TÜRK EKONOMİ BANKASI
ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 WITH INDEPENDENT AUDITOR'S REPORT

Deloitte.

DRT Bağımsız Denetim ve
Serbest Muhasebeci
Mali Müşavirlik A.Ş.
Maslak no1 Plaza
Eski Büyükdere Caddesi
Maslak Mahallesi No:1
Maslak, Sarıyer 34485
İstanbul, Türkiye

Tel : +90 (212) 366 6000
Fax : +90 (212) 366 6010
www.deloitte.com.tr

Mersis No: 0291001097600016
Ticari Sicil No : 304099

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Türk Ekonomi Bankası A.Ş.

Opinion

We have audited the consolidated financial statements of Türk Ekonomi Bankası A.Ş. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters	How the matter was addressed in the audit
Impairment of loans in accordance with TFRS 9 Impairment of loans is a key area of judgement for the management. The Group has the total loans and advances to customers and factoring receivables amounting to TL 69,634,664 thousands, which comprise 64% of the Group's total assets in its consolidated financial statement and the total provision for impairment amounting to TL 3,675,783 as at 31 December 2019. The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions.	As part of our audit work, the following procedures were performed: We assessed and tested the design, implementation and operating effectiveness of key controls applied by the Group with respect to classification of loans and determination and calculation of impairments. Our information system experts have also participated to perform these procedures. We have assessed and analysed the relevant contract terms to assess management's accounting policy and classification of the instrument for selected samples. We have performed loan review procedures on selected samples of loans and receivables with the objective of identifying whether the loss event had occurred and whether the provision for impairment has been

Deloitte.

Key Audit Matters	How the matter was addressed in the audit
The Group exercises significant decisions using judgement, interpretation and assumptions over calculating loan impairments. These judgements, interpretations and assumptions are key in the development of the financial models built to measure the expected credit losses on loans. There is a potential risk of impairment losses/provisions provided/will be provided may not meet the requirements of the IFRS 9. Failure in determining the loans and receivables that are impaired and not recording the adequate provision for these impaired loans is the aforementioned risk. Accordingly, impairment of loans is considered as a key audit matter. Related explanations relating to the impairment are presented in Note 7 and 8.	recognized in a timely manner within the framework of the provisions of the relevant legislation. We have tested relevant inputs and assumption used by the management in each stage of the expected credit loss calculation by considering whether the inputs and assumptions appear reasonable, the relationship between the assumptions and whether the assumptions are interdependent and internally consistent, whether the assumptions appropriately reflect current market information and collections, and whether the assumptions appear reasonable when considered collectively with other assumptions, including those for the same accounting estimates and those for other accounting estimates. We have tested historical loss data to validate the completeness and accuracy of key parameters. We have tested whether the model is applied to appropriate groupings of assets which share credit risk characteristics and whether the historical loss rates were incurred under economic conditions representative of those that may exist during the assets' exposure periods. We tested the application of the model to the relevant inputs and the mathematical integrity of each stage of the expected credit loss calculation. Based on our discussions with the Group management, we evaluated whether the key assumptions and other judgements underlying the estimations of impairments were reasonable. We assessed expected credit losses determined based on individual assessment per Group's policy by means of supporting data, and evaluated appropriateness via communications with management. Our specialists are involved in all procedures related to models and assumptions. We have reviewed disclosures made within the IFRS 9 framework in the financial statements and respective notes of the Group with respect to loans and receivables and related impairment provisions.
Pension Fund Obligations Defined benefit pension plan that the Group provides to its employees is managed by Fortis Bank AŞ Mensupları Emekli Sandığı ("Plan") which is established by the 20th provisional article of the Social Security Law numbered 506 (the "Law").	Our audit work included the following procedures: We involved external experts (actuary) in our audit team to evaluate the assumptions used in the calculation of the pension obligations and the appropriateness of the estimates.

Key Audit Matters	How the matter was addressed in the audit
As disclosed in the Section 2 Note 2.2 n) to the consolidated financial statements, the Plan is composed of benefits which are subject to transfer to the Social Security Foundation ("SSF") as per the Social Security Law no.5510 provisional article 20, and other social rights and pension benefits provided by the Group that are not transferable to the SSF. The Council of Ministers has been authorized to determine the transfer date. Following the transfer, the funds and the institutions that employ the funds' members will cover the non-transferable social rights and pension benefits provided under the Plan even if it is included in foundation voucher. As of 31 December 2019, the Group's transferrable liabilities are calculated by an independent actuary using the actuarial assumptions regulated by the Law, and in accordance with the Decision of the Council of Ministers announced in the Official Gazette dated 15 December 2006 and No.26377. The valuation of the Plan liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, inflation levels, demographic assumptions, and the impact of changes in the Plan. Management uses expert opinion of the independent actuary in assessing uncertainties related to these underlying assumptions and estimates. As described in Note 16 considering the subjectivity of key judgments and assumptions, plus the uncertainty around the transfer date and basis of the transfer calculation given the fact that the technical interest rate is prescribed under the Law, we considered this as a key audit matter.	It has been tested whether the plan assets meet plan obligations in accordance with the methods and assumptions used. In addition, reconciliations and tests were carried out through sampling of the accuracy of the data provided to the Group's actuary. We have assessed whether there is a significant change in the actuarial assumptions, methods, legal regulations and legislation used in the calculations and whether the assumptions are reasonable.
Information Technologies Audit The Bank and its finance functions are dependent on the IT-infrastructure for the continuity of its operations, and the demand for technology-enabled business services is rapidly growing in the Bank and its subsidiaries. Controls over reliability and continuity of the electronic data processing are within the scope of the information systems internal controls audit. The reliance on information systems within the Bank means that the controls over access	Procedures within the context of our information technology audit work: • We identified and tested the Group's controls over information systems as part of our audit procedures. • Information generation comprise all layers of information systems (including applications,

Deloitte.

Key Audit Matters	How the matter was addressed in the audit
rights, continuity of systems, privacy and integrity of the electronic data are critical and found to be key area of focus as part of our risk based scoping.	networks, transmission systems and database). The information systems controls tested are categorized in the following areas: • Security management • Changes management • Operations management • We selected high-risk areas as, database logging and change management control activities, to prevent and detect whether accesses to financial data had been identified in a timely manner. • We tested the accesses and logging controls underlying all applications that have direct or indirect impacts on financial data generation. • Automated controls and integration controls are tested to underly and detect changes and accesses in the process of financial data generation. • We also tested the appropriateness and accuracy of the information produced by the entity and information used in controls reports as inputs to our controls and outputs generated by the IT components. • Finally, we understood and tested the controls over database, network, application and operating system layers of applications.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2018 was audited by another auditor who expressed an unqualified opinion dated 25 February 2019.

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

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

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

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

Deloitte.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current 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 on the audit resulting in this independent auditor's report is Yaman Polat.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Yaman Polat
Partner

İstanbul, 27 February 2020

INDEX

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	31 December 2019	31 December 2018
ASSETS			
Cash and balances with central banks	5	12,394,727	16,035,964
Financial assets at fair value through profit or loss ("FVPL")	6	2,965,434	3,227,220
Securities	6	1,295,392	616,461
Derivative financial instruments	6,18	1,670,042	2,610,759
Derivatives used for hedging purposes	18	241,507	502,479
Financial assets at fair value through other comprehensive income ("FVOCI")	6	5,541,376	3,292,852
Debt securities	6	5,533,476	3,287,237
Equity securities	6	7,900	5,615
Financial assets at amortised cost ("AC")		81,275,405	72,278,573
Loans and advances due from banks	5	9,570,735	4,026,420
Loans and advances to customers	7	63,908,713	63,530,191
Factoring receivables	8	2,050,168	1,648,785
Debt securities	6	4,905,514	2,791,452
Other money market placements	5	840,275	281,725
Remeasurement adjustment on interest-rate risk hedged items		336	-
Current tax asset		14,810	1,358
Deferred tax asset	17	667,146	208,595
Property, plant and equipment	9	884,818	295,181
Intangible assets	10	140,308	111,471
Goodwill	11	420,645	420,645
Other assets	12	4,580,184	2,220,693
Total assets		**109,126,696**	**98,595,031**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from central bank		25	-
Financial liabilities at fair value through profit or loss	18	1,586,584	2,375,802
Derivative financial instruments	18	1,586,584	2,375,802
Derivatives used for hedging purposes	18	1,924,974	389,182
Financial liabilities at amortised cost		89,640,827	80,973,140
Deposits from credit institutions	13	386,287	275,080
Customers' deposits	13	71,791,540	63,885,054
Other money market deposits	13	1,644,665	62,543
Funds borrowed	15	10,293,955	13,380,899
Debt securities issued	14	2,333,877	526,592
Subordinated debts	15	3,190,503	2,842,972
Current tax liability	17	32,155	100,978
Provisions	16	667,180	504,119
Other liabilities	16	5,365,834	4,379,799
Total liabilities		**99,217,579**	**88,723,020**
EQUITY			
Equity attributable to owners of the parent		**9,899,711**	**9,863,422**
Share capital issued	19	2,204,390	2,204,390
Premium in excess of par		2,565	2,565
Adjustment to share capital		200,262	200,262
Financial instruments designated as at FVOCI	20	19,528	(139,731)
Reserve for hedging funds	20	(886,750)	273,733
Remeasurement on employee benefits		39,999	31,706
Retained earnings	20	8,319,717	7,290,497
Non-controlling interests		**9,406**	**8,589**
Total equity		**9,909,117**	**9,872,011**
Total liabilities and equity		**109,126,696**	**98,595,031**

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF 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			
Interest income on loans measured at AC		10,793,374	9,890,743
Interest income on debt securities measured at AC		612,842	435,730
Interest income on debt securities at FVOCI		331,120	509,313
Interest income on debt securities at FVPL		187,881	166,934
Interest income on loans and receivables due from banks measured at AC		451,156	446,409
Interest income on other money market placements measured at AC		245,434	99,444
Interest income on hedging derivatives		1,588,688	1,403,770
Total interest income		**14,210,495**	**12,952,343**
Interest expenses			
Interest expenses on customer deposits		(4,868,565)	(5,834,613)
Interest expenses on subordinated debt issued		(234,092)	(156,066)
Interest expenses on other money market deposits		(114,709)	(56,987)
Interest expenses on debt securities issued		(514,885)	(251,345)
Interest expenses on funds borrowed and deposits from other banks		(1,282,754)	(912,894)
Interest expenses on hedging derivatives		(1,638,480)	(1,120,068)
Total interest expense		**(8,653,485)**	**(8,331,973)**
Net interest income		**5,557,010**	**4,620,370**
Fees and commissions and other operating income		**175,202**	**474,182**
Fees and commissions income	26	2,414,818	2,010,829
Fees and commissions expenses	26	(1,101,324)	(799,122)
Net loss on financial instruments at FVPL	25	(1,034,944)	(679,816)
Net loss on financial instruments at FVOCI		49,066	(23,922)
Net losses from other activities		(152,414)	(33,787)
Net banking income		**5,732,212**	**5,094,552**
Operating expenses		**(2,818,466)**	**(2,478,099)**
Salaries and employee benefits	23	(1,517,716)	(1,312,022)
Other operating expenses	24	(848,374)	(933,727)
Depreciation and amortization	9,10	(300,839)	(139,676)
Taxes other than on income		(151,537)	(92,674)
Gross operating income		**2,913,746**	**2,616,453**
Cost of risk	7,8,16	(1,440,898)	(1,264,096)
Operating income		**1,472,848**	**1,352,357**
Net gain on non-current assets		19,720	1,520
Pre-tax income		**1,492,568**	**1,353,877**
Income tax – current	17	(541,836)	(202,705)
Income tax – deferred	17	177,060	(96,100)
Net profit for the period from continuing operations		**1,127,792**	**1,055,072**
Attributable to:			
Equity holders of the Parent		1,125,567	1,053,398
Non-controlling interests		2,225	1,674
Net Profit		**1,127,792**	**1,055,072**
Basic earnings per share (full TL)	21	0.5106	0.4779
Diluted earnings per share (full TL)	21	0.5106	0.4779
Basic and diluted earnings per share from continuing operations (full TL)	21	0.5106	0.4779

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

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

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

	1 January - 31 December 2019	1 January - 31 December 2018
Profit for the period	**1,127,792**	**1,055,072**
Other comprehensive income		
Items that are or may be reclassified to profit or loss	**(1,003,302)**	**31,178**
Fair value gains/(losses) on financial assets at fair value through other comprehensive income (net of tax)	157,181	(105,962)
Net change in fair values	195,006	(124,960)
Net amount transferred to income	(37,825)	18,998
Cash flow hedge (Effective portion of changes in fair value), (net of tax)	(1,160,483)	137,140
Items that will not be reclassified to profit or loss	**10,410**	**(26,632)**
Remeasurement of post-employment benefits obligation, (net of tax)	8,239	(26,632)
Fair value gains/(losses) on financial assets at fair value through other comprehensive income (net of tax)	2,171	-
Other comprehensive (loss) / income for the period, net of tax	**(992,892)**	**4,546**
Total comprehensive income for the period, net of tax	**134,900**	**1,059,618**
Attributable to:		
Owners of the Parent	132,636	1,057,997
Non-controlling interest	2,264	1,621
Total comprehensive income for the period	**134,900**	**1,059,618**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

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

		Attributable to owners of the parent											
	Notes	Share capital	Premium in excess of par	Adjustment to share capital	Financial instruments designated as at fair value through equity	Reserve for hedging funds	Remeasurements on employee benefits	Legal reserves	Other capital reserves	Retained earnings	Total equity attributable to equity holders of the Parent	Non-controlling Interest	Total equity
At 31 December 2017		**2,204,390**	**2,565**	**200,262**	**(38,188)**	**136,593**	**58,351**	**326,730**	**1,084,258**	**5,229,750**	**9,204,711**	**8,394**	**9,213,105**
First time adoption impact of IFRS 9,net		-	-	-	4,353	-	-	-	-	(303,639)	(299,286)	-	(299,286)
At 1 January 2018		**2,204,390**	**2,565**	**200,262**	**(33,835)**	**136,593**	**58,351**	**326,730**	**1,084,258**	**4,926,111**	**8,905,425**	**8,394**	**8,913,819**
Dividend paid		-	-	-	-	-	-	-	-	(100,000)	(100,000)	(1,426)	(101,426)
Transfer to legal reserves		-	-	-	-	-	-	55,613	-	(55,613)	-	-	-
Profit for the period		-	-	-	-	-	-	-	-	1,053,398	1,053,398	1,674	1,055,072
Other comprehensive income for the period		-	-	-	(105,896)	137,140	(26,645)	-	-	-	4,599	(53)	4,546
Total comprehensive income		-	-	-	(105,896)	137,140	(26,645)	-	-	1,053,398	1,057,997	1,621	1,059,618
At 31 December 2018		**2,204,390**	**2,565**	**200,262**	**(139,731)**	**273,733**	**31,706**	**382,343**	**1,084,258**	**5,823,896**	**9,863,422**	**8,589**	**9,872,011**

		Attributable to owners of the parent											
	Notes	Share capital	Premium in excess of par	Adjustment to share capital	Financial instruments designated as at fair value through equity	Reserve for hedging funds	Remeasurements on employee benefits	Legal reserves	Other capital reserves	Retained earnings	Total equity attributable to equity holders of the Parent	Non-controlling Interest	Total equity
At 31 December 2018		**2,204,390**	**2,565**	**200,262**	**(139,731)**	**273,733**	**31,706**	**382,343**	**1,084,258**	**5,823,896**	**9,863,422**	**8,589**	**9,872,011**
First time adoption impact of IFRS 16,net	3	-	-	-	-	-	-	-	-	(96,347)	(96,347)	-	(96,347)
At 1 January 2019		**2,204,390**	**2,565**	**200,262**	**(139,731)**	**273,733**	**31,706**	**382,343**	**1,084,258**	**5,727,549**	**9,767,075**	**8,589**	**9,775,664**
Dividend paid		-	-	-	-	-	-	-	-	-	-	(1,447)	(1,447)
Transfer to legal reserves		-	-	-	-	-	-	51,995	-	(51,995)	-	-	-
Profit for the period		-	-	-	-	-	-	-	-	1,125,567	1,125,567	2,225	1,127,792
Other comprehensive income for the period		-	-	-	159,259	(1,160,483)	8,293	-	-	-	(992,931)	39	(992,892)
Total comprehensive income		-	-	-	159,259	(1,160,483)	8,293	-	-	1,125,567	132,636	2,264	134,900
At 31 December 2019		**2,204,390**	**2,565**	**200,262**	**19,528**	**(886,750)**	**39,999**	**434,338**	**1,084,258**	**6,801,121**	**9,899,711**	**9,406**	**9,909,117**

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ 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	1 January - 31 December 2019	1 January - 31 December 2018
Cash flows from operating activities			
Interest received		13,796,041	12,196,937
Interest paid		(9,059,619)	(8,069,322)
Fees and commissions received		2,384,690	2,032,699
Trading loss		544,977	(2,988,429)
Collection from impaired loans		1,077,528	868,891
Fees and commissions paid		(1,101,324)	(799,122)
Cash payments to employees and other parties		(1,497,992)	(1,296,160)
Other operating expenses		2,321,116	419,649
Income taxes paid	17	(763,127)	(174,021)
Cash flows from operating activities before changes in operating assets and liabilities		**7,702,290**	**2,191,122**
Changes in operating assets and liabilities			
Net (increase) in financial assets through profit or loss		(676,989)	(123,857)
Net (increase) / decrease in reserve deposits at central banks		(651,294)	752,820
Net decrease in loans and advances due from banks		1,439,586	827,695
Net (increase) in loans and advances to customers		(2,419,611)	(4,369,820)
Net (increase) / decrease in factoring receivables		(376,282)	343,327
Net (increase) in other assets		(2,422,605)	(846,514)
Net increase / (decrease) in deposits from credit institutions		111,281	(4,291)
Net increase in deposits from customers		5,027,115	7,859,796
Net increase / (decrease) in other money market deposits		1,581,592	(42,600)
Net increase in factoring payables		-	4,525
Net increase / (decrease) in other liabilities		(931,844)	1,258,552
Net cash provided by / (used in) operating activities		**680,949**	**5,659,633**
Cash flows from investing activities			
Purchases of securities at FVOCI	6	(4,627,548)	(1,178,960)
Proceeds from sale and redemption of securities at FVOCI	6	2,281,659	987,426
Purchases of securities at amortised cost	6	(1,726,438)	(573,615)
Proceeds from sale and redemption of securities at amortised cost	6	-	291,886
Purchases of property, plant and equipment	9	(136,608)	(101,021)
Proceeds from the sale of premises and equipment		22,434	2,547
Purchases of intangible assets	10	(101,286)	(70,426)
Net cash provided by / (used in) investing activities		**(4,287,787)**	**(642,163)**
Cash flows from financing activities			
Proceeds from funds borrowed and issued debt securities	15	24,337,664	19,432,697
Repayment of funds borrowed and issued debt securities	15	(25,614,380)	(20,956,284)
Dividends paid to equity holders of the parent		(1,447)	(101,426)
Net cash provided by / (used in) financing activities		**(1,278,163)**	**(1,625,013)**
Effect of net foreign exchange difference on cash and cash equivalents		475,011	1,516,339
Net (increase) / decrease in cash and cash equivalents		3,292,300	7,099,918
Cash and cash equivalents at the beginning of the period	5	13,060,154	5,960,236
Cash and cash equivalents at the end of the period		**16,352,454**	**13,060,154**

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

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

1. CORPORATE INFORMATION

General

Türk Ekonomi Bankası Anonim Şirketi ("TEB" or "The Bank"), which had been a local bank incorporated in Kocaeli in 1927 under the name of Kocaeli Halk Bankası T.A.Ş., was acquired by the Çolakoğlu Group in 1982. Its title was changed as Türk Ekonomi Bankası A.Ş. and its headquarters moved to İstanbul. On 10 February 2005, BNP Paribas took over 50% of shares of TEB Holding A.Ş. Consequently, BNP Paribas became indirect shareholder of TEB with 42.125% ownership. In 2009, BNP Paribas Group successively acquired 75% of Fortis Bank Belgium and 66% of Fortis Bank Luxembourg and became the shareholder holding the majority of the shares of Fortis Bank Turkey. The indirect majority shareholders of TEB which are BNP Paribas and Çolakoğlu Group have agreed on the merger of TEB and Fortis Bank under the trademark of TEB and following the authorizations obtained from the regulatory authorities on 14 February 2011 the legal merge of two banks has been completed. As a result of the merger TEB Holding has the majority stake of 55% in TEB and Çolakoğlu Group and BNP Paribas have 50% shares in TEB Holding.

The shareholders' structure and their respective ownerships are summarized below as of 31 December 2019 together with the comparative information as of 31 December 2018:

	31 December 2019		**31 December 2018**	
Name of shareholders	**Paid in capital**	**%**	**Paid in capital**	**%**
TEB Holding A.Ş.	1,212,415	55.00	1,212,415	55.00
BNP Yatırımlar Holding A.Ş.	518,342	23.51	518,342	23.51
BNP Paribas Fortis Yatırımlar Holding A.Ş.	467,879	21.23	467,879	21.23
BNP Paribas SA	5,253	0.24	5,253	0.24
Kocaeli Ticaret Odası	501	0.02	501	0.02
	2,204,390	**100.00**	**2,204,390**	**100.00**

TEB Holding A.Ş. is a member of both Çolakoğlu and BNP Paribas groups. 50% of the shares of TEB Holding A.Ş. are controlled by BNP Paribas, while the remaining 50% is controlled by Çolakoğlu Group. BNP Paribas Fortis Yatırımlar Holding A.Ş. is controlled by BNP Paribas Fortis NV/SA whose shareholders are BNP Paribas Fortis NV/SA by 100% shares, respectively. 100% of the shares of BNP Yatırımlar Holding are controlled by BNP Paribas SA.

As of 31 December 2019, the Bank's paid-in-capital consists of 2,204,390,000 shares of TL1.00 (full TL) nominal each.

The registered office address of TEB is TEB Kampüs C ve D Blok, Saray Mahallesi, Sokullu Caddesi, No: 7A-7B Ümraniye-İstanbul/Turkey.

For the purposes of the accompanying consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as the "Group".

The consolidated financial statements of the Group were authorized for issuance by Board of Directors on 27 February 2020. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of Activities of the Group

The operations of the Group consist of banking, factoring, securities brokerage and portfolio management, which are conducted mainly for local customers.

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

	Place of Incorporation	**Effective Shareholding And Voting Rights %**	
		31 December 2019	**31 December 2018**
TEB Yatırım Menkul Değerler A.Ş. (TEB Yatırım)	Turkey	100.00	100.00
TEB Faktoring A.Ş. (TEB Faktoring)	Turkey	100.00	100.00
TEB Portföy Yönetimi A.Ş. (TEB Portföy)	Turkey	54.74	54.74

1. CORPORATE INFORMATION (Continued)

The principal activities of the consolidated subsidiaries are as follows:

TEB Yatırım – Rendering fixed income and equity brokerage and corporate finance services in line with the rules of the Capital Markets Board of Turkey.

TEB Faktoring – Providing both domestic and export factoring services to industrial and commercial enterprises in Turkey.

TEB Portföy – Managing individual customer portfolios and mutual funds which consist of capital market instruments.

As of 31 May 2019, TEB Portfolio Management acquired all of ING Group's shares in ING Portfolio Management. The merger was registered on 16 August 2019. As of 31 December 2019, TEB Portfolio Management has consolidated ING Portfolio Management with full consolidation method. No goodwill has occurred as a result of this merger.

Stichting TEB Diversified Payment Rights and TEB Diversified Payment Rights S.A., which are not subsidiary of the Bank but over which the Bank has controlling power, have been included in the consolidation as “Structured Entity”. It has been publicly announced that the decision regarding the liquidation of “Stichting TEB Diversified Payment Rights" and "TEB Diversified Payment Rights S.A." has been taken on 19 July 2019. "TEB Diversified Payment Rights S.A." liquidation was completed on 23 July 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

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

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared in accordance with IFRS and presented in Turkish Lira (“TL”). For the purpose of fair presentation in accordance with IFRS, certain adjustments and reclassifications have been made to the statutory financial statements.

2.2 Accounting Policies, Judgments and Estimates

a) Judgments and Estimates

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

The judgments and estimates that may have a significant effect on amounts recognised in the consolidated financial statements are discussed in the relevant sections below.

b) Functional and Presentation Currency

Functional and Presentation Currency for the Bank and Its Subsidiaries Which Operate in Turkey:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting Policies, Judgments and Estimates (Continued)

c) Foreign Currency Translation

The consolidated financial statements are presented in TL, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are recognised in the income statement.

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

	EUR / TL	USD / TL
31 December 2017	4.53	3.78
31 December 2018	6.04	5.27
31 December 2019	6.66	5.93

d) Basis of Consolidation and Goodwill

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, as at 31 December of each year.

Subsidiaries are entities over which the Group controls because the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries in which the Group obtained power directly from the voting rights, or has power to govern the financial and operating policies under a statute or agreement are subject to consolidation. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date of acquisition, referring to the date on which control is transferred to the Group and are deconsolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

All intra-group balances, transactions, and unrealized gains on intra-group transactions are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting Policies, Judgments and Estimates (Continued)

d) Basis of Consolidation and Goodwill (continued)

The acquisition method of accounting is used for acquired businesses. The acquisition method of accounting includes allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the income statement as a bargain purchase gain. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units. There is no negative bargain purchase gain recognised by the Group.

e) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and land improvements	50 years
Furniture, fixtures and office equipment and others	5-15 years

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

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset’s fair value less costs to sell and value in use. Impairment losses are recognised in the income statement.

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

f) Intangible Assets

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

The Group amortises intangible assets with a finite life on a straight-line basis over the estimated useful lives of 3 to 5 years. There are no intangible assets with indefinite useful lives, other than goodwill.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting Policies, Judgments and Estimates (Continued)

g) Financial Assets

The Group classifies its financial assets in the following categories: “Financial Assets at Fair Value Through Profit or Loss”; “Financial Assets Measured at Fair Value Through Other Comprehensive Income” or “Financial Assets Measured at Amortised Cost”. The financial assets are recognised or derecognised in accordance with the “Recognition and Derecognition” principles defined as per the classification and measurement of financial instruments of the "IFRS 9 Financial Instruments" standard. At initial recognition, financial assets are measured at fair value. In the case of financial assets are not measured at fair value through profit or loss, transaction costs are added or deducted to/from their fair value.

The Group recognises a financial asset in the financial statement when, and only when, the Group becomes a party to the contractual provisions of the instrument. When the Group first recognises a financial asset, the business model and the characteristics of contractual cash flows of the financial asset are considered by management.

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss are financial assets that are managed by business model other than the business model that aims to “hold to collect” and “hold & sell” the contractual cash flows; acquired for the purpose of generating profit from short-term fluctuations in price, or regardless of this purpose, the financial assets that are a part of a portfolio with evidence of short-time profit-taking; and the financial assets, whose terms do not give rise to cash flows that are solely payments of principal of interest at certain dates. Financial assets at fair value through profit or loss are initially recognised at fair value and are subsequently measured at fair value. Gain and losses upon their valuation are accounted for under the profit or loss accounts.

Equity securities classified as financial assets at fair value through profit or loss are recognised at fair value.

Accounting policies related to derivative financial instruments at fair value through profit or loss are explained in Note 18.

Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets are classified as financial assets at fair value through other comprehensive income where the business models aim to hold financial assets in order to collect the contractual cash flows and selling assets and the terms of financial asset give rise to cash flows that are solely payments of principal of interest at certain dates.

Financial assets at fair value through other comprehensive income are recognised at acquisition costs that reflect their fair value by adding transaction costs. Financial assets at fair value through other comprehensive income are subsequently measured at their fair value. The interest income of financial assets at fair value through other comprehensive income that are calculated using effective interest rate method is reflected in the statement of income. The difference between the fair value of the financial assets at fair value through other comprehensive income and the amortised cost of the financial assets, i.e. "Unrealized gains and losses", is not recognised in the statement of income until the realization of the financial asset, the sale of the asset, i.e. the disposal of the asset or being impaired of the asset are accounted under "Other Accumulated Comprehensive Income or Expenses that will be reclassified at Profit or Loss" under shareholders' equity. Accumulated fair value differences under equity are reflected to the statement of income when such securities are collected or disposed.

The Group may elect at initial recognition to irrevocably designate an equity investment at fair value other comprehensive income where those investments are hold for purposes other than to generate investments returns. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss. Dividends that represent a return on the investment continue to be recongnised in profit or loss in the financial statements.

All equity instruments classified as financial assets at fair value through other comprehensive income are measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting Policies, Judgments and Estimates (Continued)

g) Financial Assets (continued)

Financial investments measured at amortised cost:

A financial asset is classified as a financial asset measured at amortised cost when the Group's policy within a business model is to hold the asset to collect contractual cash flows and the terms give rise to cash flows that are solely payments of principal of interest at certain dates.

Financial asset measured at amortised cost is recognised at cost which represents its fair value at initial recognition by adding the transaction costs and subsequently measured at amortised cost by using the effective interest rate method. Interest income related to the financial asset measured at amortised cost is recognised in the statement of income.

Loans:

Loans are financial assets to fund borrowers with fixed or determinable payment terms which are not traded on an active market and measured at amortised cost is recognised at cost which represents its fair value at initial recognition by adding the transaction costs and subsequently measured at amortised cost by using the effective interest rate method.

h) Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement ('repos'), are recognised in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they belong to. Securities sold subject to repurchase agreements ('repos') are referred to as loaned securities when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement using the effective interest method.

Securities purchased with a corresponding commitment to resell at a fixed price at a specified future date ('reverse repos') are not recognised in the balance sheet, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using the effective interest method.

i) Netting of Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

j) Recognition and Derecognition of Financial Instruments

The Group recognises a financial asset or financial liability in the balance sheet only when it becomes a party to the contractual provisions of the instrument.

The Group recognises all regular way purchases and sales of financial assets on the settlement date i.e. the date that the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortised cost; change in value is not recognised.

The Group derecognises a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have expired; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting Policies, Judgments and Estimates (Continued)

j) Recognition and Derecognition of Financial Instruments (continued)

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset that is recognised to the extent of the Group's continuing involvement in the asset.

The Group derecognises a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

k) Impairment of Financial Assets

As of 1 January 2018, a loss allowance for expected credit losses is provided for all financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, all financial assets, which are not measured at fair value through profit or loss, loan commitments and financial guarantee contracts in accordance with IFRS 9 principles. Equity instruments are not subject to impairment assessment as they are measured at fair value.

Measurement of the expected credit losses reflects:

- Time value of money
- Reasonable and supportable information on past events, current conditions and forecasts of future economic conditions at the reporting date

Expected credit losses include an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions and the time value of money. The financial assets is divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1:

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

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses. Following criterias have been taken into account in classification a financial asset as Stage 2:

- Loans having past due more than 30 days and less than 90 days
- Restructured loans
- Concordatum files
- Significant deterioration in probability of default

In the case of the occurrence of any of the first three items above, it is classified under Stage 2 loans regardless of the comparison between probability of defaults.

Significant deterioration in probability of default is considered as significant increase in credit risk and the financial assets is classified under Stage 2 loans. In this regard, it is assumed that the probability of default deteriorates, if the probability of default exceeds the thresholds determined by the Bank's internal rating based credit rating models.

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 recognised and interest revenue is calculated on the net carrying amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting Policies, Judgments and Estimates (Continued)

l) Expected Credit Loss Calculation

Expected credit loss calculation refers to the calculation to estimate the loss of the financial instrument in case of default and it is based on 3-stage impairment model based on the change in credit quality. The Bank uses two different calculations considering 12-month and lifetime probability of default of the financial instruments.

If there is a significant increase in credit risk between the origination date and the reporting date of the loan, the lifetime probability of default is used and if there is no significant increase in credit risk the 12-month probability of default is used.

There are mainly three loan portfolios as commercial, retail and sovereign portfolios.

While the Bank uses the internal credit ratings for commercial portfolios, the internal behavioral scores for the retail portfolios is used. It is determined whether there is any significant increase in credit risk by comparing the credit ratings/behavioral scores at the origination date and reporting date for both portfolios.

Default Definition: Debts having past due more than 90 days; in addition, the fact that an obligor 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.

The Bank does not have any financial asset as purchased or originated credit-impaired.

Probability of Default (PD): PD represents the likelihood of default over a specified time period. Based on the historical data, 1-year PD of a customer is calculated for each portfolio on the basis of credit ratings and behavioral scores. PDs and LGDs used in the ECL calculation are point in time (“PIT”) based on key portfolios and consider both current conditions and expected cyclical changes. Two types of probability of default are calculated.

- 12-Month PD: as the estimated probability of default occurring within the next 12 months.
- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

Internal rating systems are used to measure the risk of both commercial and retail portfolios. The internal rating models used in the commercial portfolio include the customer's financial information and the answers to the qualitative question set. Behavioral score cards used in the retail portfolio include the behavioral data of the customer and the product in the Bank, the demographic information of the customer and the behavioral data of the customer in the sector. The probability of default is calculated based on historical data, current conditions and prospective macroeconomic expectations.

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

The Bank calculates the recovery rates for each portfolio in a way that include the collateral types and several risk elements, and it is ensured that the time value of money is included into the calculation by discounting of these recoveries to the reporting date. The collaterals in the calculation are taken into account by considering the credit conversion factors. The collaterals included in “Communique on Credit Risk Mitigation Techniques” is taken into account with their rules in the communique. The remaining part is considered as unsecured portfolio and loss given default rate determined for this portfolio is applied.

Exposure at Default (EAD): The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial instrument. The expected default amount is calculated by discounting the principal and interest repayments for cash loans and income accruals by effective interest method while it refers to the value calculated through using credit conversion factors for non-cash loans and commitments. It shows the risk of the borrower at the date of default.

Effective interest rate: the discount factor which reflects the time value of money.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting Policies, Judgments and Estimates (Continued)

l) Expected Credit Loss Calculation (continued)

Lifetime ECL is calculated by taking into account the period during which the Bank will be exposed to credit risk. The maturity information defined for all cash and non-cash loans is used in the calculation of the expected credit loss along with their maturity and payment plans. The maturity refers to the contractual life of a financial instruments unless there is the legal right to call it earlier. The maturity analysis and credit risk mitigation processes such as cancellation/revision of the limits have been developed for the definition of behavioral maturity for loans that do not have maturity information and revolving loans.

When expected credit losses are estimated, it is considered that three different macroeconomic scenarios as ”Base”, “Adverse” and “Favorable” and the weighted average of the results of this scenarios is taken into account. Forward-looking PDs based on the weighted average of these three scenarios are calculated on segment basis. The fundamental macroeconomic variable in the macroeconomic models is the estimated annual growth rate in gross national product The Bank periodically reviews the parameters included in the calculation and updates them when necessary.

Expected Credit Loss Calculation of Stage 1 Loans: It is calculated by considering 12-month (1 year) PDs for the financial assets measured at amortised cost, which do not reflect a significant increase in credit risk. Therefore, it is a part of the lifetime expected credit losses. Such expected 12- month PDs are applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate.

In the case of the current default rate is below a defined threshold without comparison with the origination date, the related loans are classified under Stage 1 loans by considering their credit qualities. Treasury Bills and CBRT balances are classified under Stage 1 loans. In addition, the institutions Related to risk group of the Bank and other banks’ placements are classified under Stage 1 loans.

Expected Credit Loss Calculation of Stage 2 Loans: It is calculated by considering lifetime PDs for the loans which has shown a significant increase in credit risk since origination. Such expected lifetime PDs are applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate.

In determining of the significant increase in credit risk, qualitative and quantitative assessments are performed.

Qualitative assessments:

The loans with a delay on repayment more than 30 days are classified under Stage 2 loans. In addition, the restructured loans are also classified under this stage.

The Bank periodically reviews the parameters included in the calculation and updates them when necessary.

Quantitative assessments:

“Significant increase in credit risk” is quantitatively based on the comparison the risk of default at the reporting date with the risk of default at the date of initial recognition. The change above the defined threshold is considered as significant increase in the credit risk, meaning that the credit is classified under Stage 2 loans.

In the case of the internal credit rating of the loan is above a defined threshold without comparison with the origination date, the related loans are classified under Stage 2 loans.

Expected Credit Loss Calculation of Stage 3 Loans: Lifetime expected credit losses are booked for the loans considered as impaired. When calculating the provisions by discounting the individual cash flow expectations for financial instruments which are above a defined threshold, loss given default rates are taken into account in case of default for financial instruments which are below the defined threshold.

m) Interest - Bearing Deposits and Borrowings

All deposits and borrowings are initially recognised at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the liabilities are derecognised as well as through the amortization process.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting Policies, Judgments and Estimates (Continued)

n) Employee Benefits

Defined Benefit Plans

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum termination indemnities over a 30 day salary to each employee who has completed over one year of service, whose employment is terminated due to retirement or for reasons other than resignation or misconduct, and due to marriage, female employees terminating their employments within a year as of the date of marriage, or male employees terminating their employments due to their military service. The Bank is also required to make a payment for the period of notice calculated over each service year of the employee whose employment is terminated for reasons other than resignation or misconduct. Total benefit is calculated in accordance with IAS No: 19 “Employee Benefits”.

Such benefit plans are unfunded since there is no funding requirement in Turkey. The cost of providing benefits to the employees for the services rendered by them under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method. All actuarial gains and losses are recognised in the other comprehensive income.

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Bank uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations are reviewed annually. The carrying value of provision for employee termination benefits as of 31 December 2019 is TL200,712 (31 December 2018: TL179,934).

Employees transferred to the Bank following the business combination defined in “General Information” of the Bank and Fortis Bank A.Ş. are the members of “Fortis Bank A.Ş. Mensupları Emekli Sandığı Vakfı” (the “Pension Fund”) which was established in May 1964 under the Provisional Article 20 of Social Insurance Law No: 506. Technical financial statements of the Pension Fund are reviewed by a licensed actuary in accordance with Article 38 of the Insurance Supervisory Law and the “Actuary Regulations” issued based on the same article. As of 31 December 2019, the Pension Fund has 1,552 employees and 1,139 pensioners (31 December 2018: 1,686 employees and 1,095 pensioners).

Provisional Article 23 (1) of Banking Law No: 5411 (the “Banking Law”) published in the Official Gazette repeated no: 25983 on 1 November 2005 requires the transfer of bank funds to the Social Security Institution (the “SSI”) within 3 years after the effective date of the Banking Law and the related paragraph also sets out the basis for the related transfer. However, Article 23 (1) of Banking Law No: 5411 was annulled based on the Constitutional Court’s ruling issued on 22 March 2007 and ruled for the stay of execution as of 31 March 2007. The related Court ruling and its basis were published in the Official Gazette No: 26731 on 15 December 2007.

Following the publication of the said decree of the Constitutional Court, the Turkish Grand National Assembly (the “TGNA”) initiated its studies on the development of new regulations in regards to the transfer of bank pension participations to the SSI and the related articles of the Social Security Law that are set out to determine the basis of fund transfers and new regulations became effective with its publication in the Official Gazette No: 26870 on 8 May 2008 and the completion of the transfer within 3 years starting from 1 January 2008. Upon the Council of Ministers’ resolution issued in the Official Gazette, the transfer period has been extended for 2 years as of 14 March 2011. According to amendment on the social security and general health insurance law published in the Official Gazette dated 8 March 2012 numbered 6283, mentioned 2-year transfer period has been increased to 4 years. Upon the Council of Ministers’ resolution dated 24 February 2014 issued in the Official Gazette No:28987 on 30 April 2014, mentioned transfer period has been extended for one more year while it has been extended for one year upon the Council of Ministers’ resolution dated 8 April 2013 issued in the Official Gazette No:28636 on 3 May 2013. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 numbered 29335. According to paragraph (I) of Article 203 of Law no. 703 which published on the Official Gazette no. 30473 dated 9 July 2018, the phrase, placed in 20th provisional article of Social Insurance and General Health Insurance Law no.5510, “Council of Ministers” is authorized to determine the date of transfer to the Social Security Institution has been replaced with “President”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting Policies, Judgments and Estimates (Continued)

n) Employee Benefits (continued)

Defined Benefit Plans (Continued)

The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 numbered 29335.

The technical financial statements of the Pension Fund are prepared by an independent actuary considering related regulation and the Fund is not required to provide any provisions for any technical or actual deficit in the financial statements based on the actuarial report prepared as of 31 December 2019. Since the Bank has no legal rights to carry the economic benefits arising from repayments of Pension Funds and/or decreases in future contributions at present value; no asset has been recognised in the balance sheet.

In addition, the Bank management anticipates that the amount of the liability that may arise during and after the transfer in the frame mentioned above will be sufficient to be met with the assets of Pension Fund and will not place any additional liability on the Bank.

According to “International Accounting Standard (IAS 19) about Benefits for Employee”, actuarial gain amounting to TL 8,239 (1 January - 31 December 2018: TL 26,632 loss) was classified as “Other Comprehensive Income” in financial statements for the period of 1 January-31 December 2019 and as of 31 December 2019, TL 39,999 of actuarial gain after tax (31 December 2018: TL 31,706) was accounted under “Remeasurement on Employee Benefits” for the period of 1 January – 31 December 2019.

o) Provisions

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

p) Leases

(a) The Group as Lessee

Finance leases

Assets held under finance leases are recognised 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 balance sheet 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. The Group has no financial lease activity.

Operating leases

With the “IFRS 16 Leases” standard which became effective as of 1 January 2019, the difference between the operating lease and financial lease has been removed and the lease transactions are started to be recognised under “Tangible Assets” as an asset (tenure) and under “Lease Liabilities” as a liability. Effects and application of IFRS 16 concerning the transition were explained in Note 3.

q) Factoring Receivables

Factoring receivables are recognised at original factored receivable amount less advances extended against factoring receivables, interest and factoring commissions charged, and are carried at amortised cost, which represents the fair value of consideration given, and subsequently remeasured at amortised cost less reserve for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting Policies, Judgments and Estimates (Continued)

r) Income and Expense Recognition

Interest income and expenses are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, throughout the period to the next repricing date. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees paid or received between parties in the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

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

Fee for bank transfers and other banking transaction services are recorded as income when collected.

s) Income Tax

Tax expense/(income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

The Group is subject to income taxes in various jurisdictions. Where there are matters causing the final tax outcome to be different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As of 31 December 2019, the Group carries TL32,155 of income taxes payable (31 December 2018: TL100,978), TL667,146 of deferred tax asset (31 December 2018: TL208,595) and has no deferred tax liability (31 December 2018: nil).

Current tax

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

According to the Article 32 of the Corporate Tax Law No. 5520, announced in the Official Gazette dated 21 June 2006, the corporate tax rate is 20% in Turkey. However, the corporate income tax rate will be applied as 22% for the years 2018, 2019 and 2020 regarding to the "Law on Amendment of Certain Tax Laws and Some Other Laws" numbered 7061 and published in the Official Gazette on 5 December 2017.

Deferred tax

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting Policies, Judgments and Estimates (Continued)

s) Income Tax (continued)

The deferred tax is calculated using the enacted tax rates that are valid as of the balance sheet date in accordance with the tax legislation in force. According to the Law, which was approved in the Grand National Assembly on 28 November 2017 and published in the Official Gazette dated 5 December 2017, the rate of Corporate Tax for the years 2018, 2019 and 2020 was increased from 20% to 22%. Therefore, deferred tax assets and liabilities are measured at the tax rate of 22% that are expected to apply to these periods when the assets is realised or the liability is settled, based on the Law that have been enacted. For the periods 2021 and after, the reversals of temporary differences are measured by 20%.

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

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

Income tax relating to items recognised in other comprehensive income or directly in equity is recognised in other comprehensive income or directly in equity and not in the income statement.

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

t) Derivative Financial Instruments and Hedge Accounting

Derivatives at fair value through profit or loss

The Group enters into transactions with derivative instruments including forwards, swaps, options and futures in the foreign exchange and capital markets. Fair values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected in the income statement.

In the assessment of fair value of interest rate swap instruments, interest amounts to be paid or to be received due to/from the fixed rate on the derivative contract are discounted to the balance sheet date with the current applicable fixed rate in the market that is prevailing between the balance sheet date and the interest payment date, whereas interest amounts to be paid or to be received due to/from the floating rate on the derivative contract are recalculated with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date and are discounted to the balance sheet date again with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date. The differences between the fixed rate interest amounts and floating rate interest amounts to be received/paid are recorded in the profit/loss accounts in the current period.

Black and Scholes Model is used to measure the fair value of options. Options premiums are accrued on the start date. The valuation amount is composed of premiums valued at each valuation date. Premium to be paid calculated within this model is recorded as income, and the premium to be collected as expense.

Futures transactions are valued on a daily basis by the primary market prices and related unrealized gains or losses are reflected in the income statement.

All derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. As of 31 December 2019, the carrying amount of derivative financial assets at fair value through profit or loss is TL1,670,042 (31 December 2018: TL2,610,759) and the carrying amount of derivative financial liabilities at fair value through profit or loss is TL1,586,584 (31 December 2018: TL2,375,802).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting Policies, Judgments and Estimates (Continued)

t) Derivative Financial Instruments and Hedge Accounting (continued)

Derivatives and Hedge Accounting

The Bank applies fair value and cash flow hedge accounting for the hedge of interest rate risk.

In the admission of the accounting policies, IFRS 9 presents the option of postponing the adoption of IFRS 9 hedge accounting and continuing to apply the hedge accounting provisions of IAS 39. Within this context, the Bank will continue to apply the hedge accounting provisions of IAS 39.

During period where the relation between hedging instrument and the hedged item is measured;

a) Within the scope fair value hedge accounting, the fair value change of the hedged item is recognized in profit or loss,
b) Within the scope of cash flow hedge accounting, the fair value change of the hedged item is recognized in other comprehensive income and the ineffective part of the gain or loss arisen from the hedging instrument is booked in profit or loss.

At the inception of the hedge, the Bank prepares formal documentation of the hedging relationship identifying the hedged item, the hedging instrument, the hedging strategy, the type of risk covered and the methods used to assess the effectiveness of the hedging relationship. On inception and on a quarterly basis the effectiveness of the hedging relationship is assessed consistently with the original documentation. The details of the hedge accounting are explained in Note 18.

u) Fiduciary Assets

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

v) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

w) Interest Income and Expenses

Interest income and expense are recognised in the income statement for all interest bearing instruments whose cash inflows and outflows are known or can be estimated on an accrual basis using the effective interest method.

x) Fees and Commission Income and Expenses

Fees and commissions other than those that are an integral part of the effective interest of the financial instruments measured at amortised cost are accounted for in accordance with the Standard IFRS 15, Revenue from Contracts with Customers.

Fees and commissions on banking services, which are not an integral part of the effective interest, are recorded as income when they are earned.

All types of fees and commissions from customers related to cash loans, net of related transaction costs, are deferred in “commissions on cash loans” account and are recognised as part of interest income over the period of the loan using the effective interest method.

Bank assurance commission income from insurance companies are recognised as income on an accrual basis as the related service is provided.

The commissions on guarantees and credit related commitments or fees for periodic banking services, are deferred and recorded as income over the commitment period, except when a loan commitment is expected to result in a specific loan, in which case the fees is an integral part of the effective interest method. Credit fees and commission expenses paid to other companies and institutions regarding financial liabilities are discounted by effective interest rate and are recorded as expenses in the relevant period on accrual basis.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting Policies, Judgements and Estimates (Continued)

y) Dividend Income

The dividend income is reflected to the financial statements when the profit distribution decision is approved by the General Assembly of the associates and subsidiaries.

2.3 New and Revised International Financial Reporting Standards

New and amended IFRS Standards that are effective for the current year

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

IFRS 16	*Leases*
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS Interpretation 23	*Uncertainty over Income Tax Treatments*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to IAS 19 Employee	*Plan Amendment, Curtailment or Settlement Benefits*
Annual Improvements to IFRS Standards 2015–2017 Cycle	*Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*

Impact of initial application of IFRS 16 leases

In the current year, the Group has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements and the impact of the adoption of IFRS 16 on the Group's consolidated financial statements are described in Note 3.

The date of initial application of IFRS 16 for the Group is 1 January 2019.

The Group has applied IFRS 16 using the cumulative catch-up approach which:

- Requires the Group to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

a) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 New and Revised International Financial Reporting Standards (continued)

Impact of initial application of IFRS 16 leases (continued)

b) Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

(a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;

(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within ‘other expenses’ in profit or loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

- The Group has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(ii) Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Group has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 New and Revised International Financial Reporting Standards (continued)

Impact of initial application of IFRS 16 leases (continued)

c) Financial impact of initial application of IFRS 16

The Group applied IFRS 16 "Leasing" standard as of 1 January 2019 for the first time. Implementation and effects related to the transition of IFRS 16 are explained in Note 3.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

The Group has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

IFRS Interpretation 23 *Uncertainty over Income Tax Treatments*

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

This amendment clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).

Annual Improvements to IFRS Standards 2015–2017 Cycle

Annual Improvements to IFRS Standards 2015–2017 Cycle include amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements in when a party that participates in, but does not have joint control of, IAS 12 Income Taxes; income tax consequences of dividends in profit or loss, and IAS 23 Borrowing Costs in capitalized borrowing costs.

Other than IFRS 16, these standards, amendments and improvements have no impact on the consolidated financial position and performance of the Group.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 New and Revised International Financial Reporting Standards (continued)

d) New and revised IFRSs in issue but not yet effective

The Group has not yet adopted the following standards and amendments and interpretations to the existing standards:

IFRS 17	*Insurance Contracts*
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IFRS 3	*Business Combinations*
Amendments to IAS 1	*Presentation of Financial Statements*
Amendments to IAS 8	*Accounting Policies, Changes in Accounting Estimates and Errors*
Conceptual Framework	*Amendments to References to the Conceptual Framework in IFRS Standards*

IFRS 17 Insurance Contracts

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

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

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IFRS 3 *Business Combinations*

The definition of "business" is important because the accounting for the acquisition of an activity and asset group varies depending on whether the group is a business or only an asset group. The definition of "business" in IFRS 3 Business Combinations standart has been amended. With this change:

- By confirming that a business should include inputs and a process; clarified that the process should be essential and that the process and inputs should contribute significantly to the creation of outputs.
- The definition of a business has been simplified by focusing on the definition of goods and services offered to customers and other income from ordinary activities.
- An optional test has been added to facilitate the process of deciding whether a company acquired a business or a group of assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 New and Revised International Financial Reporting Standards (continued)

Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material*

The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework. The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

2.4 Statement of Cash Flows

The cash and cash equivalents balance comprises cash and balances with central banks (excluding restricted reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Group's operations.

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of subsidiaries, as well as acquisitions and disposals of property,plant and equipment.

Changes in cash and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders and cash flows related to subordinated debt.

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

3. IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 16

Explanations on IFRS 16 Leasing Standards

IFRS 16 Leases specifies the principles for the leasing, presentation and disclosure of leases. The purpose of the standard is to provide tenants and lessees with appropriate information and faithful representation. This information is the basis for evaluating the impact of the leases on the entity's financial position, financial performance and cash flows by users of financial statements. The Group has started to apply the related standard for the first time on 1 January 2019 by reflecting the application effects to the equity accounts.

Transferring, measuring and presenting the leases to the financial statements

Lease obligations under the contract in the amount of liabilities on the balance sheet equal to the sum of all cash payments and offset with the form shown gross interest expense arising from the contract. The right of use arising from the leasing transactions, at the date of commencement, the present value of the lease payments which have not been paid at that date is measured and measured. In this measurement, if the interest can be easily determined, the implied interest rate in the lease is used. If this ratio is not easily determined, the Bank's alternative borrowing interest rate announced by the Asset and Liability Management Department is used.

The Group applies this standard with modified retrospective approach recognizing the cumulative effect of initially applying the standard at the date of initial application and reflected it as a correction in the opening balance of Other Capital Reserves with this method, all right to use assets are measured from the amount of the lease payables in the transition to the application. Equity effect of the mentioned transition amounting to TL 120,430 is classified under “Other Capital Reserves” in shareholders' equity as of 31 December 2019. In this context, deferred tax asset amounting to TL 24,083 is reflected to the financial statements of 31 December 2019 and this amount has been classified under “Retained Earnings” in shareholders' equity.

During the first implementation, the Group recognised lease liability concerning the lease which were previously recognised as operational leasing as per IAS 17. These liabilities were measured based on the discounted current value by using the alternative borrowing rate of interest of remaining lease payments on 1 January 2019.

Right and liability to use the asset pertaining to the lease, which were previously classified as financial leasing, were measured based on the carrying amount of the said assets before the transition.

Details based on the asset with regard to the recognised right of use is as follows:

	1 January 2019	**31 December 2019**
Real Estate	877,811	933,279
Vehicles	46,318	90,318
Total Right of Use	**924,129**	**1,023,597**

Details of depreciation charge based on the asset with regard to the recognised asset tenure is as follows:

	1 January 2019	**31 December 2019**
Real Estate	367,720	448,956
Vehicles	15,910	32,822
Total Right of Use Depreciation Charge	**383,630**	**481,778**

Information on the leasing liability is presented as below:

	1 January 2019	**31 December 2019**
Lease Liability	660,929	657,657

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

4. SEGMENT INFORMATION

Operating segments

The Group is organized into four main segments which are organized and managed separately according to the nature of the products and services provided.

Year ended 31 December 2019

	Retail Banking	Corporate Banking	SME Banking	Other	Eliminations	Group
Net banking income	2,370,643	951,627	1,308,120	1,108,159	(6,337)	5,732,212
Operating expenses	(1,180,955)	(8,129)	(709,045)	(926,674)	6,337	(2,818,466)
Cost of risk	(533,583)	(33,216)	(868,294)	(5,805)	-	(1,440,898)
Operating income	**656,105**	**910,282**	**(269,219)**	**175,680**	**-**	**1,472,848**
Non-operating items	-	-	-	19,720	-	19,720
Pre-tax income	**656,105**	**910,282**	**(269,219)**	**195,400**	**-**	**1,492,568**
Assets and liabilities						
Segment assets	25,881,228	22,891,200	17,273,339	36,789,124	(416,106)	102,418,785
Unallocated assets	-	-	-	6,709,406	(1,495)	6,707,911
Total assets	**25,881,228**	**22,891,200**	**17,273,339**	**43,498,530**	**(417,601)**	**109,126,696**
Segment liabilities	51,491,814	16,026,540	6,462,645	19,467,117	(295,706)	93,152,410
Unallocated liabilities	-	-	-	6,067,183	(2,014)	6,065,169
Total liabilities	**51,491,814**	**16,026,540**	**6,462,645**	**25,534,300**	**(297,720)**	**99,217,579**
Other segment information						
Capital expenditures						
Tangible fixed assets	-	-	-	136,608	-	136,608
Intangible fixed assets	-	-	-	101,286	-	101,286
Depreciation	-	-	-	86,194	-	86,194
Amortization	-	-	-	72,141	-	72,141

Year ended 31 December 2018

	Retail Banking	Corporate Banking	SME Banking	Other	Eliminations	Group
Net banking income	1,462,757	1,064,236	2,214,785	357,666	(4,892)	5,094,552
Operating expenses	(986,390)	(266,651)	(1,010,635)	(219,315)	4,892	(2,478,099)
Cost of risk	(240,961)	(236,118)	(786,834)	(183)	-	(1,264,096)
Operating income	**235,406**	**561,467**	**417,316**	**138,168**	**-**	**1,352,357**
Non-operating items	-	-	-	1,520	-	1,520
Pre-tax income	**235,406**	**561,467**	**417,316**	**139,688**	**-**	**1,353,877**
Assets and liabilities						
Segment assets	12,633,816	22,263,256	25,041,940	35,672,967	(274,891)	95,337,088
Unallocated assets	-	-	-	3,258,652	(709)	3,257,943
Total assets	**12,633,816**	**22,263,256**	**25,041,940**	**38,931,619**	**(275,600)**	**98,595,031**
Segment liabilities	41,279,433	14,024,849	10,065,036	18,523,829	(155,023)	83,738,124
Unallocated liabilities	-	-	-	4,986,125	(1,229)	4,984,896
Total liabilities	**41,279,433**	**14,024,849**	**10,065,036**	**23,509,954**	**(156,252)**	**88,723,020**
Other segment information						
Capital expenditures						
Tangible fixed assets	-	-	-	101,021	-	101,021
Intangible fixed assets	-	-	-	70,426	-	70,426
Depreciation	-	-	-	79,264	-	79,264
Amortization	-	-	-	60,412	-	60,412

Geographical information

The Group's geographical information is based on the location of Group's assets. Substantially all of the Group's activities are conducted in Turkey and Turkey is the home country of the Bank, which is also the main operating company. The areas of operation include all the primary operating segments.

Total assets and total liabilities are allocated to the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts substantially all of its business activities with local customers in Turkey.

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

5. CASH, BALANCES WITH CENTRAL BANKS, LOANS AND ADVANCS DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with 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	2,707,430	2,112,768
Balances with central banks	4,670,163	7,109,145
Reserve deposits with central banks (restricted)	5,017,134	6,814,051
Cash and balances with central banks	**12,394,727**	**16,035,964**
Loans and receivables due from banks	**9,570,735**	**4,026,420**
Reverse repurchase agreements	840,275	281,725
Other money market placements	**840,275**	**281,725**
Less: Loans due from banks	(1,445,206)	(465,166)
Less: Reserve deposits (restricted)	(5,019,093)	(6,817,163)
Less: Interest accruals	(781)	(9,956)
Less: Expected credit loss	11,797	8,330
Cash and cash equivalents in the statements of cash flows	**16,352,454**	**13,060,154**

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to deposit a portion of certain liability accounts as specified in the related decree.

As of 31 December 2019, the Turkish lira required reserve ratios are determined to be within the range of 1%-2% depending on the maturity structure of deposits denominated in Turkish lira (31 December 2018: 1.50%-8%), and the required reserve ratios for foreign currency deposits and other liabilities within the range of 5%-21% (31 December 2018: 4%-20%).

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

	31 December 2019		31 December 2018	
	Effective interest rate		Effective interest rate	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Reserve deposits	10.00%-10.00%	-	13.00%-13.00%	1.50%-2.00%
Loans and receivables due from banks	2.00%-22.83%	0.24%-0.24%	20.20%-26.50%	(0.55)%-2.30%
Obligations under reverse repurchase agreements	10.83%-12.5%	-	24.15%-24.15%	-
Other money market placements	25.45%-25.48%	-	24.45%-24.48%	-

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

5. CASH, BALANCES WITH CENTRAL BANKS, LOANS AND ADVANCES DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (Continued)

The credit quality analysis of Cash and balances with central banks is as follows:

31 December 2019	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Balances at 1 January 2019	8,151	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Recoveries and reversals	(318)	-	-
Provision for the period	-	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	**7,833**	**-**	**-**

31 December 2018	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Balances at 31 December 2017	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	2,309	-	-
Balances at 1 January 2018	2,309	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Recoveries and reversals	-	-	-
Provision for the period	5,842	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	**8,151**	**-**	**-**

The credit quality analysis of Loans and advances due from banks is as follows:

31 December 2019	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Balances at 1 January 2019	116	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Recoveries and reversals	-	-	-
Provision for the period	3,819	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	**3,935**	**-**	**-**

31 December 2018	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Balances at 31 December 2017	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	6,973	-	-
Balances at 1 January 2018	6,973	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Recoveries and reversals	-	-	-
Provision for the period	(6,857)	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	**116**	**-**	**-**

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

5. CASH, BALANCES WITH CENTRAL BANKS, LOANS AND ADVANCES DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (Continued)

The credit quality analysis of Other money market placements is as follows:

31 December 2019	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Balances at 1 January 2019	63	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Recoveries and reversals	(34)	-	-
Provision for the period	-	-	-
Effects of movements in exchange rates	-		
Balances at the end of the period	**29**	**-**	**-**

31 December 2018	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Balances at 31 December 2017	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	-	-	-
Balances at 1 January 2018	-	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Recoveries and reversals	-	-	-
Provision for the period	63	-	-
Effects of movements in exchange rates	-		
Balances at the end of the period	**63**	**-**	**-**

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES

Financial assets at fair value through profit or loss:

	31 December 2019			31 December 2018		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Financial assets at fair value through profit or loss						
Debt Securities	**1,170,366**			**527,781**		
Turkish government bonds and treasury bills	1,087,422	3.00%-19.27%	-	391,136	15.80%-29.22%	-
Eurobonds issued by the Turkish government	82,944	-	0.02%-6.74%	136,645	-	1.17%-7.55%
Equity Securities	**125,026**			**88,680**		
Derivative Financial Instruments	**1,670,042**			**2,610,759**		
Total financial assets at fair value through profit or loss	**2,965,434**			**3,227,220**		

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

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES (Continued)

Investment securities:

	31 December 2019			31 December 2018		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Financial assets at FVOCI (*)						
Debt instruments						
Turkish government bonds	3,999,551	8.65%-20.52%	-	2,880,018	7.83%-29.22%	-
Eurobonds issued by the Turkish government	1,533,925	-	0.02%-5.91%	407,219	-	2.77%-7.04%
Equity instruments – unlisted (**)	**7,900**	**-**	**-**	**5,615**	**-**	**-**
Total financial assets at FVOCI	**5,541,376**			**3,292,852**		
Debt securities carried at AC						
Debt securities						
Turkish government bonds	4,906,618	3%-20.32%	-	2,792,080	19.92%-29.22%	-
Expected credit loss (-)	(1,104)	-	-	(628)	-	-
Total debt securities carried at AC	**4,905,514**			**2,791,452**		

(*) The provision provided for financial assets at FVOCI amounting to TL1,240 is presented in the financial statement in a way that the carrying amount has not been reduced.

(**) The Bank classified all equity shares as financial assets at fair value through profit or loss except for four minor shares, in Credit Guarantee Fund, Interbank Card Center, Central Bank of the Republic of Turkey and Istanbul Stock Exchange, which four were classified as financial assets at fair value through comprehensive income, as the investments are carried for strategic purposes rather than with a view to profit on a subsequent sale, and there is no plans to dispose of these investments in the short or medium term.

Loaned Securities:

Carrying value of debt instruments given as collateral under repurchase agreements, which are included in the related portfolios are:

	31 December 2019	31 December 2018
Debt securities carried at fair value through other comprehensive income	77,088	64,511
Debt securities carried at amortised cost	1,600,296	-
Carrying value of securities given as collateral under repos	**1,677,384**	**64,511**
Related liability	**1,644,665**	**62,543**

As of 31 December 2019, government securities with carrying values of TL2,311,285 (31 December 2018: TL746,351) are pledged to the Central Bank and the Istanbul Takas ve Saklama Bankası Anonim Şirketi (Istanbul Clearing, Settlement and Custody Bank Incorporation) and Vadeli İşlem Opsiyon Borsası (Borsa Istanbul Futures and Options Market) for regulatory requirements and as a guarantee for stock exchange, money market operations and derivatives.

There are not any securities given as collateral under repurchase agreements where the counterparty has the right to resell or re-pledge them.

TL1,863,536 (31 December 2018: TL3,922,752) of debt securities included in the trading, investment and loaned securities portfolios have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

Gains and losses from investment securities arise from derecognition of securities at fair value through other comprehensive income.

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

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES (Continued)

Loaned Securities: (continued)

The movement in investment securities (including those classified as loaned securities) is summarized as follows:

	31 December 2019			31 December 2018		
	Debt securities at FVOCI	Debt securities at AC	Total	Debt securities at FVOCI	Debt securities at AC	Total
At 1 January	**3,292,852**	**2,791,452**	**6,084,304**	4,697,133	401,854	5,098,987
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	(2,015,225)	1,968,891	(46,334)
Exchange differences	(111,833)	-	(111,833)	361,259	-	361,259
Additions	4,627,548	1,726,438	6,353,986	1,178,960	573,615	1,752,575
Disposals (sale and redemption)	(2,281,659)	-	(2,281,659)	(987,426)	(291,886)	(1,279,312)
Changes in amortised cost and fair value	306,071	96,497	402,568	58,151	139,072	197,223
Transfer	(291,603)	291,603	-	-	-	-
Change in provision	-	(476)	(476)	-	(94)	(94)
Total	**5,541,376**	**4,905,514**	**10,446,890**	**3,292,852**	**2,791,452**	**6,084,304**

Government debt securities that had been accounted as financial assets at fair value through other comprehensive income, have been classified as held to maturity (amortised cost) investments with their market value in year 2013, and accumulated valuation difference for reclassified at fair value through other comprehensive income securities are accounted under shareholders’ equity. This accumulated valuation difference is subject to amortization according to the days to maturity and being transferred to profit/loss accounts in the related periods.

The credit quality analysis of investment securities measured at amortised cost is as follows:

31 December 2019	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Balances at 1 January 2019	628	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Recoveries and reversals	-	-	-
Provision for the period	476	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	**1,104**	**-**	**-**

31 December 2018	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Balances at 31 December 2017	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	534	-	-
Balances at 1 January 2018	534	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Recoveries and reversals	-	-	-
Provision for the period	94	-	-
Effects of movements in exchange rates	-	-	-
Balances at the end of the period	**628**	**-**	**-**

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

7. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2019			31 December 2018		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Commercial	41,335,176	0.04%-48.00%	0.01%-19.68%	45,888,895	0.48%-46.00%	1.01%-15.25%
Consumer	17,205,785	0.12%-39.60%	4.20%-9.60%	13,327,866	1.08%-40.80%	4.28%-9.41%
Credit cards	4,740,737	16.80%-20.40%	-	4,257,577	27.00%-33.00%	-
Other	121,001	14.00%-30.00%	-	130,893	26.36%-42.00%	-
Total	**63,402,699**			**63,605,231**		
Non-performing loans (Stage 3)	4,146,906			2,774,744		
Less: Stage 1 expected credit loss	(394,194)			(355,390)		
Less: Stage 2 expected credit loss	(894,153)			(836,214)		
Less: Stage 3 expected credit loss	(2,352,545)			(1,658,180)		
Total loans and advances to customers	**63,908,713**			**63,530,191**		

Loans and receivables amounting to TL7,705,795 (31 December 2018: TL7,232,468) have floating interest rates and the rest have fixed interest rates.

The portfolio reserve for impairment is provided based on past experience, management's assessment of current economic condition, the quality and inherent risk in the credit portfolio of the Group per class.

31 December 2019	Commercial	Consumer	Credit Cards	Other	Total
Stage 1 loans to customers	35,796,777	14,593,587	4,026,952	121,001	54,538,317
Stage 2 loans to customers	5,538,399	2,612,198	713,785	-	8,864,382
Stage 3 loans to customers	3,617,237	398,230	131,439	-	4,146,906
Total gross loans to customers	**44,952,413**	**17,604,015**	**4,872,176**	**121,001**	**67,549,605**
Less: Stage 1 expected credit loss	(192,135)	(144,831)	(57,228)	-	(394,194)
Less: Stage 2 expected credit loss	(686,025)	(161,159)	(46,969)	-	(894,153)
Less: Stage 3 expected credit loss	(2,009,282)	(250,895)	(92,368)	-	(2,352,545)
Total expected credit loss	**(2,887,442)**	**(556,885)**	**(196,565)**	**-**	**(3,640,892)**
Total loans and advances to customers	**42,064,971**	**17,047,130**	**4,675,611**	**121,001**	**63,908,713**

31 December 2018	Commercial	Consumer	Credit Cards	Other	Total
Stage 1 loans to customers	39,224,229	10,568,447	3,492,684	130,893	53,416,253
Stage 2 loans to customers	6,664,666	2,759,419	764,893	-	10,188,978
Stage 3 loans to customers	1,207,174	1,395,223	172,347	-	2,774,744
Total gross loans to customers	**47,096,069**	**14,723,089**	**4,429,924**	**130,893**	**66,379,975**
Less: Stage 1 expected credit loss	(218,413)	(85,416)	(51,561)	-	(355,390)
Less: Stage 2 expected credit loss	(634,220)	(149,047)	(52,947)	-	(836,214)
Less: Stage 3 expected credit loss	(760,528)	(769,345)	(128,307)	-	(1,658,180)
Total expected credit loss	**(1,613,161)**	**(1,003,808)**	**(232,815)**	**-**	**(2,849,784)**
Total loans and advances to customers	**45,482,908**	**13,719,281**	**4,197,109**	**130,893**	**63,530,191**

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

7. LOANS AND ADVANCES TO CUSTOMERS (Continued)

The movement of loss allowances for loans and advances to customers as of 31 December 2019 is as follows;

Loans and Advances to Customers	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
31 December 2018	355,390	836,214	1,658,180	2,849,784
Transfers;				
- Transfer from Stage 1 to Stage 2	(32,672)	169,981	-	137,309
- Transfer from Stage 1 to Stage 3	(10,938)	-	295,103	284,165
- Transfer from Stage 2 to Stage 3	-	(104,892)	520,782	415,890
- Transfer from Stage 2 to Stage 1	14,916	(63,806)	-	(48,890)
New financial assets originated or purchased and recoveries	221,781	299,743	741,877	1,263,401
Financial assets derecognised during the period other than write-offs	(159,934)	(271,445)	(242,873)	(674,252)
Write-offs	-	-	(171,832)	(171,832)
NPL sale	-	-	(450,294)	(450,294)
Foreign exchange differences	5,651	28,358	1,602	35,611
Loss allowance as at 31 December 2019	**394,194**	**894,153**	**2,352,545**	**3,640,892**

Past due receivables amounting to TL 467,640 for which TL 450,294 of provision had been allocated, is sold for TL 26,363 during 2019. After all sales procedures were completed, these past due receivables have been written off from the portfolio.

Loans and Advances to Customers	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
31 December 2017	189,308	387,372	1,268,565	1,845,245
Impact of adopting IFRS 9 at 1 January 2018	85,002	256,143	-	341,145
Transfers;				
- Transfer from Stage 1 to Stage 2	(37,093)	229,522	-	192,429
- Transfer from Stage 1 to Stage 3	(13,975)	-	622,777	608,802
- Transfer from Stage 2 to Stage 3	-	(104,553)	475,249	370,696
- Transfer from Stage 2 to Stage 1	31,697	(96,811)	-	(65,114)
New financial assets originated or purchased and recoveries	194,883	292,680	(172,876)	314,686
Financial assets derecognised during the period other than write-offs	(94,432)	(128,139)	(55,103)	(277,674)
NPL sale	-	-	(483,618)	(483,618)
Foreign exchange differences	-	-	3,193	3,193
Loss allowance as at 31 December 2018	**355,390**	**836,214**	**1,658,180**	**2,849,784**

Past due receivables amounting to TL 500,538 for which TL 483,618 of provision had been allocated, is sold for TL 24,061 during 2018. After all sales procedures were completed, these past due receivables have been written off from the portfolio.

The fair value of collaterals, capped with the respective outstanding loan balance, that the Group holds relating to loans individually impaired at 31 December 2019 is TL2,272,171 (31 December 2018: TL1,365,215).

The fair value of collaterals, capped with the respective outstanding loan balance relating to loans individually impaired:

31 December 2019	Commercial	Consumer	Credit Cards	Total
Mortgage	693,419	899,221	2,750	1,595,390
Vehicle	28,404	130,225	2,514	161,143
Cash	387	639	42	1,068
Other (*)	133,959	380,154	457	514,570
Total	**856,169**	**1,410,239**	**5,763**	**2,272,171**

(*)Includes guarantees from Treasury and Credit Guarentee Fund amouting to TL514,570

31 December 2018	Commercial	Consumer	Credit Cards	Total
Mortgage	358,019	558,747	35,266	952,032
Vehicle	56,061	115,148	2,054	173,263
Cash	208	266	26	500
Other (*)	70,445	166,013	2,962	239,420
Total	**484,733**	**840,174**	**40,308**	**1,365,215**

(*)Includes guarantees from Treasury and Credit Guarentee Fund amouting to TL239,407.

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

7. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Collateral and credit enhancements obtained by taking possession:

31 December 2019	Commercial	Consumer	Total
Residential, commercial or industrial property	123,326	8,036	131,362
Other	-	-	-
Total	**123,326**	**8,036**	**131,362**

31 December 2018	Commercial	Consumer	Total
Residential, commercial or industrial property	103,828	5,197	109,025
Other	79	-	79
Total	**103,907**	**5,197**	**109,104**

The Group employs independent appraisers in determining the current fair values of its real estates. Provision for impairment loss amounting to TL10,598 is booked for real estates held for resale as per the appraisals performed as of 31 December 2019 (31 December 2018: TL6,131).

The fair value of collaterals capped with the respective outstanding of past due loans to customers, that the Group held as at 31 December 2019 is TL3,406,585 (31 December 2018: TL3,488,267).

The fair value of collaterals, capped with the respective outstanding loan balance relating to those that are past due but not impaired:

31 December 2019	Commercial	Consumer	Credit Cards	Total
Mortgage	1,881,466	859,720	94	2,741,280
Vehicle	225,601	78,723	177	304,501
Cash	242,722	23,055	59	265,836
Other	94,968	-	-	94,968
Total	**2,444,757**	**961,498**	**330**	**3,406,585**

31 December 2018	Commercial	Consumer	Credit Cards	Total
Mortgage	1,016,333	1,034,583	20,167	2,071,083
Vehicle	282,802	98,099	167	381,068
Cash	65,789	24,518	7,991	98,298
Other	932,076	-	5,742	937,818
Total	**2,297,000**	**1,157,200**	**34,067**	**3,488,267**

8. FACTORING RECEIVABLES

	31 December 2019			31 December 2018		
	Amount	**Effective interest rate**		**Amount**	**Effective interest rate**	
		Turkish Lira	**Foreign Currency**		**Turkish Lira**	**Foreign Currency**
Stage 1 factoring receivables	2,049,470	9.87%-49.99%	0.85%-8.30%	1,566,223	13.50%-49.00%	0.70%-13.00%
Stage 2 factoring receivables	3,643			78,761		
Stage 3 factoring receivables	31,946			64,694		
Total gross factoring receivables	**2,085,059**			**1,709,678**		
Less: Stage 1 expected credit loss	(1,480)			(874)		
Less: Stage 2 expected credit loss	(1,959)			(763)		
Less: Stage 3 expected credit loss	(31,452)			(59,256)		
Total expected credit loss	**(34,891)**			**(60,893)**		
Total factoring receivables, net	**2,050,168**			**1,648,785**		

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

8. FACTORING RECEIVABLES (Continued)

The details of the factoring receivables based on types of factoring transactions are as follows:

	31 December 2019	31 December 2018
Recourse factoring receivables	936,420	616,031
Non-recourse factoring receivables	1,116,693	1,028,953
Total	**2,053,113**	**1,644,984**

As of 31 December 2019, all of the factoring receivables have fixed interest rates (31 December 2018: All of factoring receivables have fixed interest rates).

The movement of loss allowances per class for loans and advances to customers are as follows;

Factoring Receivables	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Balance at 1 January 2019	874	763	59,256	60,893
Transfers;				
- Transfer from Stage 1 to Stage 2	-	5	-	5
- Transfer from Stage 1 to Stage 3	-	-	12,404	12,404
- Transfer from Stage 2 to Stage 3	-	-	-	-
- Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated or purchased	1,473	1,953		3,426
Financial assets derecognised during the period other than write-offs	(867)	(762)	(11,593)	(13,222)
NPL sale	-	-	(31,553)	(31,553)
Foreign exchange differences	-	-	2,938	2,938
Loss allowance as at 31 December 2019	**1,480**	**1,959**	**31,452**	**34,891**

Factoring Receivables	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
31 December 2017	2,062	-	39,921	41,983
Impact of adopting IFRS 9 at 1 January 2018	(291)	1,139	-	848
Transfers;				
- Transfer from Stage 1 to Stage 2	-	(15)	-	(15)
- Transfer from Stage 1 to Stage 3	-	-	83	83
- Transfer from Stage 2 to Stage 3	-	-	71	71
- Transfer from Stage 2 to Stage 1	5	-	-	5
New financial assets originated or purchased	847	743	20,564	22,154
Financial assets derecognised during the period other than write-offs	(1,749)	(1,104)	(1,383)	(4,236)
Loss allowance as at 31 December 2018	**874**	**763**	**59,256**	**60,893**

TEB Faktoring holds TL615 mortgage as collateral relating to factoring receivables individually determined to be impaired at 31 December 2018 (31 December 2018: TL615).

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

9. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Right of Use	Furniture, Office, Equipment, Leasehold Improvements	Total
At 1 January 2018				
Cost	105,132	-	738,170	843,302
Accumulated depreciation	(46,709)	-	(521,959)	(568,668)
Net book amount	**58,423**	**-**	**216,211**	**274,634**
Year ended 31 December 2018				
Opening net book amount	58,423	-	216,211	274,634
Additions	1,669	-	99,352	101,021
Disposals, net	-	-	(1,419)	(1,419)
Other	2,567	-	(2,358)	209
Depreciation charge for the year, net	(4,110)	-	(75,154)	(79,264)
Closing net book amount	**58,549**	**-**	**236,632**	**295,181**
At 31 December 2018				
Cost	113,912	-	803,512	917,424
Accumulated depreciation	(55,363)	-	(566,880)	(622,243)
Net book amount	**58,549**	**-**	**236,632**	**295,181**
Year ended 31 December 2019				
Opening net book amount	58,549	-	236,632	295,181
Impact of adopting IFRS 16 at 1 January 2019	-	540,499	-	540,499
Additions	525	143,824	136,083	280,432
Disposals, net	(1,618)	-	(722)	(2,340)
Other	12	-	(268)	(256)
Depreciation charge for the year, net	(4,103)	(142,504)	(82,091)	(228,698)
Closing net book amount	**53,365**	**541,819**	**289,634**	**884,818**
At 31 December 2019				
Cost	109,767	1,023,597	892,819	2,026,183
Accumulated depreciation	(56,402)	(481,778)	(603,185)	(1,141,365)
Net carrying amount	**53,365**	**541,819**	**289,634**	**884,818**

As of 31 December 2019 the cost of fully depreciated items equals TL324,136 (31 December 2018: TL318,787).

10. INTANGIBLE ASSETS

	31 December 2019	31 December 2018
At 1 January		
Cost	385,357	316,020
Accumulated amortization	(273,886)	(213,912)
Net book amount	**111,471**	**102,108**
Year ended 31 December		
Opening net book amount	111,471	102,108
Additions	101,286	70,426
Disposals	(339)	(651)
Other	31	-
Amortization charge for the year, net	(72,141)	(60,412)
Closing net book amount	**140,308**	**111,471**

The cost of fully amortised items amounted to TL246,048 as of 31 December 2019 (31 December 2018: TL174,779).

Intangible assets of the Bank comprise mainly software. The useful lives of such assets acquired are determined as 3-5 years by taking into consideration the expected utilization period, technical, technological or any other impairment and maintenance expenses necessary for the economic use of such assets. Software used are mainly developed within the Bank by the Bank’s personnel and the related expenses are not capitalized.

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

11. GOODWILL

As of 31 December 2019 the Group has TL420,645 (31 December 2018: TL420,645) goodwill.

The Group tests goodwill impairment on an annual basis. Recoverable amount of the cash generating unit is calculated with Dividend Discount Model by calculating the present value of the distributable dividends and terminal value. The calculations use business plans approved by Bank Management covering a three year period. Beyond this period the estimated growth rates in 2020-2022 are extrapolated, and as discount rate, the cost of equity for 2019 in Turkish Banking sector amounting to 22% and as terminal growth rate 9% is used. Since recoverable amount is higher than the adjusted net asset value, it is concluded that there is no impairment on the goodwill (31 December 2018: nil).

The Group has assessed reasonably possible changes for key assumptions and has not identified any instances that could cause impairment.

12. OTHER ASSETS

	31 December 2019	31 December 2018
Collaterals for derivatives	1,883,504	271,931
Receivables from banks for credit card transactions	724,140	594,194
Takasbank swap collaterals	719,869	-
Cheque clearing accounts	458,519	770,446
Prepaid expenses	336,524	204,005
Other transitory accounts	187,714	102,253
Assets held for resale, net of impairment (Note 7)	131,362	109,104
Others	138,552	168,760
Total	**4,580,184**	**2,220,693**

13. DEPOSITS

Deposits from credit institutions

	31 December 2019			31 December 2018		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Demand	23,714	-	-	47,697	-	-
Time	362,573	2.00%-10.50%	-	227,383	2.00%-20.00%	-
Total	**386,287**			**275,080**		

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

13. DEPOSITS (Continued)

Customers' deposits

	31 December 2019			31 December 2018		
	Amount	**Effective interest rate**		**Amount**	**Effective interest rate**	
		Turkish Lira	**Foreign currency**		**Turkish Lira**	**Foreign currency**
Saving						
Demand	7,469,886	-	-	4,440,294	-	-
Time	41,481,127	4.00%-23.50%	0.01%-1.50%	37,534,158	3.00%-28.50%	0.10%-6.25%
	48,951,013			**41,974,452**		
Commercial and other						
Demand	9,278,493	-	-	7,116,604	-	-
Time	13,562,034	0.50%-22.75%	0.01%-1.87%	14,793,998	0.50%-27.75%	0.15%-5.45%
	22,840,527			**21,910,602**		
Total	**71,791,540**			**63,885,054**		

Included in customer accounts were deposits of TL1,820,049 (31 December 2018: TL1,568,100) held as collateral for cash and non-cash loans given.

Other money market deposits

	31 December 2019			31 December 2018		
	Amount	**Effective interest rate**		**Amount**	**Effective interest rate**	
		Turkish Lira	**Foreign Currency**		**Turkish Lira**	**Foreign Currency**
Obligations under repurchase agreements:						
-Due to banks	1,644,665	8.94%-11.38%	-	62,543	25.03%-25.03%	-
	1,644,665			**62,543**		

As of 31 December 2019 and 31 December 2018 all deposits and money market deposits have fixed interest rate.

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

14. DEBT SECURITIES ISSUED

	Currency	Maturity	Interest Rate (%)	31 December 2019
Bank Bonds	TL	January 2020 – February 2020	11.35-14.20	2,333,877

	Currency	Maturity	Interest Rate (%)	31 December 2018
Bank Bonds	TL	January 2019 – February 2019	23.00-25.00	526,592

15. FUNDS BORROWED AND SUBORDINATED DEBTS

	31 December 2019		
		Effective interest rate	
	Amount	Turkish Lira	Foreign currency
Short-term			
Fixed interest	7,313,555	-	(0.32)%-4.76%
Floating interest	2,850,113	8.79%-17.60%	0.50%-6.36%
Medium/long-term			
Fixed interest	100,473	-	1.70%-2.39%
Floating interest	29,814	-	2.81%-5.20%
Floating interest subordinated loan	1,924,246	-	4.76%-6.77%
Fixed interest subordinated loan	1,266,257	-	10.40%-10.40%
Total	**13,484,458**		

	31 December 2018		
		Effective interest rate	
	Amount	Turkish Lira	Foreign currency
Short-term			
Fixed interest	12,074,226	-	(0.23)%-5.03%
Floating interest	964,817	6.34%-18.82%	0.50%-6.40%
Medium/long-term			
Fixed interest	121,305	-	1.70%-2.39%
Floating interest	220,551	-	1.25%-4.27%
Floating interest subordinated loan	1,717,514	-	4.48%-8.61%
Fixed interest subordinated loan	1,125,458	-	10.40%-10.40%
Total	**16,223,871**		

Repayment plan of medium and long-term borrowings is as follows:

	31 December 2019		31 December 2018	
	Fixed rate	Floating rate	Fixed rate	Floating rate
2020	-	-	-	193,376
2021	-	6,489	-	-
2022	100,473	23,325	121,305	26,701
2023	-	-	-	-
2024	-	-	-	1,717,988
2025	-	-	-	-
Thereafter	1,266,257	1,924,246	1,125,458	-
Total	**1,366,730**	**1,954,060**	**1,246,763**	**1,938,065**

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

15. FUNDS BORROWED AND SUBORDINATED DEBTS (Continued)

The Bank earned a $ 210 million USD with a 10-year maturity on 5 November 2018 at the earliest, but not earlier than 5 year. At the end of the 5th year and in the subsequent first interest payment period, it issued 2 subordinated debt securities with early amortization. The interest rate of the issuance is 10.40% per annum and will continue with the 6-month Libor + 7.32% annual interest rate after the first early amortization at the end of the 5th year. Said “contribution capital” was provided by BNP Paribas Fortis SA / NV.

At the Board of Directors meeting held on 8 May 2012, the Bank decided to issue a debt instrument of USD 65 million as Secondary Capital-like Borrowing on 14 May 2012. Issue interest rate of six months USD Libor + is determined as 5.75% annually. The maturity of the debt instrument is 14 May 2024 and there is no repayment option before the maturity in the first seven years. The debt instrument was amortised on 14 May 2019 after the decision of the relevant Board of Directors and the approval of the BRSA. On May 14, 2019, the Bank issued a subordinated debt securities with a maturity of 60 million EURO with a maturity of 10 years, with no earliest 5 years, at the earliest in the 5th year and in the following first interest payment period. The interest rate of the issue is six months Euribor + 7.10% annually. Said “contribution capital” was provided by BNP Paribas Fortis SA / NV.

On 20 July, 2012, the Bank decided to issue a debt instrument of EUR 100 million as Secondary Capital-like Borrowing. The interest rate of the issue is six months Euribor + 4.75% annually. The maturity of the debt instrument is 20 July 2024 and there is no repayment option before the maturity in the first seven years. The debt instrument was amortised on 22 July 2019 after the decision of the relevant Board of Directors and the approval of the BRSA. On 22 July 2019, the Bank issued a subordinated debt securities with a maturity of 100 million EURO, with a maturity of 10 years, with no earliest 5 years, at the earliest at the end of the 5th year and in the first interest payment period thereafter. The interest rate of the issue is six months Euribor + 7.10% annually. Said “contribution capital” was provided by BNP Paribas Fortis SA / NV.

The Bank issued subordinated debt securities with a maturity of 125 million EUR on 27 June 2018, with a maturity of 10 years and an early amortization on 27 June 2023. The interest rate of the issue is 6 months Euribor + 5.10% annually. Mentioned “contribution capital” is provided by BNP Paribas Fortis SA / NV.

All of the four subordinated loans mentioned above have been used in line with the BRSA's “loan capital” definitions, and have a positive impact on the Bank's capital adequacy ratio, as well as creating long-term funds for the Bank.

	Funds borrowed	**Debt securities issued**
Balance as at 1 January 2019	16,223,871	526,592
Cash flows	(3,057,730)	1,781,014
Other non-cash movements	318,317	26,271
Balance as at 31 December 2019	**13,484,458**	**2,333,877**

	Funds borrowed	**Debt securities issued**
Balance as at 1 January 2018	17,035,815	1,289,688
Cash flows	(770,070)	(753,517)
Other non-cash movements	(41,874)	(9,579)
Balance as at 31 December 2018	**16,223,871**	**526,592**

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

16. OTHER LIABILITIES AND PROVISIONS

	31 December 2019	31 December 2018
Other liabilities		
Payables to credit card member firms	1,271,222	972,657
Cheque clearing account	927,876	1,504,245
Lease liabilities	657,657	-
Payables to banks for credit cards transactions	651,087	415,030
Takasbank swap collaterals	553,445	-
Taxes and compulsory surcharges other than on income	189,552	209,682
Collaterals for derivatives	176,647	447,690
Trade and other payables	162,895	129,502
Other transitory accounts	157,793	106,049
Bonus premium accrual	148,441	155,034
Deferred insurance commission income	141,130	163,500
Payables for promotions of credit cards and banking services	12,936	12,622
Payment orders	12,655	568
Blocked bank cheques	3,794	2,079
Others	298,704	261,141
	5,365,834	**4,379,799**
Provisions		
Reserve for impairment of non-cash loans (Stage 1, Stage 2, Stage 3)	243,480	202,659
Employee termination benefits	200,712	179,934
Provision for legal cases	52,635	66,777
Unused vacation accruals	14,195	14,506
Provision for other personnel expenses	32,100	-
Other provisions	124,058	40,243
	667,180	**504,119**
Total	**6,033,014**	**4,883,918**

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

16. OTHER LIABILITIES AND PROVISIONS (Continued)

Employee Termination Benefits

In accordance with existing social legislation, TEB and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL6,379.86 (full TL) and TL5,434.42 (full TL) at 31 December 2019 and 2018, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of 31 December 2019 and 2018, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date.

The principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

	31 December 2019	31 December 2018
Discount rate	12.51%	16.70%
Expected rate of inflation	6.59%	11.20%
Salary increase rate above inflation rate	1.00%	1.00%

Movements in the present value of the employee termination benefit obligations in the current year were as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Opening defined benefit obligation (DBO)	179,934	124,107
Current service cost	19,523	12,902
Interest cost	29,231	14,132
Actuarial losses / (gains)	1,054	39,965
Settlement cost	9,413	4,289
Benefits paid	(38,443)	(15,461)
Closing defined benefit obligation, recognised in the balance sheet	**200,712**	**179,934**

Amounts recognised in profit or loss in respect of employee termination benefit plan are as follows:

	31 December 2019	31 December 2018
Current service cost	19,523	12,902
Interest cost	29,231	14,132
Settlement loss	9,413	4,289
Total	**58,167**	**31,323**

Below is the table of sensitivity results to DBO in % change as at 31 December 2019 for the Bank:

Assumption change	% change in defined benefit obligation
Discount Rate +1%	(11.20)
Discount Rate -1%	13.10
Inflation +1%	13.80
Inflation -1%	(11.80)
No Withdrawal	5.40

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

16. OTHER LIABILITIES AND PROVISIONS (Continued)

Retirement Benefits

The employees who have joined the Bank as a consequence of the merger of TEB and Fortis Bank are members of the "Pension Fund Foundation" established in accordance with the Social Security Law No.506, Article No.20.

The liabilities described in the Note 2.3 Summary of Significant Accounting Policies, Judgments and Estimates – Employee Benefits section which may arise during the transfer have been calculated by the actuary based on the principles of the related regulation, whereas the liabilities in connection with other social rights and benefits which will not be undertaken by the SSI after the transfer have been calculated by the actuary based on IAS 19 principles. Based on the actuarial reports prepared as of 31 December 2019 and 31 December 2018, the Retirement Fund has a surplus. Since the Bank has no legal rights to carry the economic benefits arising from repayments of Pension Funds and/or decreases in future contributions at present value; no asset has been recognised in the balance sheet.

Based on the determined assumptions,

Transferrable Retirement and Health Liabilities:	**31 December 2019**	**31 December 2018**
Net Present Value of Transferrable Retirement Liabilities	(919,469)	(762,544)
Net Present Value of Transferrable Retirement and Health Contributions	355,986	336,330
General Administration Expenses	(9,195)	(7,625)
Present Value of Pension and Medical Benefits Transferable to SSF (1)	(572,678)	(433,839)
Fair Value of Plan Assets (2)	2,646,999	2,221,325
Asset Surplus over Transferable Benefits ((2)+(1)=(3))	2,074,321	1,787,486
Non-Transferable Benefits (4)	(404,727)	(414,945)
Asset Surplus over Total Benefits ((3)+(4))	1,669,594	1,372,541

Change in the present value of the defined-benefit obligation:

	31 December 2019	**31 December 2018**
DBO at start of period	**848,784**	**1,228,538**
Service cost	45,237	29,116
Interest expense on the DBO	67,080	23,477
Benefits paid from the Fund	(43,958)	(14,830)
Actuarial (gain)/loss – change in transfer value to SGK	138,839	262,381
Actuarial (gain)/loss – financial assumptions	(88,344)	(723,401)
Actuarial (gain)/loss – experience	9,767	43,503
DBO at end of period	**977,405**	**848,784**

Change in the fair value of plan assets:

	31 December 2019	**31 December 2018**
Fair value of plan assets at start of period	**2,221,325**	**1,918,007**
Interest income on plan assets	296,294	104,835
Return on plan assets excluding amounts included in interest income	140,329	191,187
Employer contributions	34,743	23,833
Fund benefits	(43,958)	(14,830)
Expenses	(1,734)	(1,707)
Fair value of plan assets at end of period	**2,646,999**	**2,221,325**

Amounts recognised in the Balance Sheet

	31 December 2019	**31 December 2018**
Present value of obligations	977,405	848,784
Fair value of plan assets	(2,646,999)	(2,221,325)
Adjustment for impact of asset ceiling	1,669,594	1,372,541
Net Liability/(Asset) in Balance Sheet	**-**	**-**

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

16. OTHER LIABILITIES AND PROVISIONS (Continued)

Retirement Benefits (Continued)

Distribution of fair value total assets of the Retirement Fund as of 31 December 2019 and 31 December 2018 is presented below:

	31 December 2019		**31 December 2018**	
	Quoted	**Not Quoted**	**Quoted**	**Not Quoted**
Bank placements	-	1,119,326	-	2,084,814
Government Bonds and Treasury Bill, Fund and Accrual Interest Income	-	1,278,238	-	-
Tangible assets	-	114,378	-	106,383
Other	-	135,057	-	30,128
Total	**-**	**2,646,999**	**-**	**2,221,325**

Actuarial assumptions used in valuation of liabilities except for transferrable liabilities based on IAS 19 are as follows:

	31 December 2019	**31 December 2018**
Discount Rate	12.51%	16.70%
Expected Inflation Rate	6.59%	11.20%

As of 31 December 2019, medical inflation is expected more than 20% of inflation rate (31 December 2018: 20%). In order to represent the expected mortality rates before and after the retirement, CSO 2001 (31 December 2018: CSO 2001) Female/Male mortality table is used.

17. INCOME TAXES

Corporate Tax

The Group is subject to corporate taxes. Tax consolidation is not possible in Turkey. Each entity should submit its corporate tax return separately. Provision is made in the accompanying financial statements for the estimated charge based on each company's results for the period.

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

According to the Article 32 of the Corporate Tax Law No. 5520, announced in the Official Gazette dated 21 June 2006, the corporate tax rate is 20% in Turkey. However, the corporate income tax rate will be applied as 22% for the years 2018, 2019 and 2020 regarding to the "Law on Amendment of Certain Tax Laws and Some Other Laws" numbered 7061 and published in the Official Gazette on 5 December 2017.

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

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

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

17. INCOME TAXES (Continued)

Income Withholding Tax

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

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

	31 December 2019	31 December 2018
Income tax liability	795,282	274,999
Advance income taxes	(763,127)	(174,021)
Total	**32,155**	**100,978**

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

	31 December 2019	31 December 2018
Consolidated income statement		
Current income tax (charge)/benefit	(541,836)	(202,705)
Relating to origination and reversal of temporary differences	177,060	(96,100)
Income tax (charge)/benefit reported in consolidated income statement	**(364,776)**	**(298,805)**

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

	31 December 2019	31 December 2018
Profit before income tax	**1,492,568**	**1,353,877**
At Turkish statutory income tax rate of 22%	(328,365)	(297,853)
Income not subject to tax	341	54
Other, net (including effects of disallowables, permanent differences and different tax rates applied in different jurisdictions)	(36,752)	(1,006)
Income tax	**(364,776)**	**(298,805)**

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

17. INCOME TAXES (Continued)

Deferred tax

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

	Consolidated Balance Sheet		Change in Deferred Tax	
	2019	**2018**	**2019**	**2018**
Deferred tax liabilities				
Difference between tax and reporting bases of premises and equipment and intangible assets	14,275	9,243	5,032	1,799
Effect of valuation of derivatives and hedge accounting	(148,510)	222,347	(370,857)	216,335
Valuation differences of trading and investment securities	(34,370)	6,457	(40,827)	(46,327)
Gross deferred tax liabilities	**(168,605)**	**238,047**	**(406,652)**	**171,807**
Deferred tax assets				
Impairment provisions on loans and receivables	335,948	307,986	27,962	170,065
Deferred fee and commission income	49,818	49,754	64	(2,193)
Employee termination benefits and vacation pay liability	43,265	39,178	4,087	11,081
Bonus premium accrual	32,657	34,107	(1,450)	5,652
Others	36,853	15,617	21,236	(21,192)
Gross deferred tax assets	**498,541**	**446,642**	**51,899**	**163,413**
Deferred tax asset, net	**667,146**	**208,595**	**458,551**	**(8,394)**

Movement of net deferred tax asset can be presented as follows:

	31 December 2019	**31 December 2018**
Balance at January 1	**208,595**	**216,989**
Deferred tax credit /(charge) recognised in income statement, net	177,060	(96,100)
Deferred tax (charge)/ credit recognised in other comprehensive income	256,389	(2,009)
- FVOCI	(44,442)	29,697
- Cash flow hedge	302,891	(38,364)
- Actuarial gains and losses	(2,060)	6,658
IFRS16 first time adoption impact	24,083	-
IFRS9 first time adoption impact	-	89,715
Effect of acquired company	1,019	-
Balance at 31 December	**667,146**	**208,595**

Reflected as:

	31 December 2019	**31 December 2018**
Deferred tax asset	667,146	208,595

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

18. DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards, swaps, futures and options.

The table below shows the fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period end and are neither indicative of the market risk nor credit risk.

	31 December 2019			31 December 2018		
Derivatives at fair value through profit or loss	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Forward contracts	154,433	122,847	10,742,282	469,210	186,841	11,993,806
Currency swap contracts	252,805	206,601	39,727,257	449,573	1,045,076	39,939,993
Cross currency swap contracts	1,124,118	1,197,775	19,003,115	1,531,611	984,867	18,046,550
Interest rate swap contracts	105,822	29,588	8,401,316	17,719	13,460	3,099,012
Call & put option contracts	32,864	29,773	8,500,881	142,256	139,293	12,675,542
Futures contracts	-	-	71,526	-	-	-
Other	-	-	43,150	390	6,265	141,773
Total	**1,670,042**	**1,586,584**	**86,489,527**	**2,610,759**	**2,375,802**	**85,896,676**

Derivatives settled on a gross basis

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Derivatives at fair value through profit or loss:					
Foreign exchange derivatives:					
- Inflow	17,499,020	6,351,433	7,955,785	6,540,837	2,798,991
- Outflow	17,380,026	6,348,583	8,071,643	6,670,412	2,806,467
Interest rate derivatives:					
- Inflow	30,289	137,366	131,213	1,050	315,923
- Outflow	26,051	14,667	105,270	142,349	9,818
Derivatives held for hedging:					
Foreign exchange derivatives:					
- Inflow	411,549	591,049	1,874,678	3,112,748	67,773
- Outflow	320,316	802,512	2,776,972	4,509,524	107,140
Total inflow	**17,940,858**	**7,079,848**	**9,961,676**	**9,654,635**	**3,182,687**
Total outflow	**17,726,393**	**7,165,762**	**10,953,885**	**11,322,285**	**2,923,425**

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

18. DERIVATIVES (Continued)

Fair value hedge

In 2019, The Bank applied fair value hedge accounting in order to avoid the effects of interest rate fluctuations in the market by matching its swap portfolio with its marketable securities. As of 31 December 2019, the nominal value of derivative instruments for risk management purposes is TL1,740,184 and the net fair value is TL21,136. The fair value gain of the hedged loans was TL336 (31 December 2018: Nil). The Bank accounted for TL4,126 gain (31 December 2018: Nil) for derivative instruments used for hedging purposes and TL4,352 loss (31 December 2018: Nil) from hedged item loans in the financial statements.

	31 December 2019			31 December 2018		
Derivatives used for fair value hedging purposes	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Swap contracts	21,136	-	1,740,184	-	-	-
	21,136	**-**	**1,740,184**	**-**	**-**	**-**

Cash flow hedge

The Bank has applied cash flow hedge accounting by matching its swap portfolio to hedge the exposure to variability in cash flows of the Bank (Total notional amount TL24,213,951) with 1-90 days of maturity deposit portfolio and selected borrowing portfolio. Effective portion of TL1,112,750 (31 December 2018: TL350,622 debit) credit accounted for under equity is presented after deducting its deferred tax effect of TL226,000 (31 December 2018: TL76,890 credit) debit in the financial statements. In 2019, there is TL20,286 ineffective portion income (31 December 2018: TL24,658) is accounted for under income statement.

The following table contains details of the derivatives used for cash flow hedging purposes:

	31 December 2019			31 December 2018		
Derivatives used for cash flow hedging purposes	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Swap contracts	218,639	875,965	7,611,850	295,600	198,026	2,936,400
Interest rate swap contracts	1,732	1,049,009	16,602,101	206,879	191,156	21,722,594
	220,371	**1,924,974**	**24,213,951**	**502,479**	**389,182**	**24,658,994**

The following table contains details of the hedged exposures covered by the Group's hedging strategies:

31 December 2019	**Carrying amount of hedged item**		**Accumulated amount of fair value adjustments on the hedged item**		**Balance sheet line item**	**Change in fair value of hedged item for ineffectiveness assessment**	**Cash flow hedge reserve**	
Cash flow hedges	**Assets**	**Liabilities**	**Assets**	**Liabilities**			**Continuing hedges**	**Discontinued hedges**
Cross currency swaps								
Floating rate deposits	-	3,618,878	-	-	Deposits from customers	586,795	(563,832)	-
Borrowings	-	298,258	-	-	Funds borrowed	398	(156)	-
Interest rate swaps								
Floating rate deposits	-	8,332,957	-	-	Deposits from customers	614,936	(569,048)	20,286

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

18. DERIVATIVES (Continued)

31 December 2018	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line item	Change in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve	
Cash flow hedges	**Assets**	**Liabilities**	**Assets**	**Liabilities**			**Continuing hedges**	**Discontinued hedges**
Cross currency swaps								
Floating rate deposits	-	529,012	-	-	Deposits from customers	3,486	(747)	-
Borrowings	-	1,061,839	-	-	Funds borrowed	(16,374)	16,711	-
Interest rate swaps								
Floating rate deposits	-	11,010,063	-	-	Deposits from customers	(334,784)	310,001	24,658

The following table contains information regarding the effectiveness of the hedging relationships designated by the Group, as well as the impacts on profit or loss and other comprehensive income by hedging instruments:

				Amounts reclassified from reserves to P/L as (*):		
31 December 2019	**Gains / (loss) recognised in OCI**	**Hedge ineffectiveness recognised in P/L**	**PL line item that includes hedge ineffectiveness**	**Hedge cash flows will no longer occur**	**Hedge item effected P/L**	**PL line item that includes reclassified amount**
Cash flow hedges						
Cross currency swaps						
Floating rate deposits	(563,833)	-	-	-	-	-
Borrowings	(156)	-	-	-	-	-
Interest rate swaps						
Floating rate deposits	(548,762)	-	-	20,286	969	Interest on hedging derivatives

(*) Foreign exchange net gain on hedging transactions is TL142,065.

				Amounts reclassified from reserves to P/L as (*):		
31 December 2018	**Gains / (loss) recognised in OCI**	**Hedge ineffectiveness recognised in P/L**	**PL line item that includes hedge ineffectiveness**	**Hedge cash flows will no longer occur**	**Hedge item effected P/L**	**PL line item that includes reclassified amount**
Cash flow hedges						
Cross currency swaps						
Floating rate deposits	(747)	-	-	-	-	-
Borrowings	16,711	-	-	-	-	-
Interest rate swaps						
Floating rate deposits	334,658	-	-	24,658	673	Interest on hedging derivatives

(*) Foreign exchange net gain on hedging transactions is TL231,265.

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

19. SHARE CAPITAL

	31 December 2019	31 December 2018
Total number of shares, TL 1.00 (full TL) par value	2,204,390 Thousand	2,204,390 Thousand

As of 31 December 2019 and 31 December 2018, the composition of shareholders and their respective ownerships are summarized below:

	31 December 2019		31 December 2018	
	Amount	%	Amount	%
TEB Holding A.Ş.	1,212,415	55.00	1,212,415	55.00
BNP Yatırımlar Holding A.Ş.	518,342	23.51	518,342	23.51
BNP Paribas Fortis Yatırımlar Holding A.Ş.	467,879	21.23	467,879	21.23
BNPP Paribas S.A.	5,253	0.24	5,253	0.24
Kocaeli Ticaret Odası	501	0.02	501	0.02
Total	**2,204,390**	**100.00**	**2,204,390**	**100.00**

20. LEGAL RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED

Movement of Legal Reserves and Retained Earnings

	31 December 2019				31 December 2018			
	Legal Reserves	Other Capital Reserves	Retained Earnings	Total	Legal Reserves	Other Capital Reserves	Retained Earnings	Total
At 1 January	382,343	1,084,258	5,823,896	7,290,497	326,730	1,084,258	5,229,750	6,640,738
IFRS 9 first time adoption impact	-	-	-	-	-	-	(303,639)	(303,639)
IFRS 16 first time adoption impact	-	-	(96,347)	(96,347)	-	-	-	-
Transfer from retained earnings	51,995	-	(51,995)	-	55,613	-	(55,613)	-
Dividends paid	-	-	-	-	-	-	(100,000)	(100,000)
Net profit for the year (Attributable to the equity holders of the Parent)	-	-	1,125,567	1,125,567	-	-	1,053,398	1,053,398
At 31 December	**434,338**	**1,084,258**	**6,801,121**	**8,319,717**	**382,343**	**1,084,258**	**5,823,896**	**7,290,497**

Legal Reserves

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of statutory profits at the rate of 5%, until the total reserve reaches 20% of the entity’s share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% of all cash dividend distributions.

Dividends Paid and Proposed

It has been resolved in the Ordinary General Assembly dated 27 March 2019 of the Bank, TL 1,001,703 that constitutes the 2018 net balance sheet profit shall be transferred to the Extraordinary Reserves after setting aside, in accordance with the proposal in the resolution of the Board of Directors, TL 50,085 as Legal Reserves, TL 0.82 (full TL) as profit distributed to the holders of the founder jouissance certificates.

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

20. LEGAL RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED (Continued)

Movements of Unrealized Gains/ Losses on Financial Assets at Fair Value through other comprehensive income Investments, Net of Tax

	31 December 2019	31 Dec 2018
At 1 January	**(139,731)**	**(38,188)**
IFRS 9 first time adoption impact	-	4,353
Net unrealized gains on FVOCI	249,885	(159,949)
Realized (gains) / losses on FVOCI recycled to income statement on disposal	(48,494)	24,356
Tax effect of net gains on FVOCI	(44,417)	29,697
FVOCI Revaluation Reserve	2,285	-
Total	**19,528**	**(139,731)**

Movements of Reserve for Hedging Funds, Net of Tax

	31 December 2019	31 December 2018
At 1 January	**273,733**	**136,593**
(Losses) / gains on cash flow hedges	(1,432,089)	184,372
Realized losses/(gains) on cash flow hedges to income statement	(31,285)	(8,868)
Tax effect of gains on cash flow hedges	302,891	(38,364)
Total	**(886,750)**	**273,733**

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

21. EARNINGS PER SHARE

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

In Turkey, companies can increase their share capital by making a pro rata distribution of shares (“Bonus Shares”) to existing shareholders without consideration for amounts resolved to be transferred to share capital from profit reserves such as retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares, which are shown in the table below.

	Opening	**Cash**	**Increase Related to Merger**	**Transfers from Retained Earnings**	**Transfers From Revaluation Surplus**	**Reinvestment of Dividend Payments**	**Total**	**Closing**
Before 1995	-	150	-	3,000	250	-	3,400	3,400
1996	3,400	-	-	-	330	1,270	1,600	5,000
1997	5,000	-	-	1,022	596	4,382	6,000	11,000
1998	11,000	5,512	-	529	682	7,277	14,000	25,000
1999	25,000	-	-	600	2,062	16,338	19,000	44,000
2000	44,000	40,182	-	-	-	26,068	66,250	110,250
2001	110,250	-	-	-	-	-	-	110,250
2002	110,250	-	-	-	-	-	-	110,250
2003	110,250	-	-	5,350	-	-	5,350	115,600
2004	115,600	-	-	-	-	-	-	115,600
2005	115,600	-	-	-	-	-	-	115,600
2006	57,800	18,700	-	-	-	-	18,700	76,500
2007	76,500	210,000	-	216,750	251,750	-	678,500	755,000
2008	755,000	345,000	-	-	-	-	345,000	1,100,000
2009	1,100,000	-	-	-	-	-	-	1,100,000
2010	1,100,000	-	-	-	-	-	-	1,100,000
2011	1,100,000	-	1,050,000	54,390	-	-	1,104,390	2,204,390
2012	2,204,390	-	-	-	-	-	-	2,204,390
2013	2,204,390	-	-	-	-	-	-	2,204,390
2014	2,204,390	-	-	-	-	-	-	2,204,390
2015	2,204,390	-	-	-	-	-	-	2,204,390
2016	2,204,390	-	-	-	-	-	-	2,204,390
2017	2,204,390	-	-	-	-	-	-	2,204,390
2018	2,204,390	-	-	-	-	-	-	2,204,390
2019	2,204,390	-	-	-	-	-	-	2,204,390

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

	31 December 2019	**31 December 2018**
Net profit attributable to ordinary shareholders	1,125,567	1,053,398
Weighted average number of ordinary shares for basic earnings per share	2,204,390	2,204,390
Basic earnings per share	0.5106	0.4779
Diluted earnings per share	0.5106	0.4779

There have been no other transactions involving ordinary shares or potential ordinary shares since the end of the reporting period and before the authorization of these consolidated financial statements for issue.

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

22. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by the Çolakoğlu family and BNP Paribas Group each of which directly or indirectly own 50% of the shares of the Bank. For the purpose of these consolidated financial statements, associates, shareholders, Çolakoğlu Group companies, and BNP Paribas Group entities including Fortis Bank Group are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the normal course of its business, the Group conducted various business transactions with related parties on normal commercial terms and conditions. These transactions primarily include loans, deposits and borrowing transactions. The significant outstanding balances and transactions with related parties at period-ends and relating expense and income for the period are as follows:

31 December 2019:

Related party (*)	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments assets	Other liabilities	Derivative financial instruments liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct shareholders	-	-	-	240,862	-	-	3,388	-	-	-	7,111	1,028	28,677
Indirect shareholders	1,596	182,856	3,507,164	3,072,288	17,600	434,855	2,948	1,707,390	50,048,255	29,774	390,697	3,468	229
Others	329,892	101,145	1,267,344	648,747	63,260	3,720	242	127	109,762	12,627	205,859	23,191	36,869

31 December 2018:

Related party (*)	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments assets	Other liabilities	Derivative financial instruments liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct shareholders	-	-	-	79,483	-	-	2,376	-	-	-	10,411	872	26,792
Indirect shareholders	19,520	260,569	4,671,779	1,418,306	56,205	1,474,493	7,804	1,278,660	46,094,357	17,331	353,011	2,741	218
Others	142,198	20,136	1,222,590	1,055,942	281,315	36,459	4,196	3,351	1,210,586	7,792	232,499	18,057	26,884

(*) "Direct shareholders" of the Group corresponds to TEB Holding A.Ş., BNP Yatırımlar Holding A.Ş. and BNP Paribas Fortis Yatırımlar Holding A.Ş.. "Indirect shareholders" of the Group corresponds to BNP Paribas SA, Çolakoğlu family members, Denak Depoculuk ve Nakliyecilik A.Ş., Çolakoğlu Metalurji A.Ş., Galata Yatırım Holding A.Ş.. "Others" corresponds to all other Çolakoğlu Group companies and BNP Paribas Group companies.

Compensation of Key Management Personnel of the Group

The executive and non-executive members of Board of Directors and management received remuneration and fees totaling TL55,385 as of 31 December 2019 (31 December 2018: TL53,133) comprising mainly salaries and other short-term benefits.

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

23. SALARIES AND EMPLOYEE BENEFITS

	31 December 2019	31 December 2018
Wages and salaries	1,014,522	901,326
Cost of defined contribution plan (employers' share of social security premiums)	195,142	162,744
Bonuses	104,746	118,408
Provision for employee termination benefits	58,167	31,323
Other fringe benefits	145,139	98,221
Total	**1,517,716**	**1,312,022**

24. OTHER OPERATING EXPENSES

	31 December 2019	31 December 2018
Maintenance and various administrative expenses	659,431	498,991
Advertisement expenses	96,733	92,599
Communication expenses	68,283	87,782
Rent expenses	23,927	254,355
Total	**848,374**	**933,727**

25. NET GAIN/LOSS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
Remeasurement of foreign currency position	(223,267)	(3,113,826)
Derivatives at fair value through profit or loss - fair value	(1,007,221)	2,430,052
Derivatives at fair value through profit or loss - interest	(153,670)	(79,069)
Derivatives – hedging instruments - fair value	275,957	237,438
Remeasurement of interest-rate risk hedged portfolios	(4,352)	(99)
Net gain/(loss) on securities at fair value through profit or loss	77,609	(154,312)
Total	**(1,034,944)**	**(679,816)**

Gains less losses on trading securities arise primarily from fixed income securities.

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

26. FEE AND COMMISSION INCOME AND EXPENSES

	31 December 2019	31 December 2018
Fee and commission income		
Banking	2,093,338	1,759,934
Insurance	185,907	129,091
Brokerage	81,788	83,921
Fund management	53,785	37,883
Total	**2,414,818**	**2,010,829**
Fee and commission expenses		
Banking	831,765	622,330
Other	269,559	176,792
Total	**1,101,324**	**799,122**

27. COMMITMENTS AND CONTINGENCIES

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

	31 December 2019	31 December 2018
Letters of guarantee issued	13,552,325	14,071,505
Letters of credit	2,623,851	2,691,811
Acceptance credits	12,915	34,672
Other guarantees	6,185,679	5,871,541
Total non-cash loans	**22,374,770**	**22,669,529**
Credit card limit commitments	8,506,931	6,093,650
Loan granting commitments	5,234,372	4,402,209
Asset purchase and sale commitments	3,684,822	3,128,940
Payment commitment for checks	1,769,641	1,681,617
Other commitments	1,089,058	773,860
Total	**42,659,594**	**38,749,805**

27. COMMITMENTS AND CONTINGENCIES (Continued)

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.

Investment fund participation certificates held in custody which belong to the customers and the related portfolio are not recognised on the statement of financial position. As of 31 December 2019 the total nominal value and number of certificates are TL7,318,390 and 7,318,390 thousand, respectively (31 December 2018: TL5,114,637 and 5,114,637 thousand, respectively).

The Group has earned TL53,785 (31 December 2018: TL37,883) fund management commission income for the year ended 31 December 2019.

The Group also manages thirty three investment funds, which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

Letters of Guarantee Given to Borsa Istanbul (BIST) and Istanbul Gold Market (IGM)

As of 31 December 2019, in line with the requirements of IGM, letters of guarantee amounting to TL2,433 (31 December 2018: TL2,162) had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of 31 December 2018, according to the general requirements of the BIST, letters of guarantee amounting to TL61,275 (31 December 2019: Nil) had been obtained from various local banks and were provided to BIST for bond and stock market transactions.

As of 31 December 2019, according to the general requirements of the Takasbank, letters of guarantee amounting to TL60,000(31 December 2018: TL60,000) had been obtained from a local bank and were provided to Takasbank for transactions.

Litigation

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. The Group has provided TL52,635 (31 December 2018: TL66,777) provision for legal cases.

28. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

The Group's activities involve some degree of risk or combination of risks. Therefore, procedures and operations throughout the Group are designed towards contributing to effective addressing of matters reflecting the disciplined and prudent risk management culture of the Group. The Group Risk Management supervises the risk management process of the Group.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board of Directors and the Audit Committee.

The mission of the Group Risk Management is to inform Board of Directors, General Management and the Audit Committee of the status of risks to which the Group is exposed and to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives. It compiles regulatory statements and financial reporting regarding risk management and measurement.

The Board of Directors determines general credit policies, specific policies and power delegations and sets limits related to fundamental risks being carried by the Group. They have the ultimate responsibility of ensuring that senior management establishes and maintains an adequate and effective system of internal control.

The responsibility of the Audit Committee is to coordinate all the risk management activities within the bank and supervise the parties involved in Internal Control. In doing so, the Committee ensures establishment of an efficient and effective risk management.

Credit Risk

The Board of Directors determines general credit policies, specific policies and power delegations and sets limits related to fundamental risks being carried by the Group.

A system of delegated lending limits is established with ultimate authority being vested in the Board through the Credit Committees of the Group. Along with the Credit Committee, Financial Institutions and Country Risk Committee (FICRC) work as a sub-committee on a Group basis.

Credit limits are determined taking into account the borrowers' financial structure, some qualitative criteria and the quality of the guarantees.

The Group uses the internal rating and scoring systems, which takes into account various financial and non-financial indicators for the evaluation of Corporate, SME, Micro SME, Agriculture and Retail clients.

Counterparty limits are daily monitored on a consolidated basis. In accordance with the Group's credit policy, the ratings of the borrowers, credit limits and collateralization process are collectively considered and credit risks are closely monitored. The credit risks and limits relate to treasury activities, the limits of the correspondent banks that are determined by their ratings and the control of the accepted risk level in relation to equity are monitored on a daily basis.

The credibility of the debtors of the Group is assessed periodically in accordance with the prevailing regulations on lending.

In order to control the concentration risk, sector specific limits are imposed and monitored. The large exposure policies set by the Board determine the maximum exposure to customer groups in an approach which is generally more conservative than the limits set by the regulatory authorities.

The Group Risk Management reports to the Board of Directors and the Audit Committee on a regular basis presenting risk concentrations, specific segments of the portfolio, large exposures, and impairment allowances as well as default and recovery rates.

Each subsidiary is required to implement credit policies, procedures and guidelines in line with the Group standards and is responsible for the quality and performance of its credit portfolio and controlling all credit risks.

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

28. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

After a loan facility is offered, the Credit Monitoring Department monitors the customer's repayment capability and the sufficiency and adequacy of the collateral. In this way, any problematic loan is identified at an early stage.

Both collective and specific provisions are made with methodologies which are compliant with both IFRS standards and BNP Paribas methodologies.

Netting is a technique used by the Group to mitigate counterparty risks mainly on derivative transactions. The transactions concerned are executed according to the terms of bilateral or multilateral master agreements that comply with the general provisions of international master agreements such as International Swaps and Derivatives Association (ISDA).

An industry sector analysis of the Group's financial assets, non-cash loans and commitments are as follows;

	31 December 2019	31 December 2018
Production	28,242,260	30,003,701
Banks	20,098,307	18,231,341
Private individuals	17,047,130	13,719,281
Government	10,566,388	6,606,470
Wholesale and retail trade activities	9,122,917	10,531,741
Real Estate and Rental Services	5,564,597	5,968,505
Finance	4,308,905	3,730,403
Transportation	3,358,692	3,653,297
Hotels, Tourism, Leisure	2,366,564	2,091,747
Ores & Materials	2,267,987	2,412,888
Farming and raising livestock	1,506,571	2,007,951
Healthcare & Pharmacy	1,347,595	1,163,244
Energy	1,093,767	1,269,337
Others	40,059,117	32,804,912
Total	**146,950,797**	**134,194,818**

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

28. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

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

Gross maximum exposure	31 December 2019	31 December 2018
Cash and balances with central banks (excluding cash on hand)	9,687,297	13,923,196
Financial assets at fair value through profit or loss	2,965,434	3,227,220
Securities	1,295,392	616,461
Derivative financial instruments	1,670,042	2,610,759
Derivative used for hedging purposes	241,507	502,479
Financial assets at fair value through other comprehensive income	5,541,376	3,292,852
Debt securities	5,533,476	3,287,237
Equity securities	7,900	5,615
Financial assets at amortised cost	81,275,405	72,278,573
Loans and advances due from banks	9,570,735	4,026,420
Loans and advances to customers	63,908,713	63,530,191
Factoring receivables	2,050,168	1,648,785
Debt securities	4,905,514	2,791,452
Other money market placements	840,275	281,725
Other assets	4,448,822	2,111,589
Total	**104,159,841**	**95,335,909**
Contingent liabilities	22,374,770	22,669,529
Commitments	20,284,824	16,080,276
Total	**42,659,594**	**38,749,805**
Total credit risk exposure	**146,819,435**	**134,085,714**

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

28. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Credit quality per class of financial assets as of 31 December 2019 and 2018 are as follows;

31 December 2019	Stage 1	Stage 2	Stage 3	Total allowance for impairment (Stage 1+2+3)	Total
Cash and balances with central banks (excluding cash on hand)	9,695,130	-	-	(7,833)	9,687,297
Financial assets at fair value through profit or loss	2,965,434	-	-	-	2,965,434
Securities	1,295,392	-	-	-	1,295,392
Derivative financial instruments	1,670,042	-	-	-	1,670,042
Derivatives used for hedging purposes	241,507	-	-	-	241,507
Financial assets at fair value through other comprehensive income	5,541,376	-	-	-	5,541,376
Debt Securities	5,533,476	-	-	-	5,533,476
Equity Securities	7,900	-	-	-	7,900
Financial assets at amortised cost	71,909,379	8,868,025	4,178,852	(3,680,851)	81,275,405
Loans and advances due from banks	9,574,670	-	-	(3,935)	9,570,735
Loans and advances to customers	54,538,317	8,864,382	4,146,906	(3,640,892)	63,908,713
- Commercial	35,796,777	5,538,399	3,617,237	(2,887,442)	42,064,971
- Consumer	14,593,587	2,612,198	398,230	(556,885)	17,047,130
- Credit cards	4,026,952	713,785	131,439	(196,565)	4,675,611
- Other	121,001	-	-	-	121,001
Factoring receivables	2,049,470	3,643	31,946	(34,891)	2,050,168
Debt Securities	4,906,618	-	-	(1,104)	4,905,514
Other money market placements	840,304	-	-	(29)	840,275
Other assets	4,448,822	-	-	-	4,448,822
Total	**94,801,648**	**8,868,025**	**4,178,852**	**(3,688,684)**	**104,159,841**

31 December 2018	Stage 1	Stage 2	Stage 3	Total allowance for impairment (Stage 1+2+3)	Total
Cash and balances with central banks (excluding cash on hand)	13,931,347	-	-	(8,151)	13,923,196
Financial assets at fair value through profit or loss	3,227,220	-	-	-	3,227,220
Securities	616,461	-	-	-	616,461
Derivative financial instruments	2,610,759	-	-	-	2,610,759
Derivatives used for hedging purposes	502,479	-	-	-	502,479
Financial assets at fair value through other comprehensive income	3,292,852	-	-	-	3,292,852
Debt securities	3,287,237	-	-	-	3,287,237
Equity securities	5,615	-	-	-	5,615
Financial assets at amortised cost	62,082,880	10,267,739	2,839,438	(2,911,484)	72,278,573
Loans and advances due from banks	4,026,536	-	-	(116)	4,026,420
Loans and advances to customers	53,416,253	10,188,978	2,774,744	(2,849,784)	63,530,191
- Commercial	39,224,229	6,664,666	1,207,174	(1,613,161)	45,482,908
- Consumer	10,568,447	2,759,419	1,395,223	(1,003,808)	13,719,281
- Credit cards	3,492,684	764,893	172,347	(232,815)	4,197,109
- Other	130,893	-	-	-	130,893
Factoring receivables	1,566,223	78,761	64,694	(60,893)	1,648,785
Debt securities	2,792,080	-	-	(628)	2,791,452
Other money market placements	281,788	-	-	(63)	281,725
Other assets	2,111,589	-	-	-	2,111,589
Total	**85,148,367**	**10,267,739**	**2,839,438**	**(2,919,635)**	**95,335,909**

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

	31 December 2019	31 December 2018
Loans and receivables		
Commercial	108,880	263,658
Consumer	3,949	526
Credit Cards	61,116	49,128
Total	**173,945**	**313,312**

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

28. FINANCIAL RISK MANAGEMENT (Continued)

Credit Rating System

The credit risk is assessed through the internal rating system of the Group, by classifying loans from highest grade to lowest grade according to the probability of default. As of 31 December 2019, consumer loans and business loans are excluded from the internal rating system of the Bank and those loans are 31.05% (31 December 2018: 28.15%) of total loan portfolio. The risks that are subject to rating models can be allocated as follows:

Category	Description of Category	Share in the Total % 31.12.2019	Share in the Total % 31.12.2018
1st Category	The borrower has a very strong financial structure	40.39	34.37
2nd Category	The borrower has a good financial structure	25.38	24.29
3rd Category	The borrower has an intermediate level of financial structure	24.95	32.04
4th Category	The financial structure of the borrower has to be closely monitored in the medium term	9.28	9.30
	Total	**100.00**	**100.00**

Liquidity Risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements when due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. Liquidity risk occurs when there is insufficient amount of cash inflow to fulfill the cash outflow completely on time.

The Group's policy is to establish a strong liquidity profile of assets that provides comfort in meeting all kinds of liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

The management of liquidity and funding is primarily carried out by the operating companies in accordance with the Group liquidity standards and the limits set by the relevant Board of Directors. It is the general policy of the Group that each operating entity should be self-sufficient with regard to funding requirements for its own operations.

The Group's liquidity management process includes projections of cash flows, monitoring balance sheet ratios against internal and regulatory requirements, maintaining diverse range of funding sources, managing the concentration risk, managing maturity mismatches and maintaining contingency plans with regard to liquidity and funding.

Asset and Liability Management Committee (ALCO) defines ALM policies and monitor the results biweekly. Asset Liability Management and Treasury (ALM/T) Group has the responsibility for managing funding on money markets and financial markets from short to medium and long term financing and also provides funds to core business lines at TEB and to reinvest surplus cash. While conducting asset and liability management, the Group aims to generate a positive margin between the financing cost and product income and an optimum maturity risk.

The main source of funding to cover the liquidity requirements is customer deposits and in addition to this source, issuing bonds, borrowings from several credit institutions and banks and professional markets utilizing a range of products, maturities, currencies and counterparties to avoid undue reliance on any particular funding source.

The Group Risk Management monitors compliance with policies, limits and indicators in relation to liquidity.

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 Group. The most important among these is to maintain limits on the ratio of the Bank's net liquid assets to customer liabilities, set to reflect market conditions. Consolidated Liquidity Coverage Ratio as of 31 December 2019 presented below:

	TL+FC	FC
December 2019	229.08%	474.45%
December 2018	294.09%	369.80%

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

28. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Unallocated (*)	Total
As at 31 December 2019						
Assets:						
Cash and balances with central banks	12,402,560	-	-	-	(7,833)	12,394,727
Financial assets at fair value through profit or loss	227,994	194,493	376,481	2,041,440	125,026	2,965,434
Securities	986	132,240	7,539	1,029,601	125,026	1,295,392
Derivative financial instruments	227,008	62,253	368,942	1,011,839	-	1,670,042
Derivatives used for hedging purposes	105,790	7,647	36,858	91,212	-	241,507
Financial assets at fair value through other comprehensive income	21,593	530,691	820,187	4,161,005	7,900	5,541,376
Debt securities	21,593	530,691	820,187	4,161,005	-	5,533,476
Equity securities	-	-	-	-	7,900	7,900
Financial assets at amortised cost	26,163,814	5,904,341	12,041,656	36,667,592	498,002	81,275,405
Loans and advances due from banks	9,574,669	-	-	-	(3,934)	9,570,735
Loans and advances to customers	14,722,731	4,579,167	11,322,142	32,778,659	506,014	63,908,713
Factoring receivables	1,026,110	682,023	342,297	2,683	(2,945)	2,050,168
Debt securities	-	643,151	377,217	3,886,250	(1,104)	4,905,514
Other money market placements	840,304	-	-	-	(29)	840,275
Remeasurement adjustment on interest-rate risk hedged portfolios	-	171	-	165	-	336
Current tax asset	14,810	-	-	-	-	14,810
Deferred tax asset	-	-	-	-	667,146	667,146
Other assets	688,317	452	5,862	15	3,885,538	4,580,184
Equity- method investments	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	884,818	884,818
Intangible assets	-	-	-	-	140,308	140,308
Goodwill	-	-	-	-	420,645	420,645
Total assets	**39,624,878**	**6,637,795**	**13,281,044**	**42,961,429**	**6,621,550**	**109,126,696**
Liabilities:						
Deposits from Central Bank	25	-	-	-	-	25
Financial liabilities at fair value through profit or loss	131,655	90,983	403,386	960,560	-	1,586,584
Derivative financial instruments	131,655	90,983	403,386	960,560	-	1,586,584
Derivatives used for hedging purposes	23,862	-	400,258	1,500,854	-	1,924,974
Financial liabilities at amortised cost	71,849,126	6,422,990	8,040,628	3,328,083	-	89,640,827
Deposits from credit institutions	386,287	-	-	-	-	386,287
Deposits from customers	66,275,597	4,829,381	679,269	7,293	-	71,791,540
Other money market deposits	1,644,665	-	-	-	-	1,644,665
Funds borrowed	1,850,273	952,036	7,361,359	130,287	-	10,293,955
Debt securities issued	1,692,304	641,573	-	-	-	2,333,877
Subordinated debts	-	-	-	3,190,503	-	3,190,503
Current tax liability	-	-	32,155	-	-	32,155
Deferred tax liability	-	-	-	-	-	-
Provision for contingencies and charges	-	-	-	-	667,180	667,180
Other liabilities	4,596,612	3,839	19,102	646,714	99,567	5,365,834
Total liabilities	**76,601,280**	**6,517,812**	**8,895,529**	**6,436,211**	**766,747**	**99,217,579**
Net liquidity gap	**(36,976,402)**	**119,983**	**4,385,515**	**36,525,218**	**5,854,803**	**9,909,117**
Non-cash loans (**)	**7,020,049**	**2,658,433**	**5,667,723**	**7,028,565**	**-**	**22,374,770**
As at 31 December 2018						
Total assets	37,392,500	6,532,259	14,155,867	36,088,820	4,424,957	98,595,031
Total liabilities	60,636,844	12,251,342	10,932,304	4,274,803	627,727	88,723,020
Net liquidity gap	**(23,244,344)**	**(5,719,083)**	**3,223,563**	**31,814,017**	**3,797,230**	**9,872,011**
Non-cash loans (**)	**7,540,485**	**2,589,098**	**5,765,025**	**6,774,921**	**-**	**22,669,529**

(*) The assets which are necessary to provide banking services and could not be liquidated in a short term, such as tangible assets, investments in subsidiaries and associates, office supply inventory, prepaid expenses and non-performing loans, are classified as under undistributed.

(**) The majority of the financing and guarantee commitments given in ‘Up to 1 month’ bracket, which amounted to TL6,077,407 (31 December 2018: TL6,069,867) can be drawn at sight.

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

28. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

Analysis of financial liabilities by remaining undiscounted contractual maturities;

	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustments	Total
As of 31 December 2019								
Customers' deposits	16,748,379	49,588,088	4,856,525	702,372	8,133	-	(111,957)	71,791,540
Deposits from other banks	23,714	362,650	-	-	-	-	(77)	386,287
Funds borrowed	-	1,869,054	974,013	7,799,301	1,197,495	4,214,894	(2,570,299)	13,484,458
Other money market deposits	-	1,644,941	-	-	-	-	(276)	1,644,665
Debt securities		1,732,211	659,336	-	-	-	(57,670)	2,333,877
Total	**16,772,093**	**55,196,944**	**6,489,874**	**8,501,673**	**1,205,628**	**4,214,894**	**(2,740,279)**	**89,640,827**
As of 31 December 2018								
Customers' deposits	11,556,898	41,389,362	8,487,709	3,033,077	10,606	-	(592,598)	63,885,054
Deposits from other banks	47,697	227,557	-	-	-	-	(174)	275,080
Funds borrowed	-	2,880,487	3,191,464	7,571,484	543,770	4,446,642	(2,409,976)	16,223,871
Other money market deposits	-	62,586	-	-	-	-	(43)	62,543
Debt securities issued		385,913	165,068	-	-	-	(24,389)	526,592
Total	**11,604,595**	**44,945,905**	**11,844,241**	**10,604,561**	**554,376**	**4,446,642**	**(3,027,180)**	**80,973,140**

Analysis of contractual expiry by maturity of the Group's some class of derivative financial instruments based on the amounts which will be settled in cash;

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As of 31 December 2019						
Hedging Portfolio						
Fair value hedge	-	935,776	-	804,408	-	1,740,184
Cash flow hedge	617,006	335,892	4,195,289	6,305,070	107,140	11,560,397
Trading Portfolio						
Forward contracts	1,738,432	1,661,071	1,479,351	466,529	-	5,345,383
Currency swaps	13,932,004	2,992,549	5,848,387	6,105,848	2,806,467	31,685,255
Interest rate swaps	26,051	14,667	105,270	142,349	9,818	298,155
Futures	-	-	-	35,164	-	35,164
Foreign currency options-sell	1,709,590	1,694,963	743,905	62,871	-	4,211,329
Total	**18,023,083**	**7,634,918**	**12,372,202**	**13,922,239**	**2,923,425**	**54,875,867**
As of 31 December 2018						
Hedging Portfolio						
Fair value hedge	-	-	-	-	-	-
Cash flow hedge	1,478,649	1,269,268	992,614	1,429,446	133,980	5,303,957
Trading Portfolio						
Forward contracts	1,420,228	1,571,984	2,149,526	735,469	-	5,877,207
Currency swaps	7,774,826	7,149,085	7,779,132	8,143,920	179,003	31,025,966
Interest rate swaps	1,807	783	15,680	106,620	5,816	130,706
Futures	-	-	-	-	-	-
Foreign currency options-sell	1,523,162	2,271,203	2,508,514	11,330	-	6,314,209
Total	**12,198,672**	**12,262,323**	**13,445,466**	**10,426,785**	**318,799**	**48,652,045**

28. FINANCIAL RISK MANAGEMENT (Continued)

Market Risk

Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining the conservative risk profile of the Group.

All trading positions are marked to market on a daily basis in compliance with regulatory requirements determined by Banking Regulation and Supervision Agency (BRSA), Capital Markets Board and other authorities. Only securities held to collect are valued at amortised cost using internal rate of return.

The Board of Directors evaluates the probable risks and accordingly determines limits. Those limits are revised periodically in line with the strategies of the Group. The Board of Directors ensures that the Group Risk Management has taken necessary precautions to identify, evaluate, control and manage risks faced.

The Group Risk Management calculates and follows the several market risk limits set by the Board of Directors. Some of those are VaR, PV01, Interest Rate Delta and Vega limits. Finally, nominal stop loss and position limits for each product have been set.

Currency Risk

The Group evaluates the exposure for the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate fluctuations in the market.

The Board of Directors sets limits for the positions, which are followed up on a daily basis. Additionally, any possible changes in positions are closely monitored.

Generally, Group companies are not allowed to take foreign exchange risks except for the trading positions of the banks. As a result of the Group's risk management strategies, foreign currency mismatches of assets and liabilities beyond limits are economically hedged against exchange rate risk by using derivative instruments.

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

28. FINANCIAL RISK MANAGEMENT (Continued)

Currency Risk (Continued)

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

	Turkish Lira	Euro	US Dollars	Other	Total
As at 31 December 2019					
Assets:					
Cash and balances with central banks	770,887	5,235,307	5,404,820	983,713	12,394,727
Financial assets at fair value through profit or loss	1,899,849	767,847	293,830	3,908	2,965,434
Securities	426,053	712,591	156,748	-	1,295,392
Derivative financial instruments	1,473,796	55,256	137,082	3,908	1,670,042
Derivatives used for hedging purposes	226,518	877	14,112	-	241,507
Financial assets at fair value through other comprehensive income	3,324,901	1,562,241	634,769	19,465	5,541,376
Debt securities	3,317,001	1,562,241	634,769	19,465	5,533,476
Equity securities	7,900	-	-	-	7,900
Financial assets at amortised cost	59,339,956	10,875,107	8,164,304	2,896,038	81,275,405
Loans and advances due from banks	1,053,221	2,223,408	4,668,287	1,625,819	9,570,735
Loans and advances to customers	52,714,560	7,402,323	2,540,634	1,251,196	63,908,713
Factoring receivables	1,182,712	775,868	72,565	19,023	2,050,168
Debt securities	3,549,188	473,508	882,818	-	4,905,514
Other money market placements	840,275	-	-	-	840,275
Remeasurement adjustment on interest-rate risk hedged portfolios	336	-	-	-	336
Current tax asset	14,810	-	-	-	14,810
Deferred tax asset	667,146	-	-	-	667,146
Other assets	2,482,707	2,050,664	28,325	18,488	4,580,184
Property, plant and equipment	884,141	677	-	-	884,818
Intangible assets	140,308	-	-	-	140,308
Goodwill	420,645	-	-	-	420,645
Total assets	**70,172,204**	**20,492,720**	**14,540,160**	**3,921,612**	**109,126,696**
Liabilities:					
Deposits from central bank	25	-	-	-	25
Financial liabilities at fair value through profit or loss	1,486,335	9,149	87,524	3,576	1,586,584
Derivative financial instruments	1,486,335	9,149	87,524	3,576	1,586,584
Derivatives used for hedging purposes	1,917,707	7,267	-	-	1,924,974
Financial liabilities at amortised cost	39,186,797	21,141,775	25,462,985	3,849,270	89,640,827
Deposits from credit institutions	267,498	101	118,681	7	386,287
Deposits from customers	34,203,160	13,280,022	20,837,334	3,471,024	71,791,540
Other money market deposits	1,317,498	327,167	-	-	1,644,665
Funds borrowed	1,064,764	5,610,239	3,240,713	378,239	10,293,955
Debt securities issued	2,333,877	-	-	-	2,333,877
Subordinated debts	-	1,924,246	1,266,257	-	3,190,503
Current tax liability	32,155	-	-	-	32,155
Provision for contingencies and charges	521,746	80,248	63,721	1,465	667,180
Other liabilities	4,924,378	235,069	197,184	9,203	5,365,834
Total liabilities	**48,069,143**	**21,473,508**	**25,811,414**	**3,863,514**	**99,217,579**
Net balance sheet position	**22,103,061**	**(980,788)**	**(11,271,254)**	**58,098**	**9,909,117**
Off-balance sheet position					
Net notional amount of derivatives	(11,492,124)	797,511	11,133,800	(2,316)	436,871
Non-cash loans (*)	9,129,803	6,880,451	5,459,747	904,769	22,374,770
Net position	**10,610,937**	**(183,277)**	**(137,454)**	**55,782**	**10,345,988**
At 31 December 2018					
Total assets	64,530,091	19,570,621	10,873,097	3,621,222	98,595,031
Total liabilities	45,553,505	15,721,373	23,848,342	3,599,800	88,723,020
Net balance sheet position	**18,976,586**	**3,849,248**	**(12,975,245)**	**21,422**	**9,872,011**
Off-balance sheet position					
Net notional amount of derivatives	(9,060,737)	(3,989,546)	14,047,284	(27,304)	969,697
Non-cash loans (*)	9,301,342	6,531,063	5,941,120	896,004	22,669,529
Net position	**9,915,849**	**(140,298)**	**1,072,039**	**(5,882)**	**10,841,708**

(*) There is no effect on the net off-balance sheet position.

The table above shows the Group's distribution of balance sheet and derivative foreign exchange transactions taking into account the options transactions with nominal values as indicated in the BRSA regulation on foreign currency position. Besides taking into account this position by monitoring legal limits, the Bank Risk Group also monitors the delta-adjusted position of the option transactions. As of 31 December 2019, the Bank has net TL97,475 USD long position and net TL72,257 EUR short position.

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

28. FINANCIAL RISK MANAGEMENT (Continued)

Currency Risk (Continued)

Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

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

	Change in currency rate in %	Increase /(Decrease) Effect on profit or loss		Increase /(Decrease) Effect on equity excluding PL	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
USD	10 increase	19,299	7,949	937	(833)
USD	10 decrease	(19,299)	(7,949)	(937)	833
EUR	10 increase	(7,623)	(293)	587	(514)
EUR	10 decrease	7,623	293	(587)	514

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

Cash Flow and Fair Value Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of a change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of a change in market interest rates. The Group evaluates the exposure for the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows. Interest rate risk shows the probability of loss related to the changes in interest rates depending on the position.

Each operating entity is responsible for monitoring and controlling the interest rate risk in line with the Group interest rate risk standards and the limits set by the relevant Board of Directors. The ALCO is responsible of managing interest rate risk at the Bank.

The first principle of the Group regarding interest rate risk is to protect itself from interest rate volatility. All types of sensitivity analysis are calculated by the Group Risk Management and reported to the Board of Directors, ALCO and the Audit Committee.

Maturities of outstanding assets are based on the contractual characteristics of the transactions.

i) The Bank only economic value differences resulted from interest rate instabilities calculated according to "Regulation on measurement and evaluation of interest rate risk resulted from the banking accounts as per standard shock method"

Type of Currency	Change in interest rate (+/- x basis point)	Gains/ (Losses)	Gains/Equity–(Losses)/Equity
TL	(400)	828,119	6.17%
TL	500	(935,100)	(6.87)%
EURO	(200)	100,615	0.24%
EURO	200	(83,923)	(0.19)%
USD	(200)	(66,370)	0.23%
USD	200	66,387	(0.15)%
Total (of negative shocks)	**(800)**	**862,364**	**6.65%**
Total (of positive shocks)	**900**	**(952,636)**	**(7.20)%**

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

28. FINANCIAL RISK MANAGEMENT (Continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date.

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2019						
Assets :						
Cash and balances with central banks	9,397,972	-	-	-	2,996,755	12,394,727
Financial assets at fair value through profit or loss	180,561	132,245	334,064	1,753,436	565,128	2,965,434
Securities	180,561	132,240	55,307	802,259	125,025	1,295,392
Derivative financial instruments	0	5	278,757	951,177	440,103	1,670,042
Derivatives used for hedging purposes	105,790	7,647	36,858	91,212	-	241,507
Financial assets at fair value through other comprehensive income	1,057,349	530,691	523,340	3,422,096	7,900	5,541,376
Debt securities	1,057,349	530,691	523,340	3,422,096	-	5,533,476
Equity securities	-	-	-	-	7,900	7,900
Financial assets at amortised cost	24,315,332	6,057,504	13,777,272	33,953,271	3,172,026	81,275,405
Loans and advances due from banks	7,071,485	-	-	-	2,499,250	9,570,735
Loans and advances to customers	15,213,872	4,579,167	11,359,041	32,250,619	506,014	63,908,713
Factoring receivables	1,026,110	682,023	342,297	2,683	(2,945)	2,050,168
Debt securities	163,561	796,314	2,075,934	1,699,969	169,736	4,905,514
Other money market placements	840,304	-	-	-	(29)	840,275
Remeasurement adjustment on interest-rate risk hedged portfolios	-	171	-	165	-	336
Current tax asset	-	-	-	-	14,810	14,810
Deferred tax asset	-	-	-	-	667,146	667,146
Other assets	16,117	-	-	-	4,564,067	4,580,184
Property, plant and equipment	-	-	-	-	884,818	884,818
Intangible assets	-	-	-	-	140,308	140,308
Goodwill	-	-	-	-	420,645	420,645
Total Assets	**35,073,121**	**6,728,258**	**14,671,534**	**39,220,180**	**13,433,603**	**109,126,696**
Liabilities:						
Deposits from Central Bank	-	-	-	-	25	25
Financial liabilities at fair value through profit or loss	-	117	311,685	915,562	359,220	1,586,584
Derivative financial instruments	-	117	311,685	915,562	359,220	1,586,584
Derivatives used for hedging purposes	23,862	-	400,258	1,500,854	-	1,924,974
Financial liabilities at amortised cost	55,784,264	9,023,773	6,686,674	1,374,023	16,772,093	89,640,827
Deposits from credit institutions	362,573	-	-	-	23,714	386,287
Deposits from customers	49,529,000	4,829,633	677,235	7,293	16,748,379	71,791,540
Other money market deposits	1,644,665	-	-	-	-	1,644,665
Funds borrowed	1,868,797	3,552,567	4,772,118	100,473	-	10,293,955
Debt securities issued	1,692,304	641,573	-	-	-	2,333,877
Subordinated debts	686,925	-	1,237,321	1,266,257	-	3,190,503
Current tax liability	-	-	-	-	32,155	32,155
Provision for contingencies and charges	-	-	-	-	667,180	667,180
Other liabilities	-	-	-	-	5,365,834	5,365,834
Total liabilities	**55,808,126**	**9,023,890**	**7,398,617**	**3,790,439**	**23,196,507**	**99,217,579**
Balance sheet interest sensitivity gap	**(20,735,005)**	**(2,295,632)**	**7,272,917**	**35,429,741**	**(9,762,904)**	**9,909,117**
As at 31 December 2018						
Total assets	33,203,977	7,023,364	16,124,543	32,149,429	10,093,718	98,595,031
Total liabilities	45,301,248	12,478,835	10,028,244	2,954,049	17,960,644	88,723,020
Net interest sensitivity gap	**(12,097,271)**	**(5,455,471)**	**6,096,299**	**29,195,380**	**(7,866,926)**	**9,872,011**

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

28. FINANCIAL RISK MANAGEMENT (Continued)

Capital Adequacy

The Group's capital base includes all types of regulatory eligible own funds, as these are defined by the BRSA, which differs from the total equity under IFRS. Among others, the Group's regulatory own funds include the share capital, the share premium account, the reserves, retained earnings, and subordinated debt issues.

The Group's total capital ratio is calculated by dividing its total capital, which comprises own funds eligible capital debt instruments general provisions per its statutory financial statements by the aggregate of its risk-weighted assets. In accordance with the BRSA guidelines the Group must, in general, maintain a total target capital ratio in excess of 12%.

The method used for risk measurement in determining capital adequacy standard ratio; Capital Adequacy Standard Ratio is calculated in accordance with Banking Regulation and Supervision Agency ("BRSA")'s "Communiqué on Measurement and Assessment of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques", "Communiqué on Calculation of Risk Weighted Amounts for Securitizations" and "Communiqué on Equities of Banks". The Group's consolidated capital adequacy ratio is 16.74% (31 December 2018: 16.70%) in accordance with the related Communiqué as of 31 December 2019.

The Bank has complied with the capital requirements throughout the year and the previous year.

	Consolidated		**Parent Bank**	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Risk Weighted Assets (including operational & market risk)	6,947,908	6,226,687	6,768,727	6,075,328
Common Equity Tier 1 Capital	10,444,321	9,358,326	10,270,087	9,237,268
Tier 1 Capital	10,444,388	9,358,371	10,270,087	9,237,268
Tier 2 Capital	4,102,833	3,650,606	4,078,240	3,630,058
Deductions from Capital	8,691	12,376	8,691	12,376
Total Capital	14,538,530	12,996,601	14,339,636	12,854,950
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	16.74	16.70	16.95	16.93
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	12.03	12.02	12.14	12.16
Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	12.03	12.02	12.14	12.16

Operational Risk

Operational risk is defined as the risk of direct or indirect losses resulting from inadequate and/or failed internal process and systems, arising from negligence or fraud of the staff members or stemming from external events.

Operational risk, which is inherent in all business activities, is associated with human error, system failure and inadequate controls and procedures. Operational risk includes errors and omissions in business activities, internal and external fraud and natural disasters.

The Group's first objective is to achieve all qualitative standards of Basel Committee, by implying policy and procedures, ensuring the strict observance of internal code of conduct and also developing strong internal control culture.

Compliance with legal rules, information security, fraud prevention, contingency planning, business continuity and disaster recovery, and also incident management are the main subjects of the operational risk mitigation controls.

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

28. FINANCIAL RISK MANAGEMENT (Continued)

Offsetting financial assets and financial liabilities

"Amounts set off on the balance sheet" have been determined according to IAS 32. Thus, a financial asset and a financial liability are offset and the net amount presented on the balance sheet when, and only when, the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The "Financial instruments" are relative to outstanding amounts of transactions within an enforceable agreement, which do not meet the offsetting criteria defined by IAS 32. This is the case of transactions for which offsetting can only be performed in case of default, insolvency or bankruptcy of one of the contracting parties.

"Cash collateral" includes guarantee deposits and securities collateral recognised at fair value. These guarantees can only be exercised in case of default, insolvency or bankruptcy of one of the contracting parties.

The following table presents the amounts of financial assets and liabilities before and after offsetting.

31 December 2019				**Related amounts not offset in the statement of financial position**		**Net amount**
	Gross amounts of financial assets/liabilities	**Gross amounts set off on the balance sheet**	**Net amounts presented in the balance sheet**	**Financial instruments**	**Cash collateral**	
Derivative assets	1,911,549	-	1,911,549	1,369,850	176,647	365,052
Reverse repurchase agreements	840,275	-	840,275	840,275	-	-
Derivative liabilities	3,511,558	-	3,511,558	1,369,850	1,883,504	258,204
Repurchase agreements	1,644,665	-	1,644,665	1,644,665	-	-

31 December 2018				**Related amounts not offset in the statement of financial position**		**Net amount**
	Gross amounts of financial assets/liabilities	**Gross amounts set off on the balance sheet**	**Net amounts presented in the balance sheet**	**Financial instruments**	**Cash collateral**	
Derivative assets	3,113,238	-	3,113,238	1,938,563	447,690	726,985
Reverse repurchase agreements	281,725	-	281,725	281,725	-	-
Derivative liabilities	2,764,984	-	2,764,984	1,938,563	271,931	554,490
Repurchase agreements	62,543	-	62,543	62,543	-	-

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

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's major financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial assets at amortised cost				
Loans and advances due from banks	9,570,735	4,026,420	9,570,735	4,026,420
Other money market placements	840,275	281,788	840,275	281,788
Loans and advances to customers	63,908,713	63,530,191	65,531,993	61,392,621
Debt Securities	4,905,514	2,791,452	5,032,899	2,771,118
Factoring receivables	2,050,168	1,648,785	2,050,168	1,648,785
Financial liabilities at amortised cost				
Deposits from other banks , funds borrowed and subordinated debts	13,870,770	16,498,951	13,870,770	16,555,763
Deposits from customers	71,791,540	63,885,054	71,886,844	64,414,653
Other money market deposits	1,644,665	62,543	1,644,665	62,543
Issued debt securities	2,333,877	526,592	2,333,877	526,592

Loans and Advances to Customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received. Since the expected cash flows are discounted at current market rates to determine fair value, the fair value hierarchy is evaluated as Level 2.

Debt Securities Measured at Amortised Cost

Since the fair value for debt securities at amortised cost is based on market prices or broker/dealer price quotations, the fair value hierarchy is evaluated as Level 1.

Deposits and Borrowings

The estimated fair value of deposits from credit institutions and deposits from customers with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest bearing deposits and funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity. The fair value hierarchy is evaluated as Level 2.

Fair values of remaining financial assets and liabilities carried at amortised cost, including balances with central banks, loans and advances due from banks, other money market placements, factoring receivables and payables are considered to approximate their respective carrying values due to their short-term nature.

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

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value of Financial Instruments

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

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other variables used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. An unobservable input is a parameter for which there are no market data available and that is therefore derived from proprietary assumptions about what other market participants would consider when assessing fair value.

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	1,170,366	1,754,129	40,939	2,965,434
Securities	1,170,366	84,087	40,939	1,295,392
Derivative financial instruments	-	1,670,042	-	1,670,042
Derivatives used for hedging purposes	-	241,507	-	241,507
Financial assets at fair value through other comprehensive income	5,512,793	20,683	7,900	5,541,376
Debt securities	5,512,793	20,683	-	5,533,476
Equity securities	-	-	7,900	7,900
Total	**6,683,159**	**2,016,319**	**48,839**	**8,748,317**
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	-	1,586,584	-	1,586,584
Derivatives used for hedging purposes	-	1,924,974	-	1,924,974
Total	**-**	**3,511,558**	**-**	**3,511,558**

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	527,781	2,663,246	36,193	3,227,220
Securities	527,781	52,487	36,193	616,461
Derivative financial instruments	-	2,610,759	-	2,610,759
Derivatives used for hedging purposes	-	502,479	-	502,479
Financial assets at fair value through other comprehensive income	3,267,201	20,036	5,610	3,292,847
Debt securities	3,267,201	20,036	-	3,287,237
Equity securities	-	-	5,610	5,610
Total	**3,794,982**	**3,185,761**	**41,803**	**7,022,546**
Financial liabilities at fair value through profit or loss	-	2,375,802	-	2,375,802
Derivative financial instruments	-	2,375,802	-	2,375,802
Derivatives used for hedging purposes	-	389,182	-	389,182
Total	**-**	**2,764,984**	**-**	**2,764,984**

There were no reclassifications between the levels in the current and the previous period.

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

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value of Financial Instruments

Reconciliation of the Group's assets and liabilities that are measured at fair value based on valuation techniques are presented as follow:

	Financial assets at FVPL		FVOCI
	Trading securities	**Trading derivatives**	**Equity investments**
Opening balance, 1 January 2019	36,193	-	5,610
Total gains or losses	4,746	-	2,290
-recognised in statement of income/(loss)	4,746	-	-
-recognised in other comprehensive income	-	-	2,290
Purchases (+)	-	-	-
Issuance (-)	-	-	-
Settlements (-)	-	-	-
Transfers into Level 3 (-)	-	-	-
Transfers out of Level 3 (-)	-	-	-
Ending balance, 31 December 2019	**40,939**	-	**7,900**

	Financial assets at FVPL		FVOCI
	Trading securities	**Trading derivatives**	**Equity investments**
Opening balance, 1 January 2018	25,641	-	5,060
Total gains or losses	10,552	-	550
-recognised in statement of income/(loss)	10,552	-	-
-recognised in other comprehensive income	-	-	550
Purchases (+)	-	-	-
Issuance (-)	-	-	-
Settlements (-)	-	-	-
Transfers into Level 3 (-)	-	-	-
Transfers out of Level 3 (-)	-	-	-
Ending balance, 31 December 2018	**36,193**	-	**5,610**

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

30. SUBSIDIARIES

Information on the consolidated subsidiaries:

		Address (City/Country)	Group's share percentage-If different voting percentage (%)	Other shareholders' share percentage (%)
1	TEB Faktoring A.Ş.	İstanbul/Turkey	100.00	-
2	TEB Yatırım Menkul Değerler A.Ş.	İstanbul/Turkey	100.00	-
3	TEB Portföy Yönetimi A.Ş.	İstanbul/Turkey	54.74	45.26

Information on the consolidated subsidiaries with the order as presented in the table above:

	Total Assets	Shareholders' Equity	Total Fixed Assets	Interest Income	Income on Marketable Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
1	2,084,421	161,992	2,483	220,491	-	39,385	35,992	-
2	175,918	131,016	3,252	41,739	-	31,755	31,424	-
3	26,870	20,780	1,301	3,561	157	4,917	3,698	-

31. SUBSEQUENT EVENTS

None.