TÜRKİYE VAKIFLAR BANKASI
TÜRK ANONİM ORTAKLIĞI
AND IT'S SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 2019
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Türkiye Vakıflar Bankası T.A.O.

Our qualified opinion

In our opinion, except for the effect of the matter on the consolidated financial statements described in the Basis for qualified opinion section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Türkiye Vakıflar Bankası T.A.O. (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2019, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholder's equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for qualified opinion

As explained in Note 22 of the accompanying consolidated financial statements; a portion of free provision amounting to TL 178,000 thousand has been reversed in current period, out of total free provision of TL 1,030,000 thousand provided in prior years by the Bank management considering the negative circumstances that may arise from possible changes in the economy and market conditions. Thus, the amount of free provision in the accompanying consolidated financial statements which does not meet the recognition criteria of IAS 37 "Provisions, contingent liabilities and contingent assets" is TL 852,000 thousand with its related deferred tax amounting to TL 170,400 thousand as at 31 December 2019.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and "Independence Audit by-Law" published by the Public Oversight Accounting and Auditing Standards Authority ("POA"), independent auditing requirements referred to in Article 400 of the Turkish Commercial Code ("TCC"), "Regulation on Independent Audit of Banks" published by the Turkish Banking Regulation and Supervision Agency on the Official Gazette No.29314 dated 2 April 2015 and Communiqué Series: X No: 22 on "Principles Regarding Independent Auditing Standards in the Capital Markets" (collectively referred to as "Turkish Local Independence Rules"). We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the financial services industry in which the Group operates.

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. In addition to the matter described in the Basis for qualified opinion section we have determined the matters described below to be key audit matters to be communicated in our report.

Key Audit Matters	How Our Audit Addressed the Key Audit Matter
Expected Credit Losses for Loans and Receivables in Accordance with IFRS 9 "Financial Instruments Standard" ("IFRS 9") The Group has total expected credit losses of TL 16,066,652 thousands in respect to loans and receivables of TL 299,007,301 thousands which represent a significant portion of the Group's total assets in its consolidated financial statements as at 31 December 2019. Explanations and notes related to provision for impairment of loans are presented in Notes 2 and 10 in the accompanying consolidated financial statements as at 31 December 2019. The Group recognizes provision for impairment of loans in accordance with "IFRS 9 Financial Instruments" expected credit loss model, effective from 1 January 2018. The Group exercises significant decisions using subjective judgement, interpretation and assumptions over when and how much to record as loan impairment. The Group determines staging of credit identifying significant increase in credit risk with assessments and default events presented Note 2 in the accompanying consolidated financial statements. Information used in the expected credit loss assessment such as historical loss experiences, current conditions and macroeconomic expectations should be supportable and appropriate.	With respect to stage classification of loans and receivables and calculation of expected credit losses in accordance with IFRS 9, we have assessed policy, procedure and management principles of the Group within the scope of our audit. We tested the design and the operating effectiveness of relevant controls implemented in accordance with these principles. Within the framework of the policies and procedures applied by the Group, together with our financial risk experts, we have checked and assessed the appropriateness of the methods used in the model developed for staging of loans and calculation of expected credit losses in accordance with IFRS 9. For forward looking assumptions (including macro-economic factors) made by the Group's management in its expected credit loss calculation, we held discussions with management and evaluated the assumptions using publicly available information. We have recalculated the calculations in the model developed by the Group together with our financial risk experts on a sample selection basis.

Key Audit Matters	How Our Audit Addressed the Key Audit Matter
Expected Credit Loss in Accordance With IFRS 9 “Financial Instruments Standard” (“IFRS 9”) (Continued) The Group has developed new and complex models, that requires data to be derived from multiple systems and has not been part of the financial reporting process before for determining significant increase in credit risk and calculation of IFRS 9 expected credit losses. Our audit was focused on this area due to existence of complex estimates and information used in the impairment assessment such as macro-economic expectations, current conditions, historical loss experiences; the significance of the loan and receivable balances; the classification of loans and receivables as per their credit risk (staging) and the importance of determination of the associated expected credit loss. Timely and correct identification of default event and significant increase in credit risk and level of judgements and estimations made by the management have significant impacts on the amount of impairment provisions for loans. Therefore, this area is considered as key audit matter.	Our audit processes also include the following procedures: • Together with our financial risk experts, we evaluated and tested reasonableness of the changes in the expected credit loss allowance methodology and the performance of the impairment models used. • The basic and important estimates and the assumptions related to macroeconomic variables, significant increase in credit risk in the calculation of expected credit losses, default definition, probability of default and loss given default were assessed and tested together with our financial risk experts. • We have checked expected credit losses determined based on individual assessment per Group’s policy by means of supporting data on a sample basis and evaluated appropriateness via communications with management. • We checked sources for data used in expected credit losses calculations. We tested reliability and completeness of the data used in expected credit losses calculations with our information systems specialists. • We checked accuracy of resultant expected credit losses calculations on a sample basis. • To assess appropriateness of the Group’s determination of staging for credit risk, identification of impairment and timely and appropriate provisioning for impairment under IFRS 9, we have performed loan review procedures based on a selected sample. • We checked the accuracy and completeness of the disclosures made within the IFRS 9 framework in the consolidated financial statements the Group presented with respect to loans and receivables and related expected credit losses.

Key Audit Matters	How Our Audit Addressed the Key Audit Matter
Valuation of Pension Fund Obligations	
Explanations on Valuation of Pension Obligations are presented in Note 2 paragraph (n) in the accompanying consolidated financial statements as at 31 December 2019. "Türkiye Vakıflar Bankası Türk Anonim Ortaklığı Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı" ("the Fund") is established in accordance with the Social Security Law numbered 506 article No 20 and is within the scope of Funds to be transferred to the Social Security Institution (SSI). The president of republic is authorized to determine the transfer date. The total obligation of the fund is estimated using separate methods and assumption for benefits to be transferred and for non-transferrable benefits. The valuations of the pension obligations require significant judgement and technical expertise in choosing appropriate assumptions. Evaluation of Pension Fund liabilities include uncertainty of estimates and assumptions such as transferrable social benefits, discount rates, salary increases, economic and demographic assumptions. The Group's management uses external actuaries for the purpose of valuations of pension obligations. During our audit, above mentioned fundamental assumption and estimates used in calculations of pension fund obligations, uncertainty of the transfer date, technical interest rate determined by the law and significant impact from differentiation of these assumptions were taken into consideration, and this area is considered as key audit matter.	Within our audit procedures, we tested on a sample basis the accuracy of the employee data supplied by the Group management to the external actuary firm for the purpose of evaluation pension obligation. In addition, we verified the existence and values of the Pension Fund assets on a sample basis. We examined whether significant changes in actuarial assumptions used in calculation, employee benefits in the period, plan assets and liabilities, and regulations related to valuations exist, and tested significant changes. Through use of our actuarial specialist, we assessed the reasonableness of assumptions and evaluation made by the external actuaries in the calculation of the liability. In addition to the above procedures, we have reviewed disclosures made with respect to pension funds in the consolidated financial statements.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

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

Halûk Yalçın, SMMM
Partner

Istanbul, 9 April 2020

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

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

	Notes	December 31, 2019	December 31, 2018
ASSETS			
Cash and balances with Central Banks	6	42,384,491	38,192,088
Financial assets at fair value through profit or loss ("FVPL")	7	6,815,205	4,638,002
- Securities	*7*	*2,307,977*	*224,619*
- Derivative Financial Instruments	*7*	*4,507,228*	*4,413,383*
Financial assets at fair value through other comprehensive income ("FVOCI")		26,584,063	11,385,945
- Debt Securities		*25,782,244*	*10,795,766*
- Equity Securities		*801,819*	*590,179*
Financial assets at amortised cost ("AC")		331,215,903	269,629,322
- Loans and advances to banks	*9*	*1,265,675*	*1,872,988*
- Loans and advances to customers	*10*	*282,940,649*	*227,780,271*
- Debt securities		*47,009,579*	*39,976,063*
Investments accounted for using the equity method		456,087	372,022
Current tax assets		2,861	2,033
Deferred tax assets	23	975,365	396,715
Property, plant and equipment	13	3,136,367	2,949,444
Intangible assets	13	341,777	396,638
Assets classified as held for sale	14	7,690,615	1,568,113
Other assets	15	13,638,342	15,348,976
Total assets		**433,241,076**	**344,879,298**
LIABILITIES AND EQUITY			
Financial liabilities at fair value through profit or loss		3,311,997	2,552,248
- Derivative financial instruments	*16*	*3,311,997*	*2,552,248*
Financial liabilities at amortised cost		372,899,372	292,654,288
- Deposits from banks	*17*	*9,231,640*	*7,064,494*
- Deposits from customers	*18*	*244,683,418*	*175,238,559*
- Obligations under repurchase agreements	*8*	*25,424,068*	*29,123,872*
- Funds borrowed	*19*	*45,066,737*	*45,432,849*
- Debt securities issued	*20*	*29,248,056*	*22,772,491*
- Subordinated debts	*21*	*19,245,453*	*13,022,023*
Current tax liabilities	23	1,143,074	857,164
Deferred tax liabilities	23	31,609	31,721
Liabilities directly associated with assets classified as held for sale	14	5,378,292	1,546
Other liabilities and provisions	22	16,566,107	19,292,483
Total liabilities		**399,330,451**	**315,389,450**
Equity attributable to owners of the parent			
Share capital	25	3,300,146	3,300,146
Share premium		721,594	721,908
Revaluation surplus		2,604,125	1,400,964
Reserves		2,557,712	2,098,451
Retained earnings		23,613,291	21,082,815
Total equity attributable to owners of the parent		**32,796,868**	**28,604,284**
Non-controlling interests	**25**	**1,113,757**	**885,564**
Total equity		**33,910,625**	29,489,848
Total liabilities and equity		**433,241,076**	**344,879,298**
Commitments and contingencies		**161,250,728**	**131,434,807**

The notes on pages 7 to 87 are an integral part of these consolidated financial statements

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 - December 31, 2019	1 January - December 31, 2018
Interest income			
Interest on loans measured at AC		35,176,932	28,100,735
Interest on securities		7,045,289	6,090,312
- *Measured at FVPL (Trading financial assets)*		111,381	*16,761*
- *Measured at FVOCI (Available-for-sale financial assets)*		2,211,420	*1,049,389*
- *Measured at AC (Held-to-maturity investments)*		4,722,488	*5,024,162*
Interest on deposits at banks		289,191	335,149
Interest on money market placements		4,532	20,725
Other interest income		562,598	413,772
Total interest income		**43,078,542**	**34,960,693**
Interest expense			
Interest on deposits		(17,945,995)	(15,517,969)
Interest on money market deposits		(5,140,630)	(3,557,193)
Interest on funds borrowed		(1,810,958)	(1,599,774)
Interest expense on securities issued		(4,150,779)	(2,094,967)
Other interest expense		(207,654)	(741,169)
Total interest expense		**(29,256,016)**	**(23,511,072)**
Net interest income		**13,822,526**	**11,449,621**
Fee and commission income		4,517,283	3,114,751
Fee and commission expense		(1,118,168)	(963,703)
Net fee and commission income	**27**	**3,399,115**	**2,151,048**
Operating income			
Net trading income		(3,161,071)	429,180
Net foreign exchange gains		669,123	403,241
Other income	28	6,602,790	3,955,720
Total operating income		**4,110,842**	**4,788,141**
Operating expenses			
Salaries and employee benefit expenses	29	(3,149,658)	(2,462,706)
Provision for loan impairment, net of recoveries		(8,356,813)	(5,043,269)
Depreciation and amortisation		(500,588)	(217,070)
Taxes other than on income		(294,783)	(369,491)
Other expenses	30	(4,556,645)	(4,700,323)
Total operating expenses		**(16,858,487)**	**(12,792,859)**
Share of profit of associates accounted for using the equity method		61,872	55,846
Profit before income tax		**4,535,868**	**5,651,797**
Income tax expense	23	(1,033,209)	(985,895)
Profit for the period		**3,502,659**	**4,665,902**
Attributable to:			
Owners of the Parent		3,363,189	4,589,019
Non-controlling interest	25	139,470	76,883
Basic and diluted earnings per 100 share on profit for the year	24	1.3453	1.8356

The notes on pages 7 to 87 are an integral part of these consolidated financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Notes	December 31, 2019	December 31, 2018
Profit for the period		**3,502,659**	**4,665,902**
Other comprehensive income			
Items that will not be classified to profit or loss:			
Re-measurement of post - employment benefit obligation		(93,644)	(13,758)
Revaluation of property, plant and equipment		117,879	182,739
Other accumulated comprehensive income that will not be reclassified in profit or loss		1,653	(440)
Related tax	23	(5,178)	(48,995)
Items that will be reclassified subsequently to profit or loss:			
Foreign currency translation differences		62,080	213,085
Net change in fair value of financial assets at fair value through other comprehensive income		1,427,269	313,654
Income (Loss) Related with Hedges of Net Investments in Foreign Operations		(43,358)	(102,292)
Other items		(162,523)	(28,461)
Income tax related to items that will be reclassified subsequently to profit or loss	23	(252,949)	(57,039)
Other comprehensive income for the year, net of income tax		**1,051,229**	**458,493**
Total comprehensive income for the year		**4,553,888**	**5,124,395**
Total comprehensive income attributable to:			
Owners of the Parent		4,287,500	5,013,783
Non-controlling interest		266,388	110,612

The notes on pages 7 to 87 are an integral part of these consolidated financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

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									
			Revaluation Surplus							
	Share Capital	**Share premium**	**Fair value reserves**	**Revaluation Fund**	**Currency translation reserve**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balances at January 1, 2019	3,300,146	721,908	315,654	795,918	289,392	2,098,451	21,082,815	28,604,284	**885,564**	**29,489,848**
First time adoption impact of IFRS, net										
Profit for the Period	-	-	-	-	-	-	**3,363,189**	**3,363,189**	**139,470**	**3,502,659**
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-		-	-	(70,466)	(70,466)	**(4,449)**	**(74,915)**
Change in revaluation surplus	-	-	-	(38,277)	-	-		(38,277)	**132,580**	**94,303**
Foreign currency translation differences	-	-	-	-	9,931	-	-	9,931	**8,791**	**18,722**
Net change in fair value of financial assets at fair value through other comprehensive income (available for sale financial assets), net of tax	-	-	1,177,207	-	-	-	(25,388)	1,151,819	**(10,004)**	**1,141,815**
Other items		-	54,300	-	-	-	(182,996)	(128,696)	**-**	**(128,696)**
Total other comprehensive income	-	-	1,231,507	(38,277)	9,931	-	(278,850)	924,311	**126,918**	**1,051,229**
Total comprehensive income for the period	-	-	1,231,507	(38,277)	9,931	-	3,084,339	4,287,500	**266,388**	**4,553,888**
Transfer to reserves	-	-	-	-	-	459,261	(451,177)	8,084	(8,084)	-
Dividends paid	-	-	-	-	-	-	-	-	-	-
Other items	-	(314)	-	-	-	-	(102,686)	(103,000)	(30,111)	(133,111)
Total contributions by and distributions to owners of the parent, recognized directly in equity	-	(314)	-	-	-	459,261	(553,863)	(94,916)	**(38,195)**	**(133,111)**
Balances at December 31, 2019	**3,300,146**	**721,594**	**1,547,161**	**757,641**	**299,323**	**2,557,712**	**23,613,291**	**32,796,868**	**1,113,757**	**33,910,625**

The notes on pages 7 to 87 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Attributable to Owners of the Parent									
			Revaluation Surplus							
	Share Capital	Share premium	Fair value reserves	Revaluation Fund	Currency translation reserve	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at January 1,2018	**3,300,146**	**721,901**	**(78,147)**	**676,380**	**199,354**	**1,717,878**	**17,007,392**	**23,544,904**	**805,860**	**24,350,764**
First time adoption impact of IFRS, net	-	-	**161,636**	-	-	-	**85,075**	**246,711**	-	**246,711**
Profit for the Period	-	-	-	-	-	-	**4,589,019**	**4,589,019**	**76,883**	**4,665,902**
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-	-	-	-	(11,223)	**(11,223)**	217	**(11,006)**
Change in revaluation surplus	-	-	-	119,538	-	-		**119,538**	11,366	**130,904**
Foreign currency translation differences	-	-	-	-	90,038	-	-	**90,038**	20,755	**110,793**
Net change in fair value of financial assets at fair value through other comprehensive income (available for sale financial assets), net of tax	-	-	249,350	-	-	-	-	**249,350**	1,573	**250,923**
Other items	-	7	(17,185)	-	-	-	(5,761)	**(22,939)**	(182)	**(23,121)**
Total other comprehensive income	**-**	**7**	**232,165**	**119,538**	**90,038**	**-**	**(16,984)**	**424,764**	**33,729**	**458,493**
Total comprehensive income for the period	**-**	**7**	**232,165**	**119,538**	**90,038**	**-**	**4,572,035**	**5,013,783**	**110,612**	**5,124,395**
Transfer to reserves	-	-	-	-	-	380,573	(381,676)	**(1,103)**	1,103	**-**
Dividends paid	-	-	-	-	-	-	(125,000)	**(125,000)**	(11,188)	**(136,188)**
Other items	-	-	-	-	-	-	(75,011)	**(75,011)**	(20,823)	**(95,834)**
Total contributions by and distributions to owners of the parent, recognized directly in equity	**-**	**-**	**-**	**-**	**-**	**380,573**	**(581,687)**	**(201,114)**	**(30,908)**	**(232,022)**
Balances at December 31, 2018	**3,300,146**	**721,908**	**315,654**	**795,918**	**289,392**	**2,098,451**	**21,082,815**	**28,604,284**	**885,564**	**29,489,848**

The notes on pages 7 to 87 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	1 January - December 31, 2019	1 January - December 31, 2018
Profit for the year		3,502,659	4,665,902
Adjustments for:			
Income tax expense	23	1,880,222	844,827
Provision for incurred loan losses, net of recoveries		8,362,433	5,040,681
Depreciation and amortization	13	448,563	203,704
Provision for short term employee benefits		89,324	143,059
Provision for retirement pay liability and unused vacations		328,419	353,402
Unearned premium reserve		472,055	218,775
Change in provision for outstanding claims	30	83,015	38,117
Derivative financial instruments		665,904	(1,095,426)
Other provision expenses	30	57,270	62,228
Net interest income		(17,007,263)	(16,252,458)
Share of profit of equity-accounted investees		(61,872)	(55,846)
Currency translation differences		(53,289)	(90,038)
Other non-cash adjustments		(1,337,977)	(539,268)
		(2,570,537)	**(6,462,341)**
Loans and advances to banks		585,369	(1,239,504)
Reserve deposits		5,126,376	4,265,759
Financial assets at fair value through profit or loss		(2,690,190)	(24,851)
Loans and advances to customers		(65,227,967)	(42,556,354)
Other assets		(927,759)	(6,708,665)
Deposits from banks		2,150,508	(2,965,941)
Deposits from customers		69,019,735	26,551,527
Obligation under repurchase agreements		(3,644,480)	6,615,195
Other liabilities and provisions		277,902	2,902,404
		4,669,494	**(13,160,430)**
Interest received		43,078,542	34,960,693
Interest paid		(29,256,016)	(23,511,072)
Taxes paid		(1,611,247)	(850,912)
Cash (used in)/provided by operating activities		**14,310,236**	**(9,024,062)**
Cash flows from investing activities:			
Dividends received	28	8,682	18,340
Acquisition of property and equipment		(657,398)	(847,637)
Proceeds from the sale of property and equipment		736,940	199,543
Acquisition of intangible assets		(59,738)	(70,091)
Proceeds from the sale of intangible assets		638	217
Acquisition of investment securities		(29,568,603)	(20,548,410)
Proceeds from sale of investment securities		13,408,120	5,351,274
Cash used in by investing activities		**(16,131,359)**	**(15,896,764)**
Cash flows from financing activities:			
Proceeds from issue of debt securities and subordinated debts		28,370,533	21,506,800
Repayments of debt securities and subordinated debts		(16,104,002)	(11,672,797)
Proceeds from share capital increase		-	-
Repayments of funds borrowed		(25,320,158)	(11,208,802)
Proceeds from funds borrowed		25,052,970	25,039,333
Dividends paid		-	(125,000)
Financial lease payments		(355,852)	-
Cash provided by financing activities		**11,643,491**	**23,539,534**
Effect of foreign exchange rate fluctuations on cash and cash equivalents		545,639	256,824
Net (decrease)/ increase in cash and cash equivalents		**10,368,007**	**(1,124,468)**
Cash and cash equivalents at the beginning of the year	6	20,887,672	22,012,140
Cash and cash equivalents at the end of the year	**6**	**31,255,679**	**20,887,672**

The notes on pages 7 to 87 are an integral part of these consolidated financial statements

1. GENERAL INFORMATION

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("The Bank" or "The Parent") was established under the authorization of special law numbered 6219, called "The Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı", on 11 January 1954 within the framework of the authority granted to the General Directorate of the Foundations of Turkish Republic (The General Directorate of the Foundations). Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by obtaining securities and real estate as collateral,
- Establishing or participating in all kinds of insurance corporations,
- Trading real estate,
- Providing all banking operations and services,
- Investing in various corporations handed over by the foundations and the General Directorate of the Foundations in accordance with conditions stipulated by agreements if signed,
- To render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by the General Directorate of the Foundations.

The Bank provides corporate, commercial and retail banking services through a network of 940 domestic branches and 3 foreign branches in New York, Bahrain and Iraq, in total 943 branches (December 31, 2018: 948 domestic, 3 foreign, in total 951 branches). As at December 31, 2019, the Bank has 16,835 (December 31, 2018: 16,767) employees. Additionally, the Bank has a subsidiary in banking sector in Austria, titled as Vakıfbank International AG. The Bank's head office is located at Saray Mahallesi, Dr.Adnan Büyükdeniz Caddesi, No: 7/A-B, Ümraniye - İstanbul.

The shareholder holding control over the Parent Bank is Republic of Turkey Ministry of Treasury and Finance having 58.51% of the Parent Bank's outstanding shares. Another organization holding qualified share in the Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı, having 16.10% of outstanding shares of the Parent Bank. The shares of the Bank are quoted to Borsa İstanbul AŞ ("BIST") and traded publicly.

The shareholder having control over the shares of The Parent Bank is the Republic of Turkey Ministry of Treasury and Finance.

As at December 31, 2019 and December 31, 2018, The Parent Bank's paid-in capital is TL 2,500,000 divided into 250,000,000,000 shares with each has a nominal value of Kr 1.

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

1. GENERAL INFORMATION(Continued)

The Parent Bank's shareholders structure as at December 31, 2019 and December 31, 2018 is stated below:

Shareholders December 31, 2019	**Number of Shares (100 unit)**	**Nominal Value of the Shares – Thousands of TL**	**Share Percentage (%)**
Republic of Turkey Ministry of Treasury and Finance (Group A)	1,075,058,640	1,075,058	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	16.10
Republic of Turkey Ministry of Treasury and Finance (Group B)	387,673,328	387,673	15.51
Other appendant foundations (Group B)	2,652,715	2,653	0.11
Other real persons and legal entities (Group C)	1,527,393	1,528	0.06
Publicly traded (Group D)	630,535,258	630,535	25.22
Paid-in capital	**2,500,000,000**	**2,500,000**	**100.00**
Adjustment to share capital (*)		800,146	
Total		**3,300,146**	

(*) The adjustment to share capital represents the cumulative restatement adjustment amount to nominal share capital on adopting IAS 29, “Financial reporting in hyper-inflationary economies” until January 1,2006.

Shareholders December 31, 2018	**Number of Shares (100 unit)**	**Nominal Value of the Shares – Thousands of TL**	**Share Percentage (%)**
Registered foundations represented by the General Directorate of the Foundations (Group A)	1,075,058,640	1,075,058	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	16.10
Registered foundations represented by the General Directorate of the Foundations (Group B)	386,224,785	386,225	15.45
Other appendant foundations (Group B)	2,673,619	2,674	0.11
Other registered foundations (Group B)	1,448,543	1,448	0.06
Other real persons and legal entities (Group C)	1,527,393	1,528	0.06
Publicly traded (Group D)	630,514,354	630,514	25.22
Total	**2,500,000,000**	**2,500,000**	**100.00**
Paid-in capital	**2,500,000,000**	**2,500,000**	**100.00**
Adjustment to share capital (*)		800,146	
Total		**3,300,146**	

(*) The adjustment to share capital represents the cumulative restatement adjustment amount to nominal share capital on adopting IAS 29, “Financial reporting in hyper-inflationary economies” until January 1, 2006.

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

1. GENERAL INFORMATION (Continued)

These consolidated financial statements were approved for issue on April 9, 2020.

With the Decree Law No. 696 published in the Official Gazette dated December 24, 2017, the "Türkiye Vakıflar Bankası Turkish Joint-Stock Company Law" No. 6219 was amended.

With the Presidential Decree dated December 3, 2019, published in line with the relevant provisions of Law No. 6219, 58.51% of the total of 43.00% (A) Group and 15.51% (B) Group, managed and represented by the General Directorate of Foundations' per share value of share is determined.

In accordance with the relevant provisions of the Law No. 6219, the provisions of the Capital Market Law, including the obligation to propose shares regarding the transfer transactions regarding the shares specified in the Presidential Decree of December 3, 2019, will not be applied. There will be no changes regarding the 25.22% shares of the (D) Group traded at the stock exchange.

The process regarding the transfer of bank shares has been completed as of December 11, 2019 and 58.51% of the Bank's share has been transferred to the Treasury and has been recorded in the Bank's share book on behalf of the Ministry of Treasury and Finance of the Republic of Turkey.

The table below sets out the subsidiaries and associates and shows their shareholding structure as at December 31, 2019 and December 31, 2018.

December 31, 2019	**Direct Shareholding Interest (%)**	**Indirect Shareholding Interest (%)**
Subsidiaries:		
Güneş Sigorta A.Ş.	56.10	56,10
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. (*)	17.37	17.37
Vakıf Emeklilik ve Hayat A.Ş.	82.68	99.00
Vakıf Enerji ve Madencilik A.Ş.	65.50	80.48
Taksim Otelcilik A.Ş.	51.00	51.00
Vakıf Faktoring A.Ş.	78.39	80.62
Vakıf Finansal Kiralama A.Ş.	58.71	58.71
Vakıf Yatırım Menkul Değerler A.Ş.	99.25	99.40
Vakıfbank International AG	90.00	90.00
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (*)	38.70	38.70
World Vakıf UBB Ltd in Liquidation (**)	82.00	83.50
Associates:		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası A.Ş.	8.38	8.38

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

1. GENERAL INFORMATION (Continued)

December 31, 2018	Direct Shareholding Interest (%)	Indirect Shareholding Interest (%)
Subsidiaries:		
Güneş Sigorta A.Ş.	48.02	48.02
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.	18.47	30.12
Vakıf Emeklilik ve Hayat A.Ş.	53.90	79.68
Vakıf Enerji ve Madencilik A.Ş.	65.50	82.60
Taksim Otelcilik A.Ş.	51.00	51.69
Vakıf Faktoring A.Ş.	78.39	87.49
Vakıf Finansal Kiralama A.Ş.	58.71	66.23
Vakıf Yatırım Menkul Değerler A.Ş.	99.25	99.54
Vakıfbank International AG	90.00	90.00
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.	38.70	39.54
World Vakıf UBB Ltd in Liquidation	82.00	85.32
Associates:		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası A.Ş.	8.38	8.38

(*) For those consolidated subsidiaries where the Bank does not own, directly or indirectly through subsidiaries, more than 50% of the subsidiary's voting power, proportion of ordinary shares held by the Group entitles the Bank to power over relevant activities - acquired through arrangements between shareholders or articles of association of the related subsidiary - and to variable returns from its involvement with the subsidiary while the bank has the ability to affect those returns through its power over the subsidiary.

(**) World Vakıf UBB Ltd, was established in the Turkish Republic of Northern Cyprus in 1993 for offshore banking operations. Its head office is in Nicosia. The name of the Bank, which was World Vakıf Offshore Banking Ltd, has been changed to World Vakıf UBB. Ltd. on February 4, 2009. Pursuant to the March 4, 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorization of World Vakıf UBB Ltd is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to May 24, 2010 dated decision of the Nicosia Local Court. The liquidation process of World Vakıf UBB Ltd, has been carried out by NCTR Collecting and Liquidation Office. The application of the subsidiary for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed. Thus, the name of the subsidiary has been changed as “World Vakıf UBB Ltd. in Liquidation”. Therefore, the financial statements of the subsidiary have not been consolidated as at December 31, 2019 and December 31, 2018.

For the purposes of these consolidated financial statements, the Bank and its consolidated subsidiaries described below are referred to as the “Group”.

As of December 31,2019, the parent Bank has removed Güneş Sigorta AŞ and Vakıf Emeklilik ve Hayat AŞ from the Subsidiaries account and companies are started to be classified under the “Assets classified as held for sale” and “Liabilities directly associated with assets classified as held for sale” account. Thus, the same changes applied to the consolidated financial statements, where Güneş Sigorta AŞ and Vakıf Emeklilik ve Hayat AŞ are removed from the scope of consolidation and now classified under the “Assets classified as held for sale” and “ Liabilities directly associated with assets classified as held for sale” account in the balance sheet. Lastly, they have been included in the consolidated financial statements of the Group in income statement as in full consolidation method.

Güneş Sigorta AŞ was established under the leadership of the Bank and Turkish Grain Board in 1957. The subsidiary provides nearly all non-life insurance products, including fire, accident, transaction, engineering, agriculture, health, forensic protection and loan insurance. Its head office is in Istanbul.

Vakıf Menkul Kıymet Yatırım Ortaklığı AŞ was established in 1991 in Istanbul. The main activity of the subsidiary is to invest in a portfolio (including marketable debt securities and equity securities) without having managerial power in the partnerships whose securities have been acquired; and also gold and other precious metals trading in national and international stock exchange markets or active markets other than stock exchange markets, in accordance with the principles and regulations promulgated by Capital Markets Board. Its head office is in Istanbul.

1. GENERAL INFORMATION (Continued)

Vakıf Emeklilik ve Hayat AŞ was established under the name Güneş Hayat Sigorta AŞ in 1991. In 2003 the subsidiary has taken conversion permission from the related regulatory body and started to operate both in pension business. Its head office is in Istanbul.

Vakıf Enerji ve Madencilik A.Ş. was established in 2001 to produce electrical and thermal energy, and to sell this energy in accordance with the related laws and regulations. Its head office is in Ankara.

Taksim Otelcilik AŞ was established under the Turkish Commercial Code in 1966. The main activity of the subsidiary is to operate in the hotel business or rent out the management of owned hotels. Its head office is in Istanbul.

Vakıf Faktoring AŞ was established in 1998 to perform factoring transactions and any kind of financing transactions. Factoring, the main operation of the Company, is a financing method that includes the trade receivables of production, distribution and service companies to be sold to intermediary institutions. Its head office is in Istanbul.

Vakıf Finansal Kiralama AŞ was established in 1988 to enter into finance lease operations and related transactions and contracts. Its head office is in Istanbul.

Vakıf Yatırım Menkul Değerler AŞ was established in 1996 to provide service to investors through making capital markets transactions, the issuance of capital market tools, purchase and sales of marketable securities, operating as a member of stock exchange, investment consultancy and portfolio management. Its head office is in Istanbul.

Vakıfbank International AG was established in 1999 to operate in the banking sector in foreign countries, in line with the Bank's globalization policy. Its head office is in Vienna, Austria.

Vakıf Gayrimenkul Yatırım Ortaklığı AŞ was established as the first real estate investment partnership in the finance sector under the adjudication of the Capital Markets Law in 1996. The subsidiary's main operation is in line with the scope in the Capital Markets Board's regulations relating to real estate investment trusts including real estate, capital market tools based on real estate, real estate projects and investing on capital market tools. Its head office is in İstanbul.

The Bank has also the following associates:

Kıbrıs Vakıflar Bankası Ltd. Şti. was established in 1982 in the Turkish Republic of Northern Cyprus, mainly to encourage the usage of credit cards issued by the Bank, to increase foreign exchange inflow, and carry on retail and commercial banking operations. Its head office is in Nicosia.

Türkiye Sınai Kalkınma Bankası AŞ was established as an investment bank in 1950 to support investments in all economic sectors. Its head office is in Istanbul.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Standards Interpretation Committee ("IFRIC").

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.

In preparation of the consolidated financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the prior year consolidated financial statements except for the adoption of new standards and interpretations as of January 1, 2019, where applicable, noted below:

2.2. New and Revised International Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at December 31, 2019:

- **Amendment to IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after January 1, 2019. This amendment confirmed two points: (1) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and (2) that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

- **Amendment to IAS 28, 'Investments in associates and joint venture';** effective from annual periods beginning on or after January 1, 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.

- **IFRS 16, 'Leases';** effective from annual periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

2.2. New and Revised International Financial Reporting Standards (Continued)

a) Standards, amendments and interpretations applicable as at December 31, 2019 (continued):

- **IFRIC 23, 'Uncertainty over income tax treatments';** effective from annual periods beginning on or after January 1, 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

- **Annual improvements 2015-2017;** effective from annual periods beginning on or after January 1, 2019. These amendments include minor changes to:

  - IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
  - IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
  - IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
  - IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

- **Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement';** effective from annual periods beginning on or after January 1, 2019. These amendments require an entity to:

  - use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
  - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

b) Standards, amendments and interpretations that are issued but not effective as at December 31, 2019:

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after January 1, 2020. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

  i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
  ii) clarify the explanation of the definition of material; and
  iii) incorporate some of the guidance in IAS 1 about immaterial information.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. New and Revised International Financial Reporting Standards (Continued)

b) Standards, amendments and interpretations that are issued but not effective as at December 31, 2019 (continued):

- **Amendments to IFRS 9, IAS 39 and IFRS 7** – Interest rate benchmark reform; effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after January 1, 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

- **IFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after January 1, 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

Impact of the new standards, amendments and interpretations which will be effective after 1 January 2020 on the Group's consolidated financial statements are being assessed.

2.3. Accounting Policies, Judgements and Estimates

Accounting in hyperinflationary countries

Financial statements of the entities located in Turkey have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 - Financial Reporting in Hyperinflationary Economies as at December 31, 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at December 31, 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute. This, together with the sustained positive trend in quantitative factors, such as the stabilization in capital and money markets, decrease in interest rates and the appreciation of TL against the US Dollar and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from January 1, 2006.

Functional and Presentation Currency

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

Judgments and Estimates

The preparation of the consolidated financial statements in accordance with IFRS, including International Accounting Standards ("IAS") requires management to make estimates and assumptions that affect the application of policies and 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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

The actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is disclosed below. These disclosures supplement the commentary on financial risk management.

Impairment of Financial Assets

As of January 1, 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.

The Group has changed its credit calculation method with the expected credit loss model as of January 1, 2018. Expected credit loss estimates are required to be unbiased, probability-weighted, considering the time value of money and including supportable information about past events, current conditions, and forecasts of future economic conditions. The financial assets is divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1:

Financial assets that do not have a significant increase in the credit risk at the first time they are received in the financial statements or after the first time they are taken to the financial statements. For these assets, credit risk impairment provision is accounted for 12 months expected credit losses. The Parent Bank applies the expected 12-month default probabilities to the estimated default amount and multiplies with the loss given default and downgrades to the present day with the original effective interest rate of the loan. For these assets, an expected 12-month credit loss is recognized and interest income is calculated over the gross carrying amount. 12-month expected credit loss is the loss arising from possible risks in the first 12 months following the reporting date.

Stage 2:

A financial asset is transferred to stage 2 in the event that there is a significant increase in the credit risk after the first time the financial asset is taken in the financial statements. The Parent Bank determines the credit risk impairment provision of the financial asset according to lifetime expected credit loss. Lifetime expected credit losses are credit losses arising from all events that may occur during the expected life of the financial asset. The probability of default, and loss given default are estimated over the life of the loan including the use of multiple scenarios. Expected cash flows are discounted using the original effective interest rate.

Stage 3:

Stage 3 includes financial assets with objective evidence of impairment as of the reporting date. Lifetime expected credit loss is recorded for these assets. The Parent Bank's methodology for loans at this stage is similar to loans classified in Stage 2, but the probability of default is considered 100%. Loss given default is calculated considering the period the loan waits in the non-performing loans and an aging curve formed from the historical data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Significant Increase in Credit Risk

The Standard requires the assessment of whether there is a significant increase in the credit risk of financial assets by the date of initial recognition based on the information available without excessive effort and cost as of the reporting date. The factors that show a significant increase in credit risk under IFRS 9 are as follows:

- Past Due Date; significant increase in the credit risk since the granting date in the case of loans overdue more than 30 days.

- Restruction: Classification of financial assets under the stage2 as a result of the emergence of privileges and financial difficulties in the case of restructuring of financial receivables.

Qualitative Criteria: Implementation of set of qualitative criteria set by The Parent Bank in accordance with the information obtained.

Quantitative Criteria: As of the reporting date, the default risk for the borrower and the default risk as of the date of the initial allowance are compared with the change in the grade / score information as a result of the application of statistically determined threshold values.

The Parent Bank has accounted for the effect of applying the new provisions at the date of January 1, 2018 by recording a reversal in the opening records of previous years' profit and loss accounts. The primary impact is due to changes in the allowance for credit losses in accordance with the new impairment provisions and the tax effects of the corresponding provisions.

Default Definition

The Parent Bank takes into account the requirements of IFRS 9 and the relevant BRSA in order to determine the default situation in accordance with the definition of default and its indicators included in the Communiqué on the Calculation of Provisions Regulation and the Amount Based on the Internal Risk Based Approach of the Credit Risk.

In terms of the default definition, the bank has set the following criterias;

- Over 90 days delayed collection of principal and / or interest amount,
- The customer has been bankrupt or has been found to apply for bankruptcy,
- The customer's creditworthiness is impaired,
- It is decided that the principal and / or interest payments of the borrower will be delayed by more than 90 days since the collaterals and / or borrower's own funds are insufficient to cover the payment of the receivables at maturity,
- It is decided that the principal and / or interest payments of the customer will be delayed by more than 90 days due to macroeconomic, sector specific or customer specific reasons.

Expected Credit Loss (ECL) 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. It is possible to perform the expected credit loss calculations in accordance with IFRS 9, with three main parameters for each loan. Exposure at Default (EAD), Loss Given Default (LGD), Probability of Default (PD).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Exposure at Default (EAD): Represents the amount of risk on the default date of the borrower in case of default. According to IFRS 9 in calculating EAD, the estimation of how customer risk rating changes over time is important. Amount of EAD for cash and non-cash loans are calculated in different ways.

Cash loans are divided into two parts as loans with payment plan and loans without payment plan. For loans with payment plan, EAD is calculated by considering the installments to be paid in the future. For cash loans without payment plan, EAD is calculated by keeping credit balance constant. For non-cash loans and limit commitments EAD is calculated by regarding to credit conversion factor and behavioral maturity periods.

Loss Given Default (LGD): The ratio that provides the uncollectable amount of the loans in the process after the default. The LGD ratio is the division of the uncollectable amount of a defaulted loan into the defaulted loan amount. This ratio enables to predetermine the risks in the case of default for the active credit portfolio and allows for provision under IFRS 9. In LGD methodology, all non-performing loans amounts and long term collection process has been taken into account and LGD rate is calculated after deducting net collections amounts from the default amount and discounted with effective interest rates or approximate rate over the net amounts with an approximate value.

For corporate and retail portfolios, different LGD calculations are performed. Since the dragging effect, LGD rates in corporate portfolios are considered on customer basis. For retail portfolios, LGD rates are considered on credit basis. In order to differentiate variable risk characteristics in accordance with IFRS 9, individual and corporate segments are divided into its own LGD ratios according to different risk factors.

Probability of Default (PD): Represents the probability of default of the debtor in a defined time lag in the future.

The models used in PD calculations were developed based on historical data on past and quarterly and non-defaultable loans. PD rates used within the scope of IFRS 9 are calculated separately for each rating model and rating information. In this context, firstly, PD rates are calculated from historical data(through the cycle) from this model and rating values, then lifetime default rate curves are created. These lifetime default rate curves provide the following two basic estimation data in the calculation of expected credit losses as follows:

- 12 Months PD ratio: The probability of default within 12 months from the reporting date estimate

- Lifetime PD ratio: Estimation of the probability of default over the expected life of the financial instrument

The models developed under IFRS 9 have detailed segment structures based on corporate and retail portfolios.

While creating the corporate PD rates, the rating values assigned to the customers as of the date of each rating and the customers who default on the corporate side are considered. Retail portfolios are divided into sub-segments according to product groups and lifetime default rate curves vary according to product groups. By taking into account the periodic PD rates, a PD rate scale is generated on the basis of rating and model code through the cycle.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Impairment of Financial Assets (Continued)

Expected Credit Loss (ECL) Calculation (Continued)

The relation of all risk parameters with macroeconomic conditions has been tested and it has been determined that macroeconomic conditions have an effect on the probability of default. In this context, macroeconomic forecasts are taken into account in changing the probability of default.

Different macroeconomic models have been created for the retail portfolio and commercial portfolio, and macroeconomic forecasts affect the expected loss provision calculations in two separate scenarios, base and bad. The future macroeconomic expectations taken into account into IFRS 9 are in line with the Bank's current budget and ISEDES forecasts.

The Parent Bank reviews and assesses the validity of the risk parameter estimates used in the calculation of expected credit losses within the framework of model verification processes at least twice a year. In this context, models for individual credit card and overdraft accounts were updated in the reporting period.

Macroeconomic forecasts and risk delinquency data used in risk parameter models are re-evaluated every quarter to reflect changes in economic conjuncture and are updated if needed. In the expected credit loss calculations carried out for year-end, macroeconomic information is taken into account under multiple scenarios.

The maximum period to determine the expected credit losses except for demand and revolving loans is up to the contractual life of the financial asset.

Fair value

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

The Group’s accounting policy on fair value measurements is discussed in (i) - *Measurement.*

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly-i.e. as prices-or indirectly- i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Fair value (Continued)

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. 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.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Significant accounting policies are as follows;

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and the subsidiaries.

Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. 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. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The Bank reassesses its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Companies where the Bank exercises significant influence, but not control are accounted for using the equity method.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(a) Basis of consolidation (Continued)

As of 31 December 2019, the parent Bank has removed Güneş Sigorta AŞ and Vakıf Emeklilik ve Hayat AŞ from the Subsidiaries account and companies are started to be classified under the Assets classified as held for sale account. Thus, the same changes applied to the consolidated tables, where Güneş Sigorta AŞ and Vakıf Emeklilik ve Hayat AŞ are removed from the scope of consolidation and now classified under the "Assets classified as held for sale" and " Liabilities directly associated with assets classified as held for sale " account in the "Consolidated Statement of Financial Position" . In the "Consolidated Statement of Income" , they are subjected to consolidation as in the full consolidation method.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognized at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognized as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognized in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognized in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Bank and its subsidiaries' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Foreign currency transactions

Transactions are recorded in TL, which represents functional currency of the group's entities except for World Vakıf UBB Ltd. in Liquidation and Vakıfbank International AG. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into functional currency at the exchange rates ruling at the end of reporting period with the resulting exchange differences recognized in profit or loss as foreign exchange gains or losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

***Foreign currency transactions* (Continued)**

The Parent Bank's foreign currency difference that occurred due to EUR 67.5 million of EUR 94.5 million represented in the paid-in capital of its foreign subsidiary VakıfBank International AG as of September 30, 2016 reporting period, Group started the fair value risk hedging strategy in order to avoid currency risk due to the share of VakıfBank International AG's 67.5 million Euros that is represented in paid-in capital. The 68.5 million Euros of the nominal amount of 500 million Euros of the securities issued by the Parent Bank on May 4, 2016 with a maturity date of May 4, 2021 has been declared as the hedging instrument. In the subject process, the fair value changes that are related to the hedged investments abroad are recognized in the other accumulated comprehensive income that will be reclassified in profit or loss in equity as long as the hedge is effective. In this context, the foreign exchange differences recognized in the income statement as at December 31, 2019 is TL 43,358. The effectiveness of the process is the degree of offset of the amount of changes in the hedged items' fair values that may be associated with the foreign exchange risks by the hedging instrument.

As of December 31, 2019, it was identified that the evaluations that were made about the process to protect from the net investment hedge were effective. Efficiency testing, which is consistent with the Parent Bank's risk strategies, is conducted using the "Dollar off-set method" in the protection from risk process. According to this method, hedging compares the change in value of protection subject from risk with the change in value of protection tool from risk and calculates the relation with the effectiveness ratio of the hedge. The calculated effectiveness ratio is being evaluated within the TAS-39 Financial Instruments: Recognition and Measurement standards and hedge accounting principles are being applied. The Parent Bank documents the hedging strategies along with risk management goals. Hedge accounting ends when protection subject from risk ends or being sold or effectiveness test results are not effective anymore.

Foreign operations

The functional currencies of the foreign subsidiaries, World Vakıf UBB Ltd. In Liquidation and Vakıfbank International AG, are US Dollar and Euro, respectively, and their financial statements are translated to the presentation currency, TL, for consolidation purposes, as summarized in the following paragraphs.

- The assets and liabilities of the foreign subsidiaries are translated at the exchange rate ruling at the end of the respective reporting period.
- The income and expenses of foreign operations are translated to TL using average exchange rates.
- Foreign currency differences arising from the translation of the financial statements of the foreign operations into TL for consolidation purpose are recognized in other comprehensive income and accumulated in the foreign currency translation reserve ("translation reserve"). Where a foreign operation is disposed of, in part or full, the full amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

(c) Interest

Interest income and expense are recognized in the consolidated profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Interest income and expense presented in the consolidated statement of profit or loss and other comprehensive income include:

- interest on financial assets and liabilities at amortized cost on an effective interest rate basis,
- interest on financial assets at fair value through other comprehensive income on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

(d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, commissions for insurance business (see also accounting policy *(s)*) are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(e) Net trading income

Net trading income includes gains and losses arising from revaluation and disposals of financial assets at fair value through profit or loss, the disposal of available-for-sale financial assets, and gains and losses on derivative financial instruments held for trading purpose.

(f) Dividends

Dividend income is recognized when the right to receive the income is established. Dividends are reflected as a component of other operating income.

(g) Leases

The Group as the lessee

The difference between operating leases and financial leases has been eliminated with the “IFRS 16 Leases” effective as of January 1, 2019, and on the transition date, the Group has applied the simplified transition approach and elected not to restate comparative figures. The group operates as a lessee and lessor.

The Group started to apply the “IFRS 16 Leases” standard which went into effect on January 1, 2019 to leases of service buildings and car rentals. However ATMs which are determined as low value by the Parent Bank and short term lease contracts with a duration of 12 months or less, have been evaluated within the scope of the exemption granted by the standard. The payments for these contracts are recorded as expense in the period they occured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

The Group as the lessee (Continued)

In accordance with "IFRS 16 Leases" standard, the Group calculates the "right of use" amount on the basis of the present value of the lease payments of the fixed asset leased at the beginning of the lease and includes them in "Property, plant and equipment". The securities/properties having a right to use were capitalised by showing them under property, plant and equipment. In calculating assets having a right to use, outstanding rent amounts were discounted by a specific rate, considering the remaining term of the lease contract signed with the property owner, to determine net present value.

Instead of recognising leases in the scope of the "IFRS 16 Leases" standard as expenses or prepaid expenses, the Group recognised the total lease liabilities to be paid by the end of the lease contract as "Other Liabilities and Provisions" under liabilities on the balance sheet. Changes that may impact the lease liability are remeasured and included in the balance sheet accounts.

Monthly interest and depreciation are calculated on the net present value based on the period of the lease contract, and are recognised on the income statement.

The Group as the lessor

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

(h) Income taxes

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

Corporate tax

Turkey

Statutory income is subject to corporate tax at 22.0% (portfolio that is up to 3 years, corporate tax is applied at 22% ; portfolio which is longer than 3 years, it is applied at %20). This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

Dividends paid to resident institutions and institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to those institutions, the withholding tax rate on the dividend payments is 15.0%. In applying the withholding tax rates on dividend payments to non-resident institutions and individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Corporate tax (Continued)

75% of the profit from sales of associate shares that held at least 2 years and 50% of the profit from sales of real estates are exceptional from corporate taxes if there is a capital increase according to Corporate Tax Law or it is hold for 5 years on a special fund account.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of the 25^{th} day of the fourth month following the close of the accounting period to which they relate. Tax returns are open to inspection for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue assessments based on their findings.

Foreign subsidiary

The corporate tax rate for the Group's subsidiary in Austria has been determined as 25.0%. Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. Taxes which have been paid for previous periods can be deducted from corporate taxes computed on annual taxable income. According to the Double Taxation Treaty Agreement between Turkey and Austria, Turkish corporations in Austria possess the right to benefit from tax returns of 10.0% on interest earned from the investments and loans granted in Turkey.

Deferred taxes

Deferred tax assets and liabilities are recognized on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities outside a business combination which affect neither accounting nor taxable profit.

The deferred tax assets and liabilities are reported as net in the consolidated financial statements only if the Group has a legal right to set off current year tax assets and current year tax liabilities and the deferred tax assets and deferred tax liabilities related to same taxable entity.

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

Transfer pricing regulations

In Turkey, the transfer pricing provisions have been stated under the Article 13 of the Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated November 18,2007 sets details about implementation.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Transfer pricing regulations (Continued)

The files that should be sent to the tax authorities are prepared in accordance with the existing transfer pricing regulations. However such documents are open for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue tax assessments based on their findings.

Investment incentives

As per the provisional Article no. 69, effective from January 1, 2006, added to the Income Tax Law no. 193 by Law no. 5479 dated April 8, 2006 and published in Official Gazette no. 26133, tax payers could deduct investment incentives which were calculated according to the legislative provisions (including tax rate related provisions) in force on December 31, 2005, only from the taxable income for the years 2006, 2007, and 2008. The rights of tax payers who could not deduct investment incentives fully or partially due to insufficient taxable income during those years, were lost as at December 31, 2008.

In accordance with the decision taken by the Turkish Constitutional Court on October 15, 2009, the “2006, 2007 and 2008.” clause of the provisional Article no. 69 of the Income Tax Law mentioned above, is repealed and the time limitation for the use of the investment incentive is removed. The repeal related to the investment incentive was enacted and issued in the January 8, 2010 Official Gazette number 27456. Accordingly, the Group’s subsidiary operating in finance leasing business will be able to deduct its remaining investment incentives from taxable income in the future without any time limitation.

As per “Law regarding amendments to the Income Tax Law and Some Other Certain Laws and Decree Laws” accepted on July 23, 2010 at the Grand National Assembly of Turkey, the expression of “can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate) valid at this date” has been amended as “can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate as explained in the second clause of the temporary article no 61 of the Law) valid at this date” and the following expression of “ Investment incentive amount used in determination of the tax base shall not exceed 25% of the associated taxable income. Tax is computed on the remaining income per the enacted tax rate” has been added. This Law has been published in the Official Gazette on August 1, 2010.

The clause “The amount which to be deducted as investment incentive to estimate tax base cannot exceed 25% of related income” which has been added to first clause of the temporary 69th article of Law No: 193 with the 5th article of Law No: 6009 on Amendments to Income Tax Law and Some Other Laws and Decree Laws has been abrogated with the February 9,2012 dated decisions no: E.2010/93 and K.2012/20.

(i) Financial Assets

Recognition

The Group initially recognizes financial assets and liabilities which are originated. Regular way purchases and sales of financial assets are recognized on the settlement date on which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Classification

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 recognized or derecognized in accordance with the “Recognition and Derecognition” principles defined in Section 3 related to 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 recognizes 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 recognizes 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/loss” are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

Equity securities classified as financial assets at fair value through profit/loss are recognized at fair value.

Financial Assets at Fair Value Through Other Comprehensive Income

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

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

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

Financial Assets Measured at Amortized Cost

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

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

Both "Fair value through other comprehensive income" and "measured at amortized cost" securities portfolio of the Group include Consumer Price Indexed (CPI) Bonds. These securities are valued and accounted using the effective interest rate method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate. The reference indices used in calculating the actual coupon payment amounts of these assets are based on the Consumer Price Index (CPI) of prior two months. The Bank also sets the estimated inflation rate accordingly. The estimated inflation rate used is updated as needed within the year. At the end of the year real interest rate is used.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially a similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan and advance, and the underlying asset is not recognized in the Group's financial statements. Such financial assets are presented separately on the face of consolidated statement of financial position.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

See also *specific instruments* below.

Measurement

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all financial assets at fair value through other comprehensive income are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities and financial assets at amortised cost are measured at amortized cost less impairment losses. The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting date.

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.

The fair value of call and put option agreements are measured at the valuation date by using the current premium values of all option agreements, and the differences between the contractual premiums received/paid and the current premiums measured at valuation date are recognized in the statement of income.

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.

De-recognition

A financial asset is derecognized when the control over the contractual rights that comprise that asset is lost. This occurs when the rights are realized, expire or are surrendered.

Financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as at the date the Group commits to sell the assets. The specific identification method is used to determine the gain or loss on de-recognition.

Financial assets at amortised cost are derecognized on the date they are transferred by the Group.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Offsetting

Financial assets and liabilities are set off and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Specific instruments

Cash and cash equivalents: Cash and cash equivalents which is a base for preparation of consolidated statement of cash flows includes cash in TL, cash in FC (foreign currency), cheques, balances with the Central Bank, money market placements and loans and advances to banks whose original maturity is less than three months.

Loans and advances to banks and customers: Loans and advances provided by the Group to banks and customers are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Finance lease receivables: Leases where substantially all the risks and rewards incident to ownership of an asset are substantially transferred to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest method. Finance lease receivables are included in loans and advances to customers.

Factoring receivables: Factoring receivables are the loans and advances to customers arising from a financial transaction whereby the customers sell their accounts receivable (i.e., invoices) to the Group at a discount in exchange for immediate money with which to finance continued business. Factoring receivables are measured at amortized cost using the effective interest method after deducting unearned interest income and specific provision if impairment exists.

Deposits, funds borrowed, debt securities issued and subordinated debts: Deposits, funds borrowed, debt securities issued and subordinated debts are the Group's sources of debt funding. Deposits, funds borrowed, debt securities issued and subordinated debts are initially measured at fair value plus directly attributable transactions costs, and subsequently measured at their amortized cost using the effective interest method.

(j) Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements. Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accruals basis over the period of the transaction and are included in "interest income" or "interest expense".

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(k) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. The Group pursues only the properties for use according to their fair values in terms of separating the land and buildings within the context of IAS 16 as at December 31, 2016. As a result of the valuation by the independent appraisal company, revaluation difference of TL 795,371 after deferred tax effect is followed as the revaluation surplus under shareholder's equity.

Gains/losses arising from the disposal of the property and equipment are recognized in profit or loss and calculated as the difference between the net book value and the net sales price. Maintenance and repair costs incurred for property and equipment are recorded as expense unless they extend the economic useful life of related asset.

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods. Property and equipment are depreciated based on the straight line method. Depreciation rates and estimated useful lives are:

Property and equipment	Estimated useful lives (years)	Depreciation Rates (%)
Buildings	50	2
Office equipment, furniture and fixture, and motor vehicles	5-10	10-20
Vehicles obtained through finance leases	4-5	20-25

(l) Intangible assets

The Group's intangible assets consist of software programs. Intangible assets are recorded at cost. The costs of the intangible assets purchased before December 31, 2005 are restated for the effects of inflation from the purchasing dates to December 31, 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized based on straight line amortization. The economic lives of intangible assets vary within the range of three and fifteen years and hereby the amortization rates applied are between 33.33% and 6.67%.

(m) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(n) Employee benefits

Pension and other post-retirement obligations

The Bank has a defined benefit plan for its employees as described below:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(n) Employee benefits (Continued)

Pension and other post-retirement obligations

T. Vakıflar Bankası T.A.O. Memur ve Hizmetleri Emekli ve Sağlık Yardım Sandığı Vakfı ("the Fund"), is a separate legal entity and a foundation recognized by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees. The Fund has a defined benefit plan ("the Plan") under which the Bank pays a mixture of fixed contributions, and additional contractual amounts. The Plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	Employer %	Employee %
Pension contributions	11.0	9.0
Medical benefit contributions	7.5	5.0

This Plan is composed of the contractual benefits of the employees, which are subject to transfer to the Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") and other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation ("excess benefits").

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, will occur within three years from the enactment of the Law no. 5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law") in May 2008.

Pension and medical benefits transferable to SSF:

As per the provisional Article no. 23 of the Turkish Banking Law no. 5411 ("Banking Law") as approved by the Turkish Parliament on October 19, 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability, if any, on the transfer should be performed having regard to the methodology and parameters determined by the commission established by the Ministry of Labor and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated December 15, 2006 ("Decree") for the purpose of determining the principles and procedures to be applied during the transfer of funds. However they said Article was vetoed by the President and at November 2, 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional Article no. 23.

On March 22, 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional Article no. 23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette no. 26731, dated December 15, 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(n) Employee benefits (Continued)

Following the publication of the verdict, the Grand National Assembly of Republic of Turkey ("Turkish Parliament") worked on the new legal arrangements by taking the cancellation reasoning into account.

On April 17, 2008, the New Law was accepted by the Turkish Parliament and was enacted on May 8, 2008 following its publication in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The three year period has expired on May 8, 2011. According to the decision of the Council of Ministers published on the Official Gazette dated April 9, 2011 no. 27900, the time frame for related transfer has been extended for two years. Within the postponement right granted to the Council of Ministers through the change in the first clause of the 20th provisional article of the "Social Insurance and General Health Insurance Law no. 5510" published on the Official Gazette no. 28227 dated March 8, 2012, the transfer process has been postponed for one more year with the decision of the Council of Ministers published on the Official Gazette no. 28987 dated April 30, 2014. 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 April 23, 2015 numbered 29335. "Council of Ministers" expression in "Council of Ministers is authorized to determine the date of transfer to the Social Security Institution" stated in provisional article 20 of Social Insurance and Universal Health Insurance Law No. 5510 is replaced with the "President" pursuant to the paragraph (I) of Article 203 of Statutory Decree No. 703 promulgated in repeated Official Gazette No. 30473, dated July 2018.

Excess benefit not transferable to SSF:

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF.

Actuarial valuation:

The technical financial statements of the Fund are audited by the certified actuary according to the "Actuaries Regulation" which is issued as per Article no. 21 of the Insurance Law no. 5684. As per the actuarial report dated January 2019, there is no technical or actual deficit determined which requires provision against.

Transferable Retirement and Health Liabilities:	**December 31, 2019**	**December 31, 2018**
Net Present Value of Transferable Retirement Liabilities	(8,016,606)	(6,942,347)
Net Present Value of Transferable Retirement and Health Contributions	6,813,970	5,148,673
General Administration Expenses	(80,166)	(69,423)
Present Value of Pension and Medical Benefits Transferable to SSF (1)	(1,282,802)	(1,863,097)
Fair Value of Plan Assets (2)	6,255,056	5,029,717
Asset Surplus over Transferrable Benefits ((2)-(1)=(3))	4,972,254	3,166,620

Actuarial assumptions used in valuation of Non Transferable Benefits based on IAS 19 are as follows:

Discount Rates	**December 31, 2019**	**December 31, 2018**
Benefits Transferable to SSF	9.80%	9.80%
Non Transferable Benefits	2.50%	2.50%

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(n) Employee benefits (Continued)

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

	December 31, 2019	December 31, 2018
Bank placements	639,362	2,453,589
Government Bonds and Treasury Bill, Fund and Accrual Interest Income	3,267,243	659,361
Tangible assets (*)	2,219,862	1,723,955
Other	128,589	192,812
Total	**6,255,056**	**5,029,717**

(*) The tangible assets value indicates all the stocks' and real estate properties' market values, as of December 31, 2019.

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity.

Other benefits to employees

The Group has provided for undiscounted employee benefits earned during the financial period as per services rendered in the accompanying consolidated financial statements.

(o) Items held in trust

Assets, other than cash deposits, held by the Group in fiduciary or agency capacities for their customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not the assets of the Group.

(p) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee contracts are subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable.

(r) Insurance business

Through its insurance subsidiaries, the Group enters into contracts that contain insurance risk. An insurance contract is a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk covers all risks except for financial risks.

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(r) Insurance business (Continued)

Insurance and investment contracts issued/signed by the insurance subsidiaries are accounted for as follows:

Earned premiums: For short-term insurance contracts, premiums are recognized as revenue, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognized as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions given or received and deferred acquisitions costs, and are net of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognized as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under operating income in the accompanying consolidated statement of comprehensive income.

Premium received for an investment contract, is not recognized as revenue. Premiums for such contracts are recognized directly as liabilities.

Reserve for unearned premiums: The reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the reporting date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides actuarial provisions. The reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. The reserve for unearned premiums is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

Reserve for outstanding claims: The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported (“IBNR”) is also established as described below. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends (“Actuarial Chain Ladder Method”). At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an ‘each claim-file’ basis. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

Receivables from reinsurance activities: In the accompanying consolidated financial statements, receivables from reinsurance activities are presented under other assets. There receivables comprise the actual and estimated amounts, which, under contractual reinsurance agreements, are recoverable from reinsurers in respect of technical provisions. Reinsurance assets relating to technical provisions are established based on the terms of the reinsurance contracts and valued on the same basis as the related reinsured liabilities.

Subrogation, salvage and quasi income: The Group may account for income accrual for subrogation receivables without any voucher after the completion of the claim payments made to the insuree. If the amount cannot be collected from the counterparty insurance company, the Group provides provision for uncollected amounts due for six months. If the counter party is not an insurance Company, the provision is provided after four months.

Long term insurance contracts: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life and individual accident policies based on actuarial assumptions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(r) Insurance business (Continued)

Long term insurance contracts are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Ministry of Treasury and Finance, which are applicable for all Turkish insurance companies. Long term insurance contracts are presented under other liabilities and provisions in the accompanying consolidated financial statements.

Investment contracts: Premiums received for such contracts are recognized directly as liabilities under investment contract liabilities. These liabilities are increased by bonus rate calculated by the Group and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Profit sharing reserves are the reserves provided against income obtained from asset backing investment contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Group from the eligible surplus available to date.

Deferred acquisition cost and deferred commission income: Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortized on a straight-line basis over the life of the contracts. Deferred acquisition costs are presented under other assets in the accompanying consolidated financial statements.

Commission income obtained against premiums ceded to reinsurance firms are also deferred and amortized on a straight-line basis over the life of the contracts. Deferred commission income is presented under other liabilities and provisions in the accompanying consolidated financial statements.

Liability adequacy test: At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are taken into consideration. Any deficiency is immediately charged to the consolidated statement of comprehensive income.

If the result of the test is that a loss is required to be recognized, the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

(s) Individual pension business

Individual pension system receivables presented under 'other assets' in the accompanying consolidated financial statements consists of 'receivable from pension investment funds for investment management fees', 'entrance fee receivable from participants' and 'receivables from the clearing house on behalf of the participants'. Pension funds are the mutual funds that the individual pension companies invest in, by the contributions of the participants. Shares of the participants are kept at the clearing house on behalf of the participants.

Fees received from individual pension business consist of investment management fees, fees levied on contributions and entrance fees. Fees received from individual pension business are recognized in other income in the accompanying consolidated profit or loss and other comprehensive income.

Investment management fees are the fees charged to the pension funds against the hardware, software, personnel and accounting services provided to those pension funds.

Fees levied on contributions may be deducted over the participants' contributions for the operational costs of the services rendered by the Group. The upper limit for such deductions is 2% over the contributions.

Entrance fees are received by the Group from participants during entry into the system and for the opening of a new individual pension account. In some pension plans, the Group receives some or all of the entrance fees when the participants leave the group before the completion of a 5-years 'staying period'. If the participants keep their pension accounts in the Group more than 5 years, the entrance fee is not charged in these pension plans. In such cases, the Group does not recognize the entrance fee as revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(t) Earnings per share

Basic earnings per share from continuing operations disclosed in the accompanying consolidated profit or loss and other comprehensive income is determined by dividing the net profit for the period by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. There are no potentially dilutive instruments. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

(u) Subsequent events

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

(v) Segment reporting

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

(y) Assets classified as held for sale and related liabilities

As per IFRS 5 - "Non-current Assets Held for Sale and Discontinued Operations", a fixed asset classified as an asset kept for sales purposes (or a group of fixed assets to be disposed of) is measured with either its book value or fair value less costs to sell (with the lower one). A discontinued operation is a part of the Group's business classified as sold or held-for-sale. The operating results of the discontinued operations are disclosed separately in the income statement. The Group has no discontinued operations.

As per the Board of Directors decision in December 13th, 2019, the Bank has started the process of transfer of shares held in subsidiaries Güneş Sigorta and Vakıf Emeklilik ve Hayat A.Ş. respectively, including publicly held shares, to a new company to be established by Türkiye Varlık Fonu Yönetimi A.Ş. These two companies have been removed from the subsidiaries account and started to be classified under the Assets classified as held for sale account. The method of consolidation of the related companies is specified in the note 2.3.a Basis of consolidation.

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. Cash flow movements of subsidiaries which are classified as held for sale asset are demonstrated in each related line of cash flow statement as if these subsidiaries are consolidated with full consolidation method in 2019.

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 premises 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.)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5. New and amended standards adopted by the Group

IFRS 16 "Leases" standards became applicable for the current reporting period and the Group had to change its accounting policies. The Group has applied the simplified transition approach and elected not to restate comparative figures.

The impact of the adoption of IFRS 16 standard and the new accounting policies are disclosed below in Note 2.7. The other standards did not have any impact on the Group's accounting policies.

2.6 Explanations on Prior Period Accounting Policies not Valid for the Current Period

2.6.1 Leases

The Group as the lessee

<u>*Operating leases*</u>

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

<u>*Finance leases*</u>

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the estimated useful life of the asset.

2.7 Changes in Accounting Policies and Disclosures

The Group has adopted "IFRS 16 - Leases" as of January 1, 2019. The Group has applied the simplified transition approach and elected not to restate comparative figures. This Standard specifies the principles for the leasing, presentation, presentation and disclosure of leases. The purpose of the standard is to provide tenants and lessees with appropriate information and to provide them with appropriate information. 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 applied the simplified transition approach and elected not to restate comparative figures. The Group has not reassessed whether a contract is a lease or not a lease at the date of initial application for leases previously classified as operating leases in accordance with IAS 17 by preferring simplified transition approach. For the leases previously classified as operational leases in accordance with IAS 17, the lease liability calculated on the present value of the remaining lease payments, discounted using the alternative borrowing interest rate of the lessee at the initial application date is reflected to the financial statements. A right of use is also reflected in the financial statements at an amount equal to the lease obligation, which is reflected in the statement of financial position immediately prior to the initial application date, adjusted for the amount of all prepayment or accrued lease payments.

The amounts recognized under IFRS 16 as of January 1, 2019 and December 31, 2019 are presented below.

	January 1, 2019		
	Service Buildings	**Vehicles**	**Total**
Lease payables	1,245,219	33,559	1,278,778
Deferred rental expenses	476,495	7,471	483,966
Right of use assets	768,724	26,088	794,812

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Changes in Accounting Policies and Disclosures(Continued)

	December 31, 2019		
	Service Buildings	**Vehicles**	**Total**
Lease payables	1,413,536	20,589	1,434,125
Deferred rental expenses	495,782	2,405	498,187
Right of use assets	876,242	16,979	893,221

As of January 1, 2019, the reconciliation of the lease obligations accounted under consolidated financial statements according to IFRS 16 is as follows:

	January 1, 2019
Operational Lease Commitments	1,484,959
Commitments exempt from IFRS 16	(206,181)
Total Leasing Liabilities	**1,278,778**
Discounted Leasing Liabilities (January 1, 2019)	794,812

Short term lease contracts with a duration of 12 months or less and lease contracts for ATMs that are determined to be of low value by the Group have been evaluated within the scope of the exemption recognized by the standard, and payments for these contracts are recorded as expense in the period they occur. In this context, 92,870 thousand TL of rent was paid in the related period.

3. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

This note presents information about the Group’s exposure to each of the risks below, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital. The Group has exposure to the following risks from its use of financial instruments:

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

Risk management framework

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

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

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank’s structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Introduction and overview (Continued)

In order to ensure the compliance with the rules as altered pursuant to Articles 23, and 29 to 31 of the Banking Law no. 5411 and Articles 36 to 69 of the Regulation on Internal Systems within the Banks, dated June 28, 2012 the Bank revised the written policies and implementation procedures regarding management of each risk encountered in its activities in September 2012.

Audit Committee: The Audit Committee consists of two members of the Board of Directors who do not have any executive functions. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Group, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

(b) Credit risk

Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth, covering the counterparty risks arising from not only from loans and debt securities but also credit risks originating from the transactions defined as loans in the Banking Law.

Management of credit risk

For credit risk management purposes the Risk Management Department is involved in

- the determination of credit risk policies in coordination with the Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- contribution to the formation of rating and scoring systems,
- submitting to the Board of Directors and the senior management not only credit risk management reports about the credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration, but also scenario analysis reports, stress tests and other analyses, and
- studies regarding the formation of advanced credit risk measurement approaches.

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 December 31, 2019, consumer loans are excluded from the internal rating system of the Bank. The risks that are subject to rating models can be allocated as follows:

Category*	Share in the Total % (December 31, 2019)	Share in the Total % (December 31, 2018)
Above average	30.31	30.64
Average	50.69	50.18
Below average	16.58	10.28
Unrated	2.42	8.90
Total	**100.00**	**100.00**

(*) Rating scale on the table has been determined between 1 - 10, and average score has been selected as 4-5.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

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

December 31, 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)	39,930,367	-	-	(9,366)	39,921,001
Financial assets at fair value through profit or loss	6,815,205	-	-	-	6,815,205
Securities	2,307,977	-	-	-	2,307,977
Derivative financial instruments	4,507,228	-	-	-	4,507,228
Financial assets at fair value through OCI	26,584,063	-	-	-	26,584,063
Debt Securities	25,782,244	-	-	-	25,782,244
Equity Securities	801,819	-	-	-	801,819
Financial assets at amortised cost	294,661,795	34,913,874	17,712,516	(16,072,282)	331,215,903
Loans and advances to banks	1,266,251	-	-	(576)	1,265,675
Loans and advances to customers	246,380,911	34,913,874	17,712,516	(16,066,652)	282,940,649
- Commercial	178,337,870	29,738,663	14,367,257	(12,960,287)	209,483,503
- Consumer	55,354,636	1,648,613	2,091,605	(1,843,595)	57,251,259
- Credit cards	10,512,442	312,320	996,509	(993,080)	10,828,191
- Lease receivables	2,175,963	403,182	194,971	(189,690)	2,584,426
- Factoring receivables	-	2,811,096	62,174	(80,000)	2,793,270
Debt Securities	47,014,633	-	-	(5,054)	47,009,579
Other assets	2,340,865	-	-	(29,477)	2,311,388
Total	**370,332,295**	**34,913,874**	**17,712,516**	**(16,111,125)**	**406,847,560**

December 31, 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)	35,853,645	-	-	(7,526)	35,846,119
Financial assets at fair value through profit or loss	4,638,002	-	-	-	4,638,002
Securities	224,619	-	-	-	224,619
Derivative financial instruments	4,413,383	-	-	-	4,413,383
Financial assets at fair value through OCI	11,385,945	-	-	-	11,385,945
Debt Securities	10,795,766	-	-	-	10,795,766
Equity Securities	590,179	-	-	-	590,179
Financial assets at amortised cost	249,169,709	20,564,555	11,129,308	(11,234,250)	269,629,322
Loans and advances to banks	1,873,933	-	-	(945)	1,872,988
Loans and advances to customers	207,315,048	20,564,555	11,129,308	(11,228,640)	227,780,271
- Commercial	150,666,335	18,337,336	8,342,457	(8,556,907)	168,789,221
- Consumer	43,289,478	1,225,674	1,776,853	(1,547,102)	44,744,903
- Credit cards	8,570,846	373,023	808,360	(879,619)	8,872,610
- Lease receivables	2,182,900	598,702	156,147	(185,672)	2,752,077
- Factoring receivables	2,605,489	29,820	45,491	(59,340)	2,621,460
Debt Securities	39,980,728	-	-	(4,665)	39,976,063
Other assets	1,912,016	-	-	(24,047)	1,887,969
Total	**302,959,317**	**20,564,555**	**11,129,308**	**(11,265,823)**	**323,387,357**

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

Gross maximum exposure	December 31, 2019	December 31, 2018
Cash and balances with central banks (excluding cash on hand)	39,921,001	35,846,119
Financial assets at fair value through profit or loss	6,815,205	4,638,002
Financial assets at fair value through OCI ("FVOCI")	26,584,063	11,385,945
- Debt Securities	25,782,244	10,795,766
- Equity Securities	801,819	590,179
Financial assets at amortised cost ("AC")	331,215,903	269,629,322
- Loans and advances to banks	1,265,675	1,872,988
- Loans and advances to customers	282,940,649	227,780,271
- Debt securities	47,009,579	39,976,063
Other assets	2,311,388	1,887,969
Total	**406,847,560**	**323,387,357**
Financial guarantees	78,252,294	66,003,986
Loan commitments	82,998,434	65,430,821
Total	**161,250,728**	**131,434,807**
Total credit risk exposure	**568,098,288**	**454,822,164**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Sectorial distribution of the performing loans and advances to customers

	December 31, 2019		December 31, 2018	
	Amount	**%**	**Amount**	**%**
Consumer loans	57,003,250	20.27	44,515,152	19.53
Mortgage loans	23,616,133	8.40	19,358,386	8.50
General purpose loans	29,231,588	10.39	21,173,810	9.29
Overdraft checking accounts	3,737,703	1.33	3,656,125	1.60
Auto loans	415,757	0.15	323,640	0.14
Other consumer loans	2,069	-	3,191	-
Manufacturing	70,106,672	24.92	52,582,342	23.07
Wholesale and retail trade	38,409,929	13.65	33,059,323	14.51
Transportation and telecommunication	34,381,429	12.22	26,460,693	11.61
Construction	26,340,031	9.36	25,799,135	11.32
Credit cards	10,824,762	3.85	8,943,869	3.92
Hotel, food and beverage services	9,026,757	3.21	8,650,664	3.80
Financial institutions	6,790,353	2.41	4,312,390	1.89
Agriculture and stockbreeding	2,281,748	0.81	1,669,369	0.73
Health and social services	3,009,339	1.07	2,092,283	0.92
Others	23,120,515	8.23	19,794,383	8.70
Total performing loans and advances to customers	**281,294,785**	**100.00**	**227,879,603**	**100.00**

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

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

	December 31, 2019	**December 31, 2018**
Loans and receivables		
Commercial	14,002,997	6,566,908
Consumer	820,931	290,827
Credit Cards	85,665	70,297
Total	**14,909,593**	**6,928,032**

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

The amendment with respect to the regulation on the Principles and Procedures Regarding the Classification of Loans and Reserves Set Aside for These Loans entered into force with its publication in the Official Gazette No.30961 on November 27, 2019. Pursuant to the regulation, the banks are enabled to write down and move off the balance sheet the portion of a loan which is classified as "Group V Loan" (Loans Classified as Loss) if it cannot reasonably be expected to be recovered. The Bank performs objective and subjective assessments whether there is reasonable expectation. In accordance with the amendment in the related regulation on provisions, the deduction of loans from the records is an accounting practice and does not result in the right to waive. There is no write-off for the current period.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Set out below is an analysis of the gross and net (of specific impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers		Other assets	
December 31, 2019	**Gross**	**Net**	**Gross (*)**	**Net (*)**
Individually Impaired	17,712,516	5,233,729	259,915	12,533

	Loans and advances to customers		Other assets	
December 31, 2018	**Gross**	**Net**	**Gross (*)**	**Net (*)**
Individually Impaired	11,129,308	2,862,544	216,042	17,739

(*) Impaired insurance receivables are included.

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2019 and 2018.

The breakdown of performing cash loans and advances to customers and non-cash loans (financial "guarantee contracts) by type of collateral are as follows:

Cash loans	**December 31, 2019**	**December 31, 2018**
Secured loans:	213,370,757	176,365,431
Secured by mortgages	57,759,070	50,400,156
Secured by cash collateral	1,701,967	1,309,083
Guarantees issued by financial institutions	888,161	*592,286*
Secured by government institutions or government securities	24,744,773	24,287,362
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	128,276,786	99,776,544
Unsecured loans	67,924,028	51,514,172
Total performing loans and advances to customers	**281,294,785**	**227,879,603**

Non-cash loans (financial guarantee contracts)	**December 31, 2019**	**December 31, 2018**
Secured loans:	44,610,715	36,850,381
Secured by mortgages	5,576,009	4,239,700
Secured by cash collateral	639,016	236,830
Guarantees issued by financial institutions	363,401	269,516
Secured by government institutions or government securities	396,293	608,368
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	37,635,996	31,495,967
Unsecured loans	33,641,579	29,153,605
Total non-cash loans	**78,252,294**	**66,003,986**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

An estimate of the fair value of collateral held against non-performing loans and receivables is as follows:

	December 31, 2019	December 31, 2018
Cash collateral(*)	-	-
Mortgages	7,441,090	4,688,013
Promissory notes(*)	-	-
Others(**)	10,271,426	6,441,295
Total	**17,712,516**	**11,129,308**

(*) As a Bank policy, it is aimed to utilize cash collateral or liquidate promissory notes for an impaired loan which was previously collateralized by cash collateral or promissory notes to cover the credit risk. Hence, the cash collateral and promissory notes amounts are shown as very small / zero in the table.

(**) Sureties obtained for impaired loans are not presented in this table.

Sectorial and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans, finance lease and factoring receivables are shown below:

	December 31, 2019		December 31, 2018	
Sectorial concentration	**Amount**	**%**	**Amount**	**%**
Food	2,279,056	12.87	471,081	4.23
Consumer loans	2,080,572	11.75	1,711,799	15.38
Construction	1,957,276	11.05	809,999	7.28
Service sector	1,239,010	7.00	444,824	4.00
Metal and metal products	1,122,882	6.34	401,037	3.60
Durable consumer goods	650,497	3.67	244,729	2.20
Textile	368,826	2.08	187,902	1.69
Financial institutions	267,332	1.51	247,352	2.22
Agriculture and stockbreeding	173,821	0.98	151,813	1.36
Others	7,573,244	42.76	6,458,772	58.04
Total non-performing loans and advances to customers	**17,712,516**	**100.00**	**11,129,308**	**100.00**

	December 31, 2019		December 31, 2018	
Geographical concentration	**Amount**	**%**	**Amount**	**%**
Turkey	17,571,373	99.20	11,001,795	98.86
Germany	113,164	0.64	101,401	0.91
Austria	7,514	0.04	8,324	0.07
Other	20,465	0.12	17,788	0.16
Total non-performing loans and advances to customers	**17,712,516**	**100.00**	**11,129,308**	**100.00**

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- Zare subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

The similar agreements include derivative clearing agreements. Financial instruments subject to such agreements include derivatives. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

Such collateral is subject to each agreement terms. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The Group receives and gives collateral in the form of cash in respect of the derivative transactions.

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

					Related amounts not offset in the statement of financial position		
	Types of financial assets	**Gross amounts of recognized financial assets**	**Gross amounts of recognized financial liabilities offset in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
December 31, 2019							
	Derivatives - trading assets	4,507,228	-	4,507,228	-	1,210,663	3,296,565
	Reverse repurchase agreements	14,500	-	14,500	14,500	-	-
December 31, 2018							
	Derivatives - trading assets	4,413,383	-	4,413,383	-	1,501,471	2,911,912
	Reverse repurchase agreements	3,500	-	3,500	3,500	-	-

					Related amounts not offset in the statement of financial position		
	Types of financial liabilities	**Gross amounts of recognized financial assets**	**Gross amounts of recognized financial liabilities offset in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**Financial instruments**	**Cash collateral given**	**Net amount**
December 31, 2019							
	Derivatives - trading liabilities	3,311,997	-	3,311,997	-	7,996,486	(4,684,489)
	Repurchase agreements	25,424,068	-	25,424,068	25,414,146	9,922	-
December 31, 2018							
	Derivatives - trading liabilities	2,552,248	-	2,552,248	-	6,891,333	(4,339,085)
	Repurchase agreements	29,123,872	-	29,123,872	29,089,793	34,079	-

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Transferred of Financial Assets Held or Pledged as Collaterals

	December 31, 2019		December 31, 2018	
Asset pledged	**Asset**	**Related Liability**	**Asset**	**Related Liability**
Balances with other banks	586,154	-	3,162,140	-
Trading securities	-	-	19,976	-
-Legal requirements	-	-	*19,976*	-
Investment securities	11,838,459	-	2,449,062	-
- Financial assets at fair value through other comprehensive income	2,925,989	-	138,420	-
-Legal requirements	*2,925,989*	-	*138,420*	-
- Financial assets at amortised cost	8,912,470	-	2,310,642	-
-Legal requirements	*8,912,470*	-	*2,310,642*	-
Total	**12,424,613**	**-**	**5,631,178**	**-**

	December 31, 2019		December 31, 2018	
Transferred asset that are not de-recognized	**Asset**	**Related Liability**	**Asset**	**Related Liability**
Investment securities				
- Financial assets at fair value through other comprehensive income portfolio	4,443,499	4,772,186	2,496,293	2,464,710
-Repurchase agreement	*4,443,499*	*4,772,186*	*2,496,293*	*2,464,710*
Investment securities				
- Financial assets at amortised cost portfolio	21,285,024	19,401,997	29,029,809	24,203,385
- Repurchase agreement	*21,285,024*	*19,401,997*	*29,029,809*	*24,203,385*
Total	**25,728,523**	**24,174,183**	**31,526,102**	**26,668,095**

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Treasury Department of the Bank receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, short-term loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business departments and subsidiaries are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset-Liability Committee ("ALCO"). Daily reports cover the liquidity position of both the Bank and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

The consolidated liquidity coverage ratio averages for current period. The highest value and the lowest value occurred in this period are given below:

Liquidity Coverage Ratio	TL+FC		FC	
	DATE	RATIO (%)	DATE	RATIO (%)
The lowest value	November 2019	127.69	October 2019	479.15
The highest value	October 2019	133.38	December 2019	516.03

Exposure to liquidity risk

The calculation method used to measure the Bank's compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank-only basis (not including consolidated subsidiaries).

The Bank's banking subsidiary in the Austria is subject to a similar liquidity measurement, however the Austrian National Bank does not impose limits, but monitors the bank's overall liquidity position to ensure there is no significant deterioration in the liquidity of banks operating in Austria.

Maturity analysis of monetary assets and liabilities according to their remaining maturities:

December 31, 2019	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and balances with Central Banks	38,487,326	2,964,947	603,035	329,183	-	-	42,384,491
Financial assets at fair value through profit or loss	288,066	78,947	75,167	2,314,316	2,918,870	1,139,839	6,815,205
Loans and advances to banks	-	52,621	77,746	1,135,308	-	-	1,265,675
Loans and advances to customers(*)	1,764,508	23,071,259	10,221,118	41,914,291	126,456,613	79,512,860	282,940,649
Investment securities	801,819	1,921,554	1,249,682	5,913,330	41,196,698	22,510,559	73,593,642
Assets classified as held for sale	7,690,615	-	-	-	-	-	7,690,615
Other assets	10,088,364	2,473,166	172	2,773	380,114	32,108	12,976,697
Total assets	**59,120,698**	**30,562,494**	**12,226,920**	**51,609,201**	**170,952,295**	**103,195,366**	**427,666,974**
Derivative financial instruments	1,021,442	48	22,779	165,708	50,492	2,051,528	3,311,997
Deposits from banks	562,779	5,417,453	2,939,422	311,986	-	-	9,231,640
Deposits from customers	50,779,585	139,942,599	35,524,895	16,909,795	1,484,718	41,826	244,683,418
Obligations under repurchase agreements	-	21,550,539	2,749,500	383,796	740,233	-	25,424,068
Funds borrowed	-	2,023,546	5,090,388	18,150,754	10,686,147	9,115,902	45,066,737
Debt securities issued	-	2,219,364	3,621,254	655,942	21,185,480	1,566,016	29,248,056
Subordinated debts	-	-	-	-	8,614,505	10,630,948	19,245,453
Current tax liabilities	1,083	567,884	574,107	-	-	-	1,143,074
Liabilities classified as held for sale	5,378,292	-	-	-	-	-	5,378,292
Other liabilities and provisions	5,449,868	6,357,114	1,117,990	5,921	6,612	319,441	13,256,946
Total liabilities	**63,193,049**	**178,078,547**	**51,640,335**	**36,583,902**	**42,768,187**	**23,725,661**	**395,989,681**
Net	**(4,072,351)**	**(147,516,053)**	**(39,413,415)**	**15,025,299**	**128,184,108**	**79,469,705**	**31,677,293**

(*) The amount of the difference between non-performing loans and stage 3 provisions are shown in demand column.

December 31, 2018	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and balances with Central Banks	31,889,428	4,927,283	775,107	307,355	292,915	-	38,192,088
Financial assets at fair value through profit or loss	35,609	112,095	57,144	502,630	3,317,686	612,838	4,638,002
Loans and advances to banks	-	174,854	389,404	896,983	411,747	-	1,872,988
Loans and advances to customers(*)	3,008,094	21,771,128	7,133,228	41,380,635	94,209,537	60,277,649	227,780,271
Investment securities	512,516	216,095	2,189,698	3,827,784	24,729,407	19,886,508	51,362,008
Other assets	5,694,139	3,263,342	192,721	748,998	5,494,785	496,322	15,890,307
Total assets	**41,139,786**	**30,464,797**	**10,737,302**	**47,664,385**	**128,456,077**	**81,273,317**	**339,735,664**
Derivative financial instruments	-	69,516	61,535	69,738	2,080,439	271,020	2,552,248
Deposits from banks	397,157	5,059,670	1,394,780	212,887	-	-	7,064,494
Deposits from customers	36,315,246	94,930,725	29,645,143	12,399,787	1,919,637	28,021	175,238,559
Obligations under repurchase agreements	-	26,500,499	674,788	-	1,656,338	292,247	29,123,872
Funds borrowed	-	2,481,146	3,917,309	17,846,735	14,838,190	6,349,469	45,432,849
Debt securities issued	-	2,036,776	1,627,258	3,617,966	15,490,491	-	22,772,491
Subordinated debts	-	-	-	-	3,429,970	9,592,053	13,022,023
Current tax liabilities	-	569,945	287,219	-	-	-	857,164
Other liabilities and provisions	7,124,610	5,279,417	237,153	94,611	33,957	17,077	12,786,825
Total liabilities	**43,837,013**	**136,927,694**	**37,845,185**	**34,241,724**	**39,449,022**	**16,549,887**	**308,850,525**
Net	**(2,697,227)**	**(106,462,897)**	**(27,107,883)**	**13,422,661**	**89,007,055**	**64,723,430**	**30,885,139**

(*) The amount of the difference between non-performing loans and stage 3 provisions are shown in demand column.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Exposure to market risk - trading portfolios

The market risk arising from the trading portfolio is monitored, measured and reported using Standardized Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared by using Standardized Approach are reported to BRSA.

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Bank's trading portfolios. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used is based on historical simulation and Monte Carlo simulation.

Exposure to interest rate risk - non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

December 31, 2019	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
Cash and balances with Central Banks	3,314,570	603,035	329,183	-	-	38,137,703	42,384,491
Financial assets at fair value through profit or loss	630,113	721,430	2,286,300	2,161,427	727,869	288,066	6,815,205
Loans and advances to banks	52,621	77,746	1,135,308	-	-	-	1,265,675
Loans and advances to customers	78,237,391	38,311,018	84,646,807	52,678,243	27,290,137	1,777,053	282,940,649
Investment securities	11,378,303	6,973,348	20,599,195	21,878,672	11,962,305	801,819	73,593,642
Assets classified as held for sale	-	-	-	-	-	7,690,615	7,690,615
Other assets	759,219	219,855	207	94,764	305,891	12,398,580	13,778,516
Total assets	**94,372,217**	**46,906,432**	**108,997,000**	**76,813,106**	**40,286,202**	**61,093,836**	**428,468,793**
Derivative financial instruments	23,024	189,968	50,492	2,027,070	1,021,443	-	3,311,997
Deposits from banks	5,417,453	2,939,422	311,986	-	-	562,779	9,231,640
Deposits from customers	140,472,826	35,680,327	16,962,447	1,484,183	41,826	50,041,809	244,683,418
Obligations under repurchase agreements	21,550,539	2,749,500	383,796	740,233	-	-	25,424,068
Funds borrowed	2,255,577	28,558,228	8,462,570	3,407,580	1,363,586	1,019,196	45,066,737
Debt securities issued	2,355,658	3,902,708	1,935,257	20,438,651	615,782	-	29,248,056
Subordinated debts	-	450,299	1,054,717	11,421,734	6,318,703	-	19,245,453
Current tax liabilities	543,358	574,107	-	-	-	25,609	1,143,074
Liabilities classified as held for sale	-	-	-	-	-	5,378,292	5,378,292
Other liabilities and provisions	201,943	43,867	2,611	6,612	319,441	12,682,472	13,256,946
Total liabilities	**172,820,378**	**75,088,426**	**29,163,876**	**39,526,063**	**9,680,781**	**69,710,157**	**395,989,681**
Net	**(78,448,161)**	**(28,181,994)**	**79,833,124**	**37,287,043**	**30,605,421**	**(8,616,321)**	**32,479,112**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

December 31, 2018	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
Cash and balances with Central Banks	13,828,132	598,137	-	-	-	23,765,819	38,192,088
Financial assets at fair value through profit or loss	640,611	1,324,916	343,621	1,959,247	264,232	105,375	4,638,002
Loans and advances to banks	564,258	-	896,983	411,747	-	-	1,872,988
Loans and advances to customers	98,670,797	15,026,688	36,427,418	53,831,464	20,769,622	3,054,282	227,780,271
Investment securities	7,119,944	6,099,036	15,168,748	12,328,597	10,158,369	487,314	51,362,008
Assets held for sale	-	-	-	-	-	1,568,113	1,568,113
Other assets	2,125,665	90,729	169,662	498,451	522,079	13,021,946	16,428,532
Total assets	**122,949,407**	**23,139,506**	**53,006,432**	**69,029,506**	**31,714,302**	**42,002,849**	**341,842,002**
Derivative financial instruments	69,516	272,026	92,347	1,857,982	260,377	-	2,552,248
Deposits from banks	5,059,670	1,394,780	212,887	-	-	397,157	7,064,494
Deposits from customers	94,562,582	30,193,001	13,103,097	1,690,671	19,820	35,669,388	175,238,559
Obligations under repurchase agreements	27,032,125	770,764	196,271	1,124,712	-	-	29,123,872
Funds borrowed	9,556,502	21,644,977	9,030,298	3,217,685	1,551,792	431,595	45,432,849
Debt securities issued	2,134,995	1,715,079	4,478,588	14,443,829	-	-	22,772,491
Subordinated debts	-	110,871	421,903	4,363,657	8,125,592	-	13,022,023
Current tax liabilities	-	-	-	-	-	857,164	857,164
Other liabilities and provisions	580,147	126,504	226,746	90,159	2,235	11,761,754	12,787,545
Total liabilities	**138,995,537**	**56,228,002**	**27,762,137**	**26,788,695**	**9,959,816**	**49,117,058**	**308,851,245**
Net	**(16,046,130)**	**(33,088,496)**	**25,244,295**	**42,240,811**	**21,754,486**	**(7,114,209)**	**32,990,757**

The following table indicates the effective interest rates applied to monetary financial instruments by major currencies for the years ended December 31, 2019 and 2018:

December 31, 2019	US Dollar %	EUR %	TL%
Cash and cash equivalents	1.63	0.01	11.00
Financial assets at fair value through profit or loss	-	-	0.83
Loans and advances to banks	4.92	-	13.77
Loans and advances to customers	7.57	5.46	16.41
Investment securities	-	-	-
Deposits from banks	2.65	0.45	11.07
Deposits from customers	2.16	0.51	10.41
Obligations under repurchase agreements	2.86	0.85	10.58
Debt securities issued	6.13	4.04	12.59
Subordinated debts	8.41	-	-
Funds borrowed	4.16	2.00	8.01

December 31, 2018	US Dollar %	EUR %	TL%
Cash and cash equivalents	3.06	0.98	23.41
Financial assets at fair value through profit or loss	11.82	-	19.55
Loans and advances to banks	3.45	0.25	12.87
Loans and advances to customers	8.04	5.51	21.07
Investment securities	6.63	4.05	16.45
Deposits from banks	3.94	2.18	23.69
Deposits from customers	4.45	2.23	19.90
Obligations under repurchase agreements	3.43	1.00	21.30
Debt securities issued	5.64	2.93	19.63
Subordinated debts	11.96	-	-
Funds borrowed	4.67	1.94	17.77

Currency risk

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

Management of currency risk

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

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

	EUR / TL	USD / TL
December 31, 2017	4.52	3.78
December 31, 2018	6.04	5.28
December 31, 2019	6.68	5.96

For the purposes of the evaluation of the table below, the figures represent the TL equivalent of the related foreign currencies.

Measurement Frequency of Interest Rate Risk

Interest rate risk arising from banking book accounts is calculated in accordance with "Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique" published in the August 23, 2011 dated Official Gazette no. 28034. Legal limit is monthly monitored and reported accordingly.

The economic value changes arising from the interest rate fluctuations which are measured according to "Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique" are presented in the below table:

Currency Unit-Current Period	Applied Shock (+/- x base point)	Gain/ Loss	Gain/ Equity-Loss/ Equity
1. TL	500/(400)	(3,460,645)/2,719,186	(6.69%) / 5.26%
2. EURO	200/(200)	(1,109,163) / 50,912	(2.15%) / 0.10%
3. USD	200/(200)	(132,261) / 340,663	(0.26%) / 0.66%
Total (For Negative Shocks)	-	**3,110,761**	**6.02%**
Total (For Positive Shocks)	-	**(4,702,069)**	**(9.10%)**

Currency Unit-Prior Period	Applied Shock (+/- x base point)	Gain/ Loss	Gain/Equity-Loss/ Equity
1. TL	500/(400)	(2,552,722)/2,137,321	(6.27%) / 5.25%
2. EURO	200/(200)	(938,509) / 395,960	(2.31%) / 0.97%
3. USD	200/(200)	358,642 / (315,420)	0.88% / (0.77%)
Total (For Negative Shocks)	-	**2,217,861**	**5.45%**
Total (For Positive Shocks)	-	**(3,132,589)**	**(7.70%)**

The above table is obtained from unconsolidated December 31, 2019 audit report announced at Public Disclosure Platform.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

December 31, 2019	US Dollar	EUR	Other currencies	Total
Cash and balances with Central Banks	17,901,088	19,822,729	2,656,674	40,380,491
Financial assets at fair value through profit or loss	112,041	5,867	2,017,593	2,135,501
Loans and advances to banks	252,970	668,421	-	921,391
Loans and advances to customers	48,234,710	46,589,210	96,651	94,920,571
Investment securities	8,837,112	11,300,052	-	20,137,164
Other assets	5,420,128	3,334,894	890	8,755,912
Total foreign currency denominated monetary assets	**80,758,049**	**81,721,173**	**4,771,808**	**167,251,030**
Deposits from banks	2,368,286	3,046,177	307,637	5,722,100
Deposits from customers	53,884,298	45,912,624	6,366,406	106,163,328
Obligations under repurchase agreements	3,167,566	2,431,228	-	5,598,794
Funds borrowed	25,629,015	17,140,789	7,114	42,776,918
Debt securities issued	9,231,436	8,224,043	-	17,455,479
Subordinated debts	12,850,576	-	-	12,850,576
Other liabilities	3,067,906	1,395,709	9,816	4,473,431
Total foreign currency denominated monetary liabilities	**110,199,083**	**78,150,570**	**6,690,973**	**195,040,626**
Net statement of financial position	**(29,441,034)**	**3,570,603**	**(1,919,165)**	**(27,789,596)**
Net off balance sheet position	**24,202,253**	**(2,478,824)**	**1,937,708**	**23,661,137**
Net long/(short) position	**(5,238,781)**	**1,091,779**	**18,543**	**(4,128,459)**

December 31, 2018	US Dollar	EUR	Other currencies	Total
Cash and balance with Central Banks	11,539,845	15,862,310	5,645,358	33,047,513
Financial assets at fair value through profit or loss	76,799	2,674	-	79,473
Loans and advances to banks	176,902	754,904	-	931,806
Loans and advances to customers	46,499,783	41,455,321	101,596	88,056,700
Investment securities	7,629,574	1,248,622	-	8,878,196
Other assets	6,770,057	1,703,701	5,726	8,479,484
Total foreign currency denominated monetary assets	**72,692,960**	**61,027,532**	**5,752,680**	**139,473,172**
Deposits from banks	3,827,812	1,144,660	777,891	5,750,363
Deposits from customers	31,830,140	33,564,733	3,089,695	68,484,568
Obligations under repurchase agreements	1,498,661	761,511	-	2,260,172
Funds borrowed	25,527,170	17,361,772	14,573	42,903,515
Debt securities issued	8,813,318	6,158,675	-	14,971,993
Subordinated debts	7,353,902	-	-	7,353,902
Other liabilities	3,238,571	2,116,495	8,717	5,363,783
Total foreign currency denominated monetary liabilities	**82,089,574**	**61,107,846**	**3,890,876**	**147,088,296**
Net statement of financial position	**(9,396,614)**	**(80,314)**	**1,861,804**	**(7,615,124)**
Net off balance sheet position	**(1,126,627)**	**10,790,769**	**(1,848,448)**	**7,815,694**
Net long/(short) position	**(10,523,241)**	**10,710,455**	**13,356**	**200,570**

The figures of the foreign subsidiary of the Group are presented in the table above with respect to its functional currency.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

Exposure to currency risk

10 percent devaluation of the TL against the following currencies as at and for the years ended December 31, 2019 and 2018 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	December 31, 2019		December 31, 2018	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
US Dollar	(523,878)	(523,878)	267,895	267,895
EUR	109,178	184,407	(249,173)	(163,029)
Other currencies	1,854	1,854	1,336	1,336
Total, net	**(412,846)**	**(337,617)**	**20,058**	**106,202**

10 percent revaluation of the TL against the following currencies as at and for years ended December 31, 2019 and 2018 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	December 31, 2019		December 31, 2018	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
US Dollar	523,878	523,878	(267,895)	(267,895)
EUR	(109,178)	(184,407)	249,173	163,029
Other currencies	(1,854)	(1,854)	(1,336)	(1,336)
Total, net	**412,846**	**337,617**	**(20,058)**	**(106,202)**

This analysis assumes that all other variables, in particular interest rates, remain constant.

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, judgment is necessary to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities recorded at amortized cost are not materially different than their recorded values except for those of loans and advances to customers, investment securities and deposit from customers. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, loans and advances from banks, funds borrowed and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Deposits from customers

The estimated fair value of deposits from other banks and customer deposits 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 is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

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	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Financial assets				
Loans and advances to customers	282,940,649	227,780,271	284,265,112	223,166,109
Financial assets at fair value through profit or loss	6,815,205	4,638,002	6,815,205	4,638,002
Investment securities	73,593,642	51,362,008	75,046,382	47,709,663
Financial assets at fair value through other comprehensive income	26,584,063	*11,385,945*	26,584,063	*11,385,945*
Financial assets measured at amortised cost	47,009,579	*39,976,063*	*48,462,319*	*36,323,718*
Financial liabilities				
Deposits from other banks	9,231,640	7,064,494	9,231,640	7,064,494
Deposits from customers	244,683,418	175,238,559	243,782,620	175,137,004
Funds borrowed	45,066,737	45,432,849	45,206,749	45,322,174

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

December 31, 2019	Level 1	Level 2	Level 3(*)	Total
Asset carried at fair value				
Financial assets - FVPL	**2,138,494**	**4,507,228**	**169,483**	**6,815,205**
Debt securities	2,017,593	-	-	2,017,593
Equity securities	120,901	-	169,483	290,384
Derivative financial assets held for trading purposes	-	4,507,228	-	4,507,228
Investment securities - FVOCI	**25,782,244**	**-**	**733,075**	**26,515,319**
Debt securities	25,782,244	-	-	25,782,244
Other financial assets	-	-	733,075	733,075
Total financial assets	**27,920,738**	**4,507,228**	**902,558**	**33,330,524**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	**-**	**3,311,997**	**-**	**3,311,997**
Total financial liabilities	**-**	**3,311,997**	**-**	**3,311,997**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

December 31, 2018	Level 1	Level 2	Level 3(*)	Total
Asset carried at fair value				
Financial assets - FVPL	**14,560**	**4,623,415**	**27**	**4,638,002**
Debt securities	11,673	140,266	-	151,939
Equity securities	2,887	69,766	27	72,680
Derivative financial assets held for trading purposes	-	4,413,383	-	4,413,383
Investment securities - FVOCI	**8,876,012**	**1,923,208**	**586,725**	**11,385,945**
Debt securities	8,876,012	1,923,208	-	10,799,220
Other financial assets	-	-	586,725	586,725
Total financial assets	**8,890,572**	**6,546,623**	**586,752**	**16,023,947**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	2,552,248	-	2,552,248
Total financial liabilities	**-**	**2,552,248**	**-**	**2,552,248**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as follows:

	December 31, 2019	December 31, 2018
Balance at the beginning of the period - 1 January	586,725	233,405
Total gains or losses for the period recognized in other comprehensive income	146,350	353,320
Balance at the end of the period	733,075	586,725

(e) Operational risk

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

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering as a whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this framework, an appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The data of operational losses may be exposed to during the Bank's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

The Group calculated the value at operational risk in accordance with the third section of "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" that is "Computation of Value of Operational Risk" published in June 28, 2012 dated Official Gazette no. 28337. The operational risk which the Group is exposed to is calculated according to the "Basic Indicator Method" hence by multiplying the average of the 15% of last three years' actual gross income with 12.5, in line with the effective legislation practices in the country. As at December 31, 2019, value of consolidated operational risk amounted to TL 21,759,874 (December 31, 2018: TL 17,136,335).

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management - regulatory capital

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

The Bank and its financial subsidiaries' consolidated regulatory capital is analyzed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and commitment and contingencies exposures. Operational risk capital requirements and market risk capital requirements as at December 31, 2019 and 2018 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

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

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

The Bank's regulatory capital position on a consolidated basis at December 31, 2019 and 2018 is as follows:

	Consolidated		**Parent Bank**	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Capital Requirement for Credit Risk (CRCR)	23,485,908	18,279,019	22,658,091	17,335,746
Capital Requirement for Market Risk (CRMR)	591,648	112,767	566,405	79,746
Capital Requirement for Operational Risk (CROR)	1,740,790	1,370,907	1,666,774	1,340,600
Common Equity Tier 1 Capital	33,111,191	28,598,031	32,615,710	27,931,467
Tier 1 Capital	42,781,571	33,591,606	42,286,090	32,925,042
Tier 2 Capital	9,554,991	7,932,280	9,413,882	7,782,352
Deductions from Capital	(5,614)	(1,444)	(5,614)	(1,444)
Total Capital	52,330,948	41,522,442	51,694,358	40,705,950
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	16.22	16.47	16.61	16.99
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	13.26	13.32	13.59	13.75
Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	10.26	11.34	10.48	11.66

4. INSURANCE RISK MANAGEMENT

The risk under any insurance contract is the possibility that the insured event occurs and the amount of the resulting claim is uncertain. By the very nature of an insurance contact, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of the probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claim and benefit payments exceed carrying amount of the insured liabilities. These could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is likely to be affected across the board by a change in any subset of portfolio.

The Group has developed its life and non-life insurance underwriting strategies to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Pricing policies

The pricing policies and principles of the Group are as follows:

i) While determining risk premiums, the amount of expected losses are considered and premium limits are determined accordingly.
ii) During the study of pricing activities as a part of developing a new product, working of relevant units together within the Group is maintained by considering the needs of the customers and competition in the market.
iii) It is aimed to achieve profitability in product basis and providing continuity.

Results of the pricing studies are compared with the prices of the competitors and international pricing cases.

Management of risks

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. All non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

4. INSURANCE RISK MANAGEMENT (Continued)

Concentrations of risk can arise in low frequency, high-severity events such as natural disasters; in situations where the Group is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behavior; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

Within non-life insurance, the management believes that the Group has no significant concentration of exposure to any group of policyholders measured by social, professional, age or similar criteria.

The greatest likelihood of significant losses to the Group arises from catastrophe events, such as flood, damage, storm or earthquake damage. The techniques and assumptions that the Group uses to calculate these risks are as follows:

- Measurement of geographical accumulations.
- Assessment of probable maximum losses.
- Excess of loss reinsurance.

Reinsurance

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources.

Reinsurance companies, providing reinsurance protection against life insurance and other additional risks are the most important service providers for the insurance subsidiaries of the Group. The decisive criteria for the relationship with reinsurers are as follows:

i) Financial strength,
ii) Long-term relationship approach,
iii) Competitive prices
iv) Capacity provided for facultative and un-proportional (catastrophic) reinsurance contracts.
v) Opportunities and information provided in risk assessment process, product development, trainings, information about new developments in the sector and etc.

Performance of the reinsurance companies in treaty agreements is evaluated for each year by considering the payment performance of the reinsurers for the claims paid and other due payables to the insurance subsidiaries of the Group. Performance of the reinsurance companies in facultative agreements is evaluated by considering capacity provided to the insurance subsidiaries of the Group, speed in operational reinsurance transactions, and technical and market information provided to the insurance subsidiaries of the Group. In cases where the performance of the reinsurer is not seen as adequate, the insurance subsidiaries of the Group will decide to contract with alternative reinsurance companies.

5. SEGMENT REPORTING

Geographical information

The Group's activities are conducted predominantly in Turkey which is also the main operating company. The Group conducts majority of its business activities with local customers in Turkey.

Operating segments

The Group has six reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Retail banking: Includes loans, deposits and other transactions and balances with retail customers.

Corporate and commercial banking: Includes loans, deposits and other transactions and balances with corporate customers.

Investment banking: Includes the Group's trading and corporate finance activities.
This segment undertakes the Group's funding and centralized risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

Leasing: Includes the Group's finance lease business.

Factoring: Includes the Group's factoring business.

Others: Includes combined information about operating segments that do not meet the quantitative thresholds and includes the Group's insurance business.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes.

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

5. SEGMENT REPORTING (Continued)

Information about operating segments

December 31, 2019	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	8,613,963	22,290,710	3,868,967	-	34,773,640	-	520,668	14,332	35,308,640	(131,708)	35,176,932
Interest expense on deposit	(9,345,908)	(8,035,204)	(787,652)	-	(18,168,764)	-	-	-	(18,168,764)	222,769	(17,945,995)
Operating profit	(1,134,736)	10,473,261	835,689	224,566	10,398,780	91,814	178,533	2,943,541	13,612,668	(575,126)	13,037,542
Profit before income tax	(2,407,939)	7,287,252	(223,340)	(984,087)	3,671,886	65,674	161,443	610,650	4,509,653	26,215	4,535,868
Income tax expense									(1,033,209)	-	(1,033,209)
Profit for the year									**3,476,444**	**26,215**	**3,502,659**
December 31, 2019											
Segment assets	68,112,914	168,651,541	164,293,791	24,148,316	425,206,562	2,978,609	2,812,434	9,515,412	440,513,017	(7,728,028)	432,784,989
Investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	456,087	456,087
Total assets	**68,112,914**	**168,651,541**	**164,293,791**	**24,148,316**	**425,206,562**	**2,978,609**	**2,812,434**	**9,515,412**	**440,513,017**	**(7,271,941)**	**433,241,076**
Segment liabilities	112,872,965	132,061,657	128,758,181	17,178,174	390,870,977	2,747,803	2,458,135	7,330,787	403,407,702	(4,077,251)	399,330,451
Equity including non-controlling interest	-	-	-	34,335,585	34,335,585	230,806	354,299	2,184,625	37,105,315	(3,194,690)	33,910,625
Total liabilities and equity	**112,872,965**	**132,061,657**	**128,758,181**	**51,513,759**	**425,206,562**	**2,978,609**	**2,812,434**	**9,515,412**	**440,513,017**	**(7,271,941)**	**433,241,076**
Tangible fixed assets				1,509,748	1,509,748				1,509,748		1,509,748
Intangible fixed assets				229,583	229,583				229,583		229,583
Depreciation				(416,929)	(416,929)				(416,929)		(416,929)
Amortization				(120,094)	(120,094)				(120,094)		(120,094)

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

5. SEGMENT REPORTING (Continued)

December 31, 2018	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	7,140,628	17,326,571	2,948,588	-	27,415,787	200,059	508,112	6,239	28,130,197	(29,462)	28,100,735
Interest expense on deposit	(8,341,245)	(6,805,449)	(558,753)	-	(15,705,447)	-	-	5,918	(15,699,529)	181,560	(15,517,969)
Operating profit	(1,138,548)	7,612,251	4,423,143	134,259	11,031,105	20,147	146,028	2,308,385	13,505,665	(104,278)	13,401,387
Profit before income tax	(2,295,844)	4,823,028	3,392,299	(816,156)	5,103,327	(2,482)	123,765	359,233	5,583,843	67,954	5,651,797
Income tax expense									(985,895)	-	(985,895)
Profit for the year									**4,597,948**	**67,954**	**4,665,902**

December 31, 2018	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	51,672,411	171,331,856	91,340,336	20,237,708	334,582,311	2,992,823	2,668,947	6,879,835	347,123,916	(2,616,640)	344,507,276
Investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	372,022	372,022
Total assets	**51,672,411**	**171,331,856**	**91,340,336**	**20,237,708**	**334,582,311**	**2,992,823**	**2,668,947**	**6,879,835**	**347,123,916**	**(2,244,618)**	**344,879,298**
Segment liabilities	92,194,464	84,567,780	115,275,164	15,642,647	307,680,055	2,838,364	2,444,424	5,133,636	318,096,479	(2,707,029)	315,389,450
Equity including non-controlling interest	-	-	-	29,467,215	29,467,215	163,359	228,696	2,484,218	32,343,488	(2,853,640)	29,489,848
Total liabilities and equity	**92,194,464**	**84,567,780**	**115,275,164**	**45,109,862**	**337,147,270**	**3,001,723**	**2,673,120**	**7,617,854**	**350,439,967**	**(5,560,669)**	**344,879,298**
Tangible fixed assets				611,786	611,786				611,786		611,786
Intangible fixed assets				153,769	153,769				153,769		153,769
Depreciation				(122,193)	(122,193)				(122,193)		(122,193)
Amortization				(90,877)	(90,877)				(90,877)		(90,877)

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

6. CASH AND BALANCES WITH CENTRAL BANKS

As at December 31, 2019 and 2018, cash and cash equivalents presented in the consolidated statement of financial position and cash flows are as follows:

	December 31, 2019	December 31, 2018
Cash on hand	2,463,490	2,345,969
Due from Central Bank	11,470,013	14,031,341
Balances with the CBRT excluding reserve deposits	21,792,413	15,113,048
Money market placements and receivables from repurchase agreements	14,535	6,839
Loans and advances to banks with original maturity less than three months	5,865,024	5,692,969
Others	779,016	1,001,922
Total cash and cash equivalents in the consolidated statement of financial position	**42,384,491**	**38,192,088**
Accruals on cash and cash equivalents	(17,346)	(118,461)
Blocked bank deposits	(586,154)	(3,162,140)
Due from Central Bank	(11,470,013)	(14,031,341)
Advances to banks with original maturity less than three months classiffied assets held for sale	935,335	-
Expected Credit Loss	9,366	7,526
Total cash and cash equivalents in the consolidated statement of cash flows	**31,255,679**	**20,887,672**

As of December 31, 2019, TL 586,154 is blocked bank deposits (December 31, 2018: TL 3,162,140) consist of held against the “Diversified Payment Rights” securitizations.

As at December 31, 2019, reserve deposits at the CBRT were kept as the minimum reserve requirement. These funds are not available for the daily operations of the Group. As required by Turkish Banking Law, these reserve deposits are calculated on the basis of domestic liabilities of the Bank after some deductions, at the rates determined by the CBRT.

In accordance with “Announcement on Reserve Deposits” of CBRT numbered 2013/15, all banks operating in Turkey shall provide a reserve rate ranging from 1% to 7% (December 31, 2018: ranging from 1,5% to 8%). For foreign currency liabilities, all banks shall provide a reserve rate ranging from 5% to 21% in US Dollar or Euro (December 31, 2018: ranging from 4% to 20%).

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at December 31, 2019 and 2018, financial assets at fair value through profit or loss are as follows:

	December 31, 2019		December 31, 2018	
	Face Value	*Carrying Value*	*Face Value*	*Carrying Value*
Debt instruments held at fair value:				
Government bonds in TL	*200*	*199*	*3,200*	*3,131*
Asset-backed securities	-	-	*34,000*	*33,366*
Eurobonds issued by the Turkish Government	*2,001,510*	*2,017,593*	*5,045*	*7,033*
Corporate bonds in TL	-	-	*70,310*	*69,587*
Bonds issued by banks	-	-	-	-
Total	***2,001,710***	***2,017,792***	***112,555***	***113,117***
Equity and other non-fixed income instruments:				
Investment funds		*4,858*	-	*38,822*
Equity shares		*285,327*	-	*72,680*
Derivative financial instruments held for trading purposes	-	*4,507,228*	-	*4,413,383*
Total	-	***4,797,413***	-	***4,524,885***
Total financial assets at fair value through profit or loss	***2,001,710***	***6,815,205***	***112,555***	***4,638,002***

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Gains and losses arising on derivative financial instruments held for trading purposes and income from sale of debt instruments held at fair value are reflected in net trading income. As at and for the year ended December 31, 2019, net expense from trading of financial assets (including investment securities) amounting to (TL 3,161,071) (December 31, 2018: TL 429,180) is included in “net trading income”.

The following table summarizes securities that were deposited as collateral with respect to various banking and insurance transactions:

	December 31, 2019		December 31, 2018	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at Turkish Treasury for insurance operations	-	-	6,293	6,040
Deposited at Istanbul Stock Exchange for Capital Markets Board certifications	-	-	13,800	13,936
	-	**-**	**20,093**	**19,976**

Derivative financial instruments held for trading purposes

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

The table below shows the contractual amounts of derivative instruments analyzed by the term to maturity. The contractual 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 contractual amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates. The maturity analyses of the gross nominal value of derivatives are presented below:

	December 31, 2019	December 31, 2018
	Notional Amounts	**Notional Amounts**
Trading Derivatives		
Foreign Currency Related Derivative Transactions	**85,949,525**	**46,493,564**
Currency Forwards	4,537,627	2,744,719
Currency Swaps	80,075,495	41,266,318
Currency Futures	-	-
Currency Options	1,336,403	2,482,527
Interest Rate Derivative Transactions	**66,326,016**	**46,832,308**
Interest Rate Forwards	-	-
Interest Rate Swaps	66,326,016	46,832,308
Interest Rate Options	-	-
Interest Rate Futures	-	-
Other Trading Derivatives	**23,593,260**	**17,683,118**
Total Derivative Transactions	**175,868,801**	**111,008,990**

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

	December 31, 2019					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Currency swaps:						
Purchases	15,005,140	6,896,536	3,989,479	133,623	178,650	26,203,428
Sales	16,274,347	6,921,551	4,029,209	105,000	-	27,330,107
Currency forwards:						
Purchases	101,976	537,671	1,171,136	461,825	-	2,272,608
Sales	101,790	536,140	1,166,826	460,263	-	2,265,019
Cross currency interest rate swaps:						
Purchases	-	122,124	357,300	10,734,025	2,501,707	13,715,156
Sales	-	282,977	169,645	10,002,448	2,371,734	12,826,804
Interest rate swaps:						
Purchases	10,000	111,160	1,333,330	8,113,874	23,594,644	33,163,008
Sales	10,000	111,160	1,333,329	8,113,875	23,594,644	33,163,008
Currency options:						
Purchases	429,818	94,300	137,745	-	-	661,863
Sales	440,210	96,002	138,328	-	-	674,540
Other:						
Purchases	1,306,719	173,000	-	5,540,430	6,733,189	13,753,338
Sales	-	178,433	-	4,073,741	5,587,748	9,839,922
Total of purchases	**16,853,653**	**7,934,791**	**6,988,990**	**24,983,777**	**33,008,190**	**89,769,401**
Total of sales	**16,826,347**	**8,126,263**	**6,837,337**	**22,755,327**	**31,554,126**	**86,099,400**
Total of derivatives	**33,680,000**	**16,061,054**	**13,826,327**	**47,739,104**	**64,562,316**	**175,868,801**

	December 31, 2018					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Currency swaps:						
Purchases	9,999,599	884,162	2,067,889	241,548	-	13,193,198
Sales	7,084,492	890,248	1,965,785	202,080	-	10,142,605
Currency forwards:						
Purchases	289,468	299,945	761,559	23,151	-	1,374,123
Sales	288,694	298,892	759,874	23,136	-	1,370,596
Cross currency interest rate swaps:						
Purchases	105,600	-	556,431	8,492,044	502,138	9,656,213
Sales	47,002	-	235,455	7,575,851	415,994	8,274,302
Interest rate swaps:						
Purchases	-	-	50,000	9,243,910	14,122,244	23,416,154
Sales	-	-	50,000	9,243,910	14,122,244	23,416,154
Currency options:						
Purchases	334,764	50,487	830,025	-	-	1,215,276
Sales	348,761	59,812	858,678	-	-	1,267,251
Other:						
Purchases	-	422,400	-	6,324,292	1,774,159	8,520,851
Sales	2,975,026	305,901	-	4,428,802	1,452,538	9,162,267
Total of purchases	**10,729,431**	**1,656,994**	**4,265,904**	**24,324,945**	**16,398,541**	**57,375,815**
Total of sales	**10,743,975**	**1,554,853**	**3,869,792**	**21,473,779**	**15,990,776**	**53,633,175**
Total of derivatives	**21,473,406**	**3,211,847**	**8,135,696**	**45,798,724**	**32,389,317**	**111,008,990**

Set out below accruals of derivative instruments:

	Asset	
	December 31, 2019	**December 31, 2018**
Forwards	65,583	85,088
Swaps	4,438,751	4,324,075
Options	2,894	4,220
Fair value of derivatives	**4,507,228**	**4,413,383**

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

8. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The Group lends its extra fund as a result of daily operations to other financial institutions through reverse repurchase agreements. Assets purchased under reverse repurchase agreements are as follows:

	December 31, 2019		December 31, 2018	
	Fair value of underlying assets	Carrying Value of corresponding assets	Fair value of underlying assets	Carrying Value of corresponding assets
Repurchase agreements	14,500	14,500	3,500	3,500

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. The counterparties cannot resell or re-pledged the assets. Assets sold under repurchase agreements comprise the following:

	December 31, 2019		December 31, 2018	
	Fair value of underlying assets	Carrying value of corresponding liabilities	Fair value of underlying assets	Carrying value of corresponding liabilities
Financial assets at fair value through profit or loss ("FVPL")	4,443,499	5,481,046	2,496,293	3,199,625
Financial assets at fair value through OCI ("FVOCI")	21,285,024	19,943,022	29,029,809	25,924,247
Total	**25,728,523**	**25,424,068**	**31,526,102**	**29,123,872**

Accrued interest on obligations under repurchase agreements amounted to TL 33,552 (December 31, 2018: TL 88,728) and is included in the carrying amount of corresponding liabilities.

In general, the fair values of such assets are more than the corresponding liabilities due to the margins set between parties, since such funding is raised against assets collateralized.

9. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise balances with more than three months maturity from the date of acquisition and are as follows as at December 31, 2019 and 2018:

	December 31, 2019			December 31, 2018		
	TL	FC	Total	TL	FC	Total
Domestic banks	757	1,265,365	1,266,122	331,884	1,199,225	1,531,109
Foreign banks	-	129	129	875	349,476	350,351
Provisions	(576)	-	(576)	(790)	(7,682)	(8,472)
Total	**181**	**1,265,494**	**1,265,675**	**331,969**	**1,541,019**	**1,872,988**

As at December 31, 2019, the group has no loans and advances to banks with more than three months maturity from the date of acquisition include blocked accounts (December 31, 2018: None) held against the insurance liabilities of the Group in favor of the Turkish Treasury.

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

10. LOANS AND ADVANCES TO CUSTOMERS

As at December 31, 2019 and December 31, 2018, outstanding loans and advances to customers comprise the followings:

December 31, 2019	Commercial	Consumer	Credit Cards	Factoring	Leasing	Total
Stage 1 loans to customers	178,337,870	55,354,636	10,512,442	-	2,175,963	246,380,911
Stage 2 loans to customers	29,738,663	1,648,613	312,320	2,811,096	403,182	34,913,874
Stage 3 loans to customers	14,367,257	2,091,605	996,509	62,174	194,971	17,712,516
Total gross loans to customers	**222,443,790**	**59,094,854**	**11,821,271**	**2,873,270**	**2,774,116**	**299,007,301**
Less: Stage 1 expected credit loss	1,313,341	166,583	143,713	-	-	1,623,637
Less: Stage 2 expected credit loss	1,734,681	93,687	31,563	24,830	79,467	1,964,228
Less: Stage 3 expected credit loss	9,912,265	1,583,325	817,804	55,170	110,223	12,478,787
Total expected credit loss	**12,960,287**	**1,843,595**	**993,080**	**80,000**	**189,690**	**16,066,652**
Total loans and advances to customers	**209,483,503**	**57,251,259**	**10,828,191**	**2,793,270**	**2,584,426**	**282,940,649**

December 31, 2018	Commercial	Consumer	Credit Cards	Factoring	Leasing	Total
Stage 1 loans to customers	150,666,335	43,289,478	8,570,846	2,605,489	2,182,900	207,315,048
Stage 2 loans to customers	18,337,336	1,225,674	373,023	29,820	598,702	20,564,555
Stage 3 loans to customers	8,342,457	1,776,853	808,360	45,491	156,147	11,129,308
Total gross loans to customers	**177,346,128**	**46,292,005**	**9,752,229**	**2,680,800**	**2,937,749**	**239,008,911**
Less: Stage 1 expected credit loss	1,222,456	146,781	172,727	14,602	78,730	1,635,296
Less: Stage 2 expected credit loss	1,221,022	47,707	39,601	843	17,407	1,326,580
Less: Stage 3 expected credit loss	6,113,429	1,352,614	667,291	43,895	89,535	8,266,764
Total expected credit loss	**8,556,907**	**1,547,102**	**879,619**	**59,340**	**185,672**	**11,228,640**
Total loans and advances to customers	**168,789,221**	**44,744,903**	**8,872,610**	**2,621,460**	**2,752,077**	**227,780,271**

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

10. LOANS AND ADVANCES TO CUSTOMERS (Continued)

The credit quality analysis of outstanding allowance loans and advances to customers:

	Stage 1	Stage 2	Stage 3
Balances at December 31, 2018	1,635,296	1,326,580	8,266,764
Balances at January1, 2019	1,635,296	1,326,580	8,266,764
Transfer to Stage 1	64,333	(64,126)	(207)
Transfer to Stage 2	(109,512)	144,378	(34,866)
Transfer to Stage 3	(26,799)	(546,026)	572,825
Recoveries and reversals	(619,064)	(572,567)	(482,092)
Provision for the period	679,383	1,675,989	4,156,363
Balances at the end of the period	**1,623,637**	**1,964,228**	**12,478,787**

	Stage 1	Stage 2	Stage 3
Balances at December 31, 2017	1,847,087	265,099	6,372,880
Impact of adopting IFRS 9 at January 1, 2018	(348,427)	199,974	(215,331)
Balances at January 1, 2018	1,498,660	465,073	6,157,549
Transfer to Stage 1	39,450	(39,262)	(188)
Transfer to Stage 2	(115,773)	142,901	(27,128)
Transfer to Stage 3	(33,454)	(94,711)	128,165
Recoveries and reversals	(339,134)	(493,701)	(382,303)
Provision for the period	585,547	1,346,280	2,390,669
Balances at the end of the period	**1,635,296**	**1,326,580**	**8,266,764**

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

December 31, 2019	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Corporate	22,931,114	2,646,832	4,160,717	29,738,663
Consumer	923,430	415,811	309,373	1,648,614
Credit cards	150,960	101,844	59,516	312,320
Other	2,774,406	191,272	248,599	3,214,277
Total	**26,779,910**	**3,355,759**	**4,778,205**	**34,913,874**

December 31, 2018	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Corporate	12,902,843	1,626,219	3,808,273	18,337,335
Consumer	431,006	474,173	320,495	1,225,674
Credit cards	131,405	142,146	99,472	373,023
Other	69,247	53,502	505,774	628,523
Total	**13,534,501**	**2,296,040**	**4,734,014**	**20,564,555**

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

	December 31, 2019	December 31, 2018
Mortgage	4,544,466	2,937,423
Vehicle	680,126	672,719
Other (*)	3,903,356	1,181,368
Total	**9,127,948**	**4,791,510**

(*) Includes guarantees from Treasury and Credit Guarentee Fund amouting to TL 2,372,400 (December 31, 2018: TL 653,341).

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

10. LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	December 31, 2019	December 31, 2018
Mortgage	10,089,190	7,386,909
Vehicle	1,211,496	1,134,797
Cash	162,431	32,998
Other(*)	9,266,847	7,155,157
Total	**20,729,964**	**15,709,861**

(*) Includes guarantees from Treasury and Credit Guarentee Fund amounting to TL 4,084,965 (December 31, 2018: TL 3,018,918).

11. INVESTMENT SECURITIES

As at December 31, 2019 and 2018, investment securities comprise the following:

	December 31, 2019	December 31, 2018
Financial assets at fair value through OCI ("FVOCI")	26,584,063	11,385,945
Financial assets at amortised cost ("AC")	47,009,579	39,976,063
Total investment securities	**73,593,642**	**51,362,008**

Financial asset at fair value through OCI:

	December 31, 2019		December 31, 2018	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt and other instruments FVOCI:				
Government bonds in TL	15,888,538	17,659,223	7,143,377	7,654,189
Eurobonds issued by the Turkish Government	5,664,507	6,036,410	1,136,310	1,144,657
Government bonds in foreign currencies	891,905	974,990	982,706	1,016,370
Bonds issued by banks	537,833	520,027	504,619	428,900
Corporate bonds	560,883	591,595	561,297	551,650
Equity shares	-	801,818	-	590,179
Total FVOCI financial assets	**23,543,666**	**26,584,063**	**10,328,309**	**11,385,945**

As at December 31, 2019 and 2018, equity shares comprised the following:

	December 31, 2019	December 31, 2018
Unquoted investments:		
Roketsan Roket Sanayi ve Ticaret A.Ş.	659,036	381,809
Vakıf Pazarlama Sanayi ve Ticaret A.Ş.	98,681	112,671
Takas ve Saklama Bankası A.Ş.	29,901	30,319
Vakıf Gayrimenkul Değerleme A.Ş.	22,386	26,247
Borsa İstanbul	13,579	13,579
İzmir Enternasyonel A.Ş.	6,178	6,178
Vakıf İnşaat Restorasyon A.Ş.	4,921	10,841
Güney Ege Enerji Ltd. Şti.	653	209,756
Bayek Tedavi ve Sağlık Hizmetleri A.Ş.	106	33,954
Others	23,914	17,455
Impairment	(57,537)	(252,630)
Total	**801,818**	**590,179**

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

11. INVESTMENT SECURITIES (Continued)

The following table summarizes fair value through OCI financial assets that were deposited as collaterals with respect to various banking transactions:

	December 31, 2019		December 31, 2018	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial institutions for repurchase transactions	1,170,072	1,337,278	2,201,544	2,466,748
Deposited at other institutions for repurchase transactions	2,687,854	3,106,221	21,099	29,545
Others	2,895,381	2,925,989	86,290	138,420
Total	**6,753,307**	**7,369,488**	**2,308,933**	**2,634,713**

Amortized cost investment securities:

	December 31, 2019			December 31, 2018		
	Face Value	Carrying Value*	Fair Value	Face Value	Carrying Value*	Fair Value
Debt instruments:						
Government bonds in TL	27,872,698	34,945,547	35,136,137	26,239,481	32,377,504	29,234,410
Certificate of deposits	58,419	250,570	119,100	84,000	84,591	84,480
Eurobonds issued by the Turkish Government	-	4,930,308	-	-	-	-
Other Bonds	7,147,775	6,888,208	13,331,235	7,050,009	7,518,633	7,093,973
Total amortized cost investment securities	**35,078,892**	**47,014,633**	**48,586,472**	**33,373,490**	**39,980,728**	**36,412,863**

(*) ECL provision amount of amortized cost investment securities has not been included in carrying value.

Movements of investment securities are as follows:

	December 31, 2019			December 31, 2018		
	FVOCI Financial Assets	Amortized Cost Investments	Total	FVOCI Financial Assets	Amortized Cost Investments	Total
Balances at January 1, 2019	**11,385,945**	**39,976,063**	**51,362,008**	**7,192,477**	**24,422,643**	**31,615,120**
Additions (*)	21,066,241	6,514,751	27,580,992	9,427,122	11,162,210	20,589,332
Disposals (sale and redemption)	(7,761,711)	(1,664,238)	(9,425,949)	(5,152,610)	(845,797)	(5,998,407)
Transferred to available for sale financial assets	-	-	-	-	-	-
Changes in amortized cost and fair value	1,482,335	1,233,186	2,715,521	(681,682)	4,092,548	3,410,866
Change in Provision for Impairment	(168,151)	-	(168,151)	(54,280)	-	(54,280)
Exchange differences	579,404	950,424	1,529,828	654,918	1,149,124	1,804,042
Expected Credit Loss	-	(607)	(607)	-	(4,665)	(4,665)
Total	**26,584,063**	**47,009,579**	**73,593,642**	**11,385,945**	**39,976,063**	**51,362,008**

(*) The Parent Bank issued subordinated debts to a group accounted for under "Subordinated debts" in 2018, in exchange acquired government securities, as disclosed under "Financial assets at amortised cost" as debt securities, from the same group as part of a qualified sale and purchase transition differing from market.

The following table summarizes financial assets measured at amortized cost that were deposited as collaterals with respect to various banking transactions:

	December 31, 2019		December 31, 2018	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial and other institutions for repurchase transactions	17,208,139	21,285,024	23,621,059	29,029,809
Deposited at Central Bank of Turkey for repurchase transactions	-	-	-	-
Deposited at Central Bank of Turkey for interbank transactions	5,883,778	4,832,033	300,000	317,747
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	1,067,000	1,703,104	488,100	552,079
Others	1,142,050	1,288,344	173,050	174,015
Total	**25,300,967**	**29,108,505**	**24,582,209**	**30,073,650**

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

12. INVESTMENTS IN ASSOCIATES

As at December 31, 2019 and 2018 investments in equity participations accounted for using the equity method are as follows:

	December 31, 2019	December 31, 2018
Unquoted investments:		
T. Sınai Kalkınma Bankası A.Ş.	442,194	358,902
Kıbrıs Vakıflar Bankası Ltd.	13,893	13,120
Total	**456,087**	**372,022**

13. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Movements in property and equipment and intangible assets from January 1 to December 31, 2019 and January 1 to December 31, 2018 are as follows:

Property and equipment	January 1, 2019	IFRS 16 Transition Effect	Currency translation difference	Valuation	Transfers	Additions	Disposals	December 31, 2019
Cost:								
Land and buildings	2,453,818	-	944	-	38,782	34,626	(782,285)	1,745,885
Motor vehicles	62,806	-	69	-	-	80,551	(2,002)	141,424
Furniture, office equipment & leasehold improvements	1,317,033	-	6,313	-	-	5,717	(68,117)	1,260,946
Right of use assets	-	794,812	-	-	-	486,053	(144,419)	1,136,446
Other tangibles	413,912	-	2,904	-	-	128,861	(54,978)	490,699
Total	**4,247,569**	**794,812**	**10,230**	**-**	**38,782**	**735,808**	**(1,051,801)**	**4,775,400**
Accumulated depreciation:								
Land and buildings	(138,302)	-	(892)	-	4,766	(10,754)	482	(144,700)
Motor vehicles	(22,246)	-	-	-	-	(13,012)	1,845	(33,413)
Furniture, office equipment & leasehold improvements	(913,652)	-	(6,778)	-	-	(6,429)	32,147	(894,713)
Right of use assets	-	-	-	-	2,558	(254,301)	8,518	(243,225)
Other tangibles	(223,925)	-	-	-	-	(150,140)	43,832	(330,233)
Impaired	-	-	-	-	-	(20,048)	27,299	7,251
Total	**(1,298,125)**	**-**	**(7,670)**	**-**	**7,324**	**(454,684)**	**114,123**	**(1,639,033)**
Net book value	**2,949,444**	**794,812**	**2,560**	**-**	**46,106**	**281,124**	**(937,678)**	**3,136,367**

Intangible assets	January 1, 2019	IFRS 16 Transition Effect	Currency translation difference	Valuation	Transfers	Additions	Disposals	December 31, 2019
Cost:								
Software programs	509,224	-	-	-	-	36,015	(60,427)	484,812
Rights	80,589	-	438	-	-	1,470	(27,319)	55,178
Other intangible assets	14,596	-	-	-	-	-	-	14,596
Total	**604,409**	**-**	**438**	**-**	**-**	**37,485**	**(87,746)**	**554,586**
Accumulated amortization:								
Software programs	(164,813)	-	-	-	-	(32,200)	14,408	(182,605)
Rights	(37,840)	-	-	-	-	(7,065)	-	(44,905)
Other intangible assets	(5,118)	-	(9,560)	9,096	-	(530)	20,813	14,701
Total	**(207,771)**	**-**	**(9,560)**	**9,096**	**-**	**(39,795)**	**35,221**	**(212,809)**
Net book value	**396,638**	**-**	**(9,122)**	**9,096**	**-**	**(2,310)**	**(52,525)**	**341,777**

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

13. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

Property and equipment	**January 1, 2018**	**Currency translation difference**	**Valuation**	**Transfers**	**Additions**	**Disposals**	**December 31, 2018**
Cost:							
Land and buildings	1,433,651	-	(11,019)	624,419	478,336	(71,569)	2,453,818
Motor vehicles	24,744	149	(42)	-	40,607	(2,652)	62,806
Furniture, office equipment & leasehold improvements	1,089,568	-	(1,495)	-	328,581	(99,621)	1,317,033
Other tangibles	417,142	6,110	16,248	-	113	(25,701)	413,912
Total	**2,965,105**	**6,259**	**3,692**	**624,419**	**847,637**	**(199,543)**	**4,247,569**
Accumulated depreciation:							
Land and buildings	(109,663)	-	10,100	(27,892)	(13,395)	2,548	(138,302)
Motor vehicles	(18,125)	-	-	-	(6,474)	2,353	(22,246)
Furniture, office equipment & leasehold improvements	(775,847)	-	2,081	-	(154,363)	14,477	(913,652)
Other tangibles	(222,042)	-	-	-	(1,900)	17	(223,925)
Total	**(1,125,677)**	**-**	**12,181**	**(27,892)**	**(176,132)**	**19,395**	**(1,298,125)**
Net book value	**1,839,428**	**6,259**	**15,873**	**596,527**	**671,505**	**(180,148)**	**2,949,444**

Intangible assets	**January 1, 2018**	**Currency translation difference**	**Valuation**	**Transfers**	**Additions**	**Disposals**	**December 31, 2018**
Cost:							
Software programs	455,778	-	-	-	53,663	(217)	509,224
Rights	76,600	-	832	-	3,157	-	80,589
Other intangible assets	1,325	-	-	-	13,271	-	14,596
Total	**533,703**	**-**	**832**	**-**	**70,091**	**(217)**	**604,409**
Accumulated amortization:							
Software programs	(128,040)	-	-	-	(36,773)	-	(164,813)
Rights	(30,868)	-	71	-	(7,043)	-	(37,840)
Other intangible assets	(1,228)	-	(739)	-	(3,151)	-	(5,118)
Total	**(160,136)**	**-**	**(668)**	**-**	**(46,967)**	**-**	**(207,771)**
Net book value	**373,567**	**-**	**164**	**-**	**23,124**	**(217)**	**396,638**

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

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

14. ASSETS CLASSIFIED AS HELD FOR SALE

As at December 31, 2019, net book value of assets held for sale of the Group is amounting to TL 7,690,615 (December 31, 2018: TL 1,568,113).

	December 31, 2019	December 31, 2018
Real Estate	3,112,271	1,566,299
Fixed Assets	-	18
Subsidiaries and Affiliates	4,578,344	1,794
Other	-	2
Total	**7,690,615**	**1,568,113**

Information on assets held for sale and assets related to the discontinued operations

As of December 31, 2019, the cost of property and equipment held for sale purpose and related to discontinued operations are TL 3,125,252 (December 31, 2018: TL 1,581,436), and the provision for impairment is TL 12,981 (December 31, 2018: TL 28,392).

As per the Board of Directors decision in December 13th, 2019, the Parent Bank has started the process of transfer of shares held in subsidiaries Güneş Sigorta and Vakıf Emeklilik ve Hayat A.Ş. to a new company to be established by Türkiye Varlık Fonu Yönetimi A.Ş. Thus, Güneş Sigorta AŞ and Vakıf Emeklilik ve Hayat AŞ are removed from the Subsidiaries account and are started to be classified in the "Assets classified as held for sale" and "Liabilities directly associated with assets classified as held for sale" account. Information on the balance sheet items related to these subsidiaries are presented below.

Assets	Güneş Sigorta	Vakıf Emeklilik ve Hayat	Intra - Group Transactions	Consolidated
Cash and balances with Central Banks	1,670,773	509,000	(1,283,613)	896,160
Financial assets at fair value through profit or loss ("FVPL")	122,817	627,395	(143,381)	606,831
Financial assets at fair value through OCI ("FVOCI")	775,563	4,746	(770,839)	9,470
Financial assets at amortised cost ("AC")	17,354	54,815	-	72,169
Property, plant and equipment	231,679	67,514	-	299,193
Intangible assets	9,841	53,127	-	62,968
Other assets	2,474,522	478,635	(321,604)	2,631,553
Total	**5,302,549**	**1,795,232**	**(2,519,437)**	**4,578,344**
Liabilities				
Current tax liabilities	38,427	30,741	-	69,168
Deferred tax liabilities	3,204	14,653	-	17,857
Other liabilities and provisions	3,968,495	1,028,339	(44,201)	4,952,633
Total	**4,010,126**	**1,073,733**	**(44,201)**	**5,039,658**

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

14. ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

Other liabilities and provisions as of December 31, 2019 are detailed in the table below:

	December 31, 2019
Reserve for outstanding claims for insurance contracts	2,091,924
Reserve for unearned insurance premiums	1,653,693
Mathematical provisions	363,682
Other Provisions	843,334
Total other liabilities and provisions classified in Liabilities held for sale	**4,952,633**

Insurance contract liabilities are detailed in the tables below:

Reserve for unearned insurance premiums	**December 31, 2019**	**December 31, 2018**
Reserve for unearned insurance premiums, net	1,653,693	1,181,638
Reserve for unearned insurance premiums, reinsurer share	45,351	18,731
Reserve for unearned insurance premiums, gross	**1,699,044**	**1,200,369**

Reserve for unearned insurance premiums (net)	**December 31, 2019**	**December 31, 2018**
At the beginning of the year	1,181,638	962,863
Premiums written during the year	2,344,871	1,480,314
Premiums earned during the year	(1,872,816)	(1,261,539)
At the end of the year	**1,653,693**	**1,181,638**

Provision for outstanding claims	**December 31, 2019**	**December 31, 2018**
Provision for outstanding claims, net	1,138,777	1,012,859
Provision for outstanding claims, reinsurer share	953,147	906,041
Provision for outstanding claims, gross	**2,091,924**	**1,918,900**

Provision for outstanding claims (net)	**December 31, 2019**	**December 31, 2018**
At the beginning of the year	1,012,859	707,884
Cash paid for claims settled during the year	(1,034,866)	(440,832)
Increase during the year	1,160,784	745,807
At the end of the year	**1,138,777**	**1,012,859**

Long term insurance contracts	**December 31, 2019**	**December 31, 2018**
At the beginning of the year	302,494	312,424
Entrance during the year	132,879	49,334
Withdrawals during the year	(71,691)	(59,264)
Change in fair value of investments held for investment contracts	-	-
At the end of the year	**363,682**	**302,494**

Previous year’s figures related to insurance contract liabilities have been classified under other liabilities and provisions.

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

15. OTHER ASSETS

	December 31, 2019	December 31, 2018
Collaterals for derivative financial instruments	7,996,486	6,891,333
Receivables from credit card payments	1,695,301	1,443,032
Prepaid expenses	969,892	1,297,784
Investment properties	608,990	607,400
Receivables from term sales of fixed assets	112,364	72,096
Assets held for resale	33,243	29,443
Prepaid taxes other than income tax and funds to be refunded	13,004	17,464
Guarantees given for repurchase agreements	9,922	34,079
Receivables from insurance activities	-	1,659,613
Deferred acquisition costs for insurance contracts, gross	-	197,347
Receivables from reinsurance activities	-	53,863
Receivables from private pension system	-	50,930
Other	2,199,140	2,994,592
Total	**13,638,342**	**15,348,976**

As of December 31, 2019, net balance sheet value of the Group's subsidiary operating in real estate investment trust amounts to TL 608,990, and the Group has investment properties with a fair value of TL 1,018,635. (31 December 2018: Net book value of the Group's subsidiaries operating in the insurance industry was TL 101,795 and net balance sheet value of the Group's subsidiary operating in real estate investment trust was TL 505,605, with the fair value amounting to TL 816,185.)

As at December 31, 2019, TL 33,243 (December 31, 2018: TL 29,443) of the other assets is comprised of foreclosed real estate acquired by the Group against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. For the years ended December 31, 2019 and 2018, movement of deferred acquisition cost is as follows:

	December 31, 2019	December 31, 2018
Deferred acquisition cost at the beginning of the year	-	110,747
Addition	-	287,725
Transfer to profit/loss	-	(201,125)
Deferred acquisition cost at the end of the year	**-**	**197,347**

16. TRADING LIABILITIES

As at December 31, 2019 and 2018, trading liabilities comprise negative fair value differences of derivative financial instruments held for trading purpose and are as follows:

	December 31, 2019	December 31, 2018
Swaps	3,250,742	2,429,217
Forwards	58,397	81,757
Options	2,858	41,274
Total trading liabilities	**3,311,997**	**2,552,248**

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

17. DEPOSITS FROM BANKS

As at December 31, 2019 and 2018, deposits from banks comprise the following:

	December 31, 2019	December 31, 2018
Demand deposits	508,974	397,157
Time deposits	8,722,666	6,667,337
Total deposits from banks	**9,231,640**	**7,064,494**

18. DEPOSITS FROM CUSTOMERS

As at December 31, 2019 and 2018, deposits from customers comprise the following:

	December 31, 2019		December 31, 2018	
	Demand Deposit	Time Deposit	Demand Deposit	Time Deposit
Saving deposits	8,578,245	50,150,136	5,744,919	48,118,766
Foreign currency deposits	16,360,792	83,798,474	12,208,104	53,492,474
Residents in Turkey	*14,650,994*	*72,248,090*	*11,095,566*	*43,215,450*
Residents abroad	*1,709,798*	*11,550,384*	*1,112,538*	*10,277,024*
Commercial deposits	4,512,058	30,835,029	2,980,647	13,473,194
Public sector deposits	8,186,969	16,071,779	8,813,217	17,435,878
Precious metal deposit	5,596,470	306,639	2,625,379	-
Others	7,545,083	12,741,744	3,942,980	6,403,001
Total deposits from customers	**50,779,617**	**193,903,801**	**36,315,246**	**138,923,313**

19. FUNDS BORROWED

As at December 31, 2019 and 2018, funds borrowed comprise the followings in accordance with their original maturities:

	December 31, 2019		December 31, 2018	
	TL	Foreign Currency	TL	Foreign Currency
Short-term funds	1,280,038	4,485,291	1,662,836	4,479,579
Short-term portion of long term funds	213,513	18,109,384	115,204	17,600,674
Total short-term funds	1,493,551	22,594,675	1,778,040	22,080,253
Medium/long term funds	793,403	20,185,108	861,533	20,713,023
Total funds borrowed	**2,286,954**	**42,779,783**	**2,639,573**	**42,793,276**

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 11.28% (December 31, 2018: 14.40%) of the Group's liabilities. There is no risk concentration on funding sources of the Group.

Syndicated Loans Receive

Beginning From	Maturity (Days)	Currency	Amount (Millions)	Interest rate	Coordinator Bank	Agent Bank
	367	USD	279.5	Libor+2.50%	Mizuho Bank, Emirates NBD Bank PJSC	Mizuho Bank
April 25, 2019	367	EUR	723.5	Euribor+2.40%	Mizuho Bank, Emirates NBD Bank PJSC	Mizuho Bank
	367	USD	239.5	Libor+2.25%	Emirates NBD Bank PJSC The Commercial Bank (P.S.Q.C.)	Emirates NBD Bank PJSC
November 29, 2019	367	EUR	309.3	Euribor+2.10%	Emirates NBD Bank PJSC The Commercial Bank (P.S.Q.C.)	Emirates NBD Bank PJSC

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

19. FUNDS BORROWED (Continued)

Syndicated Loans Received

Beginning from	Due date	Currency	Amount (USDMillions)	Loan Type
May 13, 2011	June 15, 2023	USD	346.5	Based on international remittance flows
December 19, 2014	December 15, 2021	USD/EUR	428.6	Based on international remittance flows / Based on treasury financing transactions
	September 15, 2021	USD/EUR	354.4	Based on international remittance flows
October 4, 2016	June 15, 2023	USD/EUR	535.7	Based on international remittance flows / Based on treasury financing transactions
May 4, 2018	March 15, 2023	USD/EUR	380	Based on international remittance flows
October 5, 2018	September 15, 2028	USD	300	Based on international remittance flows / Based on treasury financing transactions
October 15, 2019	December 15, 2026	USD	417	Based on international remittance flows / Based on treasury financing transactions

As of December 31, 2019, the total securitization balance is equivalent of USD 1,453 million and EUR 227 million.

On March 3, 2017, under the coordination of ICBC Turkey AŞ, The Parent Bank signed a bilateral loan agreement with ICBC Dubai amounting USD 250 million with 3 years maturity, which will be used for trade finance purposes together with general purpose financial needs.

20. DEBT SECURITIES ISSUED

	December 31, 2019		December 31, 2018	
	TL	FC	TL	FC
Nominal	11,734,890	17,233,590	8,168,977	14,462,438
Cost	11,562,300	17,160,519	7,919,208	14,390,145
Net Book Value	11,792,577	17,455,479	8,111,583	14,660,908

December 31, 2019	Currency	Maturity	Interest Rate	Original Amount	TL Amount
Bank Bonds	TL	January 2020-February 2027	10.10 % - 24.05 %	11,792,577	11,792,577
Bank Bonds	USD	October 2021-July 2024	5.50 % - 5.75 %	2,362,908	14,071,120
Bank Bonds	EUR	May 2021	2.58%	506,553	3,384,359

December 31, 2018	Currency	Maturity	Interest Rate	Original Amount	TL Amount
Bank Bonds	TL	January 2019-December 2023	13.79 % - 27.00 %	8,111,583	8,111,583
Bank Bonds	USD	October 2021-November 2027	5.50 % - 8.00 %	1,649,156	8,707,542
Bank Bonds	EUR	April 2019-May 2021	1.20 % - 3.72 %	985,869	5,953,366

Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued Eurobond. The bond has been issued in GMTN programme on October 27, 2016 has a nominal value of US Dollar 500 million, maturity date on October 27, 2021 with fixed rate, 5 years maturity and semi-annually coupon paid and coupon rate 5.50%.

Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued Eurobond. The bond has been issued in GMTN programme on May 30, 2017 has a nominal value of US Dollar 500 million, maturity date on May 30, 2022 with fixed rate, 5 years maturity and semi-annually coupon paid and coupon rate 5.625%.

20. DEBT SECURITIES ISSUED (Continued)

At January 30, 2018, the Parent Bank has issued a new bond with a maturity of 5 years with a coupon rate of 5.75%, and a final yield of 5.85% amounting to USD 650 million. This transaction has been the highest consistent bond issuance transaction The Parent Bank has ever undertaken. The total demand from over 150 investors in the export has exceeded 1.5 billion dollars.

On March 28, 2019, a new bond issue with a coupon rate of 8.125% and a final return rate of 8.200% was realized in the amount of USD 600 million. More than 150 international investors showed interest in the issue. The issuance amount was swapped to Euro on the same day and the transaction was closed at a cost of less than 5%.

The Parent Bank has issued Turkey’s first Euro covered bond on May 4, 2016. The bond has been issued on May 4, 2016 has nominal value of 500 million Euros, maturity date on May 4, 2021 with fixed rate, 5 years maturity and annually interest paid with coupon rate 2.375% and 2.578% return.

On October 9, 2017, the Parent Bank had issued covered bond for the qualified investors abroad within the context of Global Medium Term Notes (GMTN), with 5.5 years of maturity, and a nominal value of 1,333 million Turkish Liras.

The Parent Bank had issued the second covered bond of 2017 on December 14, 2017 with HSBC Bank Plc with with 5 years of maturity, and a nominal value of 1,333 million Turkish Liras.

On December 7, 2018 the Parent Bank issued the second transaction of 2018 abroad with a nominal value of TL 1,000 million and 5 years of maturity.

On January 22, 2019, two separate transactions amounting to TL 396.3 million and TL 1,118 million on February 12, 2019, are subject to 8-year maturity. Thus, the Covered Bond issuances reached TL 9.3 billion.

21. SUBORDINATED DEBTS

The Parent Bank has issued bond having the secondary subordinated loan quality to be sold to non-resident natural and legal persons. The bond has been issued at the nominal value of US Dollar 500 million with the maturity of 10 years and 6.0% coupon rate. In addition to the bond issued on November 1, 2012, on December 3, 2012 the Parent Bank has realized second trance at nominal value of US Dollar 400 million, has the same due date and maturity of 10 years and 5.5% coupon rate.

The Parent Bank has issued secondary subordinated loan (Tier II bond) as at January 2015 which contains Basel-III criteria. In this context, the bond has been issued at the nominal value of US Dollar 500 million with the maturity date of February 3, 2025 and early call option date of February 3, 2020. The bond has fixed interest, 10 years and one day maturity, two times interest payment in a year with coupon rate of 6.875% and issue yield of 6.95%. The Bank used the early redemption option for this bond and received BRSA approval on 9 December 2019. An investor notification was made on 23 December 2019, and the bond was repaid on 3 February 2020 and the recall was completed.

In 2012, the Parent Bank carried out the sale of bond issued abroad with a maturity of 2022 maturities of USD 900 million. Regulations and amendments made within the scope of BRSA's Regulation on Equities of Banks have made it possible to comply with Basel III regulations in the capital adequacy calculations of banks as contributions capital. In this context, the effect on the capital of the Bank which has issued Basel II compliant subordinated loan provisions issued in 2012 has decreased. In this context, the operational process of the swap transaction of bonds with a total nominal value of USD 227.6 million which issued abroad, with the new Basel III compliant conditions, was completed on February 13, 2017 and the redemption date of the bonds to be exchanged was determined as November 1, 2027, with a maturity of 10 years (recall option in 2022) and coupon rate as 8.00%.

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

21. SUBORDINATED DEBTS (Continued)

On September 18, 2017, the Parent Bank had issued a floating rated subordinated bond (secondary capital) for the qualified domestic institutional investor with nominal value of 525 million Turkish Liras, that has the maturity of 10 years, that is recallable in 5 years, and has quarterly coupon payments.

On September 27, 2018, the Parent Bank had issued a fixed rate subordinated bond (Additional Tier 1 capital) with nominal value of 4,994 million Turkish Liras that is undated and recallable at the end of 5 years and has semiannual coupon payments.

On April 19, 2019, in the scope of GMTN Program, the Parent Bank issued bonds amounting to EUR 700,000,000 with additional Tier 1 capital requirements. In this context; Turkey Wealth Funds within the Market Stability and Balance Fund investors that allocated to bonds that have performed in the form of sales indefinite term, 5 years at the end of the qualities that can be redeemed early, fixed-rate and annual coupon payments has been included in additional Tier 1 capital in the nominal value of the voucher. The ratio is determined as 5.076%.

On September 27, 2019, TLREF indexed subordinated bonds amounting to TL 725 million were issued to qualified investors in the domestic capital markets. The issued bond has a maturity of 10 years and has the option of early redemption at the end of the fifth year. Bonds with floating interest rates are priced at an additional 150 basis points above the Turkish Lira Overnight Reference Interest Rate (RE TLREF an) announced by the BIST every day. The debt instrument will make a variable coupon payment every 91 days from the beginning date to the amortization date (including the amortization date).

Stated bonds' total balance sheet value is TL 19,245,453 as of December 31, 2019 (December 31, 2018: TL 13,022,023).

	Current Period - December 31, 2019		Prior Period - December 31, 2018	
	TL	FC	TL	FC
Debt instruments to be included in the additional Tier 1 capital calculation	5,139,810	4,839,684	5,138,704	-
Debt instruments to be included in the additional Tier 2 capital calculation	1,255,067	8,010,892	529,417	7,353,902
Total	**6,394,877**	**12,850,576**	**5,668,121**	**7,353,902**

22. OTHER LIABILITIES AND PROVISIONS

The principal components of other liabilities and accrued expenses are as follows:

	December 31, 2019	December 31, 2018
Accounts against expenditures of credit card holders	6,028,086	5,249,772
Miscellaneous payables	1,901,660	1,211,909
Import letter of credit	1,479,780	1,293,502
Margin deposit for derivative financial instruments	1,210,663	1,501,471
Cheque clearing account	1,142,745	1,083,027
Unearned income	1,115,043	830,348
Other provisions	957,244	1,134,905
Lease Payables	935,938	44,030
Provision for employee termination benefits	610,600	463,120
Reserve for short term employee benefits	447,777	484,004
Provision for non-cash loans	168,114	158,570
Provision for unused vacations	102,631	144,983
Blocked accounts	70,856	67,165
Payment orders	52,044	24,716
Investment contract liabilities	-	83,749
Deferred commission income for insurance contracts	-	70,520
Reserve for outstanding claims for insurance contracts	-	1,918,900
Reserve for unearned insurance premiums	-	1,181,638
Mathematical provisions	-	218,745
Cheques response	-	-
Other liabilities	342,926	2,127,409
Total other liabilities and provisions	**16,566,107**	**19,292,483**

A portion of free provisions amounting to TL 178,000 has been reversed in current period, out of total free provision of TL 1,030,000 provided in prior years by the Bank management considering the negative circumstances that may arise from possible changes in the economy and market conditions. Thus, the amount of free provisions in the accompanying consolidated financial statements as at December 31, 2019 is TL 852,000. (December 31, 2018: TL 1,030,000).

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

22. OTHER LIABILITIES AND PROVISIONS (Continued)

Obligations under finance leases

Current Period - December 31, 2019

	Gross	Net
Under 1 year	21,334	19,639
1-4 Years	465,564	374,544
Over 4 years	947,947	541,755
Total	**1,434,845**	**935,938**

Movement in the reserve for employee severance indemnity is as follows:

Reserve for employee severance indemnity	December 31, 2019	December 31, 2018
At the beginning of the year	463,120	417,415
Currency translation difference	(1,570)	(546)
Interest cost	65,401	48,007
Service cost	40,002	32,920
Payment during the year	(45,851)	(53,689)
Actuarial remeasurement	89,498	19,013
At the end of the year	**610,600**	**463,120**

23. TAXATION

Components of income tax expense recognized in the consolidated statement of comprehensive income are as follows:

	December 31, 2019	December 31, 2018
Income tax recognized in profit or loss for the year		
Current income tax related to income from operations	(1,880,222)	(844,827)
Deferred income tax related to income from operations	847,013	(141,068)
	(1,033,209)	**(985,895)**
Income tax recognized in other comprehensive income		
Current income tax recognized in other comprehensive income	-	-
Deferred income tax recognized in other comprehensive income	(258,127)	(106,034)
	(258,127)	**(106,034)**
Income tax expense recognized in the consolidated profit or loss and other comprehensive income	**(1,291,336)**	**(1,091,929)**

Details of tax liability are as follows:

	December 31, 2019	December 31, 2018
Corporate tax payable	586,727	317,752
Taxation on securities	257,672	237,984
Banking and Insurance Transaction Tax (BITT)	202,056	207,040
Value added tax payable	13,276	6,834
Capital gains tax on property	3,515	3,258
Taxes on foreign exchange transactions	4,428	-
Other	75,400	84,296
Total tax liability	**1,143,074**	**857,164**

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

23. TAXATION (Continued)

The movement of corporate tax payable is as follows:

	December 31, 2019	December 31, 2018
At the beginning of the year	317,752	323,837
Current income tax charge	1,880,222	844,827
Taxes paid during the year	(1,611,247)	(850,912)
Corporate tax payable	**586,727**	**317,752**

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Group's effective income tax rate for the years ended December 31, 2019 and 2018 is as follows:

	December 31, 2019	Tax rate (%)	December 31, 2018	Tax rate (%)
Profit from ordinary activities before income tax and non-controlling interest	**4,535,868**		**5,651,797**	
Taxes on income per statutory tax rate	(1,016,826)	(22.42)	(982,133)	(17.38)
Disallowable expenses	(16,383)	(0.36)	(3,762)	(0.07)
Income tax expense	**(1,033,209)**	**(22.78)**	**(985,895)**	**(17.44)**

Deferred tax assets and liabilities at December 31, 2019 and 2018 are attributable to the items below:

	December 31, 2019	December31, 2018
Expected credit loss	557,969	626,608
Valuation differences of financial assets and liabilities	431,022	42,008
Free provision	170,400	206,000
Provision for employee severance indemnity and unused vacations	143,769	123,064
Valuation difference of associates and subsidiaries	49,298	119,029
Other provisions	13,997	73,828
Investment incentive	4,345	3,699
Reporting standards-tax code depreciation differences	49	-
Tax losses carried forward	-	16,830
Valuation difference for property and equipment	(130)	61
Other temporary differences	205,126	16,334
Deferred tax assets	**1,575,845**	**1,227,461**
Net-off of the deferred tax assets and liabilities from the same entity	(600,480)	(830,746)
Deferred tax assets, (net)	**975,365**	**396,715**
Valuation differences of financial assets and liabilities	460,570	621,513
Valuation difference for property and equipment	74,679	93,668
Valuation difference of associates and subsidiaries	61,962	111,720
Other temporary differences	34,878	35,566
Deferred tax liability	**632,089**	**862,467**
Net-off of the deferred tax assets and liabilities from the same entity	(600,480)	(830,746)
Deferred tax liability, (net)	**31,609**	**31,721**

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

24. EARNINGS PER SHARE

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

There is no dilution of shares as at December 31, 2019 and 2018.
The following reflects the basic earnings per share computations:

	December 31, 2019	December 31, 2018
Net profit attributable for the year	3,502,659	4,665,902
Net profit attributable to owners of the Bank	3,363,189	4,589,019
Number of 100 ordinary shares for basic earnings per shares	2,500,000,000	2,500,000,000
Basic earnings per 100 share	1.3453	1.8356
Diluted earnings per 100 share	1.3453	1.8356

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

25. EQUITY

Share capital

As at December 31, 2019, the authorized nominal share capital of the Bank amounts to TL 2,500,000 (December 31, 2018: TL 2,500,000). The Bank's paid-in capital is divided into 250,000,000,000 shares, each with a nominal value of 1 Kuruş. As at December 31, 2019, share capital presented in equity amounts to TL 3,300,146 (December 31, 2018: TL 3,300,146). An adjustment to share capital amounting to TL 800,146 at December 31, 2019 (December 31, 2018: TL 800,146) represents the restatement effect of the contributions to share capital in equivalent purchasing power of TL at December 31, 2005. With the Presidential Decree dated December 3, 2019, published in line with the relevant provisions of Law No. 6219, 58.51% of the total of 43.00% (A) Group and 15.51% (B) Group, managed and represented by the General Directorate of Foundations' per share value of share is determined.There is no difference between those groups in terms of dividend rights or any other privileges except for:

Members of the Board of Directors, three members of the group (A), one member of the group (B) and two members of the group (C) are selected from among the candidates nominated by the majority of their group, among the candidates proposed by the partners, from among the candidates elected by the General Assembly, one of the candidates proposed by the partners, taking into consideration the preferences of a group of members (D), elected by the General Assembly from among the candidates nominated by the two members.

Legal reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of the statutory profits of the Bank and its subsidiaries at the rate of 5%, until the total reserve reaches 20% of paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

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

25. EQUITY (Continued)

Non-controlling interest

As at December 31, 2019 and 2018, non-controlling interest is analyzed as follows:

	December 31, 2019	December 31, 2018
Capital and other reserves	779,953	594,483
Legal reserves	14,473	50,292
Share Premium	122,011	122,352
Revaluation surplus	234,212	154,618
Retained earnings	(191,753)	(189,986)
Profit for the year	154,861	153,805
Total non-controlling interest	**1,113,757**	**885,564**

Set out below is non-controlling profit and dividend payment for the year by subsidiaries:

	December 31, 2019		December 31, 2018	
	Profit or loss attributable to non-controlling interest	Dividends paid to non-controlling interest during the year	Profit or loss attributable to non-controlling interest	Dividends paid to non-controlling interest during the year
Taksim Otelcilik AŞ	8,098	-	7,285	-
Vakıf Emeklilik ve Hayat AŞ	24,145	(79,557)	45,659	(54,791)
Güneş Sigorta AŞ	70,041	-	(15,350)	-
Vakıf Faktoring AŞ	14,199	-	12,021	-
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ	(2,355)	-	22,926	-
Vakıfbank International AG	4,775	-	3,554	-
Vakıf Finansal Kiralama AŞ	18,783	-	(768)	-
Vakıf Enerji ve Madencilik AŞ	800	-	1,326	-
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş	821	-	71	-
Vakıf Yatırım Menkul Değerler A.Ş	163	-	159	(16,831)
Total	**139,470**	**(79,557)**	**76,883**	**(71,622)**

Fair value reserves of FVOCI financial assets*:*

	December 31, 2019	December 31, 2018
Balance at the beginning of the year	315,654	(78,147)
Effects of accounting policy changes	-	202,045
Net gains/(losses) from changes in fair values	1,485,186	311,688
Net gains transferred to profit or loss on disposal		(21,481)
Related deferred and current income taxes	(297,037)	(98,451)
Balance at the end of the year	**1,503,803**	**315,654**

Summarised financial information on subsidiaries

Summarised financial information for each subsidiary that has non-controlling interests that are material to the group as follows:

	Güneş Sigorta A.Ş.		Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.		Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.	
	December 2019(*)	December 2018	December 2019	December 2018	December 2019	December 2018
Non-controlling interest ratio (%)	-	**51.98**	**61.30**	**61.30**	**82.63**	**81.53**
Total Asset	-	2,610,459	1,781,467	1,695,770	19,462	17,924
Current Asset	-	1,767,165	92,602	225,350	19,196	17,619
Non-current Asset	-	843,294	1,688,866	1,470,420	266	305
Total Liabilities	-	1,808,175	717,807	714,740	752	395
Total Equity	-	802,284	1,063,661	981,030	18,710	17,529
Interest Income	-	150,071	7,091	9,657	2,952	869
Income on securities portfolio	-	-	-	-	465	937
Profit/(loss)	-	10,871	96,152	40,756	1,173	102

(*) Since the non-controlling interests share of the Güneş Sigorta A.Ş. is %43.90 in 2019, summarized financial information of the subsidiary is not stated on the table.

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

26. RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements, shareholders (namely Registered Foundations represented by the General Directorate of the Foundations), subsidiaries, associates, other group companies and key management personnel of the Group or of its parent and their close family members are referred to as related parties.

The Group conducted some business transactions with related parties on normal commercial terms and conditions. The following balances exist and transactions have been entered into with related parties:

	December 31, 2019			December 31, 2018		
Related party	**Cash loans**	**Non-cash loans**	**Deposits**	**Cash loans**	**Non-cash loans**	**Deposits**
Direct/Indirect shareholders	11	7,568	118,885	193,217	65,079	1,112,197
Associates	-	-	6,985	-	-	4,288
Key management personnel	110	-	328	97	-	322
Total	**121**	**7,568**	**126,198**	**193,314**	**65,079**	**1,116,807**

	December 31, 2019				December 31, 2018			
Related party	**Commission Income**	**Interest income**	**Interest expense**	**Other operating expense**	**Commission Income**	**Interest income**	**Interest expense**	**Other operating expense**
Direct/Indirect shareholders	141	49,350	204,471	141	43	4,011	112,544	-
Associates	-	-	17,271	443	-	-	188,336	3
Total	**141**	**49,350**	**221,742**	**584**	**43**	**4,011**	**300,880**	**3**

Key Management Remuneration

For the period ended December 31, 2019, the key management personnel received remuneration and fees amounted to TL 53,381 (December 31, 2018: TL 40,634).

27. FEE AND COMMISSION INCOME

	December 31, 2019	December 31, 2018
Fee and commission income		
Debit and credit card fee and commission	1,785,156	1,431,591
Collection and payment commissions	861,562	365,347
Non-cash loan commission	718,014	481,657
Reinsurance commission	327,286	120,474
Investigation charges	269,989	183,355
Money transfer charges	161,791	125,596
Mutual funds commission	25,370	21,331
Account maintenance fee	19,201	18,325
Other	348,914	367,075
Total fee and commission income	**4,517,283**	**3,114,751**
Fee and commission expense		
Debit and credit card fee and commission	751,398	713,578
Fee and commission for funds borrowed	113,377	67,397
Fee and commission for marketable securities issued	54,996	40,795
Money transfer charges	24,042	19,118
Other	174,355	122,815
Total fee and commission expense	**1,118,168**	**963,703**
Net fee and commission income	**3,399,115**	**2,151,048**

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

28. OTHER INCOME

As at and for years ended December 31, 2019 and 2018, other income comprised the followings:

	December 31, 2019	December 31, 2018
Reversal of miscellaneous provision	3,526,244	1,750,359
Earned premiums	2,015,707	1,398,418
Written premiums	*2,344,871*	*1,480,314*
Change in reserve for unearned premiums	*(329,164)*	*(81,896)*
Gain on sale of fixed assets	315,137	210,465
Individual pension business income	161,784	165,143
Excess fee charged to customers for communication expenses	37,251	36,269
Rent income	20,314	192,039
Dividend income from equity shares	8,682	18,340
Others	517,671	184,687
Total	**6,602,790**	**3,955,720**

29. SALARIES AND EMPLOYEE BENEFITS

As at and for the years ended December 31, 2019 and 2018, salaries and employee benefits comprised the following:

	December 31, 2019	December 31, 2018
Wages and salaries	(1,364,415)	(1,105,774)
Employer’s share of social security premiums	(1,234,814)	(368,112)
Other fringe benefits	(550,429)	(988,820)
Total	**(3,149,658)**	**(2,462,706)**

The average number of employees of the Group during the year is:

	December 31, 2019	December 31, 2018
The Bank	16,835	16,767
Subsidiaries	2,139	2,054
Total	**18,974**	**18,821**

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. It is computed and reflected in the financial statements on an accruals basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are TL (full TL) 6,380 and TL (full TL) 5,434 as at December 31, 2019 and December 31, 2018, respectively.

IFRSs require actuarial valuation methods to be developed to estimate the entity’s obligation under reserve for employee severance indemnity. The main actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Discount Rate	%12.10	15.99%
Inflation Rate	%8.20	11.27%
Increase in Real Wage Rate	%9.20	12.27%

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

30. OTHER EXPENSES

As at and for the years ended December 31, 2019 and 2018, other expenses comprised the following:

	December 31, 2019	December 31, 2018
Incurred insurance claims	(1,117,881)	(716,885)
Insurance claims paid	(1,034,866)	(678,768)
Change in provision for outstanding claims	(83,015)	(38,117)
Banking services promotion expenses	(943,361)	(789,278)
Provision for Severance pay and Employee Benefits	(328,419)	(353,402)
Saving Deposit Insurance Fund premiums	(283,627)	(197,865)
Advertising expenses	(197,051)	(182,176)
Communication expenses	(151,659)	(213,742)
Leasing expenses related to IFRS 16 exceptions	(92,870)	(393,295)
Maintenance expenses	(77,078)	(63,461)
Cleaning service expenses	(73,661)	(82,738)
BRSA participation fee	(66,271)	(54,114)
Energy expenses	(66,262)	(47,147)
Computer usage expenses	(64,871)	(45,471)
Other provision expenses	(57,270)	(62,228)
Credit card promotion expenses	(49,665)	(25,853)
Office supplies	(37,750)	(53,828)
Consultancy expenses	(31,004)	(38,301)
Transportation expenses	(30,618)	(30,549)
Hosting expenses	(28,478)	(25,260)
Loss on sale of assets	(7,306)	(4,647)
Individual pension business expenses	-	-
Other various administrative expenses	(851,543)	(1,320,083)
Total	**(4,556,645)**	**(4,700,323)**

31. 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 consolidated financial statements including:

	December 31, 2019	December 31, 2018
Letters of guarantee	58,980,316	51,948,464
Letters of credit	13,732,645	10,199,787
Acceptance credits	4,582,834	2,972,109
Other guarantees	956,499	883,626
Total non-cash loans (financial guarantee contracts)	**78,252,294**	**66,003,986**
Loan granting commitments	18,079,079	14,105,349
Credit card limit commitments	17,293,741	13,549,649
Commitments for cheque payments	3,528,150	1,979,217
Commitments for credit card and banking operations promotions	484,519	571,282
Other commitments	43,612,945	35,225,324
Total commitments	**82,998,434**	**65,430,821**
Total commitments and contingencies	**161,250,728**	**131,434,807**

Contingent assets and liabilities

There are various legal cases against the Group for which TL 37,306 (December 31, 2018: TL 13,705) has been provided, excluding routine insurance claims. A total of TL 10,197 provision has been accounted for legal cases against Güneş Sigorta AŞ and Vakıf Emeklilik ve Hayat AŞ and provision amount has been classified in "Liabilities directly associated with assets classified as held for sale" on consolidated financial statement.

Due to the nature of insurance business and considering the general attitude of the legal system in favor of the policyholders, the Group provides in full for the claims opened, except for these claims including damages for mental anguish and risks which are not covered by the insurance policies. Since most of such material claims are ceded to reinsurance firms by facultative agreements, such claims, net of ceded amounts have no material effect on the Group's financial position.

31. COMMITMENTS AND CONTINGENCIES (Continued)

Pending tax audits

The tax and other government authorities (Social Security Institution) have the right to inspect the Group's tax returns and accounting records for the past five fiscal years. The Group has not recorded a provision for any additional taxes for the fiscal years that remained unaudited, as the amount cannot be estimated with any degree of certainty. The Group's management believes that no material assessment will arise from any future inspection for unaudited fiscal years.

32. SUBSEQUENT EVENTS

Financing bills

The bank issued a Vakıfbank financing bill with a term of 94 days, a nominal value of TL 96,299,635 (full TL) and an ISIN code of TRFVKFB42034 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on January 7, 2020.

The bank issued and offered to the public a Vakıfbank financing bill on October 06-07-08,2020 , with a term of 91 days, starting January 10,2020 and ending April 10, 2020 via the book-building method. Following this issuing, the Vakıfbank bill with an ISIN code of TRFVKFB42026 was determined to have TL 400,000,000 (full TL) nominal value, 91 days term, term ending April 10, 2020, with an annual compound interest rate of 10.0589 % simple interest rate of 9.7000 % and issue price is 97,639.

The bank issued and offered to the public a Vakıfbank financing bill on October 06-07-08,2020 , with a term of 154 days, starting January 10,2020 and ending June 12, 2020 via the book-building method. Following this issuing, the Vakıfbank bill with an ISIN code of TRFVKFB62016 was determined to have TL 200,000,000 (full TL) nominal value, 154 days term, term ending June 12, 2020, with an annual compound interest rate of 10.0790 % simple interest rate of 9.8000 % and issue price is 96,029.

The bank issued and offered to the public a Vakıfbank financing bill on January 20-21-22,2020 , with a term of 168 days, starting January 24,2020 and ending July 10, 2020 via the book-building method. Following this issuing, the Vakıfban k bill with an ISIN code of TRFVKFB72015 was determined to have TL 200,000,000 (full TL) nominal value, 168 days term, term ending Juluy 10, 2020, with an annual compound interest rate of 10.0598 % simple interest rate of 9.8000 % and issue price is 95,684.

The bank issued and offered to the public a Vakıfbank financing bill on January 20-21-22,2020 , with a term of 105 days, starting January 24,2020 and ending May 8, 2020 via the book-building method. Following this issuing, the Vakıfbank bill with an ISIN code of TRFVKFB52033 was determined to have TL 400,000,000 (full TL) nominal value, 105 days term, term ending May 8, 2020, with an annual compound interest rate of 10.0397 % simple interest rate of 9.7000 % and issue price is 97,285.

The bank issued a Vakıfbank financing bill with a term of 175 days, a nominal value of TL 553,336,896 (full TL) and an ISIN code of TRFVKFB72023 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on January 17, 2020.

The bank issued a Vakıfbank financing bill with a term of 91 days, a nominal value of TL 138,197,900 (full TL) and an ISIN code of TRFVKFB42042 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on January 24, 2020.

The bank issued a Vakıfbank financing bill with a term of 60 days, a nominal value of TL 41,652,582 (full TL) and an ISIN code of TRFVKFB32076 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on January 27, 2020.

32. SUBSEQUENT EVENTS (Continued)

Financing bills (Continued)

Within this context, book-building process in relation to issuance of the Eurobond has been completed and coupon rate has been set at 5.25% in respect of USD 750 million fixed rate notes with semi-annual interest payment, having a maturity on February 5th, 2025 with a term of 5 years.

The bank issued a Vakıfbank financing bill with a term of 49 days, a nominal value of TL 148,625,000 (full TL) and an ISIN code of TRFVKFB42059 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on February 14, 2020.

The bank issued a Vakıfbank financing bill with a term of 46 days, a nominal value of TL 68,768,348 (full TL) and an ISIN code of TRFVKFB32084 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on February 14, 2020.

The bank issued a Vakıfbank financing bill with a term of 126 days, a nominal value of TL 239,128,418 (full TL) and an ISIN code of TRFVKFB62032 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on February 21, 2020.

The bank issued a Vakıfbank financing bill with a term of 175 days, a nominal value of TL 875,000,000 (full TL) and an ISIN code of TRFVKFB82022 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on February 21, 2020.

The bank issued a Vakıfbank financing bill with a term of 178 days, a nominal value of TL 387,000,000 (full TL) and an ISIN code of TRFVKFB82030 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on February 21, 2020.

The bank issued a Vakıfbank financing bill with a term of 178 days, a nominal value of TL 262,000,000 (full TL) and an ISIN code of TRFVKFB82048 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on February 25, 2020.

The bank issued a Vakıfbank financing bill with a term of 92 days, a nominal value of TL 264.150.000 (full TL) and an ISIN code of TRFVKFB52041 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on February 27,2020.

The bank issued a Vakıfbank financing bill with a term of 56 days, a nominal value of TL 44.607.554 (full TL) and an ISIN code of TRFVKFB42067 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on February 28,2020.

The bank issued a Vakıfbank financing bill with a term of 95 days, a nominal value of TL 323.193.899 (full TL) and an ISIN code of TRFVKFB62040 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on March 2,2020.

. The bank issued a Vakıfbank financing bill with a term of 92 days, a nominal value of TL 463.700.000 (full TL) and an ISIN code of TRFVKFB62057 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on March 3,2020.

32. SUBSEQUENT EVENTS (Continued)

Financing bills (Continued)

The bank issued a Vakıfbank financing bill with a term of 94 days, a nominal value of TL 107.588.033 (full TL) and an ISIN code of TRFVKFB62065 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on March 3,2020.

The bank issued a Vakıfbank financing bill with a term of 86 days, a nominal value of TL 46.964.653 (full TL) and an ISIN code of TRFVKFB52058 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on March 4,2020.

The bank issued a Vakıfbank financing bill with a term of 91 days, a nominal value of TL 89.637.995 (full TL) and an ISIN code of TRFVKFB72049 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on April 1,2020.

Share Sale Transaction

On January 15, 2020, a total nominal sales transaction of 27,000,000 TL was realized in the price range of 2,28 TL - 2,45 TL regarding the shares of Güneş Sigorta AŞ. With this transaction, the Bank's share in Güneş Sigorta A.Ş.'s capital has been 51.10%.

As part of the ongoing TAM (Turkish ATM Center) project to provide ATM service to all state owned banks, 33.33% share of Bileşim Alternatif Dağıtım Kanalları AŞ, which is totally owned by Türkiye Halk Bankası AŞ has been decided to purchase by VakıfBank.

On 5 February 2020, a new bond issuance amounting to USD 750 million with 5-year maturity, 5.250 percent coupon rate and 5.375 percent final return rate was realized. In the transaction, the largest bond issue in the history of the bank, US $ 3.5 billion has been collected worldwide.

On February 3rd, 2020, the Bank has completed the early redemption of Subordinated Bond (Tier-II) that was released in January 2015, which features to be the first secondary subordinated debt securities in Turkey that fulfills the Basel-III criteria.

The Bank started to disclose JCR Eurasia Rating Corporation in the Affiliates account as of January 2020 after the completion of the transfer of shares.

With the announcement of the Bank dated September 19, 2019, it was declared that in order to improve the infrastructure of member merchants, payment and card systems, and to strengthen trade in our country, Platform Ortak Kartlı Sistemler A.Ş. was established in partnership with Turkey Ziraat Bank A.Ş. and Turkey Halk Bankası A.Ş. with a capital of TL 21 Million. Following that, it was decided to change the partnership and capital structure of the company under the coordination of Turkey Asset Fund. In this context, Turkey Asset Fund has launched the share transfer process, after obtaining permission from the competent authority by the PTT A.Ş. share transfer process will be initiated.

VakıfBank Public Disclosure Dated February 28, 2020. It was announced with the referred disclosure that tender bid would be offered and 10% share of VakıfBank Pension Fund in our subsidiary VakıfBank International AG's capital would be purchased by VakıfBank if the offer is approved by VakıfBank Pension Fund. Aforesaid tender bid has been accepted and 10% share of VakıfBank Pension Fund with 6,600,000 nominal has been purchased by VakıfBank and the Bank became the only owner of VakıfBank International AG with 100% share in capital. According to CMB legislation, in case of a contradiction between the Turkish and English versions of this public disclosure, the Turkish version shall prevail.

32. SUBSEQUENT EVENTS (Continued)

COVID-19

The COVID-19 epidemic has been spreading rapidly worldwide. In order to decelerate the outbreak around the world including in our country, many measures are taken to restrict travels, to take quarantine measures, to increase remote work. Some arrangements are also made to reduce the negative effects of the epidemic on the economy. Covid-19 has no impact on the financial statements of the Group for the period of December 31, 2019. As the economic effects of the epidemic cannot be reasonably estimated due to macroeconomic uncertainties, the Group will evaluate its impact on the financial statements in the future reporting periods.

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