Kuveyt Türk Katılım Bankası Anonim Şirketi and Its Subsidiaries

Consolidated financial statements as at and for the year ended December 31, 2019 with independent auditors' report thereon

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INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Kuveyt Türk Katılım Bankası A.Ş.

Opinion

We have audited the consolidated financial statements of Kuveyt Türk Katılım Bankası A.Ş. (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

<table>
<tr><th>Key Audit Matter</th><th>How the matter is addressed in our audit</th></tr>
<tr><td>Financial impact of IFRS 9 “Financial Instruments” standard and recognition of impairment of financial assets and related important disclosures</td><td></td></tr>
<tr><td>As disclosed in footnote 2.12 under Section 2, the Group measured expected credit losses for financial assets by IFRS 9 “Financial Instruments Standards”. The rationale reasons for selecting IFRS 9 impairment of financial assets as key audit matter are as follows;

▪ Financial assets within balance-sheet and off-balance-sheet subject to IFRS 9 expected credit losses measurement have significant balance in the financial statements

▪ The applications IFRS 9 introduced are complex and comprehensive

▪ The classification of financial instruments based on the Group’s business models and the characteristics of contractual cash flows in line with IFRS 9 and requirement of important judgments to determine this business model and the characteristics of contractual cash flows

▪ Risks related to the policies established by the management with the compliance and requirements of the legislation and other applications for the calculation of expected credit losses

▪ The complexity and intensity of the control environment in the processes designed or reorganized together with the adoption of IFRS 9

▪ Estimations and assumptions used for expected credit losses are new, important and complex

▪ Complex and comprehensive disclosure requirements of IFRS 9.</td><td>Our additional audit procedures in addition to our current audit procedures:

▪ Evaluation of the compliance of the accounting policies adopted with regard to IFRS 9, the Group's past performance, and local and global practices

▪ Evaluation of the key judgments, assumptions, methods used for calculation of expected credit loss determined by the management, and whether the data source is reasonable or not, and their compliance and standard requirements in light of industry and global practices

▪ Testing criteria used for determining the contractual cash flows including interest payments with regard to solely principal and principal balance of financial assets on a sample basis and evaluation of Group's business model

▪ Evaluation of significant increase in credit risk, definition of default, definition of restructuring, probability of default, loss given default, exposure at default and macro-economic variables, and related basic and significant estimates and assumptions determined for calculation process of expected credit loss and whether these assumptions determined by financial risk management are in line with the Group’s historical performance, legislation, and reasonableness of the estimation process regarding future performance and investigation of credit risk portfolio on a sample basis

▪ Evaluation of the accuracy and completeness of attributes of the data used for the calculation process of expected credit losses

▪ Detailed testing of mathematical verification of expected credit losses’ calculation on a sample basis

▪ Evaluation of the assumptions and estimations used for the individually assessed financial assets based on expert judgment

▪ Evaluating the necessity and accuracy of the updates made or required updates after the modelling process

▪ Auditing of disclosures related to IFRS 9.</td></tr>
</table>

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Derivative Financial Instruments	
As disclosed in footnote 20; derivative financial instruments including foreign exchange contracts, currency and profit share rate swaps and other derivative financial instruments which are held for trading are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Fair value of the derivative financial instruments is determined by selecting most convenient market data and applying valuation techniques to those particular derivative products. Derivative Financial Instruments are considered by us as a key audit matter because of the subjectivity in the estimates, assumptions and judgements used.	Our audit procedures included among others involve reviewing policies regarding fair value measurement accepted by the Group management, fair value calculations of the selected derivative financial instruments control by valuation experts connected to the same audit network as our organization and the assessment of used estimations and the judgements and testing the assessment of operating effectiveness of the key controls in the process of fair value determination.

Other Matter

The consolidated financial statements of the Group as at 31 December 2018 were audited by another audit firm, which expressed an unqualified opinion in their reports issued on 4 July 2019.

Responsibilities of Management and Board of Directors for the consolidated financial statements

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

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

The Board of Directors are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

- Conclude on the appropriateness of the Board of Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

The engagement partner who supervised and concluded this independent auditor's report is Emre Çelik.

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

Emre Çelik, SMMM
Associate Partner

Istanbul, Turkey
July 6, 2020

Consolidated statement of financial position as at December 31, 2019

(Currency – In thousands of Turkish Lira - TL)

	Notes	**December 31, 2019**	December 31, 2018
Assets			
Cash and balances with the Central Bank	4	**6,783,968**	3,139,716
Balances with other banks and financial institutions	4	**16,250,847**	11,986,381
Reserve deposits at the Central Bank	5	**11,321,132**	6,495,190
Financial assets at fair value through profit or loss	6	**4,019,316**	91,443
Financial assets valued at amortised cost, net	6	**2,858,614**	37,156
Financial assets at fair value through other comprehensive income, net	6	**12,457,849**	6,171,745
Due from financing activities, net	7	**45,284,486**	39,130,394
Finance lease receivable, net	8	**2,715,898**	2,454,677
Precious metals		**1,111,144**	957,110
Derivative financial assets valued at fair value through profit or loss	20	**182,006**	42,590
Construction projects, net	10	**73,480**	74,614
Joint venture		**40,381**	28,815
Investment properties, net	11	**37,646**	29,671
Property and equipment, net	13	**841,005**	468,770
Intangible assets, net	14	**207,811**	202,908
Deferred tax assets	17	**401,782**	380,683
Assets and a disposal group held for sale	12	**473,326**	263,577
Other assets	9	**1,636,218**	2,836,596
Total assets		**106,696,909**	74,792,036
Liabilities and equity			
Due to other financial institutions and banks	15	**1,126,094**	2,256,311
Sukuk securities issued	15	**4,638,686**	7,779,057
Subordinated loans	15	**3,380,983**	1,901,210
Money market balances		**-**	188,003
Current and profit / loss sharing investors' accounts	16	**87,617,982**	54,983,611
Finance lease payable, net	8	**350,955**	-
Derivative financial liabilities	20	**424,137**	170,742
valued at fair value through profit or loss		***294,409***	*64,390*
valued at fair value through other comprehensive income		***129,728***	*106,352*
Employee benefit obligations	18	**290,500**	217,989
Current tax liabilities	17	**225,704**	175,685
Other liabilities and provisions	19	**1,830,762**	1,708,535
Total liabilities		**99,885,803**	69,381,143
Share capital	21	**3,995,766**	3,497,322
Share premium		**26,053**	22,841
Investments at fair value through other comprehensive income reserve, net of tax		**214,695**	(117,150)
Employee termination benefits reserve, net of tax		**(19,082)**	(13,296)
Legal reserves and retained earnings	22	**2,570,988**	1,953,675
Currency translation differences		**218,927**	166,734
Hedging fund		**(184,117)**	(87,494)
Other reserve	22	**(21,211)**	(24,763)
Non-controlling interest		**9,087**	13,024
Total equity attributable to equity holders of the parent		**6,811,106**	5,410,893
Total liabilities and equity		**106,696,909**	74,792,036

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of comprehensive income for the year ended December 31, 2019

(Currency – In thousands of Turkish Lira - TL)

	Notes	December 31, 2019	December 31, 2018
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		**3,567,946**	2,443,276
Profit on originated loans from current accounts and equity		**2,362,516**	2,499,470
Profit on deposits with other banks and financial institutions		**369,131**	265,622
Profit on finance leases		**252,590**	222,373
Profit on sukuk investments		**783,266**	420,814
Total income from financing activities		**7,335,449**	5,851,555
Profit shares distributed to participation accounts		**(3,125,404)**	(2,047,176)
Profit shares distributed to other banks and financial institutions		**(941,716)**	(856,721)
Net financing income		**3,268,329**	2,947,658
Provision for impairment of amounts due from financing activities and lease receivables		**(2,060,922)**	(1,539,165)
Net financing income after provision for impairment in due from financing activities and lease receivables		**1,207,407**	1,408,493
Foreign exchange gain, net		**423,844**	468,305
Net financing income after net foreign exchange gain / (loss)		**1,631,251**	1,876,798
Fees and commission income	25	**1,010,241**	761,415
Net trading income		**920,417**	66,714
Other income		**230,466**	108,635
Share of a joint venture income		**13,727**	7,717
Total other operating income		**2,174,851**	944,481
Fees and commission expense	25	**(371,160)**	(248,280)
Staff costs	26	**(1,101,256)**	(847,510)
Depreciation and amortization expense		**(234,151)**	(134,399)
Withholdings and other taxes		**(17,270)**	(10,775)
Rent expense		**(10,508)**	(142,907)
Other expenses	27	**(644,664)**	(383,373)
Total other operating expense		**(2,379,009)**	(1,767,244)
Income before taxation		**1,427,093**	1,054,036
Current tax charge	17	**(401,580)**	(442,564)
Deferred tax (charge)/income	17	**100,846**	210,534
Net income for the year		**1,126,359**	822,006
Attributable to:			
- Owners of the equity		**1,125,296**	821,618
- Non-controlling interests		**1,063**	388
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Currency translation differences		**52,193**	87,116
Cash flow hedge		**(21,235)**	52,379
Net investment hedge		**(51,447)**	(86,930)
Investments at fair value through other comprehensive income reserve		**389,098**	(142,495)
Deferred tax relating to component of other comprehensive income		**(81,194)**	43,839
Items that will not be reclassified to profit or loss			
Employee termination benefits reserve	18	**(7,233)**	17,064
Deferred tax relating to component of other comprehensive income		**1,447**	(3,413)
Other comprehensive income for the year		**281,629**	(32,440)
Total comprehensive income for the year		**1,407,988**	789,566
Attributable to:			
- Owners of the equity		**1,406,925**	789,178
- Non-controlling interests		**1,063**	388
Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)	23	**0.291**	0.241

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

Consolidated statement of changes in equity for the year ended December 31, 2019

(Currency – In thousands of Turkish Lira - TL)

	Share Capital	Share Premium	Legal Reserves	Retained Earnings	Other Reserves	At fair value through other comprehensive income reserve	Employee termination benefits reserve	Currency Translation Differences	Hedging Funds	Non-Controlling Interest	Total
Balances at January 1, 2018	**3,097,322**	**22,841**	**150,389**	**1,688,559**	**(24,763)**	**(10,583)**	**(26,947)**	**79,618**	**(60,854)**	**7,766**	**4,923,348**
Adoption of new standard	**-**	**-**	**-**	**(297,127)**	**-**	**-**	**-**	**-**	**-**	**-**	**(297,127)**
Balances at January 1, 2018	**3,097,322**	**22,841**	**150,389**	**1,391,432**	**(24,763)**	**(10,583)**	**(26,947)**	**79,618**	**(60,854)**	**7,766**	**4,626,221**
Share capital increase	400,000	-	-	(400,000)	-	-	-	-	-	-	-
from retained earnings	*400,000*	-	-	*(400,000)*	-	-	-	-	-	-	-
Transfer from retained earnings to legal reserves	-	-	34,189	(34,189)	-	-	-	-	-	-	-
Dividends paid	-	-	-	(4,894)	-	-	-	-	-	-	(4,894)
Total comprehensive income for the year	-	-	-	816,748	-	(106,567)	13,651	87,116	(26,640)	5,258	789,566
Balances at December 31, 2018	**3,497,322**	**22,841**	**184,578**	**1,769,097**	**(24,763)**	**(117,150)**	**(13,296)**	**166,734**	**(87,494)**	**13,024**	**5,410,893**
Balances at January 1, 2019	**3,497,322**	**22,841**	**184,578**	**1,769,097**	**(24,763)**	**(117,150)**	**(13,296)**	**166,734**	**(87,494)**	**13,024**	**5,410,893**
Share capital increase	498,444	1,556	-	(500,000)	-	-	-	-	-	-	-
from retained earnings	*498,444*	*1,556*	-	*(500,000)*	-	-	-	-	-	-	-
Dividends paid	-	-	-	(6,546)	-	-	-	-	-	-	(6,546)
Balances from subsidiaries transaction	-	1,656	-	-	-	-	-	-	-	(5,000)	(3,344)
Special fund depreciation	-	-	-	(1,437)		-	-	-	-	-	(1,437)
Change in other reserves	-	-	-	-	3,552	28,613	-	-	(28,613)	-	3,552
Total comprehensive income for the year	-	-	-	1,125,296	-	303,232	(5,786)	52,193	(68,010)	1,063	1,407,988
Balances at December 31, 2019	**3,995,766**	**26,053**	**184,578**	**2,386,410**	**(21,211)**	**214,695**	**(19,082)**	**218,927**	**(184,117)**	**9,087**	**6,811,106**

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

Consolidated statement of cash flows for the year ended December 31, 2019

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

	Notes	2019	2018
Cash flows from operating activities:			
Income from continuing operations before taxation		**1,427,093**	1,054,036
Share of (profit) / loss of a joint venture		**(13,727)**	(7,717)
Depreciation and amortization	11, 13, 14	**234,151**	134,399
Provision for employee termination and other benefits	18	**180,588**	13,421
Provision for personnel bonus accrual	18	**109,912**	86,617
Provision for impairment in due from financing activities and lease receivables		**2,060,922**	1,978,101
Income accrual		**(536,522)**	(985,400)
Impairment in investment property	10	**26,975**	29,915
Deferred income		**199,903**	109,536
Impact of exchange difference on cash at banks, sukuk and loans		**(591,476)**	1,170,635
Expense accrual of participation accounts		**6,428**	86,304
Expense and foreign exchange accrual of funds borrowed		**94,453**	16,363
Other provision		**178,351**	135,634
Net change in derivative financial instruments		**113,980**	3,359
Gain on sale of property and equipment, intangible assets, investment properties and asset held for sale		**(70,497)**	(12,520)
Operating income before changes in operating assets and liabilities		**3,420,534**	3,812,683
Net changes in:			
Reserve deposits at the Central Bank of Turkey		**(4,825,942)**	(20,756)
Due from financing activities		**(13,372,967)**	(6,671,544)
Finance lease receivables		**(256,821)**	(524,814)
Change in FVTPL investment securities	6	**(3,843,838)**	(20,683)
Other assets and construction projects		**1,201,512**	(2,040,177)
Current accounts and profit/loss sharing investors' accounts		**33,013,326**	14,115,851
Other liabilities		**4,910,001**	315,086
Payment for employee termination benefits	18	**(7,319)**	(7,272)
Payment for personnel bonuses	18	**(86,617)**	(69,670)
Precious metals		**(154,034)**	(263,871)
Income taxes paid	17	**(726,594)**	(334,344)
Net cash used in operating activities		**19,271,242**	8,290,489
Cash flows from investing activities:			
Cash obtained from sale of jointly controlled operations, associates and subsidiaries	31	**-**	16,901
Purchase of FVTOCI and amortised cost investment securities	6	**(9,840,300)**	(4,375,750)
Proceeds from FVTOCI and amortised cost investment securities	6	**1,349,905**	2,574,423
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	**(335,043)**	(248,972)
Proceeds from sale of property and equipment, intangible assets and investment properties		**116,721**	44,308
Proceeds from sale of asset and liabilities held for sale		**27,014**	42,652
Net cash used in investing activities		**(8,681,703)**	(1,946,438)
Cash flows from financing activities:			
Dividends paid	22	**(6,546)**	(4,894)
Increase / (decrease) in due to financial institutions and banks		**(1,130,217)**	(606,307)
Sukuk securities issued		**6,366,492**	4,744,065
Sukuk securities redeemed		**(9,723,301)**	(4,335,000)
Issued subordinated debt instruments		**1,423,134**	-
Net cash provided by financing activities		**(3,070,438)**	(202,136)
Net increase in cash and cash equivalents		**7,519,100**	6,141,915
Net foreign exchange difference on cash and cash equivalents		**1,701,154**	(66,621)
Cash and cash equivalents at the beginning of the year	4	**12,322,323**	6,247,029
Cash and cash equivalents at the end of the year	4	**21,542,577**	12,322,323

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

1. Corporate information

General

Kuveyt Türk Katılım Bankası A.Ş. (the “Bank”), formerly Kuveyt Türk Evkaf Finans Kurumu A.Ş. (a Turkish joint-stock company-the Bank) was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983 relating to the establishment of Special Finance Houses in Turkey. The Bank obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. Currently, the Bank is continuing its operations under the purview of the Banking Regulation and Supervision Agency (“BRSA”) and the Banking Law No. 5411, dated November 1, 2005. The Bank’s head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House (KFH) incorporated in Kuwait. Effective from April 8, 2006, the Bank’s commercial title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. to comply with the Banking Law No. 5411, dated November 1, 2005.

The consolidated financial statements were authorized for issue by the General Manager and Chief Financial Officer on behalf of the Board of Directors of the Bank on July 6, 2020. The General Assembly has the power to amend the statutory financial statements after issue.

Nature of activities of the Bank and its subsidiaries

The Bank’s core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers. Subsidiaries of the Bank are as follows;

- The Bank’s subsidiary of Körfez Gayrimenkul Yatırım Ortaklığı A.Ş., in which the Bank has 75% shareholding was incorporated in June 1996 in Turkey. Körfez’s registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez’s main sources of revenue are from the sales of these projects.

- The Bank’s subsidiary of Körfez Tatil Beldesi A.Ş. (“Körfez Tatil Beldesi”), in which the Bank has a 100% shareholding was incorporated in 2001 in Edremit, Turkey. Körfez Tatil Beldesi is engaged in Güre Project, which comprises the construction, selling and operating of 199 “time-sharing” houses in Edremit-Balıkesir.

- The Bank’s subsidiary of KT Sukuk Varlık Kiralama A.Ş has been established on September 23, 2011 in Turkey in order to issue Sukuk Securities.

- The Bank’s subsidiary of KT Kira Sertifikaları Varlık Kiralama A.Ş. has been established on September 3, 2013 in Turkey.

- The Banks’ subsidiary of KT Sukuk Company Limited has been established in Cayman Island on July 31, 2015, for the need of subordinated loan for the Bank.

- The Bank’s subsidiary of KT Bank AG which is 100% owned by the Bank was established in April, 2015. Main field of its operations are providing interest free corporate banking services and collecting funds through current and profit/loss sharing accounts in compliance with the regulation.

- The Bank established a pension company jointly with Albaraka Türk Katılım Bankası A.Ş, holding 50% of the shares. It is registered with the trade name “Katılım Emeklilik ve Hayat Anonim Şirketi”, 895027 registry numbered dated December 17, 2013 by İstanbul Register of Commerce.

- The Bank’s subsidiary of KT Portföy Yönetim Anonim Şirketi, which is 100% owned by the bank was established in May 26, 2015 is operating in Turkey. The main aim of the Company is to serve its customers in every aspect of the fund management business with a participation-based portfolio management company.

- The Bank established an IT company with holding 100% of the shares. It is registered with the trade name ‘‘Architect Bilişim Sistemleri ve Pazarlama Anonim Şirketi’’, dated December 1, 2015 by Istanbul Register of Commerce.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared under the historical cost convention except for financial assets measured at fair value such as derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The consolidated financial statements are presented in Turkish Lira ("TL") and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

The Bank and its subsidiaries which are incorporated in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) 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 Banking Regulation and Supervision Agency (BRSA), Turkish Commercial Code and Turkish tax legislation.

In reclassifications have been made on consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows as of and for the period ended 31 December 2018.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over-the-counter ("OTC") derivatives, unlisted securities, retirement benefits obligation, expected credit loss, provisions for taxes. Actual results in the future may differ from those reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed as below;

2.2 Significant accounting judgments and estimates

- *Deferred taxes* *:* Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

- *Fair value of financial instruments* *:* Where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

- *Expected Credit Loss:* The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions.

2.3 Functional and presentation currency

The functional currency of the Bank and its subsidiaries located in Turkey is Turkish Lira (TL). The functional currency of KT Bank AG is EURO. The presentation currency of the Group is TL.

Until December 31, 2005, the consolidated financial statements were restated for the changes in the general purchasing power of TL based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). Since the objective conditions for the restatement in hyperinflationary economies was no longer applicable at that time, Turkey came off hyperinflationary status effective from January 1, 2006. The financial statements were restated until December 31, 2005 in accordance with IAS 29. Therefore, the non-monetary assets and liabilities and components of shareholders' equity including share capital reported in the balance sheet as of December 31, 2018 and 2017 are derived by indexing the additions that occurred until December 31, 2005 and carrying the additions after this date with their nominal amounts.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

2.4 The new standards, amendments and interpretations

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

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

IFRS 16 Leases

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

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

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Impact on the consolidated statement of financial position (increase/(decrease)) as at 1 January 2019:

Assets	
Property, plant and equipment (right-of-use assets)	**298,513**
Vehicle	**21.740**
Prepaid expenses	**(17,582)**
Liabilities	
Lease liabilities	**302,671**
Deferred tax liabilities	**-**
Trade payables	**-**
Net impact on equity	**-**

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

In October 2017, the IASB issued amendments to IAS 28 *Investments in Associates and Joint Ventures*. The amendments clarify that a company applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

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

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

2. Summary of significant accounting policies (continued)

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

Annual Improvements – 2015–2017 Cycle

In December 2017, the IASB issued Annual Improvements to IFRS Standards 2015–2017 Cycle, amending the following standards:

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

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

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

On 7 February 2018, the IASB published Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the consolidated financial position or performance of the Group.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

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

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

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

2. Summary of significant accounting policies (continued)

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

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

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

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Group will wait until the final amendment to assess the impact of the changes.

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

Definition of a Business (Amendments to IFRS 3)

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

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

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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

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

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

2. Summary of significant accounting policies (continued)

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

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

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

Reliefs used as a result of amendments in IFRS 9 and IAS 39 is aimed to be disclosed in financial statements based on the amendments made in IFRS 7. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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

23 January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2022, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

2.5 Consolidation of subsidiaries

The consolidated financial statements comprise the consolidated balance sheet of the Bank and its subsidiaries, as at December 31, 2019 and 2018 and the consolidated statements of comprehensive income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2019 and 2018, respectively.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2. Summary of significant accounting policies (continued)

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Details of the subsidiaries subject to consolidation are stated below:

		Effective shareholding by the Bank (%)	
Name of subsidiary	Country of incorporation	**December 31, 2019**	December 31, 2018
"Körfez Gayrimenkul İnş. Taah. Tur. San. Tic. A.Ş."	Turkey	**92.01%**	91.89%
"Körfez Tatil Beldesi San.ve Tic. A.Ş."	Turkey	**99.99%**	99.99%
"KT Sukuk Varlık Kiralama A.Ş."	Turkey	**100%**	100%
"KT Kira Sertifikaları Varlık Kiralama A.Ş."	Turkey	**100%**	100%
"KT Bank AG."	Germany	**100%**	100%
"Architecht Bilişim Sistemleri ve Pazarlama Tic. A.Ş"	Turkey	**100%**	100%
"KT Portföy Yönetimi A.Ş."	Turkey	**100%**	50%

2.6 Foreign currency transactions

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement as foreign exchange gain/loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The financial statements of the Bank and its Turkish subsidiaries for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29 *Financial Reporting in Hyperinflationary Economies*. Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the consolidated financial statements since 1 January 2006. Amounts expressed in the measuring unit current at December 31, 2005 were treated as the basis for the carrying amounts after 1 January 2006.

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

Dates	**USD / TL**	**EUR / TL**
December 31, 2018	5.28	6.04
December 31, 2019	5.95	6.67

Foreign Subsidiary

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiary are translated into the Bank's presentation currency at the rate of exchange at the balance sheet date, and its income statement is translated at the EUR/TL 6.3538 average exchange rate for the year. Exchange differences arising on translation are taken directly to a separate component of comprehensive income.

2.7 Property and equipment

Property and equipment are stated at cost (as adjusted for inflation to December 31, 2005), less accumulated depreciation and accumulated impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to income statement in the year that costs are incurred. Expenditure incurred that result in an increase in the future economic benefits expected from the use of property and equipment is capitalized as an additional cost of property and equipment.

2. Summary of significant accounting policies (continued)

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

Buildings	50 years
Furniture and office equipment	3–7 years
Motor vehicles	4-5 years
Leasehold improvements	Shorter of the lease or useful life

The property and equipment's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

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

2.8 Construction projects

The Group has classified its time-sharing houses as construction projects.

These houses are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

2.9 Investment property

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Group is classified as investment property.

Investment property comprises land and buildings in where they are stated with their fair value.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

2.10 Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged to the income statement in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. There are no intangible assets with indefinite useful lives.

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

2. Summary of significant accounting policies (continued)

2.11 Impairment of non-financial assets

The carrying values of property and equipment, investment properties, intangible assets and construction projects are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement. Impairment losses recognized during the period are included in “other expenses” in the income statement.

2.12 IFRS 9

- **Disclosures of IFRS 9 Financial Instruments:**

The Group has implemented “IFRS 9 - Financial Instruments” standard as of 1 January 2018 by replacing “IAS 39 - Financial Instruments: Recognition and Measurement.” standard. It is recognised a loss allowance for expected credit losses on financial assets and loans measured at amortised cost, financial assets measured at FVOCI, loan commitments and financial guarantee contracts not measured at FVPL based on IFRS 9 requirements.

IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting in accordance with IAS 39 as a policy choice. Accordingly, the Group continue to apply hedge accounting in accordance with IAS 39 in this context.

All recognized financial assets that are within the scope of IFRS 9 are required to be initially measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding, are generally measured at Fair Value Through Other Comprehensive Income (“FVTOCI”). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment in other comprehensive income, with only dividend income generally recognized in profit or loss.

Dividends obtained from such investments are accounted in the financial statements as profit or loss unless they are evidently a part of the recoverable cost of investment.

- **Classification and measurement of financial assets:**

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

Assessment of business model

As per IFRS 9, the business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

2. Summary of significant accounting policies (continued)

The Parent Participation Bank's business models consist of three categories.

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

This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding. Reserve deposit, loans and advances to banks, financial assets valued at amortized cost, loans, leasing receivables and advances to customers and other receivables are assessed within this business model.

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

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

Other business models:

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial assets measured at fair value through profit/loss and derivative financial assets are assessed in this business model.

- **Impairment:**

Credit portfolio is determined in accordance with customer segments constituting the basis of banking activities. Cyclical Probabilities of Default are converted into Instant Probabilities of Default, and these instant probabilities of default are used to calculate Expected Credit Loss in scope of IFRS 9.

Probability of Default (PD)

Macroeconomic scenarios impact the values of Probability of Default. Three scenarios as Base, Good and Bad and expected credit loss are calculated. The default probabilities of borrowers are changing for each scenario.

- TTC PD values are obtained through the scorecard model
- TTC PD values are converted into PIT PD values by considering the country and sector information with the expected default frequency model in corporate portfolio.
- Macroeconomic expectations are reflected on the PIT PD values by considering the sector information.

Loss Given Default (LGD)

Loss Given Default –LGD is economic loss incurred due to the default of the obligor. Bank has started to use its new LGD model developed based on its own collection data. It has utilized "Workout LGD" for its LGD model.

Exposure at Default (EAD)

Default Amount (DA) corresponds to the used balance in the reporting date for money loans, and to the balance after the application of the credit conversion rate for Non-cash loans and commitment risks. Credit Conversion Factors are applied to obtain EAD for undrawn limits of credit card and overdrafts as well as non-cash loans.

2. Summary of significant accounting policies (continued)

Expected Credit Loss (ECL)

12-month provision amount is calculated for customers in Stage 1 and lifetime provision for customers in Stage 2 and Stage 3. ECL is calculated based on 3 scenarios and multiplied by the following scenario weights to reach the final provision figure.

- Baseline scenario: 40%
- Downside scenario: 30%
- Upside scenario: 30%

Effective interest rates (EIR) are used to discount the expected cash flows to the reporting date in the calculation of ECL.

✓ Explanations on expected loss provisions

The Group allocates impairment for expected loss on financial assets measured at amortized cost and measured at fair value through other comprehensive income.

As of January 1, 2018, the Group has started to apply the terms of IFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

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

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life-time expected credit losses for such financial assets.

2.13 Explanations on IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Customer Contracts provides a single and comprehensive model and guide to registering revenue and replaces the IAS 18 Revenue standard. The standard became effective on January 1, 2018 and has no material impact on the consolidated financial statements of the Group.

2.14 Explanations on forward transactions and option contracts and derivative instruments

The Group enters into forward agreements to mitigate its currency risk and to manage its foreign currency liquidity. The Group classifies its derivative instruments as “Derivative Financial Instruments Held for Hedging Purposes” and “Financial asset at fair value through profit or loss” in accordance with “IFRS 9”. Even though some derivative transactions economically hedge risk, since all necessary conditions for hedge accounting are not met, they are accounted for as “Financial assets at fair value through profit or loss” within the framework of “IFRS 9”, and are reflected in the “Derivative Financial Assets / Liabilities” account in the balance sheet.

The payables and receivables arising from derivative transactions are recorded in off-balance sheet accounts at their notional amounts.

Fair values of foreign currency forward transactions and swaps are calculated by using the discounted cash flow model. Differences resulting from the changes in the fair values of derivatives held for trading are accounted under ‘Trading Income/Loss’ line in the income statement.

2. Summary of significant accounting policies (continued)

Embedded derivatives are separated from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Embedded derivatives are accounted as derivative instruments in-line with "IFRS 9". If the embedded derivatives are closely related with the host contract, embedded derivatives are accounted for in-line with the relevant standard applicable for the host contract.

While choosing the accounting policy under IFRS 9, the Group has the option to defer the adoption of hedge accounting policy and to continue apply the accounting terms of IAS 39. Within this scope, the Group applies the terms of hedge accounting policy specified under IAS 39. In addition to this, the Group enters into profit share rate and cross currency swap transactions in order to hedge the changes in cash flows of the floating-rate financial instruments. While applying cash flow hedge accounting, the effective portion of the changes in the fair value of the hedging instrument is accounted for under hedging reserves in shareholders' equity, and the ineffective portion is recognised in income statement. The changes recognised in shareholders' equity is removed and included in income statement in the same period when the hedged cash flows effect the income or loss.

The Group hedges its cash flow risk arising from foreign currency liabilities by using cross currency swap. The effective portion of the fair value changes of the hedging instruments are recorded in "Hedging funds" under shareholders' equity. These funds are transferred to profit or loss from equity when the cash flows of the hedged items impact the income statement.

The Group performs effectiveness test at the beginning of the hedge accounting period and at each reporting period. The effectiveness tests are carried out using the "Dollar off-set model" and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness. The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. While discontinuing cash flow hedge accounting, the cumulative gains/losses recognised in shareholders' equity and presented under hedging reserves are continued to be kept in this account. When the cash flows of hedged item are recognised in income statement, the gain/losses accounted for under shareholders' equity, are recognised in income statement.

2.15 Explanations on financial assets

The Group classifies and accounts for its financial assets as 'Fair Value Through Profit/Loss', 'Fair Value Through Other Comprehensive Income,' or 'Amortized Cost.' Such financial assets, are recognized and derecognized as per the terms of "Recognition and Derecognition in Financial Statements" under the section three of the "IFRS 9 Financial Instruments" regarding the classification and measurements of financial instruments. When financial assets are included in the financial statements for the first time, they are measured at fair value. Transaction costs are initially added to fair value or deducted from fair value at the initial measurement of financial assets other than the "Fair Value at Fair value Through Profit or Loss".

The Group recognizes a financial asset in the financial statements only when it becomes a party to the contractual terms of a financial instrument. During the initial recognition of a financial asset, the business model determined by Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Parent Bank management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments is made to gains, losses or profit shares that were previously recorded in the financial statements.

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

Financial assets at fair value through profit or loss are financial assets that are managed within a business model other than the business model whose objective is achieved by holding contractual cashflows for collection and the business model whose objective is achieved by collecting and selling contractual cash flows. Also, in case that the contractual terms of financial assets do not give rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount, such assets are those that are, obtained with the aim of providing profit from the short-term price or other factor fluctuations in the market or are part of a portfolio aiming to obtain short-term profit, regardless of the reason of acquisition. Financial assets at fair value through profit or loss are recorded at their fair value and as of record date they are valued at their fair values. Profits or losses caused by valuation are included in profit/loss accounts.

2. Summary of significant accounting policies (continued)

- **Financial assets at fair value through other comprehensive income:**

A financial asset is classified as at fair value through other comprehensive income when the asset is managed within a business model whose objective is achieved by collecting contractual cash flows and selling the financial asset, as well as when the contractual terms of the financial asset give rise on specified dates to cash flows are solely payments of principal and profit share on the principal amount.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition costs that reflect the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Profit share income calculated with effective profit share method regarding the financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. "Unrealized gains and losses," which is the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income, are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, or the impairment of the asset. "Unrealized gains and losses" are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity. When these assets are collected or disposed of, the accumulated fair value differences reflected in the equity are reflected to the income statement.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, are carried at fair value, in the case that the securities have a quoted market price in an active market and/or the fair values of the securities can be reliably measured. In contrary case, the securities are carried at cost, less provision for impairment.

During initial recognition an entity can make an irrevocable election regarding the presentation of the subsequent changes in 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 that the entity elects to present the changes as described, dividends arising from the investment is accounted in the financial statements as profit or loss.

- **Financial assets measured at amortized cost:**

In the case that a financial asset is held within a business model whose objective is achieved both by collecting contractual cash flows and that the contractual terms of the financial asset give rise to cash flows on specified dates that are solely payments of principal and profit share on the principal amount, the financial asset is classified as financial asset measured at amortized cost.

Financial assets measured at amortized cost; are financial assets, other than loans and receivables, which are held for the purpose of custody until maturity, with conditions necessary for such assets to be held until contractual maturity met, including funding ability; and which have fixed or determinable payments and fixed maturities. Financial assets measured at amortized cost are initially recognized at cost and subsequently measured at amortized cost using the internal rate of return method. Profit share income related to financial assets measured at amortized cost is reflected in the income statement. As of the balance sheet date, the Group does not have any financial assets to be held until maturity.

- **Derivative Financial Assets:**

The major derivative instruments utilized by the Group are foreign currency swaps, cross currency swaps and currency forwards.

Payables and receivables arising from the derivative instruments are recorded in the off-balance sheet accounts at their contractual values.

Derivative transactions are valued at their fair values subsequent to their acquisition. In accordance with the classification of derivative financial instruments, the positive fair value amounts are classified as the "Derivative financial assets valued at fair value through profit or loss ; and the negative fair value amounts are classified as the "Derivative financial liabilities valued at fair value through profit or loss

". The fair value differences of derivative financial instruments of fair value through profit or loss derivative transactions are recognized in the income statement under net trading income line in profit/loss from derivative financial transactions. The fair value of derivative instruments is calculated by taking into account the market value of the derivatives or by using the discounted cash flow model.

Net Investment Hedge

The Group enters into foreign currency risk arising from net investments in foreign affiliates are hedged with long-term foreign currency borrowings and deposits and the currency translation differences arising from the conversion of net investments in foreign affiliates and accounts long-term foreign currency borrowings into TL for other profit reserves and hedging reserves, respectively in equity.

2.16 Precious metal accounts

Gold transactions are accounted under "precious metal account" and valuation is performed with the current ounce of gold prices in the market.

2. Summary of significant accounting policies (continued)

2.17 Offsetting financial instruments

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

2.18 Derecognition of financial instruments

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

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

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

2.19 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

2.20 Current accounts and profit / loss sharing investors' accounts

Current accounts and profit/loss sharing investors' accounts are initially recognized at cost, being the fair value. Current accounts are not entitled to profit participation. After initial recognition, all profit / loss sharing accounts are recognized at cost plus attributable profit (or less attributable loss) on credits granted taking into consideration amounts repaid and losses attributable. Profit or losses attributable to profit/loss sharing investors' accounts that result from financing transactions are distributed among such accounts according to each party's contribution to the financing investment.

2.21 Due to other financial institutions and banks

Deposits and funds borrowed are initially recognized at fair value of consideration received less directly attributable transaction costs. After initial recognition, all profit bearing liabilities are subsequently measured at amortized cost using the effective yield method. Amortized cost is calculated by taking into account any discount or premium.

2. Summary of significant accounting policies (continued)

2.22 Employee benefits

The Group has both defined benefit and defined contribution plans as described below:

(a) Defined benefit plans:

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the actuarial valuation by independent actuary. All actuarial gains and losses are recognized in the comprehensive income statement.

(b) Defined contribution plans:

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2.23 Provisions

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

2.24 Leases

- **The group as lessee**

Assets acquired under finance lease agreements are capitalised at the inception of the lease at the “lower of the fair value of the leased asset or the present value of the amount of cash consideration given for the leased asset”. Leased assets are included in the property and equipment and depreciation is charged on a straight-line basis over the useful life of these assets. If there is any diminution in value of the leased asset, a “Provision for value decrease” is recognised. Liabilities arising from the leasing transactions are included in “Financial Lease Payables” on the balance sheet. Interest and foreign exchange expenses regarding lease transactions are charged to the income statement. The Bank can engage in financial lease transactions as the lessor. The Bank records the gross amount of minimum lease receivables comprising of principal and interest amounts as “financial lease receivables” under lease receivables account. The difference between the aggregate of lease receivables and the cost of the related leased assets, corresponding to interest, is recorded under “unearned income” item. The interest income is recognised in the income statement on an accrual basis. Effective January 1, 2019, The Bank adopted IFRS 16 Leases and started to present most leases on-balance sheet except its short-term leases and its low value assets. The Bank did not restate the financial information for the comparative year by choosing the modified approach.

- **The group as lessor**

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases onbalance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019. When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans, lease receivables and advances.

2. Summary of significant accounting policies (continued)

2.26 Income and expense recognition

Fees and commissions are recognized based on the purposes for which such fees and commissions are collected and the basis of accounting for any associated financial instrument. Commissions and fees that are collected as an integral part of the profit share rate of loans are treated as an adjustment to the profit share rate. Commissions and fees on loans that are collected as reimbursement of expenses incurred and are not considered as an adjustment to the profit share rate and commission income from various banking services are recognized as income when collected. Fees (such as credit card fees) that are related to servicing a loan are recognized on a straight-line basis over the period of the service is provided.

Income from funds invested from current accounts and equity is recognized on an accrual basis. Income from funds invested from profit/loss sharing accounts is accrued using the effective yield method and the net income is attributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognized in full and generally 60% - 99% of this income is recorded as expense being the profit share distribution (as this is the legal and contractual range for the profit share quotas).

Dividend income is recognized when the Group’s right to receive the payment is established.

Income earned on financial assets valued at fair value through other comprehensive income, which are carried at cost less any impairment is reported as dividend income.

Income from the sale of time-sharing houses is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer.

2.27 Income tax

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

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Current tax

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

Deferred tax

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investment in subsidiary and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. Summary of significant accounting policies (continued)

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investment in subsidiary and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

The Group calculates and accounts for deferred income taxes for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with “Turkish Accounting Standard for Income Taxes” (“TAS 12”). Deferred tax asset is calculated on all temporary differences other than general provisions to the extent that is probable that taxable profit will be available and deferred tax liability is calculated for all temporary differences. Deferred tax asset and liabilities are shown in the accompanying financial statements on a net basis. The tax rate used in the calculation of deferred tax assets and liabilities is 22% over the temporary timing differences expected to reverse in 2018, 2019 and 2020, and 20% over the temporary timing differences expected to reverse after 2021.

2.28 Fiduciary assets

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

2.29 Related parties

For the purposes of these financial statements, shareholders, key management personnel and Board of Directors’ Members, in each case together with companies controlled by/or affiliated with them and their close family members, associated companies are considered and referred to as related parties.

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:

   (i) has control or joint control over the reporting entity;
   (ii) has significant influence over the reporting entity; or
   (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

2. Summary of significant accounting policies (continued)

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

2.30 Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank and its subsidiaries.

2.31 Subsequent events

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

3. Segment reporting

For management purposes, the Group is organized into three main business groups and six sub-segments:

Retail Banking

Principally handling individual customers' current, saving and investment accounts and providing loans, consumer loans, credit cards facilities and funds transfer facilities. There are two sub-segments, Retail and Private, under Retail Banking Group.

Retail Segment, portfolio comprised of all Turkish individuals that have deposits or sukuk and investment funds under TL 2 million (full amount), real estate loans that are less than TL 1,000,000 (full amount) in İstanbul Regions, TL 500,000 (full amount) in Anatolian Regions, vehicle loans that are less than TL 200,000 (full amount) in all regions and all foreign nationals' real estate loans that are less than TL 500,000 (full amount).

Private segment, portfolio comprised of all Turkish individuals that have deposits or sukuk and investment funds more than TL 2 million (full amount) and real estate loans that are more than TL 1,000,000 (full amount) in İstanbul Regions, TL 500,000 (full amount) in Anatolian Regions, vehicle loans that are more than TL 200,000 (full amount) in all regions and all foreign nationals' real estate loans that are more than TL 500,000 (full amount).

SME Banking

Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. There are two sub-segments, Small Business and Micro, under SME Banking Group.

Small Business segment, portfolio comprised of all businesses that have annual sales turnover between TL 5 million - TL 50 million (full amount) and their individual owners.

Micro segment, portfolio comprised of all businesses that have annual sales turnover below TL 5 million (full amount) and their individual owners.

Commercial Banking

Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. There are two sub-segments, Commercial and Corporate, under Commercial Banking Group.

Commercial segment, portfolio comprised of all businesses that have annual sales turnover more than TL 50 million and their individual owners except customers of corporate branches.

Corporate segment, portfolio comprised of all businesses in corporate branches.

The figures specified from the above-mentioned segment determination criterias are full amounts.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

3. Segment reporting (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's business segments as of and for the years ended December 31, 2019 and 2018, respectively.

For the period ended December 31, 2019	**Retail Banking**	**SME Banking**	**Commercial Banking**	**Corporate Banking**	**Tresaury, International & Investment Banking**	**Segments Total**	**Recon-ciliation**	**Notes**	**Grand Total**
Income from financing activities & sukuk	744,454	2,451,477	2,637,663	341,546	1,160,309	7,335,449	-		**7,335,449**
Intersegment income	2,885,543	(681,921)	(1,728,637)	(140,851)	(334,134)	-	-		-
Total financing income	**3,629,997**	**1,769,556**	**909,026**	**200,695**	**826,175**	**7,335,449**	**-**		**7,335,449**
Profit shares distributed	(2,433,329)	(530,246)	(127,497)	(34,459)	(941,589)	(4,067,120)			**(4,067,120)**
Credit loss expense	(78,222)	(845,093)	(852,515)	(278,646)	(3,458)	(2,057,934)	-		**(2,057,934)**
Net financing income	**1,118,446**	**394,217**	**(70,986)**	**(112,410)**	**(118,872)**	**1,210,395**	**-**		**1,210,395**
Foreign exchange gain/loss, net	139,348	77,586	43,316	5,906	157,689	423,844	-		**423,844**
Net trading income	2,515	2,845	2,205	490	912,362	920,417	-		**920,417**
Net fees & commission and other income	176,842	258,123	201,837	60,833	-58,554	639,081	-		**639,081**
Other expenses / income (net)	(551,246)	(31,648)	374,897	54,684	(1,613,331)	(1,766,644)	-		**(1,766,644)**
Segment profit / (loss)	**885,905**	**701,123**	**551,269**	**9,503**	**(720,706)**	**1,427,093**	**-**		**1,427,093**
Tax expenses (current & deferred)	-	-	-	-	-	-	(300,734)	(a)	**(300,734)**
Net profit / (loss) for the year	**885,905**	**701,123**	**551,269**	**9,503**	**(720,706)**	**1,427,093**	**(300,734)**		**1,126,359**
Segment Assets	**8,885,061**	**18,428,963**	**20,487,004**	**5,520,023**	**53,375,859**	**106,696,909**	**-**		**106,696,909**
Segment Liabilities & Equity	**56,466,852**	**23,275,541**	**7,260,950**	**2,325,852**	**10,567,422**	**99,896,617**	**6,800,292**	(b)	**106,696,909**

a) Since the tax is calculated on Group's total profit/loss, the tax amount is not included in the performance of segments.

b) Total equity is not allocated to the segments.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

3. Segment reporting (continued)

For the period ended December 31, 2018	Retail Banking	SME Banking	Commercial Banking	Corporate Banking	Tresaury, International & Investment Banking	Segments Total	Recon-ciliation	Notes	Grand Total
Income from financing activities & sukuk	639,275	1,950,622	2,146,615	364,174	750,869	**5,851,555**	-		**5,851,555**
Intersegment income	2,305,230	(305,700)	(1,142,940)	(157,709)	(698,881)	-	-		-
Total financing income	**2,944,505**	**1,644,922**	**1,003,675**	**206,465**	**51,988**	**5,851,555**	**-**		**5,851,555**
Profit shares distributed	(1,538,681)	(351,717)	(101,291)	(40,358)	(931,145)	**(2,963,192)**	59,295	(a)	**(2,903,897)**
Credit loss expense	(8,797)	(368,555)	(770,515)	(222,744)	(168,554)	**(1,539,165)**	-		**(1,539,165)**
Net financing income	**1,397,027**	**924,650**	**131,869**	**(56,637)**	**(1,047,711)**	**1,349,198**	**59,295**		**1,408,493**
Foreign exchange gain/loss, net	86,132	64,857	52,046	6,036	259,234	**468,305**	-		**468,305**
Net trading income	-	-	-	-	66,714	**66,714**	-		**66,714**
Net fees & commission and other income	112,304	165,574	139,727	43,429	52,101	**513,135**	-		**513,135**
Other expenses / income (net)	(609,617)	(507,455)	(211,116)	(41,316)	(33,107)	**(1,402,611)**	-		**(1,402,611)**
Segment profit / (loss)	**985,846**	**647,626**	**112,526**	**(48,488)**	**(702,769)**	**994,741**	**59,295**		**1,054,036**
Tax expenses	-	-	-	-	-	-	(232,030)	(b)	**(232,030)**
Net profit / (loss) for the year	**985,846**	**647,626**	**112,526**	**(48,488)**	**(702,769)**	**994,741**	**(172,735)**		**822,006**
Segment Assets	**7,164,815**	**15,338,933**	**19,508,689**	**3,239,805**	**29,539,794**	**74,792,036**	**-**		**74,792,036**
Segment Liabilities & Equity	**36,518,097**	**13,517,234**	**4,520,743**	**2,308,365**	**12,512,479**	**69,376,918**	**5,415,118**	**(c)**	**74,792,036**

a) The difference resulted from the insurance fund premium expenses which included in this line in the performance reports but in the financials it is included in other expenses and classification to foreign exchange gain/(loss) in the performance reports.

b) Since the tax is calculated on Group's total profit/loss, the tax amount is not included in the performance of segments.

c) Total equity is not allocated to the segments.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

4. Cash and balances with banks

	December 31, 2019	December 31, 2018
Cash on hand	**2,427,278**	2,001,414
Balances with the Central Bank of Turkey	**4,356,690**	1,138,302
Cash and balances with the Central Bank of Turkey	**6,783,968**	3,139,716
Balances with banks and other financial institutions	**16,253,803**	12,067,740
ECL Allowances	**(2,956)**	(81,359)
Sub Total	**23,034,815**	15,126,097
Deposit with maturity more than three months	**(381,094)**	(1,846,664)
Less: Interbank gold deposits	**(1,111,144)**	(957,110)
Total	**21,542,577**	12,322,323

As of December 31, 2019, and 2018, "balances with other banks and financial institutions" are made up of demand and time deposits. The time deposits, all of which have original maturities less than three months, can be analyzed as follows:

	2019				2018			
	Amount		**Effective profit rate (average)**		Amount		Effective profit rate (average)	
	TL	**Foreign currency**	**TL**	**Foreign currency**	TL	Foreign currency	TL	Foreign currency
Deposits with other banks and financial institutions	**1,275,000**	**5,196,994**	**10.8%**	**1.39%**	-	3,645,862	-	3.24%
Total	**1,275,000**	**5,196,994**				**3,645,862**		

5. Reserve deposits at the Central Bank of Turkey

	2019		2018	
	Foreign currency	**TL**	Foreign currency	TL
USD	**886,706,867**	**5,273,263**	516,570,819	2,707,174
EUR	**396,928,274**	**2,647,150**	337,369,759	2,037,427
XAU (Standard Gold)	**11,712,658**	**3,400,719**	9,506,605	1,750,589
		11,321,132		6,495,190

In accordance with the "Communiqué Regarding the Reserve Requirements no. 2013/15, the Bank is required to maintain reserves in CBRT for TL and foreign currency liabilities. The reserve requirements can be maintained as TL, USD, EUR and standard gold. CBRT started paying profit share on reserve balances held in USD starting from May 2015 and held in TL starting from November 2014. The reserve rates for TL liabilities vary between 1% and 7% for TL deposits and other liabilities according to their maturities as of December 31, 2019 (December 31, 2018: 1.5% and 8.0% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 5% and 21% for deposit and other foreign currency liabilities according to their maturities as of December 31, 2019 (December 31, 2018: 4% and 20% for all foreign currency liabilities).

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

6. Financial assets

- **At Fair Value Through Other Comprehensive Income**

	December 31, 2019	December 31, 2018
Financial Sukuk	**12,260,470**	6,064,745
Fund	**163,209**	110,567
Unlisted Shares	**38,584**	27,158
ECL allowance	**(4,414)**	(30,725)
Total	**12,457,849**	6,171,745

The breakdown of unlisted shares is as follows:

		December 31, 2019		December 31, 2018	
	Nature of business	**Ownership%**	**Amount**	Ownership%	Amount
VISA INC.	Financial service	**-**	**27,345**	-	17,045
Neova Sigorta A.Ş.	Insurance company	**6.99**	**5,936**	6.99	5,201
Kredi Garanti Fonu A.Ş. (KGF)	Financial institution	**1.49**	**4,897**	1.54	4,897
Swift	Financial service	**-**	**390**		
Borsa İstanbul A.Ş.	Exchange entity	**0.0035**	**16**	0.0035	15
			38,584		27,158

- **At Fair Value Through Profit or Loss**

Financial at fair value through profit or loss includes sukuk and share certificates. Balance of financial assets at fair value through profit or loss is as below:

	December 31, 2019	December 31, 2018
Sukuk	**4,019,316**	91,053
Share Certificates	**-**	390
	4,019,316	91,443

- **At Amortised Cost**

Balance of financial assets valued at amortised cost is as below:

	December 31, 2019	December 31, 2018
Sukuk	**2,859,381**	37,156
ECL allowance	**(767)**	-
	2,858,614	37,156

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

6. Financial assets (continued)

Hierarchy of valuation techniques which establishes basis for fair value calculation of financial assets and liabilities

Level I: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level II: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level III: Inputs for the asset or liability that are not based on observable market data

Fair value hierarchy of the financial assets and liabilities of the Group carried at fair value according to the foregoing principles as of December 31, 2019 and 2018 are given in the table below:

Current Period	**Leve**	**Level**	**Level**	**Total**
Financial assets				
At fair value through profit or loss	**4,019,316**	**182,006**	**-**	**4,201,322**
Share certificates	-	-	-	-
Forward transactions	-	16,053	-	16,052
Swap transactions	-	165,953	-	165,953
Sukuk	4,019,316	-	-	4,019,316
At fair value through other comprehensive income	**12,457,849**	**-**	**-**	**12,457,849**
Equity securities	38,583	-	-	38,583
Government debt securities	12,103,144	-	-	12,103,144
Other marketable securities	316,121	-	-	316,121
Amortised cost				
Government debt securities	**2,858,613**	-	-	**2,858,613**
	2,858,613	-	-	2,858,613
Financial liabilities				
Financial liabilities held for trading	**-**	**424,137**	**-**	**424,137**
Forward transactions	-	14,165	-	14,165
Swap transactions	-	280,244	-	280,244
Financial liabilities for hedging purposes	-	129,728	-	129,728

Previous Period	**Level**	**Level**	**Leve**	**Total**
Financial assets				
Financial assets held for trading	91,443	42,590	-	134,033
Share certificates	390	-	-	390
Forward transactions	-	38,731	-	38,731
Swap transactions	-	3,859	-	3,859
Sukuk	91,053	-	-	91,053
At fair value through other comprehensive income	**6,171,745**	**-**	**-**	**6,171,745**
Equity securities	-	-	-	-
Government debt securities	5,836,213	-	-	5,836,213
Other marketable securities	335,532	-	-	335,532
Amortised cost				
Government debt securities	37,156	-	-	**37,156**
Financial liabilities				
Financial liabilities held for trading	**-**	**170,742**	**-**	**170,742**
Forward transactions	-	22,705	-	22,705
Swap transactions	-	41,685	-	41,685
Financial liabilities for hedging purposes	-	106,352	-	106,352

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

7. Due from financing activities, net

	Gross Amount				ECL Allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents (including reserves at Central Bank) (Note 4 and 5)	18,105,149	-	-	**18,105,149**	49	-	-	**49**
Balances with other banks and financial institutions (Note 4)	16,253,803	-	-	**16,253,803**	2,956	-	-	**2,956**
Securities (Note 6)	19,340,960	-	-	**19,340,960**	5,181	-	-	**5,181**
Due from financing activities and Finance lease receivable (Note 7,8)	42,736,873	6,186,410	2,126,083	**51,049,366**	487,831	996,886	1,564,266	**3,048,983**
Total on-balance sheet financial assets in scope of ECL requirements	**96,436,785**	**6,186,410**	**2,126,083**	**104,749,278**	**496,017**	**996,886**	**1,564,266**	**3,057,169**

December 31, 2019	**Corporate and Commercial**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Stage 1	34,211,248	1,869,274	412,286	6,244,064	42,736,873
Stage 2	5,771,644	119,963	48,676	246,127	6,186,410
Stage 3	2,053,021	31,706	2,278	39,078	2,126,083
Total gross loans	**42,035,913**	**2,020,943**	**463,240**	**6,529,269**	**51,049,366**
Stage 1&2	(1,460,313)	(9,912)	(4,405)	(10,086)	(1,484,716)
Stage 3	(1,509,861)	(28,142)	(1,804)	(24,459)	(1,564,266)
Net loans (*)	**39,065,739**	**1,982,889**	**457,031**	**6,494,724**	**48,000,384**

December 31, 2018	**Corporate and Commercial**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Stage 1	30,691,119	1,377,957	323,720	5,571,657	37,964,453
Stage 2	4,117,558	60,107	11,838	186,962	4,376,465
Stage 3	1,146,685	31,676	6,467	21,540	1,206,368
Total gross loans	**35,955,362**	**1,469,740**	**342,025**	**5,780,159**	**43,547,286**
Stage 1&2	(907,448)	(37,230)	(8,664)	(146,418)	**(1,099,760)**
Stage 3	(829,688)	(21,813)	(4,564)	(6,390)	**(862,455)**
Net loans (*)	**34,218,226**	**1,410,697**	**328,797**	**5,627,351**	**41,585,071**

(*) Also includes finance lease receivables.

December 31, 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Internal Rating Grade				
Performing	**487,863**	**996,853**	-	**1,484,716**
High Quality	35,322	26	-	35,348
Medium Quality	100,798	57	-	100,855
Average	189,562	112,337	-	301,899
Below Average	162,181	884,433	-	1,046,614
Non-performing	-	-	**1,564,266**	**1,564,266**

December 31, 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Internal Rating Grade				
Performing	**450,825**	**648,935**	-	**1,099,760**
High Quality	51,996	578	-	52,574
Medium Quality	51,363	34,831	-	86,194
Average	76,804	97,878	-	174,682
Below Average	270,661	515,649	-	786,310
Non-performing	-	-	**862,456**	**862,456**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

7. Due from financing activities, net (continued)

	December 31, 2019	December 31, 2018
Performing		
Funds invested from profit/loss sharing accounts	**25,575,568**	20,464,779
Funds invested from current accounts and equity	**19,075,983**	17,166,434
Income accruals on due from financing activities (**)	**1,564,212**	2,259,008
	46,215,763	39,890,221
Funds in arrears		
Funds invested from profit / loss sharing accounts	**1,108,327**	603,983
Funds invested from current accounts and equity	**981,174**	591,209
	2,089,501	1,195,192
Total	**48,305,264**	41,085,413
Impairment allowance		
Funds invested from profit / loss sharing accounts	**1,581,699**	940,625
Funds invested from current accounts and equity	**1,439,079**	1,014,394
	3,020,778	1,955,019
Total due from financing activities exc lease receivables	**45,284,486**	39,130,394

(**) Also includes foreign currency evaluation differences of foreign currency indexed loans.

The total provision of TL 3,020,778 (December 31, 2018 – TL 1,955,019) is made up of impaired loans and loans classified as Stage 1 and 2. The movements are analyzed below.

The movements of provisions for loans classified as Stage 1 and 2 for financing activities are as follows:

	December 31, 2019	December 31, 2018
Balance at beginning of year	**1,099,760**	283,604
Provisions – bank	**44,182**	515,270
Provisions - participation accounts	**340,774**	300,886
Allowance at the end of the year	**1,484,716**	1,099,760

The movement for impaired loans (Stage 3) is as follows:

	December 31, 2019	December 31, 2018
Balance at the beginning of the year	**855,258**	531,626
Provisions - bank	**1,301,636**	454,203
Provisions - participation accounts	**909,527**	281,026
Recoveries of amounts previously provided for	**(587,161)**	(308,456)
Reserves written off in current year	**(943,198)**	(103,141)
Balance at the end of the year	**1,536,062**	855,258

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

8. Finance lease receivable, net

Finance lease receivable (net) is as follows:

	December 31, 2019	December 31, 2018
Gross investment in finance leases	**3,185,159**	2,881,888
Unearned finance income	**(477,639)**	(431,190)
Total impaired receivables	**36,582**	11,176
Impairment allowance	**(28,204)**	(7,197)
Lease receivable, net	**2,715,898**	2,454,677

Movements in the specific provisions for leasing receivables is as follows:

	December 31, 2019	December 31, 2018
Balance at January 1	**7,197**	4,420
Charge for the period	**59,161**	4,285
Charges for the bank	**33,210**	2,885
Charge for the participation accounts	**25,951**	1,400
Recoveries of amounts previously provided for	**(7,197)**	(1,192)
Impairment allowance written off in current period	**(30,957)**	(316)
Balance at the end of the period	**28,204**	7,197

Gross investment in finance leases as to their maturity:

	December 31, 2019	December 31, 2018
Not later than 1 year	**1,227,784**	1,674,227
Later than 1 year and not later than 5 years	**1,734,939**	999,689
Later than 5 years	**222,436**	207,972
Non-performing receivables	**36,582**	11,176
Lease receivable, gross	**3,221,741**	2,893,064
Less : Unearned finance income	**(477,639)**	(431,190)
Net investment in finance leases	**2,744,102**	2,461,874
Less : Allowance for impairment	**(28,204)**	(7,197)
Lease receivable, net	**2,715,898**	2,454,677

As of December 31, 2019, TL 1,689,014 (December 31, 2018 - TL 1,692,122**)** gross lease receivables are denominated in foreign currency (USD and EUR).

Net investment in finance leases as to their maturity:

	December 31, 2019	December 31, 2018
Less than 1 year (*)	**886,868**	1,307,276
1 -5 year	**1,639,285**	951,670
More than 5 years	**217,949**	202,928
Net investment in finance leases	**2,744,102**	2,461,874

(*) Includes total impaired receivables amounting to TL 36,582 (December 31, 2018 – TL 11,176).

Material finance leasing arrangements of the Group includes several machinery and equipment with a contractual maturity of 4 to 5 years.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

9. Other assets

Other assets comprise the followings:

	December 31, 2019	December 31, 2018
Clearing accounts	**562,453**	716,193
Prepaid expenses	**50,862**	57,505
Blockage for guarantees given	**900,291**	1,968,224
Receivables from banking operations	**14,701**	22,106
Value added tax (VAT) receivable	**9,310**	17,508
Other	**98,601**	55,060
	1,636,218	2,836,596

10. Construction projects, net

Construction projects mainly include construction activities of Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. subsidiary.

	December 31, 2019	December 31, 2018
Uncompleted construction projects	**24,969**	27,612
Kartal Project		
Cost of land	**-**	-
Cost of project	**24,969**	25,699
Kilyos Land		
Cost of land	**-**	1,613
Güre Tesisi	**75,486**	76,917
Completed construction projects (inventories)	**75,486**	76,917
	100,455	104,529
(Less) Impairment provision for net realizable value	**(26,975)**	(29,915)
Total construction projects, net	**73,480**	74,614

11. Investment properties, net

	December 31, 2019	December 31, 2018
Balance at the beginning of the year	**118,574**	84,992
Additions	**13,524**	7,498
Disposal	**(12,085)**	(8,233)
Depreciation charge	**-**	(80)
Transfer to assets held for resale (Note 12)	**(82,367)**	(50,140)
Transfer from other assets	**-**	(4,366)
Balance at the end of the year	**37,646**	29,671
Cost	**41,949**	33,978
Accumulated depreciation	**(3,578)**	(3,582)
Accumulated impairment	**(725)**	(725)
Net carrying amount	**37,646**	29,671

Fair value of the investment properties is TL 57,834 (December 31, 2018 - TL 30,701) which is determined based on the valuations carried out by independent qualified valuation companies in December 2019.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

12. Assets and a disposal group held for sale

At December 31, 2019, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 252,841 (December 31, 2018 – TL 174,674), which are expected to be sold in a time period less than 1 year as non-current assets held for sale. The assets and the determined sales prices have been announced to the public via website of the Bank. Movement of non-current assets held for sale is as follows:

	December 31, 2019	December 31, 2018
Balance at the beginning of the year	**263,577**	117,006
Additions	**154,396**	139,083
Transfer from investment property (Note 11)	**82,367**	50,140
Disposals	**(27,014)**	(42,652)
Balance at the end of the year	**473,326**	263,577

Gain on sale of assets held for sale amounting to TL 11,580 is included in other income in the comprehensive income statement (December 31, 2018 – TL 9,579).

13. Property and equipment, net

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Right of Use Asset	Total
At January 1, 2018	193,633	182,848	47,518	1,033	5,145	430,177
Additions (*)	529	56,377	19,584	45,642	-	122,132
Disposals	(6,369)	(4,551)	(1,762)	(126)	-	(12,808)
Depreciation charge for the year	(5,577)	(52,578)	(11,330)	(442)	(804)	(70,731)
At December 31, 2018, net of accumulated depreciation and impairment	**182,216**	**182,096**	**54,010**	**46,107**	**4,341**	**468,770**
Additions (*)	7,351	110,193	35,811	9,948	429,060	592,363
Disposals	(4,233)	(6,177)	(7,946)	(1,005)	(15,684)	(35,045)
Depreciation charge for the year	(23,887)	(46,097)	(14,842)	(1,910)	(98,347)	(185,083)
At December 31, 2019, net of accumulated depreciation and impairment	**161,447**	**240,015**	**67,033**	**53,140**	**319,370**	**841,005**

(*) None as of December 31, 2019 (TL 8,153 of furniture and office equipment consist of assets obtained through financial leasing as of and for December 31, 2018). There is no property and equipment that are pledged for borrowings.

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Right of Use Asset	Total
At December 31, 2018						
Cost	200,923	384,337	104,802	47,228	7,957	745,247
Accumulated depreciation	(18,707)	(202,241)	(50,792)	(1,121)	(3,616)	(276,477)
Net carrying amount	**182,216**	**182,096**	**54,010**	**46,107**	**4,341**	**468,770**
At December 31, 2019						
Cost	200,069	481,240	125,015	55,482	421,333	1,283,139
Accumulated depreciation	(38,622)	(241,225)	(57,982)	(2,342)	(101,963)	(442,134)
Net carrying amount	**161,447**	**240,015**	**67,033**	**53,140**	**319,370**	**841,005**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

14. Intangible assets, net

	Total
At January 1, 2018	169,802
Additions	119,342
Disposals	(22,648)
Amortization charge for the year	(63,588)
At December 31, 2018, net of accumulated amortization	202,908
Additions	114,045
Disposals	(69,591)
Amortization charge for the year	(39,551)
At December 31, 2019, net of accumulated amortization	**207,811**

At December 31, 2018	
Cost (gross carrying amount)	344,563
Accumulated amortization	(141,655)
Net carrying amount	202,908
At December 31, 2019	
Cost (gross carrying amount)	379,379
Accumulated amortization	(171,568)
Net carrying amount	**207,811**

15. Due to other financial institutions and banks, Sukuk securities issued and subordinated loans

Due to other financial institutions and banks as of December 31, 2019 and 2018 is as follows;

		Amount in TL
Original currency	**December 31, 2019**	**December 31, 2018**
USD	327,198	1,515,343
Euro	411,271	643,968
TL	172,082	97,000
Other	215,543	-
Total	**1,126,094**	**2,256,311**

As of December 31, 2019, borrowings remaining maturities of which is less than 12 months amount to TL 447,895 (As of December 31, 2018 – TL 1,706,789).

As of December 31, 2019, the Bank has no syndicated loans (December 31, 2018 - None).

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

15. Due to other financial institutions and banks, Sukuk securities issued and subordinated loans (continued)

Sukuk securities as of December 31, 2019 and 2018 is as follows;

		Amount in TL
	December 31, 2019	December 31, 2018
Sukuk certificates issued USD	**2,720,541**	5,118,302
Sukuk certificates issued TL	**735,587**	1,622,081
Sukuk certificates issued MYR	**1,182,558**	1,038,674
Total	**4,638,686**	7,779,057

Subordinated loans as of December 31, 2019 and 2018 is as follows;

		Amount in TL
	December 31, 2019	December 31, 2018
Subordinated loan provided by other foreign banks&institutions	**3,380,983**	1,901,210
Total	**3,380,983**	1,901,210

16. Current and profit / loss sharing investors' accounts

	December 31, 2019	December 31, 2018
Current accounts:		
Turkish lira	**12,341,128**	7,706,734
Foreign currency	**24,059,886**	14,715,320
	36,401,014	22,422,054
Profit/loss sharing investors' accounts:		
Turkish lira	**22,899,157**	14,536,671
Foreign currency	**28,086,704**	17,806,168
	50,985,861	32,342,839
Blocked accounts:		
Turkish lira	**43,576**	26,708
Foreign currency	**8,144**	19,099
	51,720	45,807
Total current accounts and profit/loss investors' accounts	**87,438,595**	54,810,700
Expense accrual on current accounts and profit/loss sharing investors' accounts	**179,387**	172,911
Total current accounts and profit/loss sharing investors' accounts	**87,617,982**	54,983,611

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

16. Current and profit / loss sharing investors' accounts (continued)

Blocked accounts include receivables of point of sales machine holding depositors which become current account within an average of one month period.

Current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analyzed according to their original maturities as follows:

		Current Period			Previous Period	
	TL	**Foreign currency**	**Total**	TL	Foreign currency	Total
Up to 1 month	**20,159,817**	**32,895,789**	**53,055,606**	13,029,213	20,646,734	33,675,947
From 1 month to 3 months	**12,472,450**	**15,289,874**	**27,762,324**	8,014,812	9,449,528	17,464,340
From 3 months to 1 year	**1,673,520**	**2,763,261**	**4,436,781**	988,139	1,986,056	2,974,195
Over one year	**978,073**	**1,205,811**	**2,183,884**	348,736	347,482	696,218
	35,283,860	**52,154,735**	**87,438,595**	22,380,900	32,429,800	54,810,700

At December 31, 2019 and 2018, foreign currency and precious metals linked current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	Current Period		Previous Period	
	Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Current and blocked accounts:				
USD	**2,189,894,279**	**13,023,345**	1,705,043,927	9,001,302
Euro	**737,729,056**	**4,919,981**	470,994,262	2,844,405
Precious metals		**5,637,258**		2,588,233
Other		**487,446**		300,479
		24,068,030		14,734,419
Profit/loss sharing investors' accounts:				
USD	**2,777,431,651**	**16,517,442**	1,885,305,405	9,952,942
Euro	**1,043,126,734**	**6,956,706**	886,600,429	5,354,313
Precious metals		**4,612,556**		2,498,913
		28,086,704		17,806,168
		52,154,734		32,540,587

The Bank mainly collects profit/loss sharing accounts from domestic companies and domestic individuals.

Profit/loss sharing accounts include the gain or loss resulting from the investment activities of the Bank and there is no predetermined return on these accounts when depositing money.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

17. Income taxes

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying condensed consolidated interim financial statements, have been calculated on a separate-entity basis. Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

In Turkey, corporate income tax is levied at the rate of 22% on the statutory corporate income tax base for the year ended December 31, 2019. This rate was 22% for the year ended December 31, 2018. Capital gains arising from the disposal of property and equipment and investments owned for at least two years are exempt at a rate of 75% from corporate tax provided that such gains are reflected in equity with the intention to be utilized in a share capital increase within five years from the date of the disposal. The remaining 25% of such capital gains are subject to corporate tax.

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

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

"Law on the Amendment of Certain Tax Laws and Some Other Laws" numbered 7061 was published in the Official Gazette dated 5 December 2017 and numbered 30261.

With Article 91 of this law, with the provisional article 10 added to the Corporate Tax Law, the rate of 20% corporate tax will be applied as 22% for the corporate earnings for the taxation periods of 2018, 2019 and 2020 (the accounting periods for the institutions that are designated for the special accounting period). This rate applied for the first time in the first temporary tax period of 2018.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. From 23 July 2006, withholding income tax rate is 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

In addition, it is decided to stay of execution until the publication of the decision in the Official Gazette, to avoid the circumstances and losses that are difficult or impossible to compensate subsequently and for that the annulment decision does not remain inconclusive, due to the fact that aforementioned sentence is repealed by the decision no: E. 2010/93 K. 2012/20 as of February 9, 2012 at the same meeting.

The details of income tax expense are as follows;

	December 31, 2019	December 31, 2018
Current tax expense	**402,487**	453,758
Prepaid tax (-)	**(176,783)**	(278,073)
Income taxes payable	**225,704**	175,685

	2019	2018
Current tax expense	**401,580**	442,564
Deferred tax (credit)/charge	**(100,846)**	(210,534)
Total income tax charge/(credit)	**300,734**	232,030

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

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 Bank's effective income tax rate for the years December 31, 2019 and 2018 is as follows:

	December 31, 2019	December 31, 2018
Profit before income tax from continuing operations	**1,416,825**	1,054,036
At Turkish statutory income tax rate of 22% (*2018: 22%*)	**311,701**	231,888
Effect of income not subject to tax	**(8,898)**	(26,023)
Effect of expenditure not allowable for income tax purposes	**(2,069)**	26,165
Income tax charge	**300,734**	232,030

Deferred tax as of December 31, 2019 and 2018 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	December 31, 2019	December 31, 2018
IFRS 9 provisions	**214,057**	192,935
Deferred income	**56,469**	55,507
Derivative accrual	**52,909**	30,080
Carryforward tax losses	**43,503**	34,043
Bonus and other benefits	**23,220**	31,297
Reserve for employee termination benefits	**41,047**	17,412
Effect of precious metals valuation	**1,454**	2,031
Other	**10,986**	32,834
Deferred tax assets	**443,645**	396,139
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	**(9,665)**	(7,293)
FVTOCI valuation differences	**(28,833)**	(3,691)
Effect of precious metals valuation	**-**	-
Effect of other temporary differences	**(3,365)**	(4,472)
Deferred tax liabilities	**(41,863)**	(15,456)
Deferred tax asset – net	**401,782**	380,683

Movement of net deferred tax asset is as follows:

	December 31, 2019	December 31, 2018
Balance at the beginning of the year	**380,683**	127,072
Deferred tax (charge)/credit recognized in income statement	**100,846**	210,534
Deferred tax (charge)/credit recognized in equity	**(79,747)**	23,229
IFRS 9 opening effect	**-**	19,848
Balance at the end of the year	**401,782**	380,683

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

18. Employee benefit obligations

	December 31, 2019	December 31, 2018
Personnel bonus accrual	**109,912**	86,617
Employee termination benefits	**180,588**	131,372
Total employee benefit obligations	**290,500**	217,989

The movement in reserve for personnel bonus accrual is as follows:

	December 31, 2019	December 31, 2018
Balance at January 1	**86,617**	69,670
Utilized/paid	**(86,617)**	(69,670)
Charge for the year	**109,912**	86,617
Balance at the end of the year	**109,912**	86,617

The movement in reserve for employee termination benefits and other provisions related with employee are as follows:

	December 31, 2019	December 31, 2018
Balance at January 1	**131,372**	108,159
Utilized/paid	**(7,861)**	(7,272)
Service and interest cost	**51,291**	47,549
Actuarial loss/gain (*)	**5,786**	(17,064)
Balance at the end of the year	**180,588**	131,372

(*) Retirement pay liability arising from current period and amounting TL 5,786 (2018: TL 17,064) is an actuarial loss amount and deferred tax amounting to TL 1,273 (2018: TL 3,413) related with the retirement pay liability is accounted under statement of other comprehensive income**.**

Reserve for employee termination benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis 30 days' pay per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2019 and 2018, the Group reflected a liability calculated using the actuarial valuation by independent actuary and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The amount payable consists of one month's salary limited to a maximum of TL 6,379.86 (full amount) (2018: TL 5,434) for each period of service at December 31, 2019.

There are no agreements for pension commitments other than the legal requirement as explained above. In addition, the liability is not funded, as there is no funding requirement.

The provisions for employment termination benefits of the Group, since the employment termination benefit ceiling is calculated over TL 6,730.15 (full amount) that is effective commencing on January 1, 2020 (January 1, 2019: TL 6,017.60)

The following actuarial assumptions were used in the calculation of the total liability:

	December 31, 2019	December 31, 2018
Discount Rate (%)	**12.10**	16.30
Inflation rate (%)	**8.00**	12.00
Interest rate (%)	**25.00**	13.00

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

19. Other liabilities and provisions

	December 31, 2019	December 31, 2018
Clearing accounts	**496,691**	757,125
Withholding tax and other tax payables	**111,714**	86,401
Payables to exporters and suppliers	**75,416**	80,511
Security premium for participation funds	**61,396**	27,243
Deferred revenue for non-cash loans	**259,527**	42,893
Deductions on resource utilization fund	**3,720**	2,658
Provision for non-cash loans	**549,419**	386,283
Provision for distributed profits of the participation accounts	**150,934**	129,152
Other provisions and liabilities	**116,948**	196,269
Total other liabilities	**1,825,762**	1,708,535

20. Derivative financial assets/liabilities valued at fair value through profit or loss & hedging 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 financial instruments, reference rates or indices.

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

The fair values of foreign currency and precious metals forward and swap transactions are determined by comparing the foreign currency rates prevailing on the date of the financial statements to the discounted value of the transaction's forward exchange rates to the date of these financial statements.

								December 31, 2019
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 months**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**
Derivatives held for trading & Hedging Purposes								
Inflows	182,006	-	**28,828,950**	12,077,536	9,934,763	2,695,721	2,545,726	1,575,204
Outflows	-	424,137	**28,880,256**	12,195,654	9,992,676	2,783,182	2,428,206	1,480,538

								December 31, 2018
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 months**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**
Derivatives held for trading & Hedging Purposes								
Inflows	42,590	-	**11,633,162**	7,688,220	2,699,172	224,786	-	1,020,984
Outflows	-	170,742	**11,750,656**	7,691,214	2,692,695	222,198	-	1,144,549

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

20. Derivative financial assets/liabilities valued at fair value through profit or loss & hedging purposes (continued)

- **Explanations on hedge accounting practices**

The Parent bank uses cash flow hedging ("CFH") and net investment hedging accounting as of the balance sheet date.

The contractual amounts of the derivative financial instruments as of December 31, 2019 and the net fair values of the financial instruments are summarized in the table below:

	Current Period			Prior Period		
	Principal*	Asset	Liability	Principal*	Asset	Liability
Derivative Financial Instruments	--	-	-	-	-	-
Cross currency swap transactions (CFH)	1,289,330	-	129,728	1,144,549	-	106,352
Total	1,289,330	-	129,728	1,144,549	-	106,352

(*) Only the "sell" legs of the related derivatives are presented with the addition of the "buy" legs of these derivatives amounting to TL 1,162,576 (December 31, 2018: TL 1,020,984) the total notional of derivative financial assets amounting to TL 2,451,906 (December 31, 2018: TL 2,165,533) is accounted for in off-balance sheet under "Derivative financial instruments held for risk management" line item.

When the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked;

The hedging gains and losses that were previously recognized under equity are transferred to profit or loss when the cash flows of the hedged item a re realized,

In case the hedged item is derecognized, hedge accounting is discontinued and within context of fair value hedge accounting, adjustments made to the value of the hedged item are accounted in income statement.

In accordance with IAS, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy.

Net investment hedge:

The Group applies a net investment hedge strategy to hedge its foreign currency risk due to its net investment of EUR 81,653,991 (Full Amount) of its subsidiary KT Bank AG. The same portion of the Group's foreign currency denominated participation funds is designated as hedging instrument. The effective portion of the exchange rate changes of the foreign currency participation funds in this scope is accounted for under hedging funds account under equity.

Hedging funds account under other comprehensive income regarding net investment hedges have been accounted TL (51,447) in the current period.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

20. Derivative financial assets/liabilities valued at fair value through profit or loss & hedging purposes (continued)

Cash flow hedge:

The Bank, convert Malaysian Ringgit (MYR) 800,000 MYR borrowings to USD loan with cross currency swap and this fund is evaluated in profit share-yielding assets in USD. In this context, the Bank has started to implement cash flow hedge accounting on August 1, 2014 to protect itself with cross currency swap against cash flow risks due to the changes in MYR/TL foreign exchange rates on borrowings and changes in USD/TL foreign exchange rates on profit share-yielding assets.

In this context, the derivative financial instruments which are determined as hedging instruments are cross currency swaps and the hedged items are funds borrowed and profit share-yielding assets. In the below table, the effect of accounting of CFH is explained:

Current Period					
Type of hedging instrument	Hedged item (asset and liablity)	Nature of hedged risks	Net fair value of the hedging instrument		Amount in hedging funds (*)
			Assets	Liability	
Swap Transactions	Loans received and profit share assets	Cash flow risk of exchange rate changes	-	1,162,576	(11,514)

(*) Includes the deferred tax effect. As of prior period deferred tax effect amounting to TL 2,533.

Prior Period					
Type of hedging instrument	Hedged item (asset and liablity)	Nature of hedged risks	Net fair value of the hedging instrument		Amount in hedging funds (*)
			Assets	Liability	
Swap Transactions	Loans received and profit share assets	Cash flow risk of exchange rate changes	-	1,020,984	9,721

(*) Includes the deferred tax effect. As of prior period deferred tax effect amounting to TL (2,138)

At the inception date, the Participation Bank documents the relationship between the hedging instruments and hedged items required by the CFH accounting application in accordance with IAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in the same way. Effectiveness tests have been selected according to the methods that are allowed by IAS 39 in reliance to the risk strategies of the Participation Bank. Also, effectiveness tests have been performed at the end of every month and the effectiveness of the risk relationships have been measured.

As of December 31, 2019 cash flow hedge transactions have been determined as effective.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

21. Share capital

	December 31, 2019	December 31, 2018
Number of ordinary shares, TL 1, par value. Authorized, issued and outstanding.	**3,996 million**	3,497 million

The movement of the share capital of the Bank (in number and in historical TL) is as follows:

		December 31, 2019		December 31, 2018
	Number	**TL**	Number	TL
At January 1	**3,497,322,000**	**3,497,322**	**3,097,322,000**	**3,097,322**
Shares issued in				
- transfer from retained earnings	**498,444,000**	**498,444**	**400,000,000**	**400,000**
At year end	**3,995,766,000**	**3,995,766**	***3,497,322,000***	***3,497,322***

The Bank has increased its share capital on March 28, 2019. The share capital increase was funded from the retained earnings amounting to TL 498,444 (2018 - TL 400,000).

The Bank does not have any share type other than common shares. There is no differentiation in the rights, preferences and restriction of the common shares.

As of December 31, 2019 and 2018, the composition of shareholders and their respective % of ownership can be summarized as follows:

		December 31, 2019		December 31, 2018
	Amount	**%**	Amount	%
Kuwait Finance House	**2,489,651**	**62.24**	2,178,444	62.2
Directorate of Vakıf Foundations, Turkey	**748,771**	**18.72**	655,174	18.7
The Public Institution for Social Security, Kuwait	**360,000**	**9.00**	315,000	9
Islamic Development Bank	**360,000**	**9.00**	315,000	9
Other	**37,344**	**1.04**	33,704	1
Total share capital	**3,995,766**	**100**	3,497,322	100

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

22. Legal reserves, retained earnings, dividends paid and proposed and other reserves

Legal reserves

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

Dividends paid and proposed

During the current year, the Bank has paid a dividend of TL 6,546 (2018 – TL 4,894) from the profit of the year 2019.

	December 31, 2019	December 31, 2018
Ordinary shares		
Amount	**6,546**	4,894
TL (full) per share	**0.001**	0.001

Other reserves

The Bank bought 25% share of the joint venture called Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. on September 23, 2011, which was established by Körfez and a third party company who had 75% and 25% stakes, respectively. Followingly, the Bank bought the 25% stake of the third party company in Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. for a total consideration of TL 22,589 in exchange of releasing the debt of the third party company to the Bank amounting to TL 15,888 and taking over the debt of the third party company to Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. amounting to TL 6,701. The purchase price has been determined based on the expected discounted future cash flows of Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. Since the amount of the non-controlling interest in Körfez İnşaat İş Ortaklığı is negligible, the total consideration amounting to TL 22,589 recognized as a separate component of equity as being the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid. As of December 31, 2019 this amount is 21,211 TL (December 31, 2018 – 24,763 TL)

23. Earnings per share

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

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

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

The following reflects the income and per share data used in the basic earnings per share computations:

	December 31, 2019	December 31, 2018
Net profit attributable to continuing operations of the Bank for basic earnings per share	**1,126,359**	822,006
Net profit/(loss) attributable to discontinued operations for basic earnings per share	**-**	-
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	**1,125,269**	816,748
Weighted average number of ordinary shares for basic earnings per share (thousands)	**3,866,011**	3,386,918
Basic earnings per share (expressed in full TL per share)	**0.291**	0.241

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

24. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2018 - 62.2%) of ordinary shares. Directorate of Vakıf Foundations, The Public Institution for Social Security and Islamic Development Bank are major shareholders owning 18.7% (December 31, 2018 - 18.7%), 9.0% (December 31, 2018 - 9.0%) and 9.0% (December 31, 2018 - 9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders of the Bank and parties under common control of the majority Shareholder are referred to as related parties. The related parties also include individuals who are principal owners, key management and members of the Group's Board of Directors and their families.

The following significant balances exist as at December 31, 2019 and 2018 and transactions have been entered into with related parties during the years ended:

i) Balances with financial institutions and due from financing activities:

			December 31, 2019		December 31, 2018
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Kuwait Finance House	USD	**112,257,408**	**667,597**	-	-
Auto Land A.S.	TL	**-**	**-**	-	114,310
Other related parties	-	**-**	**112,915**	-	90,678
			780,512		204,988

ii) Due to other financial institutions and banks:

			December 31, 2019		December 31, 2018
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Kuwait Finance House [(1)]	USD	**-**	**-**	151,936,904	802,108
	KWD	**3,500,000**	**68,669**		
			68,669		802,108

iii) Profit/loss sharing investors' and current accounts:

			December 31, 2019		December 31, 2018
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Kuwait Finance House **[(1)]**	USD	**1,308**	**8**	1,775,382	9,388
	XAU	**396,738**	**114,615**	-	-
	TL	**-**	**-**	-	3,369
Kuwait Finance House, Bahrain	USD	**-**	**-**	1,282	7
Neova Sigorta AS **[(*)]**	TL	**-**	**232,290**	-	227,544
	USD	**3,177,169**	**20,611**	2,618,101	13,843
	EUR	**110,361**	**736**	30,289	183
Public Institute for Social Securities KW **[(1)]**	USD	**175,155**	**1,042**	171,268	905
İskan Gayrımenkul Yatırım ve Geliştirme A.Ş.	TL	**-**	**10,829**	-	-
	USD	**1,751,369**	**10,498**	-	-
Other related parties			**69**	-	-
			390,698		255,239

(*) Determined as related party as the Company is under the common control of the ultimate parent.
(1) Shareholders.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

24. Related party disclosures (continued)

iv) Profit shares distributed:

		December 31, 2019		December 31, 2018	
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Neova Sigorta AŞ [(*)]	TL	**-**	**36,851**	-	30,190
	USD	**85,756**	**487**	-	-
Public Institute for Social Securities KW [(1)]	USD	**4,317**	**24**	4,279	22
Depolar Properties CO W LL	USD	**-**	**-**	2,493	13
Iskan Gayrimenkul Yatırım ve Geliştirme A.Ş.	TL		**354**		281
	USD	**57,578**	**325**	39,648	203
Vakıf Finansal Kiralama A.Ş.	USD	**9,866**	**51**	-	-
	EUR	**38,238**	**208**	-	-
			38,300		30,709

(*) Determined as related party as the Company is under the common control of the ultimate parent.
(1) Shareholders.

v) Non-cash credits issued:

		December 31, 2019		December 31, 2018	
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Other related parties	TL	**-**	**723**	-	520
			723		520

(1) Shareholders.

As of December 31, 2019 no specific provisions have been recognized in respect of loans given to related parties (December 31, 2018 - none).

Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 48,678 during the year ended December 31, 2019 (December 31, 2018 – TL 32,458)

The key management personnel of the Bank are as follows;

Hamad Abdulmohsen AL MARZOUQ	B.O.D. Chairman
Adnan ERTEM	B.O.D. Vice Chairman
Nadir ALPASLAN	B.O.D. Member and Audit Committee
Salah A E AL MUDHAF	B.O.D. Member
Fawaz KH E AL SALEH	B.O.D. Member
Mazin S.A.S AL NAHEDH	B.O.D. Member
Ahmed S. AL KHARJI [(*)]	B.O.D. Member and Audit Committee Chairman
Mohamad Al-MIDANI	B.O.D. Member and Audit Committee
Ufuk UYAN	B.O.D. Member - Chief Executive Officer

(*) He was appointed as the Audit Committee Chairman with the decision taken at the meeting of the Board of Auditors dated 26/01/2020.

Key management includes 19 other officers together with the above B.O.D. members.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

25. Fees and commission income and expense

	December 31, 2019	December 31, 2018
Fees and commission income		
Commissions on loans	230,596	198,320
Credit card fees and commissions	197,886	123,245
Commission income from commitments	154,100	132,793
POS commission income	142,735	91,786
Income from insurance & agency activities	82,623	60,342
Money transfer commissions	55,542	45,735
Commissions from checks and notes	20,781	19,810
Import letter of credit commissions	12,290	10,383
Other	113,688	79,001
Total	**1,010,241**	**761,415**

	December 31, 2019	December 31, 2018
Fees and commission expense		
Credit card machine and fees paid for credit cards	(204,337)	(133,224)
Correspondent bank fees	(41,037)	(25,493)
Mortgage expertise expenses	(27,863)	(20,905)
Brokerage fees on borrowings	(12,679)	(8,919)
Money transfer commissions	(10,830)	(9,183)
Other	(74,414)	(50,556)
Total	**(371,160)**	**(248,280)**

26. Salaries and employee benefits

	December 31, 2019	December 31, 2018
Staff costs		
Wages and salaries	(689,866)	(512,759)
Bonus	(117,945)	(96,738)
Social security premiums	(117,293)	(96,508)
Other fringe benefits	(100,326)	(82,395)
Health expenses	(25,943)	(18,902)
Provision for employee termination benefits	(19,952)	(25,151)
Other	(29,931)	(15,057)
Total	**(1,101,256)**	(847,510)

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

27. Other expenses

	December 31, 2019	December 31, 2018
Impairment on construction projects (Note 10)	-	-
Impairment on investment property (Note 11)	-	(671)
Impairment charges/(reversal)	-	(671)
Insurance fund premium expense	(104,910)	(90,487)
Repair and maintenance expenses	(100,541)	(47,907)
Subscription and membership expenses	(70,120)	(54,314)
Advertising expenses	(46,652)	(32,879)
Cleaning expense	(40,094)	(29,826)
Communication	(35,165)	(27,495)
Professional fees	(34,528)	(29,421)
Energy expenses	(26,717)	(18,354)
Travel and representation expenses	(9,787)	(8,582)
Stationery and publishing expenses	(9,481)	(8,809)
Non taxable income	(7,746)	(3,844)
Grants and donations	(7,350)	(1,756)
Insurance expenses	(6,686	(5,137)
Loss from sale of assets	(1,125)	(3,829)
Other	(143,762	(20,062)
Other expenses	**(644,664)**	**(382,702)**
Total	**(644,664)**	**(383,373)**

28. Commitments and contingencies

In the normal course of its banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. Such commitments include mainly letters of guarantee, letters of credit and acceptance credits.

The following is a brief summary of significant contingencies and commitments as of December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Letters of guarantee issued by the Bank	10,007,571	10,391,279
Letters of credit	1,374,009	1,079,876
Commitments	6,689,874	4,877,587
Acceptance credits	55,035	74,098
Other guarantees	465,739	330,828
Total	**18,592,228**	16,753,668

Letters of Guarantee - are mainly issued on behalf of domestic customers who entered into commitments in the domestic and international markets.

Commitments - are mainly check payment commitments, credit cards and other guarantees and commitments.

Except for the Head-Office, Banking Base and four branch buildings, all branch premises of the Bank are leased under operational leases. The lease periods vary between 2-10 years and lease arrangements are cancellable. There are no restrictions placed upon the lessee by entering into these leases.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

28. Commitments and contingencies (continued)

Fiduciary activities

Assets, other than cash deposits, held by the Bank and its subsidiaries in fiduciary for its customers are not included in the consolidated statement of financial position, since such items are not under the ownership of the Group. The fiduciary activities of the group is as follows:

	December 31, 2019	December 31, 2018
Cheques received for collection	7,697,912	8,063,707
Notes received for collection	1,858,624	1,742,813
	9,556,536	**9,806,520**

29. Financial risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Procedures and operations throughout the Group are designed towards effectively addressing risk. The Group is exposed to several risks such as credit risk, market risk, operational risk, liquidity risk, profit rate risk, reputational risk, legal risk, etc. Also, the Banks' capital adequacy ratio has to exceed the minimum requirements of the Banking Regulations and Supervision Agency (BRSA). BRSA is the regulatory body for banking industry in Turkey.

Organization of the risk management function

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The mission of the Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

The Group Risk Management reports to the Board of Directors through the Internal Systems Committee. Internal Systems Committee is responsible for identifying, measuring, monitoring and reporting regarding risk types including credit risk, market risk, operational risk, liquidity risk, profit rate risk, reputational risk, legal risk, etc. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

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

Internal systems and risk management policies

The Group's Risk Management Policies established by the Board of Directors via Internal Systems Committee are implemented and executed by Risk Management Department. The primary objectives of the Risk Management Department are to coordinate the integration of the Risk Management Policies among various business departments and to assess and analyze the risks associated with new products, business processes and key risk indicators. This risk assessment is carried by the Credit Risk Management and Modelling and Market Risk, Operational Risk and Capital Management functions. The Risk Management Department is managed by the Head of Risk Management. Internal Systems, which comprise of Risk Management, Internal Audit, Internal Control and Compliance Departments, are overseen by the Chief Risk Officer who reports directly to the Internal Systems Committee and coordinates communication, reporting and monitoring between the Internal Systems Committee and the Risk Management Department.

29. Financial risk management (continued)

Board of directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

The Internal Systems Committee of Board of Directors, which consists of three non-executive directors, oversees, develops and monitors all of risk management and internal systems, policies and guidelines as well as the scope and structure of overall risk management organization and activities. Current Risk Management Policies are approved by Board of Directors and are being reviewed on a yearly basis and updated in case of necessities. The Audit Committee oversees the efficiency and adequacy of internal control and internal audit systems, the functioning of these systems and any related accounting, reporting or legal matters. In addition, the Audit Committee is responsible for coordinating the work of Internal Audit Department, preparing internal audit plans and providing information to the Board of Directors about any non-compliance with the relevant regulations and deficiencies in internal controls, including those highlighted by the BRSA or internal auditors.

Audit committee

The Audit Committee is in charge of and responsible for monitoring the effectiveness and efficiency of the internal systems of the Group, the operation of these systems as well as the accounting and reporting systems within the framework of the Banking Law and relevant regulations and the integrity of the information generated, making preliminary assessments as necessary for the Board of Directors' election of independent auditing firms as well as rating institutions, evaluation and support services firms, monitoring on a regular basis the activities of these establishments which are elected by the Board of Directors and with which contracts are concluded, ensuring the maintenance and coordination, on a consolidated basis, of the internal auditing activities of partnerships which are subject to consolidation pursuant to regulations which take effect as per the Banking Law.

Risk Management Department

Risk Management Department was constituted in order to assess the main risks of the Group. In accordance with the Risk Policies, Risk Management Activities are composed of the following activities;

- Identification of risks that the Group exposes,
- Measurement of risks,
- Monitoring of risks,
- Control and reporting of risks,
- Business Continuity Plan, Process and Procedures.

Internal Audit Department

Risk management processes throughout the Group are audited periodically by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Credit risk

Credit risk represents risk that the Group will incur a loss because a customer, client or counterparty fails to fulfill, either partially or totally, its contractual obligations.

A customer's credit limit is established taking into consideration the customer's financial performance and is then used to monitor the customer's credit risk.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows an analysis of the Group's maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the collaterals. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Gross maximum exposure	December 31, 2019	December 31, 2018
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	**15,677,822**	7,633,492
Balances with banks and other financial institutions	**16,250,847**	11,986,381
Due from financing activities	**45,284,486**	39,130,394
Financial lease receivable, net	**2,715,898**	2,454,677
Financial assets at FVTOCI	**12,457,849**	6,171,745
Financial assets at FVTPL	**4,019,316**	91,443
Other assets	**1,636,218**	2,836,596
Derivative financial assets valued at fair value through profit or loss	**182,006**	42,590
Total	**98,224,442**	70,347,318
Contingent liabilities	**11,381,580**	11,471,156
Other guarantees	**520,774**	404,925
Commitments	**6,689,874**	4,877,587
Total	**18,592,228**	16,753,668
Total credit risk exposure	**116,816,670**	87,100,986

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty and by industry sector.

The maximum cash credit exposure to any counterparty other than the Central Bank as of December 31, 2019 was TL 649,604 (December 31, 2018 - TL 923,864) and non-cash credit exposure as of December 31, 2019 was TL 272,352 (December 31, 2018 - TL 241,763) before taking account of collateral or other credit enhancements.

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	December 31, 2019	December 31, 2018
	Gross exposure	Gross exposure
Financial services	**55,396,099**	31,005,795
Construction and materials	**17,512,259**	16,706,945
General retailers	**12,256,674**	11,387,822
Manufacturing	**9,593,078**	8,665,196
Electricity	**4,632,870**	4,490,154
Health care and social services	**2,849,205**	2,905,745
Food and beverages	**2,098,620**	1,803,213
Mining operations	**620,500**	623,391
Forestry	**173,254**	170,075
Telecommunications	**261,833**	377,303
Real estate	**936,475**	406,510
Other	**10,485,803**	8,558,837
Total	**116,816,670**	87,100,986

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

For commercial lending, charges over real estate properties, vehicles, cash blockages and trade receivables.

For retail lending, mortgages over residential properties.

Management monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses, and when necessary requests additional collateral in accordance with the underlying agreement.

Credit quality per class of financial assets

Rating and scoring models for Corporate/Commercial/SME/Retail portfolios are developed based on statistical methods by Risk Management Department. Classes of financial assets graded by ratings and scoring models or External Credit Assesment Institutions are shown the table below as of December 31, 2019.

	Cash Loans	**Non-Cash Loans**	**Total**
High Quality	35%	59%	40%
Medium Quality	38%	22%	35%
Average	18%	13%	17%
Below Average	9%	6%	8%

Aging analysis of Stage 2 on financial assets:

Current Period	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Due from financing activities:					
Corporate lending	**4,891,156**	**540,266**	**340,222**	**-**	**5,771,644**
Consumer lending	**165,054**	**131,639**	**69,397**	**-**	**366,090**
Credit cards	**42,359**	**4,052**	**2,264**	**-**	**48,676**
Total	**5,098,569**	**675,958**	**411,884**	**-**	**6,186,410**

Previous Period	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	2,869,347	639,881	608,330	-	**4,117,558**
Consumer lending	16,015	139,499	91,555	-	**247,069**
Credit cards	6,661	4,395	782	-	**11,838**
Total	**2,892,023**	**783,775**	**700,667**	**-**	**4,376,465**

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2019 and 2018 comprise of blocked accounts, property and machinery pledges.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. In addition, the Group maintains a statutory reserve deposit with the Central Bank of Turkey.

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

Maturity analysis of assets and liabilities as of December 31, 2019

31 December 2019	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank	6,783,968	-	-	-	-	**6,783,968**
Balances with other banks and financial institutions	15,629,916	620,931	-	-	-	**16,250,847**
Reserve deposits at the Central Bank	11,321,132	-	-	-	-	**11,321,132**
Financial Assets At Fair Value Through Profit Or Loss	51,145	1,163,895	2,795,621	8,655	-	**4,019,316**
Financial assets valued at amortised cost	-	53,383	2,805,230	-	-	**2,858,613**
Financial assets at fair value through other comprehensive income	295,134	3,770,234	8,374,627	17,854	-	**12,457,849**
Due from financing activities & finance leae receivables, net	11,958,558	15,853,297	18,454,898	2,883,798	(1,150,167)	**48,000,384**
Precious metals	1,111,144	-	-	-	-	**1,111,144**
Derivative financial assets valued at fair value through profit or loss	9,564	115,325	57,117	-	-	**182,006**
Construction projects, net	-	-	-	-	73,480	**73,480**
Joint venture	-	-	-	-	40,381	**40,381**
Investment properties, net	-	-	-	-	37,646	**37,646**
Property and equipment, net	-	-	-	-	841,005	**841,005**
Intangible assets, net	-	-	-	-	207,811	**207,811**
Deferred tax assets	-	-	-	-	401,782	**401,782**
Assets and a disposal group held for sale	473,326	-	-	-	-	**473,326**
Other assets	-	-	-	-	1,636,219	**1,636,219**
Total assets	**47,633,887**	**21,577,065**	**32,487,493**	**2,910,307**	**2,088,157**	**106,696,909**
Due to other financial institutions and banks	813,351	312,743	-	-	-	**1,126,094**
Sukuk securities issued	735,587	1,182,558	2,720,541	-	-	**4,638,686**
Subordinated Loans	-	-	1,239,183	2,141,800	-	**3,380,983**
Money market balances	-	-	-	-	-	-
Current and profit / loss sharing investors' accounts	83,308,806	3,542,282	766,894	-	-	**87,617,982**
Finance lease payable, net	36,642	85,987	205,986	22,340	-	**350,955**
Derivative financial instruments	265,623	148,113	10,401	-	-	**424,137**
Employee benefit obligations	-	113,542	-	-	176,958	**290,500**
Income taxes payable	-	225,704	-	-	-	**225,704**
Other liabilities and provisions	-	-	-	-	1,830,762	**1,830,762**
Liabilities	**85,160,009**	**5,610,929**	**4,943,005**	**2,164,140**	**2,007,720**	**99,885,803**
Net	**(37,526,122)**	**15,966,136**	**27,544,488**	**746,167**	**80,437**	**6,811,106**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Maturity analysis of assets and liabilities as of December 31, 2018:

31 December 2018	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank	3,139,716	-	-	-	-	**3,139,716**
Balances with other banks and financial institutions	7,602,596	4,036,676	327,312	19,797	-	**11,986,381**
Reserve deposits at the Central Bank	6,495,190	-	-	-	-	**6,495,190**
Financial Assets At Fair Value Through Profit Or Loss	91,053	-	-	390	-	**91,443**
Financial assets valued at amortised cost	37,156	-	-	-	-	**37,156**
Financial assets at fair value through other comprehensive income	559,664	277,283	4,813,983	415,375	105,440	**6,171,745**
Due from financing activities & finance leae receivables, net	11,917,677	14,135,506	13,268,455	2,263,433	-	**41,585,071**
Precious metals	-	-	-	-	957,110	**957,110**
Derivative financial assets valued at fair value through profit or loss	42,590	-	-	-	-	**42,590**
Construction projects, net	-	-	-	-	74,614	**74,614**
Joint venture	-	-	-	-	28,815	**28,815**
Investment properties, net	-	-	-	-	29,671	**29,671**
Property and equipment, net	-	-	-	-	468,770	**468,770**
Intangible assets, net	-	-	-	-	202,908	**202,908**
Deferred tax assets	-	-	-	-	380,683	**380,683**
Assets and a disposal group held for sale	263,577	-	-	-	-	**263,577**
Other assets	-	-	-	-	2,836,596	**2,836,596**
Total assets	**30,149,219**	**18,449,465**	**18,409,750**	**2,698,995**	**5,084,607**	**74,792,036**
Due to other financial institutions and banks	806,059	1,302,063	148,189	-	-	**2,256,311**
Sukuk securities issued	1,371,224	3,215,751	3,192,082			**7,779,057**
Subordinated Loans	-	-	-	1,901,210	-	**1,901,210**
Money market balances	-	-	-	-	-	-
Current and profit / loss sharing investors' accounts	188,003	-	-	-	-	**188,003**
Finance lease payable, net	53,134,256	1,623,929	225,426	-	-	**54,983,611**
Derivative financial instruments	59,033	5,357	106,352	-	-	**170,742**
Employee benefit obligations	-	86,617	-	-	131,372	**217,989**
Income taxes payable	-	175,685	-	-	-	**175,685**
Other liabilities and provisions	-	-	-	-	1,708,535	**1,708,535**
Liabilities	**55,558,575**	**6,409,402**	**3,672,049**	**1,901,210**	**1,839,907**	**69,381,143**
Net	**(25,409,356)**	**12,040,063**	**14,737,701**	**797,785**	**3,244,700**	**5,410,893**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

Analysis of financial liabilities by contractual maturities on an undiscounted basis:

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at December 31, 2019						
Due to other financial institutions and banks	**678,194**	**136,082**	**336,745**	**-**	**-**	**1,151,021**
Subordinated loans	**-**	**136,513**	**136,514**	**2,281,515**	**2,328,110**	**4,882,652**
Sukuk issued	**-**	**1,202,278**	**899,917**	**2,848,306**	**-**	**4,950,501**
Derivative financial instruments (*)	**-**	**22,113,193**	**5,211,387**	**1,480,538**	**-**	**28,805,118**
Current accounts	**36,401,014**	**-**	**-**	**-**	**-**	**36,401,014**
Profit and loss sharing accounts (**)	**-**	**46,907,793**	**3,542,282**	**766,894**	**-**	**51,216,969**
Finance lease payable, net		**36,642**	**85,987**	**205,986**	**22,340**	**350,955**
Total undiscounted financial liabilities	**37,079,208**	**70,532,501**	**10,212,832**	**7,583,239**	**2,350,450**	**127,758,230**
As at December 31, 2018						
Due to other financial institutions and banks	-	808,234	1,338,532	163,998	-	**2,310,764**
Subordinated loans	-	72,985	72,985	583,882	2,212,653	**2,942,505**
Sukuk issued	-	1,398,812	3,544,299	4,554,629	-	**9,497,740**
Derivative financial instruments (*)	-	10,383,909	222,198	1,144,549	-	**11,750,656**
Current accounts	22,422,054	-	-	-	-	**22,422,054**
Profit and loss sharing accounts (**)	-	30,712,202	1,623,929	225,426	-	**32,561,557**
Total undiscounted financial liabilities	**22,422,054**	**43,376,142**	**6,801,943**	**6,672,484**	**2,212,653**	**81,485,276**

(*) As such derivatives will be settled in gross amounts, notional amounts have been disclosed.
(**) Customers have choice of demanding their accounts anytime by abandoning profit share income.

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
December 31, 2019						
Contingent liabilities and other guarantees (*)	**6,179,592**	**1,217,820**	**2,780,305**	**1,617,353**	**107,284**	**11,902,354**
Commitments	**6,689,874**	**-**	**-**	**-**	**-**	**6,689,874**
Total	**12,869,466**	**1,217,820**	**2,780,305**	**1,617,353**	**107,284**	**18,592,228**
December 31, 2018						
Contingent liabilities and other guarantees	6,314,813	931,206	2,831,374	1,674,984	123,703	11,876,080
Commitments	4,877,587	-	-	-	-	4,877,587
Total	11,192,400	931,206	2,831,374	1,674,984	123,703	16,753,667

(*) Such liabilities may be liquidated and paid by the Group in case of default or the customers.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates, interest rates and precious metals prices.

The exchange rate risk of the financial positions taken by the Group related to balance sheet and off-balance sheet accounts are measured.

The Group has determined market risk management operations and has taken precautions in order to economically hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Systems of Banks".

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

The Board of Directors of the Group evaluates basic risks that it can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Group. Additionally, the Board of Directors oversees that the Risk Management Group and Senior Management have taken precautions to describe, evaluate, control and manage risks faced by the Group.

Market risk – Non-trading

The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading portfolio of the Group is not significant. Except for the concentration within foreign currency, the Group has no significant concentration of market risk. The Bank has precious metal transactions. Such transactions have also market risk. The analysis below calculates the effect of a reasonably possible movement of the gold price against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2019			December 31, 2018		
Precious metal	**Increase/ decrease in metal price in %**	**Effect on profit before tax**	**Effect on equity**	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity
Gold	**-10**	**(122)**	**(122)**	-10	(568)	(568)
Gold	**+10**	**122**	**122**	+10	568	568

Interest risk

The Group operates in non-interest banking sector therefore there is no interest risk.

Currency risk

Exchange rate risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The analysis below calculates the effect of a reasonably possible movement of the currency rate against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2019			December 31, 2018		
Currency	**Increase/ decrease in metal price in %**	**Effect on profit before tax**	**Effect on equity**	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity
USD	**+10**	**47,770**	**125,101**	+10	(8,663)	13,807
USD	**-10**	**(47,770)**	**(125,101)**	-10	8,663	(13,807)
EUR	**+10**	**(13,272)**	**(8,449)**	+10	1,880	1,880
EUR	**-10**	**13,272**	**8,449**	-10	(1,880)	(1,880)

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

The concentrations of assets, liabilities and off-balance sheet items:

December 31, 2019

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	4,076,442	870,678	68,320	-	5,015,440
Deposits with other banks and financial institutions	8,489,041	3,745,767	491,060	2,223,940	14,949,808
Reserve deposits at the Central Bank	2,647,150	5,273,263	-	3,400,718	11,321,132
Financial assets – financial assets at FVTPL	-	116,068	-	3,774,332	3,890,400
Financial assets – financial assets at OCI	5,036,453	4,457,995	68,669	-	9,563,117
Financial assets – amortised cost	2,210,573	648,807	-	-	2,859,380
Due from financing activities, net	8,398,882	9,283,263	-	91,324	17,773,470
Finance lease receivable, net	575,299	1,113,715	-	-	1,689,014
Precious metals	-	-	-	1,111,144	1,111,144
Other assets	864,494	88,660	1,541	103	954,798
Property and equipment, net	35,220	957	-	-	36,177
Intangible assets, net	64,671	25	-	-	64,696
Total assets	**32,398,226**	**25,599,198**	**629,589**	**10,601,562**	**69,228,576**
Due to other financial institutions and banks	411,270	327,129	96,102	119,442	953,943
Sukuk issued	-	2,720,541	1,182,558	-	3,903,099
Subordinated loans	-	3,380,983	-	-	3,380,983
Current and profit / loss sharing investors' accounts	11,880,645	29,568,052	486,844	10,253,648	52,189,189
Employee benefit obligations	-	446	-	-	446
Finance lease payable, net	34,408	815	-	-	35,223
Other liabilities & provisions	149,095	316,816	42,984	680	509,576
Total liabilities and equity	**12,475,419**	**36,314,782**	**1,808,488**	**10,373,770**	**60,972,459**
Net balance sheet position	**19,922,807**	**(10,715,584)**	**(1,178,898)**	**227,792**	**8,256,117**
Net off-balance sheet position	**(20,055,535)**	**11,193,287**	**1,159,041**	**(229,013)**	**(7,932,220)**

December 31, 2018

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	862,855	1,082,888	30,769	-	1,976,512
Deposits with other banks and financial institutions	5,403,095	4,368,153	293,818	1,922,154	11,987,220
Reserve deposits at the Central Bank	2,037,427	2,707,174	-	1,750,590	6,495,191
Financial assets – financial assets at FVTPL	1,812,825	2,240,753	-	-	4,053,578
Financial assets – financial assets at OCI	6,345	101,929	422	-	108,696
Financial assets – amortised cost	-	37,156	-	-	37,156
Due from financing activities, net	5,505,277	9,615,265	-	48,589	15,169,131
Finance lease receivable, net	301,134	711,375	-	-	1,012,509
Precious metals	-	-	-	957,110	957,110
Other assets	1,945,587	29,683	10,963	131	1,986,364
Property and equipment, net	7,697	-	-	-	7,697
Intangible assets, net	63,785	-	-	-	63,785
Total assets	**17,946,027**	**20,894,376**	**335,972**	**4,678,574**	**43,854,949**
Due to other financial institutions and banks	643,968	1,515,343	-	-	2,159,311
Sukuk issued	-	5,118,302	1,038,674	-	6,156,976
Subordinated loans	-	1,901,210	-	-	1,901,210
Current and profit / loss sharing investors' accounts	8,093,638	18,969,822	300,369	5,090,336	32,454,165
Other liabilities & provisions	127,962	251,855	69,116	17,507	466,440
Derivative financial instruments	-	148,279	9	-	148,288
Total liabilities and equity	**8,865,568**	**27,904,811**	**1,408,168**	**5,107,843**	**43,286,390**
Net balance sheet position	**9,080,459**	**(7,010,435)**	**(1,072,196)**	**(429,269)**	**568,559**
Net off-balance sheet position	**(9,061,656)**	**6,923,802**	**1,053,164**	**423,586**	**(661,104)**

Pricing risk

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

29. Financial risk management (continued)

The Group issues loans with a pre-determined profit rate and receives deposits on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Group, rather than giving them a pre-determined rate of profit. In this aspect, there is no repricing structure for the financial assets and liabilities of the Group.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, it is managing the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Capital adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by the BRSA and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

As of December 31, 2019 and 2018, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders. No changes were made in the objectives, policies and processes from the previous years. Below table is in accordance with consolidated financial statements prepared in accordance with BRSA accounting principles.

Regulatory capital

	December 31, 2019	**December 31, 2018**
Tier 1 capital	**7,719,066**	5,156,887
Tier 2 capital	**2,657,593**	2,316,366
Deductions from capital	**(121,954)**	(84,146)
Total capital	**10,254,705**	7,389,107
Risk weighted assets amount subject to credit, market & operational risk	**55,097,567**	42,921,666

	Actual	**Required**	Actual	Required
Tier 1 capital ratio	**11.81%**		12.01%	
Total capital ratio	**18.57%**	**12%**	17.22%	12%

30. Fair value of financial instruments

Fair values

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31 2019, the fair value of financing and leasing receivables has been estimated as TL 51,203,405 (December 31, 2018 – TL 40,238,153) whereas their carrying amount is TL 48,000,384 (December 31, 2018 – TL 41,585,071).

Fair value of borrowings at amortized cost is estimated as TL 10,979,094 (December 31, 2018 – TL 12,554,014), whereas their carrying amount is TL 9,145,762 (December 31, 2018 – TL 12,124,581). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term.

For other short-term financial assets and liabilities, fair value is estimated to approximate carrying value due to their short term or non-interest bearing structures.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristic or by discounting the expected future cash flows at prevailing profit rates.

31. Subsequent events

On March 11, 2020, the World Health Organization declared Pandemic the outbreak of a coronavirus (COVID-19). As the situation is still evolving, and its extent is highly uncertain at the time of issuing these financial statements, the management of the Group considers providing a quantitative and correct estimate of the potential impact of this outbreak. Since the Pandemic affected Turkey, the Group has introduced all the measures required, imposed by external authorities and internal measures directed to continuous monitoring and mitigating potential negative impacts of the Pandemic.

Management expect financing provision, fair value and impairment of financing as well as profit income related to financial instruments to be impacted by the situation. The impact will be recognized by the Bank in 2020.

Currently, the Group has made a number of forecasts regarding its liquidity, deposit and financing portfolio, and projection of the potential impact on financial situation. The assessment of the liquidity risk has been evaluated, no material impact on deposit portfolio recorded during the first 3 months of Pandemic. Management will continue to monitor the potential impact and will take all measures available and steps possible to mitigate negative impacts. Group considers the COVID-19 outbreak to be a non-adjusting subsequent event.

Following the necessary legal permissions as of May 5, 2020, the bank has completed the share transfer transactions of Neova Sigorta A.Ş. and concluded the purchase. With the purchase transaction, the bank has purchased 78,864,212 shares by paying 745,860 TL and has increased the partnership share of Neova Sigorta A.Ş., which was 7% before sales, to 100% with all shares. In accordance with IFRS 3 - Business Combinations standard, the Group will consider the acquisition transaction as a merger of the companies' under common control.

In accordance with the BRSA Decision No. 9000 dated April 18, 2020, in order to minimize the negative impact of the process due to the COVID-19 outbreak to the economy, the market, production and employment, and to ensure the most efficient use of the resources held by banks, banks shall be obliged to comply with the second paragraph of Article 93 and Article 43 of the banking; Beginning May 1, 2020, the monthly average of the Asset Ratio (AR) of that month should not fall below 100% for deposit banks and 80% for participation banks as of the end of each month. The change in the share that will bring the ratio to 100% and 80% respectively for the deposit banks with an AR value below 100% and participation banks below 80% as of the end of the relevant month, which constitute a contradiction in accordance with the subparagraph (a) of the first paragraph of the article 148.