed on the counterparty's creditworthiness and limits.

The definitions of past due and impaired loans and information related to impairment and provisions are provided in Section 3.8.2 Explanations on expected credit losses.

Credit risk by risk groups

Set out below is an analysis of loans as at 31 December 2019 by customer groups and impairment:

31 December 2019	Corporate	Small Business	Other	Total
Stage 1 loans to customers	21,019,486	5,901,720	216,421	27,137,627
Stage 2 loans to customers	2,966,495	432,856	-	3,399,351
Stage 3 loans to customers	1,028,111	74,763	4,898	1,107,772
Loans measured at FVPL (*)	263,097	-	-	263,097
Total gross loans to customers	25,277,189	6,409,339	221,319	31,907,847
Less: Stage 1 expected credit loans	(37,185)	(135,483)	(1,388)	(174,056)
Less: Stage 2 expected credit loans	(66,932)	(283,875)	-	(350,807)
Less: Stage 3 expected credit loans	(290,666)	(62,779)	(4,898)	(358,343)
Total expected credit loss	(394,783)	(482,137)	(6,286)	(883,206)
Total loans and advances to customer	24,882,406	5,927,202	215,033	31,024,641

Set out below is an analysis of loans as at 31 December 2018 by customer groups and impairment:

31 December 2018	Corporate	Small Business	Other	Total
Stage 1 loans to customers	18,678,696	6,011,016	128,765	24,818,477
Stage 2 loans to customers	2,473,364	179,535	-	2,652,899
Stage 3 loans to customers	556,100	36,274	4,836	597,210
Loans measured at FVPL (*)	290,660	-	-	290,660
Total gross loans to customers	21,998,820	6,226,825	133,601	28,359,246
Less: Stage 1 expected credit loans	(35,021)	(99,188)	(1,328)	(135,537)
Less: Stage 2 expected credit loans	(14,820)	(196,320)	-	(211,140)
Less: Stage 3 expected credit loans	(34,533)	(130,120)	(4,836)	(169,489)
Total expected credit loss	(84,374)	(425,628)	(6,164)	(516,166)
Total loans and advances to customer	21,914,446	5,801,197	127,437	27,843,080

()Include the loan granted to the special purpose entity is accounted under loans measured at fair value through profit/loss as per IFRS 9.*

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4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Impairment allowance for loans and advances to customers as at 31 December 2019:

Impairment allowance for loans and advances to customers	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
Above Average Grade	3,717	-	-	3,717
Average Grade	108,759	3,121	-	111,880
Below Grade	61,080	328,997	-	390,077
Past due but not impaired	500	18,689	-	19,189
Non-performing				
Individually impaired	-	-	358,343	358,343
Total	174,056	350,807	358,343	883,206

Impairment allowance for loans and advances to customers as at 31 December 2018:

Impairment allowance for loans and advances to customers	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
Above Average Grade	2,951	-	-	2,951
Average Grade	114,809	77,173	-	191,982
Below Grade	17,777	119,513	-	137,290
Past due but not impaired	-	14,454	-	14,454
Non-performing				
Individually impaired	-	-	169,489	169,489
Total	135,537	211,140	169,489	516,166

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4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Impairment allowance for off-balance sheet financial assets as at 31 December 2019:

Impairment allowance for loans and advances to customers	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
Above Average Grade	1,379	-	-	1,379
Average Grade	15,165	153	-	15,318
Below Grade	1,014	6,146	-	7,160
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	838	838
Total	17,558	6,299	838	24,695

Impairment allowance for off-balance sheet financial assets as at 31 December 2018:

Impairment allowance for loans and advances to customers	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
Above Average Grade	779	-	-	779
Average Grade	7,697	1,411	-	9,108
Below Grade	361	1,003	-	1,364
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	736	736
Total	8,837	2,414	736	11,987

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4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Exposure to credit risk

	Due from banks	Loans and advances to customers
<i>Notes</i>	31 December 2019	31 December 2019
Carrying amount (1)	257,308	31,024,641
Non-performing financial assets	-	1,107,772
Gross amount	-	1,107,772
Specific provision for Stage 3	-	(358,343)
Generic provision for Stage 1 and 2	(384)	(524,863)
Neither past due nor impaired	257,308	28,007,735
Past due but not impaired	-	1,986
Carrying amount	257,308	28,234,287
Restructured and rescheduled loans and other receivables	-	2,527,257
Carrying amount	-	2,527,257
Carrying amount (amortised cost)	257,308	30,761,544
	Due from banks	Loans and advances to customers
<i>Notes</i>	31 December 2018	31 December 2018
Carrying amount (1)	806,997	27,843,080
Non-performing financial assets	-	597,210
Gross amount	-	597,210
Specific provision for Stage 3	-	(169,489)
Generic provision for Stage 1 and 2	(234)	(346,677)
Neither past due nor impaired	806,997	26,524,471
Past due but not impaired	-	10,833
Carrying amount	806,997	26,616,348
Restructured and rescheduled loans and other receivables	-	936,072
Carrying amount	-	936,072
Carrying amount (amortised cost)	806,997	27,552,420

(1) Include the loan granted to the special purpose entity is accounted under loans measured at fair value through profit/loss as per IFRS 9 amounting to TL 263,097 (31 December 2018: TL 290,660).

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4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Information by major sectors and type of counterparties as at 31 December 2019 is as follows:

Sectors	Loans⁽¹⁾ Significant increase in credit risk (Stage 2)	Defaulted (Stage 3)	Expected Credit Losses (IFRS 9)
Agriculture	-	27,898	25,108
Farming and Stockbreeding	-	27,898	25,108
Forestry	-	-	-
Fishery	-	-	-
Manufacturing	1,650,408	957,369	465,954
Mining and Quarrying	-	196	196
Production	336,505	18,277	38,327
Electricity, Gas and Water	1,313,903	938,896	427,431
Services	1,547,731	117,890	205,151
Wholesale and Retail Trade	69,088	108,615	53,538
Accommodation and Dining	-	719	719
Transportation and Telecommunication	164,354	64	53,293
Financial Institutions	-	2,504	2,504
Real Estate, Rental and Management	926,288	5,814	46,196
Professional Services	-	174	174
Educational Services	-	-	-
Health and Social Services	388,001	-	48,727
Others	201,212	4,615	12,937
Total	3,399,351	1,107,772	709,150

(1) Breakdown of cash loans measured at amortised cost..

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4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Information by major sectors and type of counterparties as at 31 December 2018 is as follows:

Sectors	Loans⁽¹⁾ Significant increase in credit risk (Stage 2)	Defaulted (Stage 3)	Expected Credit Losses (IFRS 9)
Agriculture	-	-	-
Farming and Stockbreeding	-	-	-
Forestry	-	-	-
Fishery	-	-	-
Manufacturing	1,541,322	563,077	261,213
Mining and Quarrying	-	195	195
Production	179,778	6,975	23,552
Electricity, Gas and Water	1,361,544	555,907	237,466
Services	940,633	25,302	97,452
Wholesale and Retail Trade	-	1,236	1,236
Accommodation and Dining	2,378	738	791
Transportation and Telecommunication	136,988	57	15,811
Financial Institutions	-	2,504	2,504
Real Estate, Rental and Management	801,267	20,618	76,961
Professional Services	-	149	149
Educational Services	-	-	-
Health and Social Services	-	-	-
Others	170,944	8,831	21,964
Total	2,652,899	597,210	380,629

(1) Breakdown of cash loans measured at amortised cost.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

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

	31 December 2019	31 December 2018
<u>Gross maximum exposure</u>		
Cash and cash equivalents, balances and reserve deposit at the Central Bank and other banks	1,587,171	2,123,572
Financial assets at fair value through profit or loss	278,918	300,519
Financial assets at fair value through other comprehensive income	4,194,688	3,427,495
Financial assets measured at amortized cost	2,581,799	2,153,313
Derivative financial assets	894,447	979,221
Derivative assets held for hedging purposes	67,884	-
Loans and advances to customers	30,761,544	27,552,420
Guarantees and collaterals	4,547,716	3,173,807
Other Assets	691,109	755,249
Total	45,605,276	40,465,596

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4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Credit quality per class of loans and advances as at 31 December 2019 is as follows:

	Carrying Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
On-Balance Sheet Financial Assets								
Cash and cash equivalents (including reserves at Central Bank)	1,588,019	-	-	1,588,019	848	-	-	848
Securities	6,783,340	-	-	6,783,340	6,852	-	-	6,852
Loans and advances to customers	27,137,627	3,399,351	1,107,772	31,644,750	174,056	350,807	358,343	883,206
Other assets	692,537	-	-	692,537	1,429	-	-	1,429
Total	36,201,523	3,399,351	1,107,772	40,708,646	183,185	350,807	358,343	892,335

Off-Balance Sheet Financial Assets								
LCs, Acceptances and Other	7,715,199	19,897	3,326	7,738,422	17,558	6,299	838	24,695
Total	7,715,199	19,897	3,326	7,738,422	17,558	6,299	838	24,695

Credit quality per class of loans and advances as at 31 December 2018 is as follows:

	Carrying Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
On-Balance Sheet Financial Assets								
Cash and cash equivalents (including reserves at Central Bank)	2,124,072	-	-	2,124,072	500	-	-	500
Securities	5,585,289	-	-	5,585,289	4,481	-	-	4,481
Loans and advances to customers	24,818,477	2,943,559	597,210	28,359,246	135,537	211,140	169,489	516,166
Other assets	756,571	-	-	756,571	1,322	-	-	1,322
Total	33,284,409	2,943,559	597,210	36,825,178	141,840	211,140	169,489	522,469

Off-Balance Sheet Financial Assets								
LCs, Acceptances and Other	5,588,095	82,447	2,965	5,673,507	8,837	2,414	736	11,987
Total	5,588,095	82,447	2,965	5,673,507	8,837	2,414	736	11,987

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4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Movement for impairment allowance for off-balance sheet financial assets as at 31 December 2019 is as follows:

	31 December 2019			
	Letters of quarantee and acceptances	Letters of credit	Other undrawn commitments	Total
Balances at 1 January 2019	5,104	3,481	3,402	11,987
Charge for the year	17,916	28,861	26,003	72,780
Recoveries	(14,358)	(24,323)	(21,391)	(60,072)
Amounts written off	-	-	-	-
Unwind of transformed into cash	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
At 31 December 2019	8,662	8,019	8,014	24,695

	31 December 2019		
	Stage 1	Stage 2	Stage 3
Balances at 1 January 2019	8,838	2,414	736
Transfer to Stage 1	(3)	3	-
Transfer to Stage 2	-	(70)	70
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(43,823)	(16,179)	-
Provision for the period	51,005	19,847	32
Effects of movements in exchange rates	1,541	284	-
Balances at the end of the period	17,558	6,299	838

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4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Movement for impairment allowance for off-balance sheet financial assets as at 31 December 2018 is as follows:

	31 December 2018			
	Letters of quarantee and acceptances	Letters of credit	Other undrawn commitments	Total
Balances at 31 December 2017	583	-	-	583
Impact of adopting IFRS 9 at 1 January 2018	942	1,939	1,334	4,215
Balances at 1 January 2018	1,525	1,939	1,334	4,798
Charge for the year	9,373	6,288	6,145	21,806
Recoveries	(5,794)	(4,746)	(4,077)	(14,617)
Amounts written off	-	-	-	-
Unwind of transformed into cash	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
At 31 December 2018	5,104	3,481	3,402	11,987

	31 December 2018		
	Stage 1	Stage 2	Stage 3
Balances at 31 December 2017	-	-	583
Impact of adopting IFRS 9 at 1 January 2018	4,199	16	-
Balances at 1 January 2018	4,199	16	583
Transfer to Stage 1	(687)	687	-
Transfer to Stage 2	-	(153)	153
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(9,648)	(4,969)	-
Provision for the period	12,171	5,244	-
Effects of movements in exchange rates	2,802	1,589	-
Balances at the end of the period	8,837	2,414	736

Carrying amount per class of financial assets whose terms have been renegotiated:

	31 December 2019	31 December 2018
Loans and advances to customers		
Corporate lending	2,169,127	820,012
Small business lending	358,130	116,060
Total	2,527,257	936,072

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4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Credit risk is evaluated according to the Bank's internal rating. Non-financial service customers included in credit portfolio are rated with respect to the Bank's internal rating and ratings of the financial service customers, which are rated by external rating firms, are matched to the Bank's internal ratings. With the transition to IFRS 9, the Bank changed its internal rating model in 2018. Due to the preparation of internal rating models in the current period and prior period on different principles, the previous period has not been included in footnote.

Information of credit amounts rated by internal rating model is given table below for the current period.

Loan Quality Categories	Current Period	Prior Period
Above Average Grade	9,281,586	8,454,861
Average Grade	20,299,648	19,216,471
Below Average Grade	5,408,531	3,132,445
Impaired (1)	1,109,953	600,174
Total	36,099,718	31,403,951

(1) Loans belong to the financial subsidiaries subject to line-by-line consolidation method are considered as unrated. Impaired loans are presented in the table above.

As of the reporting date, the total of the Bank's cash and non-cash loans and financial lease receivables (gross amount including the non performing loans, excluding the expected credit losses) is TL 36,455,563 and TL 355,845 of these customers have not been rated.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. The Group is exposed to a certain degree of mismatch between the maturities of its assets and liabilities.

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis, and maintains liquid assets which it judges sufficient to meet its commitments.

The Group uses various methods, including predictions of daily cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. For the purposes of monitoring and assessing the liquidity position of the Bank's assets and liabilities, the liquidity rate is weekly calculated. The ratio during the year was as follows:

	31 December 2019 %	31 December 2018 %
Average during the period	418.08	238.95

The table below presents the last three months' consolidated liquidity ratios in accordance with the BRSA regulations:

Period	TL+FC	FC
31 October 2019	392.88%	481.64%
30 November 2019	672.54%	714.04%
31 December 2019	506.39%	517.18%

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4. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (continued)

As at 31 December 2019 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	29	29
Balances with Central Bank	-	-	-	7,945	7,945
Reserve deposits at Central Bank	795,638	-	-	-	795,638
Loans and advances to banks	212,090	-	-	45,218	257,308
Interbank money market placements	525,599	-	-	-	525,599
Funds lent under securities repurchase agreements	652	-	-	-	652
Trading financial assets	34	266,736	5,013	7,135	278,918
Derivative financial instruments	736,547	132,830	25,070	-	894,447
Derivative assets used for hedging purposes	67,884	-	-	-	67,884
Loans and advances to customers	4,790,046	5,011,116	20,960,382	-	30,761,544
Financial assets at fair value through other comprehensive income	433,481	574,908	3,061,315	124,984	4,194,688
Financial assets measured at amortized cost	-	-	2,581,799	-	2,581,799
Total	7,561,971	5,985,590	26,633,579	185,311	40,366,451
LIABILITIES					
Obligations under repurchase agreements	1,031,214	-	-	-	1,031,214
Derivative liabilities	342,007	105,156	21,126	-	468,289
Derivative liabilities held for hedging purposes	-	16,545	-	-	16,545
Funds borrowed	1,452,007	3,904,466	21,271,852	-	26,628,325
Debt securities issued (1)	268,952	2,105,085	5,733,376	-	8,107,413
Payables to money market	166,153	-	-	-	166,153
Current account of loan customers	58,950	-	-	-	58,950
Taxes and dues payable	15,750	-	-	-	15,750
Corporate tax liability	67,608	-	-	-	67,608
Employee benefits	17,950	-	-	18,255	36,205
Total	3,420,591	6,131,252	27,026,354	18,255	36,596,452

(1) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated debt instruments.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (continued)

As at 31 December 2018 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	27	27
Balances with Central Bank	-	-	-	12,928	12,928
Reserve deposits at Central Bank	423,408	-	-	306,622	730,030
Loans and advances to banks	750,186	-	-	56,811	806,997
Interbank money market placements	573,233	-	-	-	573,233
Funds lent under securities repurchase agreements	357	-	-	-	357
Trading financial assets	1,064	3,908	3,435	1,452	9,859
Derivative financial instruments	125,373	129,926	723,922	-	979,221
Loans and advances to customers	2,937,446	4,856,198	20,049,436	-	27,843,080
Financial assets at fair value through other comprehensive income	34,122	697,216	2,594,707	101,450	3,427,495
Financial assets measured at amortized cost	39,727	154,272	1,959,314	-	2,153,313
Total	4,884,916	5,841,520	25,330,814	479,290	36,536,540
LIABILITIES					
Obligations under repurchase agreements	179,001	-	-	-	179,001
Derivative liabilities	158,127	78,317	383,638	-	620,082
Derivative liabilities held for hedging purposes	-	20,652	151,606	-	172,258
Funds borrowed	598,089	3,193,322	20,028,259	-	23,819,670
Debt securities issued (1)	-	1,797,030	6,701,933	-	8,498,963
Payables to money market	223,277	-	-	-	223,277
Current account of loan customers	32,529	-	-	-	32,529
Taxes and dues payable	11,741	-	-	-	11,741
Corporate tax liability	82,363	-	-	-	82,363
Employee benefits	22,973	-	-	28,714	51,687
Total	1,308,100	5,089,321	27,265,436	28,714	33,691,571

(1) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities;

As at 31 December 2019	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<u>Liabilities</u>							
Payables to stock exchange money market	166,281	-	-	-	-	(128)	166,153
Funds borrowed	941,370	557,184	4,268,233	12,517,865	11,451,760	(3,108,087)	26,628,325
Obligations under repurchase agreements	1,032,377	-	-	-	-	(1,163)	1,031,214
Debt securities issued (1)	56,942	175,394	2,353,430	6,326,035	-	(804,388)	8,107,413
Current account of customers	58,950	-	-	-	-	-	58,950
Leasing Liabilities	17	33	1559	3639	17	(334)	4,931
Total	2,255,937	732,611	6,623,222	18,847,539	11,451,777	(3,914,100)	35,996,986

(1) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

As at 31 December 2018	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<u>Liabilities</u>							
Payables to stock exchange money market	223,277	-	-	-	-	-	223,277
Funds borrowed	250,750	473,529	3,564,137	11,932,773	10,745,190	(3,146,709)	23,819,670
Obligations under repurchase agreements	178,943	97	-	-	-	(39)	179,001
Debt securities issued (1)	49,424	58,732	2,169,217	7,473,832	-	(1,252,242)	8,498,963
Current account of customers	32,529	-	-	-	-	-	32,529
Total	734,923	532,358	5,733,354	19,406,605	10,745,190	(4,398,990)	32,753,440

(1) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

Analysis of contractual expiry by maturity of the Bank's derivative financial instruments;

As at 31 December 2019	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Total
Gross settled:						
Swap agreements	5,305,067	3,207,161	8,293,852	24,774,091	7,485,280	49,065,451
Forward contracts	727,240	552,169	3,455,183	653,118	-	5,387,710
Options	813,030	492,912	428,278	41,580	-	1,775,800
Other	-	-	-	-	-	-
Total	6,845,337	4,252,242	12,177,313	25,468,789	7,485,280	56,228,961

As at 31 December 2018	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Total
Gross settled:						
Swap agreements	5,333,532	2,671,841	4,451,310	22,771,113	14,227,994	49,455,790
Forward contracts	1,313,247	727,695	785,000	975,007	-	3,800,949
Options	726,110	1,028,724	3,476,077	37,597	-	5,268,508
Other	-	13,401	-	-	-	13,401
Total	7,372,889	4,441,661	8,712,387	23,783,717	14,227,994	58,538,648

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4. FINANCIAL RISK MANAGEMENT (Continued)

Market risk

Market risk is the possibility of a risk being incurred by the portfolio or position accepted within the scope of trading portfolio as a result of interest rates, equity prices, commodity prices in financial markets and exchange rate fluctuations. The purpose of market risk management is to manage, within the appropriate parameters, the risks which the Bank might be exposed to with a proactive approach and thus maximize the Bank's risk adjusted return.

Interest rate , exchange rate, stock and commodity price risks are the major elements of market risk. In order to control these risks in a healthy manner the core principal is to manage transactions carried out in money and capital markets such that they do not form concentration in terms of instrument, maturity, currency, interest type and other similar parameters, and in a "well diversified" manner in accordance with their risk levels. Moreover, the creditworthiness of issuers of financial instruments causing market risk is monitored carefully. Market Risk is managed by using consistent risk measurements and criteria fluctuation level of interest rates and/or prices and Value at Risk calculations, establishing appropriate procedures for control and monitoring compliance with identified risk limits and risk appetite. Market risk is measured, monitored and reported by the Department of Risk Management. The Bank uses two main approaches in the calculation of market risk BRSA Standard Method and Value at Risk (VaR) approach.

Market risk measurement, monitoring and reporting is carried out by the Risk Management Department. In the calculation of the market risk, the Bank uses two basic approaches as the BRSA Standard Method and Risk Value of Return (VaR) approach. The standard method is applied in the calculation of capital adequacy on a monthly basis. VaR calculations are performed periodically and are reported to the senior management. Monte Carlo simulation method is used for VaR calculations. The VaR model is based on the assumptions of a 99% confidence interval and a 1-day holding period, and the accuracy of the model is assured by back-testing which is based on the comparison of calculated VaR Value against incurred losses. Besides, stress tests are conducted so as to identify the impacts on VaR which will be highly damaging, although their occurrence is a low possibility.

Interest Rate Risk

The Group is exposed to interest rate risk either through market value fluctuations of statement of financial position items, i.e. price risk, or the impact of rate changes on interest sensitive assets and liabilities. In Turkey, interest rates are highly volatile and this may result in significant changes in prices of financial instruments including government bonds and treasury bills. The major sources of funding are borrowings. Interest rate sensitivity of the assets, liabilities and off-balance sheet items are managed by the Group. Progressive forecasting is determined with simulation reports, interest rate fluctuation effects are identified with sensitivity reports and scenario analyses.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (continued)

Interest Rate Risk (continued)

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2019:

	Up to 3 Months	3 to 12 Months	Over 1 Year	Non Interest Bearing	Total
ASSETS					
Cash and cash equivalents	-	-	-	29	29
Balance with the Central Bank	-	-	-	7,945	7,945
Reserve deposits at Central Bank	795,638	-	-	-	795,638
Loans and advances to banks	212,090	-	-	45,218	257,308
Interbank money market placements	525,599	-	-	-	525,599
Funds lent under securities resale agreements	652	-	-	-	652
Trading assets	34	266,736	5,013	7,135	278,918
Derivative assets	588,645	53,544	252,258	-	894,447
Derivative assets used for hedging purposes	-	-	67,884	-	67,884
Loans and advances to customers	12,978,274	8,697,138	9,086,132	-	30,761,544
Financial assets at fair value through other comprehensive income	596,631	1,147,301	2,325,772	124,984	4,194,688
Financial assets measured at amortized cost	1,332,388	950,535	298,876	-	2,581,799
Total	17,029,951	11,115,254	12,035,935	185,311	40,366,451
LIABILITIES					
Obligations under repurchase agreements	1,031,214	-	-	-	1,031,214
Derivative liabilities	202,711	31,768	233,810	-	468,289
Derivative liabilities used for hedging purposes	-	16,545	-	-	16,545
Funds borrowed	10,104,087	9,490,539	7,033,699	-	26,628,325
Debt securities issued (1)	108,662	2,087,826	5,765,669	145,256	8,107,413
Payables to stock exchange money market	166,153	-	-	-	166,153
Current account of loan customers	58,950	-	-	-	58,950
Taxes and dues payable	-	-	-	67,608	67,608
Corporate tax liability	-	-	-	15,750	15,750
Employee benefits	-	-	-	36,205	36,205
Total	11,671,777	11,626,678	13,033,178	264,819	36,596,452
Total Balance Sheet Position	5,358,174	(511,424)	(997,242)	(79,805)	3,769,999
Total Off Balance Sheet Position	(2,502,841)	(1,773,188)	4,708,945	-	432,916
Total Position	2,855,333	(2,284,612)	3,711,703	(79,805)	4,202,915

(1) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (continued)

Interest Rate Risk (continued)

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2018:

	Up to 3 Months	3 to 12 Months	Over 1 Year	Non Interest Bearing	Total
ASSETS					
Cash and cash equivalents	-	-	-	27	27
Balance with the Central Bank	-	-	-	12,928	12,928
Reserve deposits at Central Bank	423,408	-	-	306,622	730,030
Loans and advances to banks	750,186	-	-	56,811	806,997
Interbank money market placements	573,233	-	-	-	573,233
Funds lent under securities resale agreements	357	-	-	-	357
Trading assets	1,065	3,908	3,434	1,452	9,859
Derivative assets	722,041	208,577	48,603	-	979,221
Derivative assets used for hedging purposes	-	-	-	-	-
Loans and advances to customers	12,395,691	9,081,756	6,365,633	-	27,843,080
Financial assets at fair value through other comprehensive income	224,584	1,341,530	1,759,931	101,450	3,427,495
Financial assets measured at amortized cost	1,216,351	672,132	264,830	-	2,153,313
Total	16,306,916	11,307,903	8,442,431	479,290	36,536,540
LIABILITIES					
Obligations under repurchase agreements	179,001	-	-	-	179,001
Derivative liabilities	396,422	178,496	45,164	-	620,082
Derivative liabilities used for hedging purposes	65,881	106,377	-	-	172,258
Funds borrowed	12,810,841	4,753,669	6,255,160	-	23,819,670
Debt securities issued (1)	-	1,797,030	6,701,933	-	8,498,963
Payables to stock exchange money market	223,277	-	-	-	223,277
Current account of loan customers	32,529	-	-	-	32,529
Taxes and dues payable	-	-	-	82,363	82,363
Corporate tax liability	-	-	-	11,741	11,741
Employee benefits	-	-	-	51,687	51,687
Total	13,707,951	6,835,572	13,002,257	145,791	33,691,571
Total Balance Sheet Position	2,598,965	4,472,331	(4,559,826)	333,499	2,844,969
Total Off Balance Sheet Position	(3,611,642)	(3,335,297)	7,218,803	-	271,864
Total Position	(1,012,677)	1,137,034	2,658,977	333,499	3,116,833

(1) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (continued)

Interest Rate Sensitivity (continued)

As at 31 December 2019, a summary of average interest rates for different assets and liabilities are as follows:

	TL %	Euro %	US Dollar %
<u>Assets</u>			
Cash & Balances with Central Bank	-	-	-
Banks	7.60	0.80	1.55
Money market placements	13.49	-	-
Loans and advances to customers	17.04	4.59	6.72
Financial assets at FVOPL	14.70	-	10.05
Financial assets at FVOCI	17.49	4.24	4.76
Financial assets measured at amortized cost	12.45	-	5.59
<u>Liabilities</u>			
Funds borrowed	10.79	1.11	2.88
Money market balances	10.96	0.12	2.24
Marketable securities issued	13.10	-	5.71
Current account of loan customers	7.50	0.10	1.25

As at 31 December 2018, a summary of average interest rates for different assets and liabilities are as follows:

	TL %	Euro %	US Dollar %
<u>Assets</u>			
Cash & Balances with Central Bank	11.35	-	2.10
Banks	22.92	2.90	2.30
Money market placements	24.59	-	-
Loans and advances to customers	19.10	4.49	7.46
Financial assets at FVOPL	27.62	-	10.05
Financial assets at FVOCI	16.94	5.62	4.32
Financial assets measured at amortized cost	16.76	-	6.77
<u>Liabilities</u>			
Funds borrowed	10.30	1.07	3.29
Money market balances	22.59	0.75	1.50
Marketable securities issued	-	-	5.71
Current account of loan customers	15.00	0.75	1.50

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4. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (continued)

Interest Rate Sensitivity (continued)

The economic valuation differences of the Bank arising from fluctuations on interest rates, in different currencies that is calculated in accordance with the communiqué are presented in the table below.

Current Period Currency	Applied Shock (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss / Shareholders' Equity
TL	+500 / (400) basis point	(157,080) / 144,247	(2.08%) / 1.91%
Euro	+200 / (200) basis point	57,159 / (4,926)	0.76% / (0.07%)
US Dollar	+200 / (200) basis point	(258,991) / 276,863	(3.42%) / 3.66%
Total (for Negative Shocks)		416,184	5.50%
Total (for Positive Shocks)		(358,912)	(4.74%)

Prior Period Currency	Applied Shock (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss/ Shareholders' Equity
TL	+500 / (400) basis point	(127,184) / 114,525	(2.10%) / 1.89%
Euro	+200 / (200) basis point	99,169 / (35,554)	1.64% / (0.59%)
US Dollar	+200 / (200) basis point	90,703 / (123,367)	1.65% / (2.04%)
Total (for Negative Shocks)		(44,396)	(0.73%)
Total (for Positive Shocks)		71,688	1.18%

Other Price Risks

Equity price sensitivity

The sensitivity analysis below has been determined based on the exposure to stock price risks at the reporting date.

The Group is exposed to equity price risks arising from equity investments of firms traded in Istanbul Stock Exchange. Since these investments are classified as financial assets held for trading, only the net profit/loss will be affected.

As at the reporting date, equity price sensitivity of the Group has been analyzed. The analysis has been based on the assumption that the inputs (equity prices) to the valuation model are 20% higher/lower while all other variables are constant.

The Group classifies its equity investments both as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. Therefore, the net profit/loss is not affected as long as the Group does not sell its equity investments classified as financial assets at fair value through other comprehensive income.

Unless the equity share investments classified as assets financial assets at fair value through other comprehensive income are disposed of or impaired, the net profit/loss will not be affected.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (continued)

Currency risk (continued)

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

Management of currency risk

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

The below table summarizes the foreign currency position of the Group as at 31 December 2019:

	Euro	US Dollar	Other Foreign Currencies	Total
Assets				
Cash and cash equivalents including Central Bank	7,355	106	-	7,461
Reserve deposits at Central Bank	319,060	477,007	-	796,067
Loans and advances to banks	164,909	71,655	8,155	244,719
Derivative financial instruments	74,570	378,039	1,012	453,621
Money market placements	-	-	-	-
Loans and advances to customers	13,526,294	14,764,672	-	28,290,966
Financial assets at fair value through other comprehensive income	61,199	1,915,940	-	1,977,139
Financial assets measured at amortized cost	-	299,266	-	299,266
Derivative assets held for hedging purposes	-	67,884	-	67,884
Other assets	76,468	323,092	-	399,560
Total Assets	14,229,855	18,297,661	9,167	32,536,683
Liabilities				
Obligations under repurchase agreements	128,954	533,217	-	662,171
Derivative financial liabilities held for trading	61,397	83,223	-	144,620
Funds borrowed	12,069,597	13,923,090	-	25,992,687
Marketable securities issued (1)	-	7,853,495	-	7,853,495
Current account of loan customers	23,430	34,662	-	58,092
Derivative liabilities held for hedging purposes	-	16,545	-	16,545
Other liabilities	14,661	68,886	1,363	84,910
Total Liabilities	12,298,039	22,513,118	1,363	34,812,520
Net Statement of Financial Position	1,931,816	(4,215,457)	7,804	(2,275,837)
Off Balance Sheet Position				
Derivatives to sell	1,037,523	7,074,810	149,898	8,262,231
Derivatives to buy	(3,107,098)	(2,614,729)	(157,686)	(5,879,513)
	1,037,523	7,074,810	149,898	8,262,231
Net Position	(137,759)	244,624	16	106,881

(1) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated debt instruments.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (continued)

Currency risk (continued)

The below table summarizes the foreign currency position of the Group as at 31 December 2018:

	Euro	US Dollar	Other Foreign Currencies	Total
Assets				
Cash and cash equivalents including Central Bank	6,511	91	-	6,602
Reserve deposits at Central Bank	299,745	417,127	13,401	730,273
Loans and advances to banks	155,566	612,773	2,423	770,762
Derivative financial instruments	42,247	75,877	1,609	119,733
Money market placements	-	-	-	-
Loans and advances to customers	12,276,612	13,701,012	-	25,977,624
Financial assets at fair value through other comprehensive income	75,973	1,131,841	-	1,207,814
Financial assets measured at amortized cost	-	419,420	-	419,420
Derivative assets held for hedging purposes	-	-	-	-
Other assets	79,490	571,643	-	651,133
Total Assets	12,936,144	16,929,784	17,433	29,883,361
Liabilities				
Obligations under repurchase agreements	89,326	48,132	-	137,458
Derivative financial liabilities held for trading	32,160	48,533	-	80,693
Funds borrowed	11,521,560	12,171,103	-	23,692,663
Marketable securities issued (1)	-	8,498,963	-	8,498,963
Current account of loan customers	20,119	11,696	-	31,815
Derivative liabilities held for hedging purposes	-	172,258	-	172,258
Other liabilities	17,532	26,957	1,330	45,819
Total Liabilities	11,680,697	20,977,642	1,330	32,659,669
Net Statement of Financial Position	1,255,447	(4,047,858)	16,103	(2,776,308)
Off Balance Sheet Position				
Derivatives to sell	1,902,722	6,761,213	153,506	8,817,441
Derivatives to buy	(3,276,277)	(2,805,061)	(168,498)	(6,249,836)
	(1,373,555)	3,956,152	(14,992)	2,567,605
Net Position	(118,108)	(91,706)	1,111	(208,703)

(1) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated debt instrument.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (continued)

Foreign currency sensitivity

No long or short position is taken due to the uncertainties and changes in the markets therefore; no exposure to foreign currency risk is expected. However, possible foreign currency risks are calculated on a weekly and monthly basis under the standard method in the foreign currency risk table and their results are reported to the official authorities and the Group's top management.

Thus, foreign currency risk is closely monitored. Foreign currency risk, as a part of general market risk, is also taken into consideration in the calculation of Capital Adequacy Standard Ratio.

No short position is taken regarding foreign currency risk, whereas, counter position is taken for any foreign currency risks arising from customer transactions as to avoid foreign currency risk.

The Group is mostly exposed to Euro and US Dollar currencies.

The following table details the Group's sensitivity to 10% increase/decrease in the TL against US Dollar, Euro and other currencies.

	% Increase	Effect on profit or loss (1)		Effect on equity (2)	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
US Dollar	10%	23,918	(9,715)	544	544
Euro	10%	(13,807)	(11,842)	31	31
Other	10%	2	111	-	-

	% Decrease	Effect on profit or loss (1)		Effect on equity (2)	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
US Dollar	10%	(23,918)	9,715	(544)	(544)
Euro	10%	13,807	11,842	(31)	(31)
Other	10%	(2)	(111)	-	-

(1) Values expressed are before the tax effect.

(2) Effect on equity does not include effect on profit/loss.

The Group's sensitivity to foreign currency has increased during the current period mainly due to the change in currency position.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Capital management – regulatory capital

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The BRSA also requires the banks to maintain prescribed ratios of minimum 6% and 4.5% of Tier1 and Tier 2 capital, respectively, to total value at credit, market and operational risks starting from 1 January 2016.

Total capital and Capital adequacy ratio have been calculated in accordance with the “Regulation on Equity of Banks” and “Regulation on Measurement and Assessment of Capital Adequacy of Banks”. As of 31 December 2019, the capital adequacy ratio of the Group has been calculated as 17.39% (31 December 2018:15.99%).

The Bank and its financial subsidiaries’ consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of financial assets at fair value through other comprehensive income and equity investments, subordinated loans received and free reserves set aside for contingencies.
- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, other comprehensive income, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, leasehold improvements on operational leases and other certain costs.
- Tier 2 capital, which includes qualifying subordinated liabilities and general provisions.

The Bank’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year and the previous year.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Capital management – regulatory capital (continued)

The Bank's and its financial subsidiaries' regulatory capital position on a consolidated basis at 31 December 2019 and 31 December 2018 was as follows:

	2019	2018
Tier 1 capital	5,171,309	4,144,042
Tier 2 capital	2,279,212	1,901,952
Deductions from capital	-	-
Total regulatory capital	7,450,521	6,045,994
 Total Risk Weighted Assets	 42,842,113	 37,814,453
 Capital ratios		
Total regulatory capital expressed as a percentage of total credit risk, counterparty credit risk, market risk and operational risk	17.39%	15.99%
Total Tier 1 capital expressed as a percentage of total credit risk, counterparty credit risk, market risk and operational risk	12.07%	10.96%

As at 31 December 2019, the Bank's capital adequacy ratio on an unconsolidated basis is 17.79% (31 December 2018: 16.20%). The Group's consolidated capital adequacy ratio as at 31 December 2019 is 17.39% (31 December 2018: 15.99%).

Operational risk

Operational risk amount of the Group is measured with Basic Indicator Method referring to "Regulation on Measurement and Assessment of Capital Adequacy of Banks" According to this method; the calculation is performed parallel to the practice within the country, by multiplying 15% of the Group's last three years' average gross revenue with 12.5. The amount, calculated as TL 2,029,776 as at 31 December 2019 (31 December 2018: TL 1,521,866) represents the operational risk.

Yearly gross income, as presented on the income statement; is calculated with net interest income plus net fee and commission, dividend income except from subsidiaries and associates, trading profit/loss and other operational income minus profit/loss gain on sale of assets other than of trading accounts, extraordinary income, operational expense for support service from a bank and recoveries from insurance.

Fair values of financial instruments

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Fair values of financial instruments (continued)

• Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The consolidated financial statements include holdings in unlisted shares which are measured at their historical costs as fair values could not be determined reliably.

Based on the fair value hierarchy, the Group's financial assets and liabilities are categorized as follow:

31 December 2019	Total	Level 1	Level 2	Level 3
Financial Assets				
Financial assets at FVPL	278,918	7,135	8,686	263,097
Loans	263,097	-	-	263,097
Government bonds and Treasury bills	-	-	-	-
Equity shares	1	1	-	-
Mutual funds	7,134	7,134	-	-
Debt securities issued by corporations	8,686	-	8,686	-
Derivative assets	894,447	-	894,447	-
Derivatives used for hedging purposes	67,884	-	67,884	-
Financial assets at FVOCI ⁽¹⁾	4,182,432	3,947,295	84,813	150,324
Government bonds and Treasury bills	2,001,291	2,001,291	-	-
Eurobonds	1,922,143	1,922,143	-	-
Equity shares	112,728	20,662	84,813	7,253
Debt securities issued by corporations	146,270	3,199	-	143,071
Financial Liabilities				
Derivative liabilities	467,798	-	467,798	-
Derivatives used for hedging purposes	16,545	-	16,545	-

⁽¹⁾ As of 31 December 2019, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 12,256 have been measured at cost.

31 December 2018	Total	Level 1	Level 2	Level 3
Financial Assets				
Financial assets at FVPL	300,519	4,887	-	295,632
Loans	290,660	-	-	290,660
Government bonds and Treasury bills	8	8	-	-
Equity shares	1	1	-	-
Mutual funds	1,454	1,454	-	-
Debt securities issued by corporations	8,396	3,424	-	4,972
Derivative assets	979,221	-	979,221	-
Derivatives used for hedging purposes	-	-	-	-
Financial assets at FVOCI ⁽¹⁾	3,416,229	3,260,049	72,786	83,394
Government bonds and Treasury bills	2,008,419	2,008,419	-	-
Eurobonds	1,165,034	1,165,034	-	-
Equity shares	90,188	10,149	72,786	7,253
Debt securities issued by corporations	152,588	76,447	-	76,141
Financial Liabilities				
Derivative liabilities	620,082	-	620,082	-
Derivatives used for hedging purposes	172,258	-	172,258	-

⁽¹⁾ As of 31 December 2018, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 11,266 have been measured at cost.

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4. FINANCIAL RISK MANAGEMENT (Continued)

Fair values of financial instruments (continued)

The reconciliation from the beginning balances to ending balances for fair value measurements in Level 3 for the year ended 31 December 2019.

	31 December 2019	31 December 2018
Balance at the beginning of the year	379,269	154,716
Purchases	105,977	8,684
Redemption or sales	(55,240)	(61,622)
Valuation differences	(16,583)	5,227
Transfer	-	272,264
Balance at the end of the year ⁽¹⁾	413,421	379,269

⁽¹⁾ There is no provision for "Financial Assets at Fair Value Through Other Comprehensive Income (31 December 2018: TL 243).

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5. FINANCIAL INSTRUMENTS

Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value

	Carrying amount			Fair value			Total
	Loans and receivables	Investments, including derivatives	Total	Level 1	Level 2	Level 3	
Financial assets							
31 December 2019							
Financial assets measured at fair value							
Financial assets at FVPL	-	278,918	278,918	15,821	-	263,097	278,918
Derivative financial instruments	-	894,447	894,447	-	894,447	-	894,447
Derivative assets held for hedging purposes	-	67,884	67,884	-	67,884	-	67,884
Investment securities - FVOCI ⁽¹⁾	-	4,194,688	4,194,688	3,947,294	84,814	150,324	4,182,432
Financial assets not measured at fair value							
Cash and cash equivalents and due from banks (including central banks, excluding cash on hand)	1,060,891	-	1,060,891	-	-	-	-
Loans and advances to customers	30,761,544	-	30,761,544	-	-	-	-
Financial assets measured at amortized cost	-	2,581,799	2,581,799	-	-	-	-
	31,822,435	8,017,736	39,840,171				
31 December 2018							
Financial assets measured at fair value							
Financial assets at FVPL	-	300,519	300,519	4,887	-	295,632	300,519
Derivative financial instruments	-	979,221	979,221	-	979,221	-	979,221
Derivative assets held for hedging purposes	-	-	-	-	-	-	-
Investment securities - FVOCI ⁽¹⁾	-	3,427,495	3,427,495	3,260,049	72,786	83,394	3,416,229
Financial assets not measured at fair value							
Cash and cash equivalents and due from banks (including central banks, excluding cash on hand)	2,123,549	-	2,123,549	-	-	-	-
Loans and advances to customers	27,552,420	-	27,552,420	-	-	-	-
Financial assets measured at amortized cost	-	2,153,313	2,153,313	-	-	-	-
	29,675,969	6,860,548	36,536,517				

⁽¹⁾ As of 31 December 2019, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 12,256 (31 December 2018: TL 11,266) have been measured at cost.

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5. FINANCIAL INSTRUMENTS (Continued)

Carrying amounts and fair values (continued)

	Carrying amount			Fair value			
	Loans and borrowings	Derivatives	Total	Level 1	Level 2	Level 3	Total
31 December 2019							
Financial liabilities measured at fair value							
Derivative financial instruments held for trading	-	468,289	468,289	-	468,289	-	468,289
Derivative liabilities held for hedge accounting	-	16,545	16,545	-	16,545	-	16,545
Financial liabilities not measured at fair value							
Obligations under repurchase agreements	1,031,214	-	1,031,214	-	-	-	-
Funds borrowed	26,628,325	-	26,628,325	-	-	-	-
Payables to stock exchange money market	166,153	-	166,153	-	-	-	-
Debt securities issued ⁽¹⁾	8,107,413	-	8,107,413	7,638,136	-	-	7,638,136
	35,933,105	484,834	36,417,939				
31 December 2018							
Financial liabilities measured at fair value							
Derivative financial instruments held for trading	-	620,082	620,082	-	620,082	-	620,082
Derivative liabilities held for hedge accounting	-	172,258	172,258	-	172,258	-	172,258
Financial liabilities not measured at fair value							
Obligations under repurchase agreements	179,001	-	179,001	-	-	-	-
Funds borrowed	23,819,670	-	23,819,670	-	-	-	-
Payables to stock exchange money market	223,277	-	223,277	-	-	-	-
Debt securities issued ⁽¹⁾	8,498,963	-	8,498,963	7,671,428	-	-	7,671,428
	32,720,911	792,340	33,513,251				

⁽¹⁾ Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

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6. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Group is currently organized into two operating divisions – “banking” and “stock brokerage and other”. These divisions are the basis on which the Group reports its primary segment information.

Principal activities of the Group are as follows:

Banking: investment and development bank with all corporate and commercial banking activities excluding accepting customer deposits.

Stock brokerage and other: intermediary stock brokerage activities, portfolio management and investment management and real estate investment trust activities.

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6. OPERATING SEGMENTS (Continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 31 December 2019)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	3,254,968	58,058	3,313,026	(25)	3,313,001
Interest expense	(1,323,131)	(88,511)	(1,411,642)	9,925	(1,401,717)
Net interest income	1,931,837	(30,453)	1,901,384	9,900	1,911,284
Net fee and commission income	29,758	35,345	65,103	-	65,103
Net securities trading income / (loss)	1,320	2,417	3,737	-	3,737
Net derivative trading income / (loss)	(553,297)	64,219	(489,078)	-	(489,078)
Net foreign currency gain / (loss)	106,317	(40,099)	66,218	-	66,218
Net impairment loss on financial assets	(458,882)	(1,749)	(460,631)	-	(460,631)
Net operating income after impairment losses	1,057,053	29,680	1,086,733	9,900	1,096,633
Other operating income	31,614	100,977	132,591	(67,041)	65,550
Other operating expenses	(201,559)	(65,796)	(267,355)	11,947	(255,408)
Dividend income	7,123	2,672	9,795	(3,041)	6,754
Share of profit of equity-accounted investees	19,944	-	19,944	-	19,944
Profit before income tax	914,175	67,533	981,708	(48,235)	933,473

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6. OPERATING SEGMENTS (Continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 31 December 2018)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	3,034,857	75,280	3,110,137	(28)	3,110,109
Interest expense	(1,281,465)	(99,954)	(1,381,419)	28	(1,381,391)
Net interest income	1,753,392	(24,674)	1,728,718	-	1,728,718
Net fee and commission income	19,001	32,397	51,398	-	51,398
Net securities trading income / (loss)	2,013	189	2,202	-	2,202
Net derivative trading income / (loss)	(477,108)	(139,240)	(616,348)	-	(616,348)
Net foreign currency gain / (loss)	207,864	77,082	284,946	-	284,946
Net impairment loss on financial assets	(471,193)	(1,456)	(472,649)	-	(472,649)
Net operating income after impairment losses	1,033,969	(55,702)	978,267	-	978,267
Other operating income	4,160	66,112	70,272	(51,179)	19,093
Other operating expenses	(162,873)	(59,715)	(222,588)	12,644	(209,944)
Dividend income	4,011	1,514	5,525	-	5,525
Share of profit of equity-accounted investees	90,705		90,705		90,705
Profit before income tax	969,972	(47,791)	922,181	(38,535)	883,646

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6. OPERATING SEGMENTS (Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Banking	Stock brokerage and other	Combined	Eliminations	Total
<u>At 31 December 2019</u>					
Total assets	41,207,333	1,207,177	42,414,510	(162,121)	42,252,389
Total liabilities	36,233,202	779,015	37,012,217	(38,195)	36,974,022
Equity before net profit & non-controlling interests	4,272,482	365,379	4,637,861	(128,088)	4,509,773
Net profit attributable to equity holders of the Bank	701,649	62,783	764,432	(33,928)	730,504
Non-controlling interests	-	-	-	38,090	38,090
Total equity	4,974,131	428,162	5,402,293	(123,926)	5,278,367
Total liabilities and equity	41,207,333	1,207,177	42,414,510	(162,121)	42,252,389
<u>At 31 December 2018</u>					
Total assets	37,554,348	873,620	38,427,968	(159,150)	38,268,818
Total liabilities	33,479,107	506,658	33,985,765	(404)	33,985,361
Equity before net profit & non-controlling interests	3,415,525	416,799	3,832,324	(257,031)	3,575,293
Net profit attributable to equity holders of the Bank	659,716	(49,837)	609,879	59,663	669,542
Non-controlling interests	-	-	-	38,622	38,622
Total equity	4,075,241	366,962	4,442,203	(158,746)	4,283,457
Total liabilities and equity	37,554,348	873,620	38,427,968	(159,150)	38,268,818

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7. CASH AND CASH EQUIVALENTS, BALANCES WITH CENTRAL BANK, LOANS AND ADVANCES TO BANKS, MONEY MARKET PLACEMENTS

Cash and cash equivalent comprise balances with less than three months' maturity from the date of acquisition, including cash on hand, deposits from banks and other short-term highly liquid investments with original maturities of three months or less.

	31 December 2019	31 December 2018
Cash on hand	29	27
Loans and advances to banks (with original maturity of less than 3 months) ⁽¹⁾	257,308	806,997
Unrestricted balances with the Central Bank	7,945	12,928
Funds lent under repurchase agreements	652	357
Interbank money market placements ⁽²⁾	525,599	573,233
Total cash and cash equivalents in the consolidated statement of financial position	791,533	1,393,542
Accruals on cash and cash equivalents	(11,731)	(7,717)
Total cash and cash equivalents in the consolidated statement of cash flows	779,802	1,385,825

⁽¹⁾ As of 31 December 2019, provision amounting to TL 384 is allocated in "Loans and advances to banks" due to transition of IFRS 9 (31 December 2018: TL 234).

⁽²⁾ As of 31 December 2019, provision amounting to TL 35 is allocated in "Interbank Money Market Placements" due to transition of IFRS 9 (31 December 2018: TL 23).

Cash And Cash Equivalents

	31 December 2019	31 December 2018
Cash on hand – Turkish Lira ("TL")	29	27
Total cash on hand	29	27

There is no blockage on the use of cash and cash equivalents as of 31 December 2019 (31 December 2018: None).

Balances With Central Bank

a) Unrestricted balances with Central Bank

	31 December 2019	31 December 2018
Demand deposits – TL	484	6,326
Demand deposits – FC	7,461	6,602
Total	7,945	12,928

b) Reserve Deposits at Central Bank

	31 December 2019	31 December 2018
Foreign currency reserves ⁽¹⁾	796,067	730,030
Total	796,067	730,030

⁽¹⁾ As of 31 December 2019, provision amounting to TL 429 is allocated in "Balance with the Central Bank of Turkey" due to transition of IFRS 9 (31 December 2018: 243)

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7. CASH AND CASH EQUIVALENTS, BALANCES WITH CENTRAL BANK, LOANS AND ADVANCES TO BANKS (Continued)

Balances With Central Bank (continued)

b) Reserve Deposits at Central Bank (continued)

As per the Communiqué numbered 2005/1 “Reserve Deposits” of the CBRT, banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. Reserves are calculated and set aside every two weeks on Fridays for 14 days periods. Interest rate for the required reserves in Turkish Lira is paid by 13% effective rate since 21 September 2018.

The CBRT Required reserves of 2 May 2015 has started to pay interest to the Required reserves, reserve options and unrestricted account held in US dollars according to regulation released at 5 May 2015.

As per the “Communiqué on Amendments to be Made on Communiqué on Required Reserves” of Central Bank of Turkey, numbered 2011/11 and 2011/13, required reserves for Turkish Lira and Foreign currency liabilities are set at Central Bank of Turkey based on rates mentioned below. Reserve rates prevailing at 31 December 2018 are presented in table below:

Reserve Rates for Turkish Lira Liabilities (%)	
Original Maturity	Reserve Ratio
Until 1 year maturity (1 year include)	7
1-3 year maturity (3 year include)	3,5
More than 3 year maturity	1

Reserve Rates for FC Liabilities (%)	
Original Maturity	Reserve Ratio
Until 1 year maturity (1 year included)	21
1-2 year maturity (2 year included)	16
2-3 year maturity (3 year included)	11
3-5 year maturity (5 year included)	7
More than 5 year maturity	5

Loans And Advances To Banks

	31 December 2019	31 December 2018
<u>Domestic Banks</u>		
Demand deposits – TL	7,583	22,084
Time deposits – TL	5,732	14,385
Demand deposits – FC	45,220	584,319
Time deposits – FC	139,668	150,804
	198,203	771,592
<u>Foreign Banks</u>		
Time deposits – TL	-	-
Demand deposits – FC	59,489	35,639
Time deposits – FC	-	-
	59,489	35,639
Total	257,692	807,231

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7. CASH AND CASH EQUIVALENTS, BALANCES WITH CENTRAL BANK, LOANS AND ADVANCES TO BANKS (Continued)

Loans And Advances To Banks (continued)

The time deposits above mature within 2 - 44 days and earn interest at rates 7.60% for TL balances, 0.33 – 1.55 % for foreign currency balances as at the reporting date (31 December 2018: Maturity: 2 - 45 days; interest rate 24.80-25.75% for TL balances and 2.30-3.15% for foreign currency).

Expected credit loss for balances with Central Bank at 31 December 2019 is as follows:

	31 December 2019		
	Stage 1	Stage 2	Stage 3
Balances at 1 January 2019	243	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(103)	-	-
Provision for the period	289	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	429	-	-

Expected credit loss for banks as at 31 December 2019 is as follows:

	31 December 2019		
	Stage 1	Stage 2	Stage 3
Balances at 1 January 2019	234	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(853)	-	-
Provision for the period	1,003	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	384	-	-

Expected credit loss for interbank money market placements as at 31 December 2019 is as follows:

	31 December 2019		
	Stage 1	Stage 2	Stage 3
Balances at 1 January 2019	23	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(99)	-	-
Provision for the period	111	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	35	-	-

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8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
Government bonds and treasury bills in TL	-	8
Debt securities issued by corporations	8,686	8,396
Equity shares	1	1
Mutual funds	7,134	1,454
Loans measured at FVPL (*)	263,097	290,660
Total	278,918	300,519

(*)Include the loan granted to the special purpose entity is accounted under loans measured at fair value through profit/loss as per IFRS
9. As of 31 December 2019, the fair value is based on the results of an independent valuation Company.

There are no government bonds and treasury bills include securities given as collateral or blocked as at the reporting date (31 December 2018: None).

9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2019	31 December 2018
Short-term and current portion of long term loans	4,086,693	1,754,869
Long-term loans	26,450,285	25,716,507
Total performing loans	30,536,978	27,471,376
Non-performing loans	1,107,772	597,210
Total loans	31,644,750	28,068,686
Less: Specific provision for stage 3	(358,343)	(169,489)
Less: Generic provision for impairment losses on loans	(524,863)	(346,677)
Total loans	30,761,544	27,552,420

Movements in the reserve for impairment losses on loans for the year ended 2019 and 2018 are as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Specific provision for cash loans:		
As at 1 January 2019	169,489	52,078
Charge for the year	273,871	273,782
Collections	(85,017)	(9,100)
Reserve released and write offs	-	(147,271)
As at 31 December	358,343	169,489
Collective provision for cash loans:		
As at 1 January 2019	346,677	231,332
Charge for the year	178,186	115,345
Provision released and write offs	-	-
As at 31 December	524,863	346,677
Total reserve for impairment losses on loans	883,206	516,166

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9. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loans can be further analysed by customer groups as follows:

	31 December 2019
Corporate customers	25,014,092
SME bussiness	6,409,339
Other	221,319
Less: Allowance for ECL/impairment losses	(883,206)
Total	30,761,544
	31 December 2018
Corporate customers	21,998,820
SME bussiness	6,226,825
Other	133,601
Less: Allowance for ECL/impairment losses	(516,166)
Total	27,843,080

	31 December 2019	31 December 2018
Currency		
US Dollar	12,889,567	11,235,036
Euro	14,617,058	13,594,940
Turkish Lira	2,587,774	1,837,965
Foreign currency indexed TL loans	1,550,351	1,691,305
Total	31,644,750	28,359,246

Foreign currency indexed loans represent loans extended in Turkish Lira but the related principal and interest are repaid in Turkish Lira equivalent of the currency to which they are indexed.

As at 31 December 2019 and 31 December 2018, the aging analysis of past due but not impaired loans per customer groups is as follows:

	31 December 2019				
	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Current Period					
Corporate and Commercial Loans	1,255	-	-	-	1,255
SME Loans	731	-	-	-	731
Others	-	-	-	-	-
Total	1,986	-	-	-	1,986
	31 December 2018				
	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Prior Period					
Corporate and Commercial Loans	10,631	-	-	-	10,631
SME Loans	202	-	-	-	202
Others	-	-	-	-	-
Total	10,833	-	-	-	10,833

Of the total aggregate amount of gross past due but not yet impaired loans and advances to customers, the fair value of collaterals, capped with the respective outstanding loan balances including those not past due, that Parent Bank has TL 27,724 of loans as of 31 December 2019 (31 December 2018: TL 85,498).

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9. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loans and advances to customers not impaired amounting to TL 17,632,456 have floating interest rates (31 December 2018: TL 17,006,183) and the remaining TL 12,904,522 have fixed interest rates (31 December 2018: TL 10,755,853).

Expected credit loss of loans and advances to customers movement as at 31 December 2019 is as follows:

	31 December 2019		
	Stage 1	Stage 2	Stage 3
Balances at 1 January 2019	135,537	211,140	169,489
Transfer to Stage 1	-	-	-
Transfer to Stage 2	(177,230)	177,230	-
Transfer to Stage 3	(1,135)	(144,685)	145,820
Debt sales and write offs	-	-	-
Recoveries and reversals	(656,023)	(451,647)	(589,759)
Provision for the period	853,874	526,248	616,688
Effects of movements in exchange rates	19,033	32,521	16,105
Balances at the end of the period	174,056	350,807	358,343

10. INVESTMENT SECURITIES

Financial assets at fair value through profit or loss

	31 December 2019	31 December 2018
Government bonds and treasury bills in TL	-	8
Debt securities issued by corporations	15,820	9,850
Equity shares	1	1
Loans measured at FVPL (*)	263,097	290,660
Total	278,918	300,519

(*)Include the loan granted to the special purpose entity is accounted under loans measured at fair value through profit/loss as per IFRS 9. As of 31 December 2019, the fair value is based on the results of an independent valuation Company.

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10. INVESTMENT SECURITIES (Continued)

Financial assets at fair value through other comprehensive income

	31 December 2019	31 December 2018
Government bonds and treasury bills in TL	2,001,291	2,008,418
Eurobonds	1,922,143	1,165,034
Debt securities issued by corporations	146,270	152,588
Equity shares	124,984	101,455
Total	4,194,688	3,427,495

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 265,496 as at the reporting date (31 December 2018: TL 179,001).

The blocked securities kept in the Central Bank, the Istanbul Stock Exchange and Takasbank ISE Settlement and Custody Bank Inc. (Clearing House) for the purposes of liquidity requirement and trading guarantee on interbank, bond, repurchase and reverse repurchase markets as at 31 December 2019 and 31 December 2018 are as follows:

	2019 Nominal Value	2019 Carrying Value	2018 Nominal Value	2018 Carrying Value
<u>Government Bonds and Treasury Bills</u>				
Central Bank- Open Market Operations	276,437	301,913	321,000	294,387
Clearing House – Blocked Securities	274,700	281,610	209,400	197,334
Other (International Bank) Foreign Currency	1,272,511	1,244,173	1,054,156	961,927
	1,823,648	1,827,696	1,584,556	1,453,648

The Group's equity shares in Financial assets at fair value through other comprehensive income investment securities are as follows:

	Ownership %	31 December 2019	Ownership %	31 December 2018
<u>Investee</u>				
İstanbul Takas ve Saklama AŞ	1.62	27,481	1.62	27,481
İş Yatırım Ortaklığı AŞ	6.94	20,662	6.95	10,149
European Investment Fund-EIF	0.17	23,147	0.17	21,515
Turkish Growth and Innovation Fund-TGIF	10.00	30,659	10.00	20,263
İş Portföy Yönetimi AŞ	9.90	6,197	9.90	6,197
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ	10.05	1,056	10.05	1,056
Cam Elyaf Sanayi AŞ	-	-	-	-
TSKB Gayrimenkul Değerleme AŞ ⁽¹⁾	99.99	379	99.99	379
Borsa İstanbul A.Ş.	0.10	3,527	0.10	3,527
TSKB Sürdürülebilirlik Danışmanlığı AŞ ⁽¹⁾	99.76	4,730	99.76	4,230
Others	<1.00	7,146	<1.00	6,657
Total equity shares in financial assets at fair value through other comprehensive income		124,984		101,454

The investments in TSKB Gayrimenkul Değerleme AŞ and TSKB Sürdürülebilirlik Danışmanlığı AŞ have not been consolidated since their effect on consolidated income and net assets is not significant.

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10. INVESTMENT SECURITIES (Continued)

Financial assets measured at amortized cost

	31 December 2019	31 December 2018
Government bonds and treasury bills in TL	2,581,799	2,153,313
Total	2,581,799	2,153,313

⁽¹⁾ As of 31 December 2019, provision amounting to TL 3,360 is allocated in "Financial assets measured at amortized cost" due to transition of IFRS 9.

11. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES

As at 31 December 2019 and 31 December 2018, the following entities are accounted for under the equity method in the accompanying consolidated financial statements:

	Ownership (%)	Nominal	31 December 2019
<u>Investee</u>			
İş Finansal Kiralama AŞ	29.46	204,850	355,956
İş Faktoring AŞ	21.75	13,811	65,335
İş Girişim Serm. Yat. Ort. AŞ	16.67	12,442	43,629
		231,103	464,920

	Ownership (%)	Nominal	31 December 2018
<u>Investee</u>			
İş Finansal Kiralama AŞ	29.46	204,850	319,645
İş Faktoring AŞ	21.75	13,811	65,494
İş Girişim Serm. Yat. Ort. AŞ	16.67	12,442	43,351
		231,103	428,490

The Group's share of profit in its equity-accounted investees for the year ended 31 December 2019 was TL 19,944 (31 December 2018: TL 90,705). In 2019 the Group has received no dividends from its investments in equity-accounted investees (31 December 2018: None).

The Group's equity-accounted investees are listed on BIST, except for İş Faktoring AŞ. Based on their closing prices of TL 3.84 of İş Finansal Kiralama AŞ and TL 3.91 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment in listed entities is TL 834,455 (31 December 2018: TL 4.63 of İş Finansal Kiralama AŞ and TL 2.03 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment is TL 970,443).

Summary financial information for equity-accounted investees is as follows:

31 December 2019	Total assets	Equity	Current Period Profit	Fair Value
İş Finansal Kiralama AŞ	9,088,358	1,273,725	84,106	785,806
İş Faktoring AŞ	3,265,258	300,390	(23,452)	78,535
İş Girişim Serm. Yat. Ort. AŞ	265,801	261,774	1,736	48,649
	12,619,417	1,835,889	62,390	912,990

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11. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES (Continued)

31 December 2018	Total assets	Equity	Current Period Profit	Fair Value
İş Finansal Kiralama AŞ	8,681,652	1,085,014	197,536	945,385
İş Faktoring AŞ	2,770,655	301,124	147,016	46,010
İş Girişim Serm. Yat. Ort. AŞ	262,226	259,965	3,074	25,058
	11,714,533	1,646,103	347,626	1,016,453

	Current Period	Prior Period
Balance at the Beginning of the Period	428,490	374,425
Effect of IFRS 9	-	(18,630)
Balance at January 1, 2019	428,490	355,795
Movements During the Period	36,430	72,695
Purchases	-	-
Bonus Shares Received	-	-
Current Year Share of Profit	-	-
Sales	-	-
Revaluation Increase/Decrease ⁽¹⁾	-	88,213
Provision for Impairment / Reversals	36,430	-
Other	-	(15,518)
Balance at the End of the Period	464,920	428,490
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	-	-

⁽¹⁾ Includes the differences of the equity method accounting.

12. GOODWILL

Cost

Balance at 1 January 2018	383
Balance at 31 December 2018	383
Balance at 31 December 2019	383

Impairment

At 1 January 2018	-
At 31 December 2018	-
At 31 December 2019	-

Carrying Amount

Balance at 1 January 2018	383
Balance at 31 December 2018	383
Balance at 31 December 2019	383

The above goodwill is attributable to Yatırım Finansman Menkul Değerler AŞ.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the investees are determined from cash flows projections. The Bank's management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the investees. The growth rates are based on industry growth forecasts. As at 31 December 2019, the recoverable amount of the investee is higher than the amount of goodwill; therefore, no impairment on goodwill is realized.

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13. PROPERTY AND EQUIPMENT

Current Period	Prior Period End	Current Period Additions	Current Period Disposals	Revaluation Surplus	Current Period End
Cost					
Land and buildings	291,924	41	-	49,105	341,070
Assets held under finance leases	5,192	-	(2,330)	-	2,862
Vehicles	1,000	2,348	(813)	-	2,535
Right to use Assets		6,997	(455)	-	6,542
Assets held for resale	-	-	-	-	-
Other	30,040	5,652	(7,280)	-	28,412
Total Cost	328,156	15,038	(10,878)	49,105	381,421
Accumulated depreciation					
Land and buildings	(818)	(236)	-	-	(1,054)
Assets held under finance leases	(5,096)	-	208	2,013	(2,875)
Vehicles	(852)	(191)	771	-	(272)
Right to use Assets		(1,949)	24	-	(1,925)
Assets held for resale	-	-	-	-	-
Other	(28,739)	(4,335)	6,998	(2,013)	(28,089)
Total accumulated depreciation	(35,505)	(6,711)	8,001	-	(34,215)
Impairment provision					
Land and buildings	-	-	-	-	-
Assets held under finance leases	-	-	-	-	-
Vehicles	-	-	-	-	-
Right to use Securities					
Assets held for resale	-	-	-	-	-
Other	-	-	-	-	-
Total impairment provision	-	-	-	-	-
Net book value	292,651	8,327	(2,877)	49,105	347,206

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13. PROPERTY AND EQUIPMENT (Continued)

Prior Period	Prior Period End	Current Period Additions	Current Period Disposals	Revaluation Surplus	Current Period End
Cost					
Land and buildings	242,240	2,719	-	46,965	291,924
Assets held under finance leases	5,221	-	(29)	-	5,192
Vehicles	1,057	-	(57)	-	1,000
Assets held for resale	-	-	-	-	-
Other	28,988	2,170	(1,118)	-	30,040
Total Cost	277,506	4,889	(1,204)	46,965	328,156
Accumulated depreciation					
Land and buildings	(278)	(20)	-	(520)	(818)
Assets held under finance leases	(5,093)	(32)	29	-	(5,096)
Vehicles	(703)	(206)	57	-	(852)
Assets held for resale	-	-	-	-	-
Other	(25,634)	(4,201)	1,096	-	(28,739)
Total accumulated depreciation	(31,708)	(4,459)	1,182	(520)	(35,505)
Impairment provision					
Land and buildings	-	-	-	-	-
Assets held under finance leases	-	-	-	-	-
Vehicles	-	-	-	-	-
Assets held for resale	-	-	-	-	-
Other	-	-	-	-	-
Total impairment provision	-	-	-	-	-
Net book value	245,798	430	(22)	46,445	292,651

(1) Impairment on assets for resale is classified under other assets from tangible assets in prior period.

14. INVESTMENT PROPERTY

	31 December 2019	31 December 2018
Fair value of investment properties	273,918	247,793
	273,918	247,793

The Group's investment properties are held under freehold interests.

In the current period, the Group has 3 investment properties with a total net book value of TL 273,918 (31 December 2018: TL 247,793) belonging to the Bank's subsidiary operating in the real-estate investment trust sector.

The total external rent income earned by the Group from its investment properties is TL 7,819 in the current period (31 December 2018: TL 9,460).

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14. INVESTMENT PROPERTY (Continued)

The movement of investment properties as at 31 December 2019 and 31 December 2018 are as follows:

<u>Current Period</u>	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	28,131	-	-	8,830	36,960
Pendorya Mall	154,155	1,657	-	(257)	155,555
Adana Hotel Project	65,507	-	(2,121)	18,016	81,403
Total	247,793	1,657	(2,121)	26,589	273,918

<u>Prior Period</u>	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	25,425	-	-	2,706	28,131
Pendorya Mall	152,990	5	-	1,160	154,155
Adana Hotel Project	64,730	-	-	777	65,507
Total	243,145	5	-	4,643	247,793

Fair value measurement

The Group's investment properties are valued annually by an independent real estate appraisal company. The fair value of investment properties are within the scope of Level 3 according to valuation techniques. Reconciliation of Level 3 is given at the following table:

	1 January – 31 December 2019	1 January – 31 December 2018
Balance 1 January	219,662	217,720
Addition	1,657	5
Disposal	(2,120)	-
Recognized in other income from other operations		
Change in fair value	-	-
Recognized in other expense from other operations		
Change in fair value	17,759	1,937
Transfer	-	-
Total	236,958	219,662

Tahir Han has considered as Level 2 as of December 31, 2019.

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15. INTANGIBLE ASSETS

The intangible fixed assets include software that are amortised principally on straight line basis which amortise the assets over their expected useful lives.

	31 December 2019	31 December 2018
<u>Acquisition cost</u>		
Balance at 1 January	9,042	6,537
Additions	2,079	2,505
Disposals	-	-
Balance at 31 December	11,121	9,042
<u>Accumulated amortisation</u>		
Balance at 1 January	(5,175)	(3,957)
Charge for the year	(1,877)	(1,218)
Disposals	-	-
Balance at 31 December	(7,052)	(5,175)
Net Book Value, as at 31 December	4,069	3,867

16. OTHER ASSETS

	31 December 2019	31 December 2018
Cash guarantees given	394,674	582,340
Prepaid expenses	88,188	63,287
VAT carried forward	2,539	4,692
Deposits, guarantees and collaterals given	25,229	3,535
Prepaid taxes	247	2,021
Trade receivables	147,703	10,697
Receivables from brokerage customers	1,670	-
Other	30,831	88,677
Total	691,109	755,249

Expected credit loss for other assets at 31 December 2019 is as follows:

	31 December 2019		
	Stage 1	Stage 2	Stage 3
Balances at 1 January 2019	1,322	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(1,197)	-	-
Provision for the period	1,304	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	1,429	-	-

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17. ASSETS HELD FOR SALE

	Current Period	Prior Period
Net book value at beginning of period	1	-
Cash Paid for Purchase	64,402	1
Expected Loss (-)	-	-
Net book value at end of period	64,403	1

The Bank have reached an agreement on restructuring the debts of Ojer Telekomünikasyon A.Ş. (OTAŞ), the major shareholder of Türk Telekomünikasyon A.Ş. (Türk Telekom) provided under the loan agreements. It was completed that 192,500,000,000 Class A shares owned by OTAŞ in Türk Telekom, representing 55% of Türk Telekom's issued share capital, which have been pledged as security for the existing loan facilities of OTAŞ, would be taken over by a special purpose vehicle incorporated or to be incorporated in the Republic of Turkey, owned directly or indirectly by the creditors. The Bank has participated in LYY Telekomünikasyon A.Ş. which was established within this context with 1.6172% stake and amounting to TL 64,403. The Bank considered the related investment within the scope of IFRS 5 "Assets Held for Sale and Discontinued Operations" (31 December 2018: TL 1).

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18. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The securities sold under repurchase agreements and corresponding obligations are as follows:

	2019 Carrying Value of Underlying Securities	2019 Carrying Value of Corresponding Liability	2019 Repurchase Value
Financial assets at fair value through other comprehensive income	829,817	644,084	644,189
Financial assets measured at amortized cost	431,343	387,348	387,367
	1,261,160	1,031,432	1,031,556

	2018 Carrying Value of Underlying Securities	2018 Carrying Value of Corresponding Liability	2018 Repurchase Value
Financial assets at fair value through other comprehensive income	171,653	41,543	41,575
Financial assets measured at amortized cost	248,394	137,458	137,465
	420,047	179,001	179,040

The repurchase agreements have maturity periods between 1-24 days (31 December 2018: 1-90 days). The Group has applied interest rates of 0.10%-2.43% for foreign currency, 8.00-11.51% for Turkish Lira agreements (31 December 2018: 0.75%-1.5% for foreign currency, 15.00% for Turkish Lira). Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounts to TL 123 (31 December 2018: TL 1).

19. FUNDS BORROWED

	31 December 2019	31 December 2018
Short-term funds	1,187,578	5,000
Short-term portion of medium and long-term funds	4,031,835	3,894,228
Medium and long-term funds	21,408,912	19,920,442
Total	26,628,325	23,819,670
	31 December 2019	31 December 2018
Foreign currencies	25,992,686	23,692,663
Turkish Lira	635,639	127,007
Total	26,628,325	23,819,670

The Group did not have any default of principal, interest on redemption amounts or other breaches of loan covenants as of 31 December 2019 (31 December 2018: None).

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19. FUNDS BORROWED (Continued)

As at 31 December 2019, interest rates and maturities of bank borrowings are as follows:

<u>31 December 2019</u>	Amount	Maturity		Interest Rate (%)	
		Min	Max	Min	Max
<u>Foreign Currency Borrowings</u>					
International Bank for Reconstruction and Development (IBRD)					
-EFIL II	90,665	15/01/2020	15/01/2020	2.46	2.46
-EFIL III	260,527	15/01/2021	15/01/2021	2.46	2.46
-EFIL IV	1,273,230	15/07/2036	15/07/2036	2.26	2.26
-IBRD SME	102,680	15/03/2021	15/03/2021	2.10	2.10
-IBRD-Renewable Energy Loan	4,411,769	15/03/2020	15/04/2047	2.94	2.94
-IBRD EFIL IV Limit Increase	1,491,291	15/12/2038	15/12/2038	0.35	2.58
-IBRD Innovative Access to Finance	1,426,748	15/03/2042	15/03/2042	0.28	2.74
	<u>9,056,910</u>				
European Investment Bank (EIB)	5,923,669	15/03/2022	26/10/2030	3.62	3.62
Kreditanstalt Für Wiederaufbau (KfW)	2,926,184	30/06/2020	30/12/2032	1.29	3.35
Council of European Development Bank (CEB)	1,010,456	14/05/2020	29/05/2026	2.87	2.87
Association of French Development (AFD)	1,031,244	31/07/2021	30/11/2026	0.25	1.15
Domestic bank borrowings	380,605	02/01/2020	03/01/2020	5.00	5.50
Foreign bank borrowings	61,219	27/08/2020	27/08/2020	3.47	3.47
Syndicated Loan	1,059,342	20/07/2020	20/07/2020	2.00	4.21
European Bank for Reconstruction and Development EBRD	332,616	10/03/2022	27/01/2025	2.95	4.98
Islam Development Bank (IDB)	1,545,177	19/02/2023	24/03/2030	2.72	3.95
International Finance Corporation (IFC)	529,307	15/12/2022	17/03/2025	4.65	4.80
Credit Suisse	591,865	23/03/2023	23/03/2023	2.00	2.09
Banco De Sabadell	171,887	27/11/2028	03/01/2029	1.37	1.37
JP Morgan Securities	140,680	05/06/2020	05/06/2020	2.90	2.90
Oesterreichische Entwicklungsbank AG (OEB)	88,480	15/12/2026	15/12/2026	2.60	2.60
Citibank	89,954	26/09/2022	26/09/2022	2.91	2.91
Japan Bank for International Cooperation (JBIC)	589,860	27/03/2027	27/03/2027	3.42	3.54
Intesa İstanbul	132,621	24/06/2020	24/06/2020	1.70	1.70
Asya Altyapı Yatırım Bankası (AIIB)	330,610	15/10/2033	15/10/2033	2.88	3.53
	<u>16,935,776</u>				
Total foreign currency borrowings	<u>25,992,686</u>				
<u>Turkish Lira Borrowings</u>					
Credit Suisse	90,939	23/09/2021	23/09/2021	9.95	9.95
JP Morgan Securities	31,092	08/07/2020	08/07/2020	9.05	9.05
Domestic bank borrowings	513,608	02/01/2020	02/01/2020	11.00	11.20
Total Turkish Lira borrowings	<u>635,639</u>				
Total	<u>26,628,325</u>				

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19. FUNDS BORROWED (Continued)

As at 31 December 2018, interest rates and maturities of bank borrowings are as follows:

<u>31 December 2018</u>	Amount	Maturity		Interest Rate (%)	
		Min	Max	Min	Max
<u>Foreign Currency Borrowings</u>					
International Bank for Reconstruction and Development (IBRD)					
-EFIL II	236,561	15/01/2020	15/01/2020	2.77	2.77
-EFIL III	379,538	15/01/2021	15/01/2021	2.77	2.77
-EFIL IV	1,177,743	15/07/2036	15/07/2036	2.57	2.57
-IBRD SME	150,353	15/03/2021	15/03/2021	2.62	2.62
-IBRD-Renewable Energy Loan	3,395,664	15/03/2019	15/03/2044	0.45	3.59
-IBRD EFIL IV Limit Increase	1,372,461	15/12/2038	15/12/2038	0.45	3.59
-IBRD Innovative Access to Finance	1,246,194	15/03/2042	15/03/2042	0.41	3.25
	<u>7,958,514</u>				
European Investment Bank (EIB)	6,058,524	15/06/2005	26/10/2030	0.03	4.54
Kreditanstalt Für Wiederaufbau (KfW)	2,576,419	30/06/2020	30/12/2032	1.29	3.35
Council of European Development Bank (CEB)	1,020,709	15/10/2019	24/12/2025	0.05	3.81
Association of French Development (AFD)	882,669	31/07/2021	30/11/2026	0.25	1.25
Domestic bank borrowings	243,652	28/02/2024	04/01/2027	5.00	5.50
Syndicated Loan	1,123,552	18/07/2019	18/07/2019	0.95	3.47
European Bank for Reconstruction and Development EBRD	345,445	10/03/2022	27/01/2025	2.95	5.49
Islam Development Bank (IDB)	1,516,894	19/02/2023	24/03/2030	2.72	3.95
International Finance Corporation	431,857	15/12/2019	17/03/2025	5.32	5.75
Credit Suisse	513,701	23/03/2023	23/03/2023	2.00	2.09
Banco De Sabadell	168,971	27/11/2028	03/01/2029	1.37	1.37
JP Morgan Securities	122,108	05/06/2020	05/06/2020	2.90	2.90
Oesterreichische Entwicklungsbank AG (OEB)	89,503	15/12/2026	15/12/2026	2.60	2.60
Citibank	104,251	26/09/2022	26/09/2022	3.44	3.44
JBIC-Japan Bank for International Cooperation	535,894	27/03/2027	27/03/2027	4.10	4.40
	<u>15,734,149</u>				
Total foreign currency borrowings	<u>23,692,663</u>				
<u>Turkish Lira Borrowings</u>					
Credit Suisse	90,915	23/09/2021	23/09/2021	9.95	9.95
JP Morgan Securities	31,092	08/07/2020	08/07/2020	9.05	9.05
Domestic bank borrowings	5,000	02/01/2019	02/01/2019	24.00	24.00
Total Turkish Lira borrowings	<u>127,007</u>				
Total	<u>23,819,670</u>				

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20. DEBT SECURITIES ISSUED

	31 December 2019	31 December 2018
Debt securities issued	6,277,368	6,949,189
Total	6,277,368	6,949,189

As of 27 October 2014, the Parent Bank issued the debt instruments which have nominal value of USD 350 Million, redemption date of 30 October 2019 with fixed interest rate of 5.375%, 5 years maturity and semi-annual coupon payment. As of 22 April 2015, the Bank has performed the similar issuance of Eurobond with the nominal amount of USD 350 Million. Interest rate of these debt instruments determined as 5.125% which have the redemption date of 22 April 2020 with fixed interest rate, 5 years maturity and semi-annual coupon payment. Selling of Greenbond which was issued by the Bank in abroad with nominal value of USD 300 Million, 5 years maturity and for financing the green and sustainable projects has been completed on 18 May 2016. The return of these bonds which have the redemption date of 18 May 2021 and 5 years maturity is determined as 5.048% and the coupon rate as 4.875%. As of 16 January 2018, the Parent Bank issued the debt instruments which have nominal value of USD 350 Million, redemption date of 16 January 2023 with fixed interest rate of 5.608%, 5 years maturity and semiannual coupon payment.

Cash Flow Movement

	31 December 2019
Balance as at 1 January 2019	6,949,189
Proceed during the year	441,521
Repayments during the year	(2,194,016)
Other non-cash movements	1,080,674
Balances as at 31 December 2019	6,277,368

21. OTHER LIABILITIES

	31 December 2019	31 December 2018
Unearned revenue	100,698	104,754
Payables to clearing accounts	65,381	34,333
Guarantees given	48,081	12,330
Other	12,586	17,893
Total	226,746	169,310

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22. TAXATION

Corporate Tax

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 22% (for 2018, 2019 and 2020, corporate tax income announced as 22%) on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 31 December 2019 (31 December 2018: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the year.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale. The remaining 25% of such capital gains are subject to corporate 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.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2019 is 22% (31 December 2018: 22%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 23 July 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no.27 dated 3 February 2009, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

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22. TAXATION (Continued)

Transfer Pricing

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

Deferred Tax

Taxes on income for the year also comprise deferred taxes. Deferred income tax is provided, using the balance sheet method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability and asset are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Currently enacted or substantively enacted tax rates are used to determine deferred taxes on income. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

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22. TAXATION (Continued)

Deferred Tax (continued)

For calculation of deferred tax asset and liabilities, the rate of 22% (31 December 2018: 22%) is used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

a) Statement of financial position:

	31 December 2019	31 December 2018
Corporate tax provision	286,837	147,709
Corporate tax paid in advance	(219,229)	(65,346)
Corporate tax liability	67,608	82,363

b) Statement of Profit or Loss:

	31 December 2019	31 December 2018
Corporate tax expense	286,837	147,709
Deferred tax (income)/expense	(89,505)	73,888
	197,332	221,597

The deferred taxes on major temporary differences as at the reporting dates are as follows:

	31 December 2019	31 December 2018
Loan commissions	22,138	23,032
Impairment losses on loans	129,195	79,690
Reserve for employee severance indemnity and unused vacation provision	3,897	3,258
Valuation of marketable securities	2,028	-
Others	9,179	3,337
Total deferred tax asset	166,437	109,317
Valuation of marketable securities	(905)	(38,458)
Borrowing commissions	(14,744)	(12,329)
Accruals on derivative financial instruments	(104,207)	(43,533)
Useful life differences on property and equipment	(846)	(787)
Others	(5,805)	(10,366)
Total deferred tax liability	(126,507)	(105,473)

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22. TAXATION (Continued)

Deferred Tax (continued)

Reflected as:

	31 December 2019	31 December 2018
Deferred tax assets	166,437	109,317
Deferred tax liabilities (-)	(126,507)	(105,473)
Total deferred tax assets, net	39,930	3,844

Taxation can be reconciled to the profit per the income statement as follows:

	%	31 December 2019	%	31 December 2018
<u>Reconciliation of Taxation</u>				
Income before taxation		933,473		883,646
Tax at the statutory income tax rate	22.00	(205,364)	22.00	(194,402)
Tax effect of income that is deductible in determining taxable income	(0.95)	8,890	(0.26)	2,285
Tax effect of undeductable expenses	(0.19)	1,790	3.35	(29,570)
Tax effect of dividend income	0.38	(3,558)	0.09	(808)
Tax effect of other deductions	(0.10)	910	(0.10)	898
Income tax expense	21.14	(197,332)	25.08	(221,597)

Movements in temporary differences for the years ended 31 December 2019 and 2018 are as follows:

	Balance at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
2019				
Loan commissions	23,032	(894)	-	22,138
Impairment losses on loans	79,690	49,505	-	129,195
Reserve for employee severance indemnity and unused vacation provision	3,258	639	-	3,897
Valuation of marketable securities	(38,458)	93,207	(53,626)	1,123
Useful life differences on property and equipment	(787)	(59)	-	(846)
Borrowing commissions	(12,329)	(2,415)	-	(14,744)
Accruals on derivative financial instruments	(43,533)	(60,674)	-	(104,207)
Other	(7,029)	10,196	207	3,374
Net deferred tax asset / (liability)	3,844	89,505	(53,419)	39,930

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22. TAXATION (Continued)

	Balance at 1 January	IFRS 9 Effect	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
2018					
Loan commissions	22,563	-	469	-	23,032
Impairment losses on loans	34,243	31,687	13,760	-	79,690
Reserve for employee severance indemnity and unused vacation provision	2,605	-	653	-	3,258
Valuation of marketable securities	(20,635)	-	(51,221)	33,398	(38,458)
Useful life differences on property and equipment	(592)	-	(195)	-	(787)
Borrowing commissions	(10,869)	-	(1,460)	-	(12,329)
Accruals on derivative financial instruments	(8,823)	-	(34,710)	-	(43,533)
Other	(4,962)	-	(1,184)	(882)	(7,029)
Net deferred tax asset / (liability)	13,530	31,687	(73,888)	32,516	3,844

23. EMPLOYEE BENEFITS

	2019	2018
<u>Movement of reserve for employee severance indemnity</u>		
Balance at 1 January	12,227	9,761
Interest cost	1,596	1,036
Service cost	1,443	2,130
Loss/(Gain) due to Settlements / Reductions / Terminations	99	74
Payment during the year	(1,831)	(1,458)
Actuarial difference	1,034	684
Balance at 31 December	14,568	12,227
<u>Movement of provision for unused vacations</u>		
Balance at 1 January	2,827	2,390
Provision for the year	1,796	1,577
Provisions released	(1,097)	(1,140)
Balance at 31 December	3,526	2,827
<u>Movement of provision for bonus payments</u>		
Balance at 1 January	28,551	12,735
Provision for the year	16,543	28,161
Bonus paid	(26,986)	(12,155)
Income and expenses of the prior period	-	(190)
Balance at 31 December	18,108	28,551
Employee benefits	36,205	43,605

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23. EMPLOYEE BENEFITS (Continued)

a) Pension scheme

The Parent Bank has established two pension schemes, “Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı” and “Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı” which are funded defined benefit plans covering substantially all employees. The assets of the plan are held independently of the Group’s assets in the Pension Funds. As per the latest actuarial valuation carried out as at 31 December 2019, the Bank has no obligation to book any provision for the Pension Fund “Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı”.

b) Reserve for employee severance indemnity

Under the Turkish Labour Law, the Group entities are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and reaches the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to the length of service prior to retirement.

Such payments are calculated on the basis of 30 days pay maximum full TL 6,380 as at 31 December 2019 (31 December 2018: full TL 5,434) per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the consolidated financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Group arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the Government.

The principal assumptions used for the purpose of the calculations are as follows:

	2019	2018
Interest rate	11.70%	16.00%
Expected rate of increase in salaries and eligible ceiling	18.00%	11.30%
Discount rate	4.20%	4.22%

24. SUBORDINATED DEBT INSTRUMENT

As of 28 March 2017, the Parent Bank issued the sustainable subordinated debt securities which have nominal value of USD 300 million, redemption date of 29 March 2022 with fixed interest rate of 7.625% semiannual coupon payment. As of the end of the period, the value of the borrowing instrument is TL 1,830,045 (31 December 2018: TL 1,549,774).

25. PAYABLES TO MONEY MARKET

	31 December 2019	31 December 2018
Interbank money market transactions	-	-
Istanbul Stock Exchange money market transactions	166,153	223,277
Obligations under repurchase agreements	1,031,214	179,001
Total	1,197,367	402,278

Payables to stock exchange money markets have a maturity of 2-17 days (31 December 2018: 2-30 days) with between 10.80% and 11.00% (31 December 2018: between 23.50% and 25.00%) of interest rates.

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26. PROVISIONS

	31 December 2019	31 December 2018
Free Provision	120,000	120,000
Legal Cases	1,216	575
Unindemnified non-cash loans	838	736
Expected credit loss for non-cash loans	23,857	11,251
	145,911	132,562

Free provision amounting to TL 120,000 has been provided by the Bank management in the current period for possible results of the circumstances which may arise from possible changes in the economy and market conditions (31 December 2018: TL 120,000).

27. CAPITAL AND RESERVES

Share Capital

As at 31 December 2019, the authorized and issued capital consists of 280,000,000,000 shares of 0.01 Turkish Lira (full) each as reflected in the statutory consolidated financial statements. Ordinary shares carry voting rights in proportion to their nominal value.

31 December 2019	%	Authorized Capital	Paid-In Capital
<u>Shareholders</u>			
T. İş Bankası AŞ ⁽¹⁾	50.92	1,425,780	1,425,780
T. Vakıflar Bankası T.A.O.	8.38	234,570	234,570
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	40.70	1,139,650	1,139,650
	100.00	2,800,000	2,800,000
<u>Components of Capital:</u>			
Nominal capital		2,800,000	2,800,000
Effect of inflation		13,563	13,563
		2,813,563	2,813,563
<hr/>			
31 December 2018	%	Authorized Capital	Paid-In Capital
<u>Shareholders</u>			
T. İş Bankası AŞ ⁽¹⁾	50.92	1,425,780	1,425,780
T. Vakıflar Bankası T.A.O.	8.38	234,570	234,570
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	40.70	1,139,650	1,139,650
	100.00	2,800,000	2,800,000
<u>Components of Capital:</u>			
Nominal capital		2,800,000	2,800,000
Effect of inflation		13,563	13,563
		2,813,563	2,813,563

⁽¹⁾ T. İş Bankası A.Ş. Group share is calculated by considering T. İş Bankası A.Ş.'s purchases in free floating of BIST as of 31 December 2019 of Bank shares.

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27. CAPITAL AND RESERVES (Continued)

In the meeting of the General Assembly held on 28 March 2019, it has been resolved that the Parent Bank has no capital increase.

In the meeting of the General Assembly held on 23 March 2018, it has been resolved that, paid-in capital of the Parent Bank will be increased from TL 2,400,000 to TL 2,800,000 by adding TL 400,000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2017. The increase in paid-in capital was approved by the BRSA on 26 April 2018 and disclosed in the dated 7 June 2018 and numbered 9605 Turkish Trade Registry Gazette.

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets at fair value through other comprehensive income, until the assets are derecognised or impaired.

Revaluation reserve

As of the third quarter of 2015, the Bank, has changed its accounting policies from historical cost method to revaluation method for the real estate properties which are held for own use in accordance with "IAS 16 - Property, Plant and Equipment". The positive difference between the net book value of real estate property values and the expertise values which are determined by the certified valuation companies are recorded in "Revaluation surplus on tangible assets" under the shareholders' equity.

Dividends

At the Ordinary General Assembly of the Bank held on 23 March 2018, it was decided to distribute a dividend of TL 96,000 to shareholders and TL 13,505 to personnel, members of Board of Directors and to allocate TL 31,481 to legal reserves from retained earnings.

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27. CAPITAL AND RESERVES (Continued)

Non-controlling interests

As at the reporting date the non-controlling interests are as follows:

	31 December 2019	31 December 2018
Capital	37,252	44,159
Share premium	63	77
Fair value reserve	927	856
Legal reserve	160	125
Retained earnings	(5,929)	908
Actuarial gain/loss	(20)	(10)
Current period net income	5,637	(7,493)
	38,090	38,622

28. DIVIDENDS

In March 2019, dividends amounting to TL 134 were paid. In March 2018, the dividends paid were TL 109,505.

29. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of shares outstanding during the period concerned.

A summary of the weighted average number of shares outstanding for the year ended 31 December 2019 and 2018 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	1 January – 31 December 2019	1 January – 31 December 2018
Number of shares outstanding at 1 January	2,400,000,000	2,400,000,000
<i>New shares issued</i>		
Conversion of existing reserves ⁽¹⁾	400,000,000	400,000,000
Number of shares outstanding at the period end	2,800,000,000	2,800,000,000
Weighted average number of shares during the period	2,800,000,000	2,800,000,000
Profit for equity holders of the Bank	730,504	669,542
Basic earnings per share (in full Kurus)	0.2609	0.2391

⁽¹⁾ Capital increase is made through internal resources and prior period's earnings per share figure is revised by using the number of shares subsequent to the capital increase.

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

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30. NET INTEREST INCOME

	1 January- 31 December 2019	1 January- 31 December 2018
Interest income		
Interest income on loans and advances to customers	2,260,048	2,133,352
Interest on money market placements	290,429	107,098
Interest income on securities	670,421	762,490
Interest income on loans and advances to banks	60,321	78,878
Interest income on reserve deposits at central banks	7,101	10,258
Interest income on finance leases	6,406	6,060
Other interest income	18,275	11,973
Total interest income	3,313,001	3,110,109
Interest expenses		
Interest expense on obligations under repurchase agreements and money market borrowings	(157,818)	(307,521)
Interest expense on funds borrowed and subordinated loan	(669,318)	(581,108)
Interest expense on debt securities issued	(565,831)	(491,351)
Other interest expenses	(8,750)	(1,411)
Total interest expense	(1,401,717)	(1,381,391)
Net interest income	1,919,824	1,728,718

31. NET FEE AND COMMISSION INCOME

	1 January- 31 December 2019	1 January- 31 December 2018
Non-Cash Loans	24,400	20,932
Gains on Brokerage Commissions	38,201	34,678
Commissions from Initial Public Offering	778	920
Investment Fund Management Income	2,713	2,113
Other	12,062	5,286
Fee and commission income	78,154	63,929
Non-Cash Loans	(2,916)	(2,876)
Other	(10,135)	(9,655)
Fee and commission expense	(13,051)	(12,531)
Net fee and commission income	65,103	51,398

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32. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	1 January- 31 December 2019	1 January- 31 December 2018
Expected credit loss for stage 1 and 2	194,601	123,547
Free provision	-	60,000
Expected credit loss for stage 3	223,917	280,722
Marketable securities impairment expenses	42,113	7,607
Associates and subsidiaries	-	-
Other	-	773
	460,631	472,649

33. OTHER OPERATING INCOME

	1 January- 31 December 2019	1 January- 31 December 2018
Rent income	5,871	4,642
Increase in value of investment properties	26,588	9,590
Provisions released	27,199	1,789
Gain on sale of assets	1,025	73
Other	4,867	2,999
	65,550	19,093

34. DIVIDEND INCOME

	1 January- 31 December 2019	1 January- 31 December 2018
Financial assets at FVOCI	5,707	4,612
Other	1,047	913
	6,754	5,525

35. OTHER OPERATING EXPENSES

	1 January- 31 December 2019	1 January- 31 December 2018
Personnel expenses	158,168	133,604
Other administrative expenses	41,397	42,406
Depreciation, impairment and amortisation	19,583	6,404
Marketing expenses	1,469	970
Taxes and dues other than on income	13,549	6,028
Other	21,242	20,532
	255,408	209,944

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36. DERIVATIVE FINANCIAL INSTRUMENTS

The Group is party to a variety of foreign currency forward contracts, swaps and options in the management of its exchange rate exposures. The instruments are primarily denominated in TL, US Dollar and Euro.

As part of its economic hedging strategy, the Parent Bank has implemented TL cross currency interest rate swap transactions in which the Bank's default risk is the reference. These swap agreements are subject to a direct closing condition for both the Bank and the counterparty, in the event of a credit default event (such as a non-payment) related to the Bank, to cancel the amounts accrued in the contract and all future payments. The market rediscount value of these swaps with a nominal value of USD 240 million as of 31 December 2019 is TL 514,980 and the average rates are between 2020 and 2023.

	2019	2019	2018	2018
	Assets	Liabilities	Assets	Liabilities
Currency swaps	663,432	(287,298)	659,811	(394,648)
Options	9,596	(9,596)	59,646	(59,646)
Foreign currency forward contracts	44,287	(41,167)	152,353	(93,917)
Interest rate swaps	177,132	(130,228)	107,411	(71,871)
	894,447	(468,289)	979,221	(620,082)

Derivatives held for risk management

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in interest rates within certain guidelines. Interest rate swaps are used for this purposes as derivative financial instruments.

In this respect, the fixed rate Eurobond issued by the Bank and a portion of fixed rate funds borrowed are subject to fair value hedge accounting. The Bank enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial liabilities. The changes in the fair value of the hedged fixed rate financial liabilities and hedging interest rate swaps are recognised under the statement of profit/loss. At the beginning and later period of the hedging transaction, the aforementioned hedging transactions are expected to offset changes occurred in the relevant period of the hedging transaction and hedged risk (attributable to hedging risk) and effectiveness tests are performed in this regard.

The fair value of derivatives designated as fair value hedges are as follows:

	2019	2019	2018	2018
Instrument type	Assets	Liabilities	Assets	Liabilities
Interest Rate Swap	67,884	(16,545)	-	(172,258)
	67,884	(16,545)	-	(172,258)

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36. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

At the reporting date, the total amounts of outstanding derivatives to which the Group is committed are as follows:

	31 December 2019	31 December 2018
Forward foreign exchange contracts – buy	2,695,580	1,938,460
Forward foreign exchange contracts – sell	2,692,130	1,862,489
Currency swaps – buy	7,139,121	7,461,461
Currency swaps – sell	6,708,646	7,254,194
Interest rate swaps – buy	9,348,627	8,356,003
Interest rate swaps – sell	9,348,627	8,356,003
Currency option – buy	887,950	2,634,254
Currency option – sell	887,850	2,634,254
Other – sell	-	13,401

37. COMMITMENTS AND CONTINGENCIES

	31 December 2019	31 December 2018
Swap and forward agreements	37,932,731	35,228,610
Revocable and irrevocable commitments	4,398,283	3,727,591
Derivative financial instruments for hedging purposes	16,520,430	18,028,129
Option agreements	1,775,800	5,268,508
Letters of guarantee	1,819,028	1,582,993
Letters of credit	2,538,241	1,590,814
Capital commitments for subsidiaries and associates (*)	96,782	97,805
Bank acceptances	190,447	-
Other commitments	-	13,401
	65,271,742	65,537,851

() The Bank, the European Investment Fund (European Investment Fund - EIF), to be established by Turkey, Growth and Innovation Fund (Turkish Growth and Innovation Fund - TGIF) purchase of shares of the fund established under the name situated remaining amount that commitment.*

Fiduciary Activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in the accompanying consolidated financial statements.

The nominal values of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 2,137,682 as at 31 December 2019 (31 December 2018: TL 1,407,835). As at 31 December 2019, securities at custody with market value amounted to TL 5,678,000 (31 December 2018: TL 3,989,000).

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37. COMMITMENTS AND CONTINGENCIES (Continued)

Securities Blocked and Letters of Guarantee Given to Borsa İstanbul (BIST) as Collateral for Trading on Markets

As at 31 December 2019, according to the general requirements of the BIST, letters of guarantee amounting to TL 336,600 (31 December 2018: TL 425,100) had been obtained from various local banks and were provided to BIST for bond and stock market transactions. Also, as at 31 December 2019 there is no letter of guarantee were given to the CMB (31 December 2018: none).

The Group's trading securities given as collateral or blocked amounted to TL 406 at the reporting date (31 December 2018: TL 382).

Litigations

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

There are 69 legal cases against the Group which are amounting to TL 5,251 as of the reporting date (31 December 2018: TL 5,225 for 67 legal cases). Tax Audit Committee inspectors made an investigation for the years 2008-2011 about the payments made by the Bank and employees to "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" ("the Foundation") established in accordance with the decisions of the Turkish Commercial Law and the Civil Law as made to all foundations in the sector. According to this investigation it has been communicated that the amount the Bank is obliged to pay is a benefit in the nature of fee for the members of the Foundation worked at the time of payment, the amount the Foundation members are obliged to pay should not been deducted from the basis of fee; accordingly tax audit report was issued with the claim that it should be taken penalized income tax surcharge / penalized stamp duty deducted from allowance and total amount of TL 17,325 tax penalty notice relating to period in question to the Bank relying on this report.

Some of the lawsuits are decided favourable, remaining of lawsuits are decided unfavourable by the tax courts of first instance. On the other hand, appeal and objection have been requested by the Parent Bank against the decision of the Court with respect to the Parent Bank and by the administration against the decision of the Court with respect to the administration and completion of appeal process is waited. The tax and penalty notices related to the decision of the tax court of first instance against the Parent Bank are accrued by administration depending on legal process and as of 31 July 2014 the Parent Bank has made total payments amounting to TL 22,091.

A similar case has been submitted to the Constitutional Court (AYM) in the form of individual remedies by the main shareholder of the parent Bank in relation to the parent Bank's liabilities to pay, the Constitutional Court gave the decision with court file number 2014/6192. According to court decision published in the Official Gazette dated 21 February 2015 and numbered 29274, the assessments against the parent Bank was contrary to the principle of legality and the Parent Bank's property rights has been violated. This decision is considered to be a precedent for the parent Bank and an amount of TL 12,750 corresponding to the portion that the parent Bank was obliged to pay for the related period is recognised as income in the prior period.

There is a lawsuit for Pendorya Mall of TSKB GYO registered in Pendik, Doğu District, plot 105, map 865, parcel 64 against IBB and Karacan Yapı at Pendik 2nd Court of First Instance Pendorya Mall claiming the road intersects his own property and demanding compensation amounting TL 7. TSKB GYO has been involved in the lawsuit as intervening party.

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37. COMMITMENTS AND CONTINGENCIES (Continued)

Litigations (continued)

Relating to immovable property, subject of litigation discovery review and expert reports were submitted to the court file. Objections to the report and statement of TSKB GYO has been given. IBB Presidency has declared that expropriation proceedings related to the subject have been initiated. For this reason, lawsuit was removed from “Possessory Actions” and converted to the “Confiscating without expropriating” by the judge.

Accepting in the new case, the plaintiff claimed compensation from the Administration and in order to determine the amount of compensation the Court decided an expert examination since the information provided by the Land Registry and the Municipality was not deemed sufficient.

Expert reports submitted to the Court on 30 May 2013 and the Court decided to add Pendik Municipality as a defendant in the case. At the latest hearing on 24 December 2013 it was decided to accept the expert reports and Pendik Municipality to pay the relevant amount (TL 645) to the plaintiff. The reasoned decision has been notified, the decision which has been appealed by the appellant and the respondent Pendik Municipality has turned deteriorate the Supreme Court decision was a request for the correction requested by the İstanbul Metropolitan Municipality (IMM). The decision has been requested adjustment by IMM and plaintiff Sağlam Satış ve Paz. A.Ş. (Malazlar A.Ş.). Breaking decision of the Supreme Court is expected to evaluate the requests for correction of decision. The Court decided to apply of Supreme Court’s decision to dismiss.

Beyoğlu Municipality approved the reclaim of TSKB GYO for the Building II which has the location as 1486 map and 76 parcel in Fındıklı in Beyoğlu, Istanbul for the forfeiture because of zoning change. However, Municipality of Beyoğlu sued because of no approbation by Istanbul Metropolitan Municipality, in order to keep rights on the subject.

The court made a decision as no solution for the relevant claim due to Beyoğlu Municipality approved the reclaim. However, There has to be permission by Istanbul Metropolitan Municipality, and Cultural and Natural Heritage Preservation Board for the exact result. That’s why, decision was appealed by the company. The Council of State reversed the judgement based on inappropriate zoning plan changes with the decision of 28 March 2014.

In addition, a new implementation development plan covering the Fındıklı Building II, which has been canceled by the judicial authorities and which is owned by TSKB GYO, is being prepared by the Municipality of Beyoğlu on December 21, 2010, the 1/1000 Scaled Beyoğlu District Protected Urban Site Protected Development Plan. For this content, TSKB GYO’s application were made in writing to the Beyoğlu Municipality on 28 October 2014 in order to plan by taking into account the 1/1000 Scale Implementation Plan which is being prepared by the Municipality of Beyoğlu and the Istanbul Metropolitan Municipality. The court requested the Municipality to ask the plan including the immovable subject to the decision of the Council of State is still in force as a result of the decision of dismissal and that the plan canceled by the court in the letter sent from the Municipality is still valid answered in the form. In the case which was started to discuss again in court; an expert opinion examination was made. The Court has ruled in favor of the Parent Bank by canceling the administrative proceeding. Against decision, within the legal period, Beyoğlu Municipality has applied for the appeal law and it is expected that the file will be sent to Istanbul Regional Administrative Court for examination and, if necessary, for re-trial.

A lawsuit was filed by one of the investors of TSKB GYO on the cancellation of the 5th, 7th and 9th articles decided at the Ordinary General Assembly meeting on 27 April 2018. Although the request for the case was demanded to stop the execution of the 5th and 7th articles, no decision was taken as of 31 December 2018. Responded with a petition and a legal opinion presented to lawsuit. The trial is ongoing.

According to Legal Department of the Bank, it is not expected that the other lawsuits against the Bank will have a significant impact on the financial statements.

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37. COMMITMENTS AND CONTINGENCIES (Continued)

Litigations_(continued)

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According to Legal Department of the Bank, it is not expected that the other lawsuits against the Bank will have a significant impact on the financial statements.

Other

The Group's head office and 9 branches, including branches of subsidiaries, are subject to operational leasing. Additionally, 26 cars and 345 computers are within the context of operational leasing. The Group has no liability for operational leases as of the reporting date (31 December 2018: 9 branches and 24 cars and 291 computers are subject to operational leasing).

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38. RELATED PARTIES

For the purposes of the accompanying consolidated financial statements, shareholders of the Group and related companies, consolidated and non-consolidated equity participations and related companies, directors and key management personnel together with their families and related companies are referred to as "Related Parties" in this report. During the conduct of its business the Group had various significant transactions and balances with Related Parties during the year.

The accompanying consolidated financial statements include the following balances due from or due to related parties:

	31 December 2019	31 December 2018
<u>Balances with related parties</u>		
Loans and advances to customers	703,483	599,866
<i>Balances with Parent Bank</i>	118,394	-
<i>Balances with other related parties</i>	585,089	599,866
Non-cash loans	27,938	262
Loans and advances to banks	119,413	566,850
Financial assets at fair value through other comprehensive income investment securities	21,707	12,694
Other assets	31	1,649
Other liabilities	28,849	1,448
Derivative financial instruments	-	364,732
	1 January – 31 December 2019	1 January – 31 December 2018
<u>Transactions with related parties</u>		
Income from associates	19,944	90,705
Dividend income	6,754	5,525
Interest income	29,128	31,762
- <i>Balances with Parent Bank</i>	-	76
- <i>Balances with other related parties</i>	29,128	31,686
Foreign exchange gain (loss), net	8,025	22,177
Net fee and commission income / (expense), net	619	213
- <i>Balances with Parent Bank</i>	-	-
- <i>Balances with other related parties</i>	619	213
Other income	424	442
- <i>Balances with Parent Bank</i>	30	34
- <i>Balances with other related parties</i>	394	408
Derivative financial instruments gains/losses	(22,410)	(358,523)

Compensation of Key Management Personnel of the Group

Benefits provided to key management personnel in the current period amount to TL 19,837 (31 December 2018: TL 16,846).

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39. RATINGS

As at and for the year ended 31 December 2019, the Bank's, ratings assigned by international rating agencies are as follows;

Moody's – 18 June 2019	Rating	Outlook
Long-term Foreign Currency Issuer Rating	B3	Negative
Short-term Foreign Currency Issuer Rating	NP	-
Long-term Local Currency Issuer Rating	B3	Negative
Short-term Local Currency Issuer Rating	NP	-
Long-term Foreign Currency Senior Debt	B3	Negative

Fitch Ratings– 12 Noevmber 2019	Rating	Outlook
Long-term Foreign Currency Issuer Default Rating	B+	Stable
Long-term Local Currency Issuer Default Rating	BB-	Stable
Short-term Foreign Currency Issuer Default Rating	B	-
Short-term Local Currency Issuer Default Rating	B	-
National Long Term Rating	AA	Stable
Support Rating	4	-
Support Rating Floor	B+	-
Senior Unsecured Long Term Debt	B+	-

40. EVENTS AFTER THE REPORTING PERIOD

The Bank issued debt instrument in abroad which have nominal value of full USD 400 Million. The redemption date of the fixed-rate, 5-year bond, which was sold on 23 January 2020, was determined as 23 January 2025 and the coupon rate was 6%.

The recent outbreak of Coronavirus, a virus causing potentially deadly respiratory tract infections originating in China and spreading in various jurisdictions, may negatively affect economic conditions regionally as well as globally, disrupt operations situated in countries particularly exposed to the contagion. The ultimate severity of the Coronavirus outbreak is uncertain at this time and therefore the Group cannot reasonably estimate the impact on Group's operations.”