ICBC Turkey Bank Anonim Şirketi
and Its Subsidiaries

Consolidated Financial Statements
As At and For The Year Ended
31 December 2019
With Independent Auditors' Report Thereon

19 March 2021

This report contains the "Independent Auditors' Report" comprising 4 pages and; the "Financial statements and their explanatory notes" comprising 63 pages.

ICBC Turkey Bank Anonim Şirketi and Its Subsidiaries

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KPMG Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
İş Kuleleri Kule 3 Kat:2-9
Levent 34330 İstanbul
Tel +90 212 316 6000
Fax +90 212 316 6060
www.kpmg.com.tr

INDEPENDENT AUDITORS' REPORT

To the General Assembly of ICBC Turkey Bank A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of ICBC Turkey Bank A.Ş. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of 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 Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standard Board for Accountants' Code of Ethics for Professional Accountants ("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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment on loans and advances to customers

The details of accounting policies and significant estimates and assumptions for impairment on loans and advances to customers are presented Note 2.9 to the consolidated financial statements.

Key audit matter	***How the matter is addressed in our audit***
As of 31 December 2019, loans and advances to customers comprise 49% of the Group's total assets. The Group recognizes its loans and advances to customers in accordance with IFRS 9 "Financial Instruments". In determining the impairment of financial assets the Group applies "expected credit loss model" which contains significant assumptions and estimates. The significant assumptions and estimates of the Group's management are as follows: • significant increase in credit risk, • incorporating the forward looking macroeconomic information in calculation of credit risk, • design and implementation of expected credit loss model. The determination of the impairment of loans and advances to customers measured at amortized cost depends on the credit default status, the model based on the change in the credit risk at the first recognition date and the classification of the loans measured at amortized cost according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets. The Group calculates expected credit losses on both an individual and a collective basis. Individual provisions consider the estimated future performance of the business and the fair value of the collateral provided for credit transactions. Provisions set aside for the Group are modeled on prospective expectations by means of data collection in the past and the current period. Impairment on loans and advances to customers measured at amortized cost was considered to be a key audit matter, due to the significance of the estimates, assumptions, the level of judgements and its complex structure as explained above.	Our procedures for testing the impairment on loans and advances to customers included below: • We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures are tested with the involvement of information risk management specialists. • The contractual cash flow tests prepared for the financial assets of the Group were examined and the results of the tests were checked for compliance with the loan agreements. The conformity of the subjective and objective criteria defined in the Group's impairment model has been checked for compliance with IFRS 9. • We evaluated the Group's business model and methodology and the evaluation of the calculations were carried out with the control testing and detailed analysis by the involvement of specialist. • We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information and testing their classification. In this context, the current status of the loan customer has been evaluated by including prospective information and macroeconomic variables. • We evaluated the adequacy of the expected credit loss calculations by selecting sample for the loans and leasing receivables which are assessed on individual basis. • We tested the accuracy and completeness of the data in the calculation models for the loans which are assessed on collective basis. The expected credit loss calculation has been tested through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters were recalculated. • We assessed the macroeconomic models which are used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method. • We evaluated assessments which are used in determining the significant increase in credit risk. • Additionally, we also evaluated the adequacy of the consolidated financial statement disclosures related to impairment provisions.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Responsibilities of auditors in an audit are as follows:

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Orhan Akova
Partner

19 March 2021
Istanbul, Turkey

ICBC TURKEY BANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated)

	Notes	**31 December 2019**	**31 December 2018**
ASSETS			
Cash and balances with the Central Bank	*6*	1,371,912	1,519,167
Due from banks and financial institutions	*6*	1,822,523	1,993,339
Reserve deposits at Central Bank	*6*	701,543	287,732
Interbank and other money market placements	*6*	662,583	349,622
Financial assets at fair value through profit and loss		17,282	42,996
- Trading securities	*7*	16,613	12,879
- Derivative financial assets	*18*	669	30,117
Loans and advances to customers	*9*	8,926,578	7,666,242
Investment securities	*8*	4,692,342	3,860,475
Tangible assets	*10*	118,559	36,239
Intangible assets	*11*	8,194	8,171
Deferred tax assets	*17*	30,918	44,596
Other assets	*12*	39,047	43,911
Total assets		**18,391,481**	**15,852,490**
LIABILITIES			
Due to banks	*13*	176,458	1,322,553
Deposits	*13*	9,790,304	6,699,689
Other money market deposits	*13*	18,841	346,145
Derivative financial liabilities	*18*	3,945	1,141
Funds borrowed	*14*	4,238,007	4,082,550
Subordinated loans	*15*	1,782,420	1,579,084
Income tax payable	*17*	23,915	18,001
Employee benefits	*16*	20,975	17,917
Provisions	*16*	110,079	44,460
Other liabilities	*16*	897,225	574,381
Total liabilities		**17,062,169**	**14,685,921**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	*19*	860,000	860,000
Adjustment to share capital		4,108	4,108
Share capital premium		411	411
Fair value reserves		4,582	(83,233)
Revaluation surplus on buildings		15,094	13,268
Actuarial gain/(loss)		1,216	(376)
Legal reserves and retained earnings	*20*	443,901	372,391
Total equity		**1,329,312**	**1,166,569**
Total liabilities and equity		**18,391,481**	**15,852,490**

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

ICBC TURKEY BANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	1 January– 31 December 2019	1 January– 31 December 2018
Interest income			
Interest on loans and advances		700,434	758,136
Interest on securities		297,033	373,958
Interest on deposits with other banks and financial institutions		89,435	8,740
Interest on other money market placements		19,909	26,993
Other interest income		171,250	49,677
Total interest income		**1,278,061**	**1,217,504**
Interest expense			
Interest on deposits		(627,504)	(459,053)
Interest on funds borrowed		(16,815)	(258,220)
Interest on other money market deposits		(230,875)	(46,770)
Other interest expense		(5,257)	(92,939)
Total interest expense		**(880,451)**	**(856,982)**
Net interest income		**397,610**	**360,522**
Net impairment of loans and advances and credit related commitments	*9*	(66,578)	(126,836)
Net interest income after provision for impairment of loans and advances		**331,032**	**233,686**
Foreign exchange gain/(loss), net		60,568	72,466
Net interest income after foreign exchange gain and provision for impairment of loans and advances		**391,600**	**306,152**
Other operating income			
Fee and commission income	*24*	19,223	13,099
Income from banking services	*25*	122,131	112,556
Net trading income	*26*	(12,338)	3,184
Other income	*27*	24,222	15,308
		153,238	**144,147**
Other operating expenses			
Fee and commission expense	*24*	(7,066)	(8,376)
Salaries and employee benefits	*28*	(215,767)	(180,600)
Depreciation and amortization	*10,11*	(33,194)	(9,667)
Taxes other than on income		(20,416)	(16,862)
General and administrative expenses	*29*	(58,454)	(70,653)
Other expenses	*30*	(88,391)	(41,228)
		(423,288)	**(327,386)**
Profit from operating activities before income tax		**121,550**	**122,913**
Current tax expense	*17*	(58,851)	(32,110)
Deferred tax income/(expense)	*17*	8,811	(7,254)
Profit for the year		**71,510**	**83,549**
Profit attributable to:			
Owners of the Bank		71,510	83,549
Non-controlling interest		-	-
		71,510	**83,549**
Earnings per share			
Basic and diluted per share (expressed in full TL)	22	0.0083	0.0097

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

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

	Notes	1 January– 31 December 2019	1 January– 31 December 2018
Profit for the year		**71,510**	**83,549**
Other comprehensive income, net of income tax			
Other comprehensive income items that are or may be reclassified subsequently to profit or loss			
Net change in fair value of financial assets measured at fair value through other comprehensive income (FVOCI)		110,201	(104,058)
Net change in fair value of available for sale financial assets		-	-
Tax related to gain/(loss) recognized under equity		(22,386)	20,812
Net change in fair value		**87,815**	**(83,246)**
Other comprehensive income items that will not be reclassified subsequently to profit or loss			
Revaluation surplus on buildings		1,672	1,708
Tax related to gain/(loss) recognized under equity		154	(86)
Net change in revaluation on buildings		**1,826**	**1,622**
Actuarial gain/(loss)		1,849	(765)
Tax related to gain/loss recognized under equity		(257)	207
Net change in actuarial gain/(loss)		**1,592**	**(558)**
Other comprehensive income, net of tax		**91,233**	**(82,182)**
Total comprehensive income for the year		**162,743**	**1,367**
Attributable to:			
Owners of the Bank		162,743	1,367
Non-controlling interest		**-**	**-**

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

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

	Notes	Share capital	Adjustment to share capital	Share capital premium	Fair value reserves	Revaluation surplus on buildings	Actuarial gain/(loss)	Legal reserves and retained earnings	Non-controlling interest	Total equity
Balance at 1 January 2018		**860,000**	**4,108**	**411**	**(5,596)**	**11,646**	**182**	**331,012**	**-**	**1,201,763**
Effect of changes in Accounting Policies at 1 January 2018		-	-	-	5,609	-	-	(42,170)	-	(36,561)
Restated balances at 1 January 2018		**860,000**	**4,108**	**411**	**13**	**11,646**	**182**	**288,842**	**-**	**1,165,202**
Comprehensive income for the year										
Profit for the year		-	-	-	-	-	-	83,549	-	83,549
Other comprehensive income										
Net change in FVOCI		-	-	-	(83,246)	-	-	-	-	(83,246)
Revaluation surplus on buildings	10,20	-	-	-	-	1,622	-	-	-	1,622
Actuarial gain/(loss)	16,20	-	-	-	-	-	(558)	-	-	(558)
Total comprehensive income for the year		**-**	**-**	**-**	**(83,246)**	**1,622**	**(558)**	**-**	**-**	**(82,182)**
Balances at 31 December 2018		**860,000**	**4,108**	**411**	**(83,233)**	**13,268**	**(376)**	**372,391**	**-**	**1,166,569**
Balances at 1 January 2019		**860,000**	**4,108**	**411**	**(83,233)**	**13,268**	**(376)**	**372,391**	**-**	**1,166,569**
Comprehensive income for the year										
Profit for the year		-	-	-	-	-	-	71,510	-	71,510
Other comprehensive income										
Net change in FVOCI		-	-	-	87,815	-	-	-	-	87,815
Revaluation surplus on buildings	10,20	-	-	-	-	1,826	-	-	-	1,826
Actuarial gain/(loss)	16,20	-	-	-	-	-	1,592	-	-	1,592
Total comprehensive income for the year		**-**	**-**	**-**	**87,815**	**1,826**	**1,592**	**71,510**	**-**	**91,233**
Balances at 31 December 2019		**860,000**	**4,108**	**411**	**4,582**	**15,094**	**1,216**	**443,901**	**-**	**1,329,312**

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

ICBC TURKEY BANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	1 January– 31 December 2019	1 January– 31 December 2018
Cash flows from operating activities			
Interest received		1,310,234	936,964
Interest paid		(921,915)	(694,602)
Fees and commissions received		20,090	21,764
Income from banking services		112,088	91,717
Trading income		(12,338)	3,184
Fees and commissions paid		(7,066)	(8,376)
Cash payments related to employee benefits and similar items		(212,070)	(179,806)
Net cash paid for other operating activities		86,955	(290,970)
Income taxes paid		(76,851)	(23,692)
Cash flows from operating activities before changes in operating assets and liabilities		**299,127**	**(143,817)**
Changes in operating assets and liabilities			
Trading securities		(3,734)	17,686
Reserve deposits at Central Bank		(413,811)	703,026
Loans and advances		(1,350,282)	(36,749)
Other assets		9,932	36,804
Due to banks		(1,142,603)	1,247,814
Deposits from customers		3,109,073	3,397,393
Other money market deposits		(326,657)	(803,622)
Other liabilities		247,004	48,904
Net cash provided by / (used in) operating activities		**128,922**	**4,611,256**
Cash flows from investing activities			
Purchases of FVOCI securities		57,056	(871,755)
Proceeds from sale and redemption of FVOCI securities		703,462	(469,097)
Purchases of assets to be disposed of		(2,834)	(887)
Proceeds from sale of assets to be disposed of		622	6,908
Purchases of tangible assets	*10*	(27,679)	(4,884)
Proceeds from the sale of tangible assets		2,054	914,547
Purchase of intangible assets	*11*	(1,736)	(5,526)
Purchases of amortized cost securities		(1,407,720)	(830,911)
Other		(29,087)	45,860
Net cash provided by / (used in) investing activities		**(705,862)**	**(1,215,745)**
Cash flows from financing activities			
Proceeds from funds borrowed	*14*	14,271,705	14,274,019
Repayments of funds borrowed	*14*	(15,637,116)	(15,710,228)
Net cash provided by financing activities		**(1,365,410)**	**(1,436,209)**
Effect of exchange rates on cash and cash equivalents		106,011	70,377
Net increase / (decrease) in cash and cash equivalents		**12,114**	**1,885,862**
Cash and cash equivalents at the beginning of year	*6*	3,854,231	1,968,369
Cash and cash equivalents at the end of year		**3,866,345**	**3,854,231**

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

Index for notes to the consolidated financial statements

1. CORPORATE INFORMATION

General

"The Bank" was established with trade name as Tekstil Bankası A.Ş. on 29 April 1986, to carry out all types of banking activities according to the Banking Law and later changes in the laws and regulations, with the permission of the Council of Ministers in accordance with the resolution numbered 85/9890 and dated 24 September 1985 and started it operations on 13 October 1986. "Articles of Association" of the Bank was published in Turkish Trade Registry Gazette no.1511, dated 9 May 1986. The statute of the Bank was not changed since its establishment. Trade name of the Bank has been changed and registered as ICBC Turkey Bank A.Ş. on 13 November 2015.

The capital of the Bank is TL 860,000 as at 31 December 2019 and is fully paid (31 December 2018: 860,000). The Bank was incorporated by GSD Group until 21 May 2015. As at 29 April 2014, GSD Holding A.Ş., the major shareholder of the Bank, has come to conclusion to sell 75.50% shares of The Bank to Industrial and Commercial Bank of China (ICBC) and with respect to the sale transaction, it was declared to be approved by China Banking Regulatory Commission (CBRC) on 20 March 2015, and in Turkey, it was approved by Competition Authority in accordance with decision dated 20 August 2014 and numbered 14-29/593-259 and Banking Regulation and Supervision Agency (BRSA), in accordance with decision dated 2 April 2015 and numbered 6262.

Following the completion of relevant permissions with respect to the sale transaction, the Bank appealed Extraordinary General Assembly on 22 May 2015 for approving the resignation of members of Board of Directors and selecting new members on 28 April 2015 in the Public Disclosure Platform (KAP). Within the context of share purchase agreement, 22 May 2015 date was defined as share transfer date and the share transfer was carried out on this date and processed to the Bank's share ledger.

As a result of acquisition of shares representing 75.50% of Tekstil Bankası A.Ş., which was owned by GSD Holding A.Ş., an obligation occurs to propose take-over bids in order to purchase the shares of other shareholders in accordance with the provision of Article 11 of Take-Over Bids Communique numbered II-26.1 of Capital Markets Board of Turkey related to mandatory bid. In this context, share ownership of ICBC in the Bank has risen to 92.82% from 75.50% as a result of mandatory bid call transactions ending as at 14 August 2015 realized in accordance with the Take-Over Bids Communique numbered Serial II. 26.1 by ICBC, which is controlling shareholder of the Bank.

In accordance with the decision of the general extraordinary meeting of the Bank dated 9 February 2017, the Bank's capital has decided to increase and the decision was registered by İstanbul Trade Registry Office at 29 June 2017. At this content, the Bank's capital has increased in cash amounting to TL 440,000 from TL 420,000 to TL 860,000 and the whole increase was made in cash. With this increase, ICBC's shareholding ratio at the Bank has increased from 92.82% to 92.84%.

The shares, except for the shares owned by ICBC, are traded at Istanbul Stock Exchange (BIST).

In the context of the decision taken at the Extraordinary General Meeting on 5 November 2015, the Bank's trade title has been changed and registered as ICBC Turkey Bank A.Ş. at the Trade Registry Gazette on 13 November 2015.

The registered office address of the Bank is located at Maslak Mahallesi Dereboyu/2 Caddesi, No. 13, Sarıyer 34398 Istanbul/Turkey.

Nature of Activities of the Bank / Group

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

The operations of the Group consist of corporate, commercial and retail banking services, international transactions and securities trading in capital markets.

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

1. CORPORATE INFORMATION (continued)

The information related to the subsidiaries included in consolidation and effective shareholding percentages of the Group at 31 December 2019 is as follows:

	Place of Incorporation	Principal Activities	Effective Shareholding And Voting Rights (%)	
ICBC Turkey Yatırım Menkul Değerler A.Ş. ("ICBC Yatırım")	Istanbul/Turkey	Brokerage	99.998	99.998
ICBC Turkey Portföy Yönetimi A.Ş. ("ICBC Portföy") (*)	Istanbul/Turkey	Portfolio Management	99.998	99.998

(*) ICBC Yatırım participated in ICBC Turkey Portföy Yönetimi A.Ş. (ICBC Portföy) with 100% share in April 2015.

As at 31 December 2019, the Bank has 43 branches located in Turkey (31 December 2018: 44 branches). As at 31 December 2019 and 2018, the number of employees are:

	2019	2018
The Bank	731	786
Subsidiaries	110	108
Total	**841**	**894**

The consolidated financial statements as at and for the year ended 31 December 2019 have been approved on 19 March 2021 by the Group's management. Authorized boards of the Bank and other regulatory bodies have the power to amend the statutory financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). They have been prepared from statutory financial statements of the Bank and its subsidiaries in Turkish Lira ("TL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except for the following material items in the statement of financial position which are measured at fair value:

- derivative financial instruments
- financial instruments at fair value through profit or loss
- financial assets measured at fair value through other comprehensive income
- buildings recorded under tangible assets

The consolidated financial statements have been initially prepared in accordance with the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006 with regard to Banking Law No. 5411, and in accordance with the regulations, communiqués, interpretations and legislations related to accounting and financial reporting principles published by the "Banking Regulation and Supervision Agency" ("BRSA"), and in case where a specific regulation is not made by BRSA, "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards" ("TFRS") and related appendices and interpretations (all "Turkish Accounting Standards" or "TAS") put into effect by Public Oversight Accounting and Auditing Standards Authority ("POA"). The subsidiaries maintain their books of accounts based on statutory rules and in accordance with Turkish Commercial Code, Capital Markets Board and Tax Regulations. Consolidated financial statements are derived from statutory financial statements with reclassification for the purpose of fair presentation in accordance with IFRS.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of Presentation (continued)

In preparation of the financial statements of Bank, the same accounting policies are applied as compared to the most recent annual financial statements as of 31 December 2019 except for IAS 16. Other new IFRS/IAS amendments in effect do not have significant impact on the accounting policies, financial position and performance of the Bank.

Functional and Presentation Currency of the Bank and Its Subsidiary:

The Bank's, ICBC Yatırım's, and ICBC Portföy's functional and presentation currency is TL and consolidated financial statements including comparative figures for the prior periods are presented in thousands of TL.

2.2 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant estimates and assumptions for impairment on loans and advances to customers are presented Note 2.9.

Information about other significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements are as follows;

(a) Income Taxes:

The Bank and its subsidiaries, ICBC Yatırım and ICBC Portföy, are subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax provisions and deferred tax in the period in which such determination is made.

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly.

(b) Employee Termination Benefits:

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these benefits, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures

The accounting policies adopted in the preparation of the financial statements as at 31 December 2019 are consistent with those followed in the preparation of the financial statements of the prior year, except for the new standards and amendments to standards, including any consequential amendments to other standards summarized in related notes.

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Group has not early adopted are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

IFRS 17 Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers’ risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2023 but companies can apply it earlier. The Group does not expect that application of IFRS 17 will have significant impact on its consolidated financial statements.

The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures (continued)

New standards and interpretations not yet adopted (continued)

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018, IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amended "definition of material "was added to the important definition and it was stated that this expression could lead to similar results by not giving and giving misstating information. In addition, with this amendment, the terminology used in its definition of material has been aligned with the terminology used in the Conceptual Framework for Financial Reporting (Version 2018). Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.

The Bank does not expect that application of these amendments to IAS 1 and IAS 8 will have significant impact on its financial statements.

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. IASB has issued amendments to IFRS 3 Business Combinations to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. These amendments confirmed that a business must include inputs and a process, and clarified that the process shall be substantive and the inputs and process must together significantly contribute to creating outputs. They narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a concentration test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This is a simplified assessment that results in an asset acquisition of substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendments apply to businesses acquired in annual reporting periods beginning on or after 1 January 2020; with earlier application permitted.

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

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

Interest Rate Benchmark Reform, which amended IFRS 9, IAS 39 and IFRS 7 issued in September 2019, added Section 6.8 and amended paragraph 7.2.26. About this issue, IASB identified two groups of accounting issues that could affect financial reporting. These are:

- pre-replacement issues—issues affecting financial reporting in the period before the reform; and
- replacement issues—issues that might affect financial reporting when an existing interest rate benchmark is either reformed or replaced.

IASB considered the pre-replacement issues to be more urgent and decided to address the following hedge accounting requirements as a priority in the first phase of the project:
(a) The highly probable requirement;
(b) Prospective assessments;
(c) IAS 39 retrospective assessment; and
(d) Separately identifiable risk components.

All other hedge accounting requirements remain unchanged. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures (continued)

New standards and interpretations not yet adopted (continued)

The Group shall apply these amendments for annual periods beginning on or after 1 January 2020 with earlier application permitted.

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, as at 31 December 2019 and 31 December 2018.

Subsidiaries are controlled directly or indirectly by the Bank. Control is defined as the power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Bank's returns.

Financial statements of related subsidiaries are consolidated from the date when the control is transferred to the Bank.

In the full consolidation method, 100% of subsidiary' assets, liabilities, income, expense and off-balance sheet items are combined with the Bank's assets, liabilities, income, expense and off-balance sheet items. The carrying amount of the Group's investment in the subsidiary and the Group's portion of the cost value of the capital of the subsidiary are eliminated. Intragroup balances and intragroup transactions and resulting unrealized profits and losses are eliminated. Non-controlling interests in the net income of consolidated subsidiary shall be identified and adjusted against the income of the Group in order to arrive at the net income attributable to the shareholders of the parent of the Group and presented separately in the Group's income statement. The Group has non-controlling interests due its subsidiary ICBC Yatırım's minority shareholders (0.002% share) whose interests are immaterial to be presented in the consolidated financial statements.

Accounting policies of subsidiary has been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of financial position. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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.

Foreign currency translation rates for major currencies used by the Group as at respective year-ends are as follows:

	Euro / TL (full)	US Dollar / TL (full)
31 December 2016	3.6939	3.5318
31 December 2017	4.5478	3.8104
31 December 2018	6.0280	5.2609
31 December 2019	6.6506	5.9402

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Tangible Assets

Tangible assets are initially recognized at their cost that includes expenditures that are directly attributable to the acquisition of the asset. Tangible assets, except buildings as stated below, are reflected in the consolidated financial statements at cost less accumulated depreciation and any accumulated impairment.

Tangible assets are depreciated on a straight-line basis based on the in estimated useful lives. The estimated useful lives are as follows:

Buildings	50 years
Furniture, office machinery and vehicles	3 – 50 years
Leasehold improvements	Shorter of the economic life or lease term

The depreciation of an asset held for a period less than a full financial year is calculated as a proportion of the full year depreciation charge from the date of acquisition to the financial year end.

In case of the cost value of tangible assets are less than their "net realizable value", the book values of such assets are reduced to their "net realizable values" and impairment losses are recorded as expense.

Gain and losses sourcing from disposal of plant, property and equipment are determined through deduction of net book value from the sales revenue of the related plant, property and equipment.

The regular maintenance and repair expenditures are accounted as expense. The investment expenditures, made to increase the future benefits of the asset by improving the capacity of the asset, are added to the cost of the asset. Investment expenditures comprised of the costs, which increase the useful life of the asset, improve the capacity of the asset, increase the quality or decrease the cost of production.

The Group applies revaluation model for the buildings as permitted by IAS 16 "Property, Plant and Equipment". For this purpose, fair values of the buildings are determined by a third-party appraiser, which is commissioned by BRSA and Capital Markets Board. The fair value surplus is recognized in "Revaluation surplus on buildings" within the equity items. As at 31 December 2019, revaluation surplus on buildings amounts to TL 14,390 (31 December 2018: TL 13,967).

2.7 Intangible Assets

Intangible assets acquired separately from a business are capitalized at the restated cost until 31 December 2005. 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 against profits 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 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.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful life of 3 – 15 years. There are no intangible assets with indefinite useful lives.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Investments and Financial Assets and Liabilities

The Group recognizes its financial assets as "Fair Value Through Profit or Loss", "Fair Value Through Other Comprehensive Income" or "Measured at Amortized Cost". Such financial assets are recognized or derecognized according to IFRS 9 Financial Instruments. The Group recognizes a financial asset or financial liability on its balance sheet only when it is party to the contractual provisions of the financial lease. The Group derecognizes a financial asset only when the contractual rights to cash flows from the financial asset have expired or the financial assets have been transferred and the conditions for derecognition have been met. A financial liability (or part of a financial liability) is only recognized when the liability has expired; in other words, it is removed from the statement of financial position when the obligation specified in the contract is fulfilled, canceled or time out.

Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value Through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

The Group categorizes its financial assets as "Financial Assets at Fair Value Through Profit/Loss", "Financial Assets at Fair Value Through Other Comprehensive Income" or "Measured at Amortized Cost" based on the matters below:

- The business model used by the entity for the management of financial assets,

- Characteristics of contractual cash flows of the financial assets.

When the business model determined by the Group management is changed, all financial assets affected by this change are reclassified. Reclassification of financial assets is applied prospectively from the date of reclassification. In such cases, no adjustment is made to earnings, losses (including impairment gain or loss) or interest received previously in the financial statements.

a. Financial Assets at Fair Value Through Profit or Loss:

An asset is measured as financial assets at fair value through profit or loss for which fair values could not be measured at amortized cost or fair value through other comprehensive income. Financial assets valued at fair value through profit or loss are valued at their fair values and gain/loss arising on those assets is recorded in the statement of profit or loss.

b. Financial Assets at Fair Value Through Other Comprehensive Income:

A financial asset is measured at fair value through other comprehensive income when both of the following conditions are met:

- Financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell,

- Financial assets with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates.

Financial assets measured at fair value through other comprehensive income are measured at their fair values subsequently. Unrealized gains or losses arising from changes in the fair value of securities carried at fair value through profit and loss at fair value through profit or loss are expressed in equity as "Other Comprehensive Income That Will Be Reclassified to Profit or Loss". In case of disposal of marketable securities at fair value through other comprehensive income as a result of fair value application, the value in the shareholders' equity accounts is reflected to the statement of profit or loss. However, the Bank may prefer the method of reflecting changes in fair value to other comprehensive income is irrevocable for the first time in the financial statements for certain investments in equity instruments measured at fair value through profit or loss under normal circumstances.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Investments and Financial Assets and Liabilities (continued)

c. Financial Assets Measured at Amortized Cost:

A financial asset is measured at amortized cost when both of the following conditions are met:

- Financial assets within a business model that aims to hold to collect contractual cash flows,

- Financial assets with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates.

Subsequent to the initial recognition, financial assets measured at amortized cost are accounted at amortized cost calculated by using the effective interest rate method. Interest income on financial assets measured at amortized cost is recorded as interest income in the statement of profit or loss.

d. Loans and Advances to Customers:

Loans are financial assets created by providing money, goods or services to the debtor. Such loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the “Effective Interest Rate (internal rate of return) Method”. Charges paid for assets acquired as collateral and other similar expenses are not considered as part of the transaction cost and are reflected in the expense items. All the loans of the Bank are recorded under the “Measured at Amortized Cost” account.

2.9 Impairment of Financial Assets

Recognition of Expected Credit Losses

The Bank makes provisions for financial assets measured at fair value through other comprehensive income, assets measured at amortized cost, and expected losses related to non-cash loans and credit commitments. As of 1 January 2019, the Bank recognizes provisions for impairment in accordance with IFRS 9 requirements.

There is no provision for impairment of equity instruments.

In this framework, as of 1 January 2019, method of provisions for impairment is changed by applying the expected credit loss model under IFRS 9.

The Bank measured the expected credit losses for a financial asset based on the probabilities that are weighted and unbiased by probable outcomes, the time value of money and the estimates of past events, current and future economic conditions that are reasonable, in a way that reflects supportable information.

As of the date of initial recognition, financial assets at are subject to expected loss provision calculation have been followed in accordance with the following three-stage model below:

Stage 1: From initial recognition of a financial asset to the date on which an asset has not experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from its default occurring over the earlier of the next 12 months.

2.9 Impairment of Financial Assets (Continued)

Recognition of Expected Credit Losses (Continued)

Stage 2: An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument and measures the provision for impairment on this financial instrument at an amount equal to the lifetime expected credit losses. The purpose of impairment provisions matters are recognizing the risk of default occurring over the remaining life of the financial instrument that credit risk has increased significantly since initial recognition is performed at each reporting period.

Stage 3: When one or more events that negatively affect future estimated cash flows of a financial asset occur, the related financial asset has met with credit-impairment. For these assets, expected lifetime loss of credit is recorded.

The Bank's Business Model

The Bank classifies its financial assets based on the business model used for the management of financial assets. Based on the determined business model, the Bank evaluates whether the financial assets meet the classification requirements set out in IFRS 9. This assessment requires consideration of all evidence available at the time the assessment was made, including, but not limited to, the following:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and

- How the additional payments to the Bank management are determined. (for example, whether the additional payments are determined by the fair value of the assets that managed or by the contractual cash flows collected).

Assessment on Contractual Cash Flows Whether Include Only Principal and Interest on Principal Payments are Related to Capital:

The financial asset is classified on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. For this purpose, the Bank determines whether contractual cash flows are solely payments of principal and interest. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the consistency of loan agreement. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- Contingent events that would change the amount and timing of cash flows

- Leverage features

- Prepayment and extension terms

- Terms that limit the Bank's claim to cash flows from specified assets

- Features that modify consideration for the time value of money

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Offsetting Financial Instruments

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

Provisions for foreign exchange gain/loss on foreign currency indexed loans are netted with loans on asset side of consolidated balance sheet. Otherwise, the financial assets and liabilities are netted off only when there is a legal right to do so.

2.11 Sale and Repurchase Agreements and Transactions Related to the Lending of Securities

Securities sold under repurchase agreements ("repo") are classified as "fair value through profit or loss", "fair value through other comprehensive income" or "financial assets measured at amortized cost" based on the Bank management's intention and measured with the same valuation principles of the portfolio above. Funds received through repurchase agreements are booked in liability account under "Funds provided under repurchase agreements" and the related interest expenses are accounted on an accrual basis based on the difference between selling and repurchase prices using effective interest rate (internal rate of return) method. Securities purchased under resale agreements ("reverse repo") are classified under "Receivables from Reverse Repurchase Agreements". An income accrual using the effective interest rate method is accounted for the positive difference between the purchase and resale prices earned during the period. The Bank does not have any securities related to the lending.

2.12 Assets Held for Sale and Discontinued Operations and Liabilities Related with These Assets

Assets held for sale consist of assets that have high sales probability, have been planned to be sold, and an active program has been started to complete the plan and determine the buyers. Asset should be marketed the price compatible with fair value. Furthermore, the sales, starting from the day of classifications as held for sale, should be expected to be completed at within a year and the necessary activities should demonstrate that the possibility of having significant change in the plan or the cancellation of the plan is low.

The Group does not have any assets held for sale as of 31 December 2019 (31 December 2018: None).

The Group does not have any discontinued operations as of 31 December 2019 (31 December 2018: None).

2.13 Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows, 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 original maturities of three months or less.

2.14 Interest Bearing Deposits and Borrowings

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Employee Benefits

(a) Reserve for employee termination benefits

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 payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognized in the accompanying consolidated financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Group that may arise from the retirement of the employees.

In addition, in accordance with existing social legislation in Turkey, 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.

(b) Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognized for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Short term employee benefits include vacation pay liability. In Turkey, according to the legislation, the employer has to make payments for unused vacation days when the personnel leave the company. Vacation pay liability is the undiscounted amount calculated over the unused vacation days of the employee.

(c) Defined contribution plans

The Group has to pay contributions to the Social Security Institution on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. These contributions are recognized as an employee benefit expense when they are accrued.

2.16 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. 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 interest expense.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Accounting Policy Change: Adoption IFRS 16 "Leases"

The Group has started to apply IFRS 16 Leases standard starting from 1 January 2019.

The Group undertakes leases in the building, vehicle and software asset groups.

As a lessee, the Group has included the right to lease assets and leasing liabilities for most of its leases in accordance with IFRS 16, even though the Group has previously been classified as operating or financial leasing based on the assessment of whether all the risks and rewards of ownership of the asset have been transferred or not. In other words, these leases are presented in the statement of financial position. The Group classifies the right of use assets in classes of tangible assets and intangible assets that are of the same nature as their assets.

The Group takes into the financial statements the right of use and the obligation of the lessee on the date of the lease start. Tenure asset is initially measured at cost and subsequently accumulated depreciation and accumulated impairment losses deducted and the restated cost of the lessor's liability. Properties which are accounted for as right of use are subject to depreciation and related depreciation standards are used for IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets". IAS 36 "Impairment of Assets" standard is applied to determine whether the immovable properties have been impaired and to account for impairment.

At the date of the effective date of the lease, the lease liability is measured at the present value of the lease payments not paid at that date. If the interest rate on the lease is easily determined, this rate is discounted using the Group's alternative borrowing interest rate. In general, the Group used the alternative borrowing interest rate as the discount rate.

a. First implementation of IFRS 16

The Group has started to apply IFRS 16 Leases standard starting from 1 January 2019.

IFRS 16 introduces a single leasing accounting model for tenants. As a result, the Group, as a lessee, has acquired the lease rights representing the lease rights representing the right to use the underlying asset and the lease payments to the financial statements. Accounting for the lessor is similar to the previous accounting policies.

The Group has applied a partial retrospective approach resulting from the use of all the facilitating provisions in the first pass to IFRS 16, resulting in the existence of right to use and the equal amount of the lease debt. Accordingly, the comparative information presented in accordance with IAS 17 and related comments for 2018 has not been restated.

The following table shows the classification and adjustment records for the first application of IFRS 16 Leases Standard as of 1 January 2019.

	31 December 2018	IFRS 16 Classification Effect	IFRS 16 Transition Effect	1 January 2019
Tangible Assets (Net)	35,357	2,855	77,478	115,690
Intangible Assets (Net)	7,914	93	1,644	9,651
Other Assets (Net)	31,067	(2,948)	-	28,119
Lease Payables (Net)	-	-	79,122	79,122

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Income and Expense Recognition

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

Fees and commissions are recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction.

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

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realized and unrealized fair value changes and dividends.

Dividends are recognized when the shareholders’ right to receive the payments is established.

2.19 Income Tax

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

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 at the date of financial position.

Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

Income tax relating to items recognized directly in equity is recognized in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Derivative Financial Instruments

The derivative transactions of the Group mainly consist of foreign currency swaps, foreign currency options and forward contracts. Spot currency buying-selling transactions and currency swaps with two days value date of the Group are classified under assets purchase and sale commitments.

Derivative instruments are classified as "Derivative Financial Assets Designated at Fair Value through Profit or Loss" in accordance with IFRS 9. The Bank does not have any embedded derivatives.

The liabilities and receivables arising from the derivative transactions are recorded as off-balance sheet items at their contract values.

The derivative transactions are initially recognized at fair value and measured at fair value subsequent to initial recognition and are presented in the "Derivative Financial Assets Designated at Fair Value through Profit or Loss" under the "Derivative Financial Assets" or "Derivative Financial Liabilities Designated at Fair Value through Profit or Loss" under the "Derivative Financial Liabilities" items of the balance sheet depending on the resulting positive or negative amounts of the fair value. Gains and losses arising from a change in the fair value of trading purpose derivatives are recognized in the consolidated income statement. Fair values of derivatives are determined using quoted market prices in active markets or using discounted cash flow techniques within current market interest rates.

Fair values of option agreements are calculated using option pricing models and unrealized profit and loss amounts are presented in the income statement for the current period.

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to stand alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative but a separate financial instrument.

2.21 Fiduciary Assets

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

2.22 Segment Reporting

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

2.23 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

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

3. SEGMENT INFORMATION

Operating Segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. The following summary describes the operations in each of the Group's reportable segments:

- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers.
- *Corporate & SME Banking* — Includes loans, deposits and other transactions and balances with corporate and SME customers.
- *Other Operations* — Includes funds management and treasury activities.

Segment information at and for the year ended 31 December 2019 is as follows:

	Retail Banking	Corporate, Banking Commercial & SME Banking	Treasury, Investment Banking and Others	Total
Operating income	29,803	282,038	312,967	**624,808**
Operating expenses	(55,422)	(134,452)	(313,384)	**(503,258)**
Income/loss from operations	**(25,619)**	**147,586**	**(417)**	**121,550**
Taxation charge	-	-	(50,040)	**(50,040)**
Net income for the period	**(25,619)**	**147,586**	**(50,457)**	**71,510**
Assets and Liabilities				
Segment assets(1)	633,938	7,802,912	9,954,631	**18,391,481**
Total assets	**633,938**	**7,802,912**	**9,954,631**	**18,391,481**
Segment liabilities(1)	4,369,281	5,614,530	7,078,358	**17,062,169**
Shareholders' equity	-	-	1,329,312	**1,329,312**
Total liabilities and shareholders' equity	**4,369,281**	**5,614,530**	**8,407,670**	**18,391,481**
Other segment information	**1,795**	**87,946**	**68,326**	**158,067**
Capital expenditure	-	-	28,415	28,415
Depreciation and amortization	1,022	931	31,339	33,292
Impairment losses on assets to be disposed of (2)	773	87,015	8,572	96,360

(1) Assets in others column contain tangible assets, intangible assets, assets held for sale, deferred tax assets and assets not distributed. Liabilities in others column contain general provisions, reserve for employee benefits, current tax liabilities and liabilities not distributed.
(2) Includes loss in value of marketable securities, fixed assets, assets to be disposed of and associates and special loan loss amount.

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

3. SEGMENT INFORMATION (continued)

Segment information at and for the year ended 31 December 2018 is as follows:

	Retail Banking	Corporate, Banking Commercial & SME Banking	Treasury, Investment Banking and Others	Total
Operating income	89,174	255,284	105,841	450,299
Operating expenses	(37,206)	(88,255)	(201,925)	(327,386)
Income/loss from operations	**51,968**	**167,029**	**(96,084)**	**122,913**
Taxation charge	-	-	(39,364)	(39,364)
Net income for the period	**51,968**	**167,029**	**(135,448)**	**83,549**
Assets and Liabilities				
Segment assets(1)	803,381	7,093,472	7,955,637	15,852,490
Total assets	**803,381**	**7,093,472**	**7,955,637**	**15,852,490**
Segment liabilities(1)	3,485,400	4,096,472	7,104,049	14,685,921
Shareholders' equity	-	-	1,166,569	1,166,569
Total liabilities and shareholders' equity	**3,485,400**	**4,096,472**	**8,270,618**	**15,852,490**
Other segment information	**1,873**	**31,119**	**205,465**	**238,457**
Capital expenditure	-	-	53,041	53,041
Depreciation and amortization	766	675	8,562	10,003
Impairment losses on assets to be disposed of(2)	1,107	30,444	143,862	175,413

(1) Assets in others column contain tangible assets, intangible assets, assets held for sale, deferred tax assets and assets not distributed. Liabilities in others column contain general provisions, reserve for employee benefits, current tax liabilities and liabilities not distributed.
(2) Includes loss in value of marketable securities, fixed assets, assets to be disposed of and associates and special loan loss amount.

4. FINANCIAL RISK MANAGEMENT

General

A dedicated member of the Board of Directors is assigned as Risk Supervisor who heads the Risk Management Department. The Risk Management Department reports to the Board of Directors and establishes the policies, procedures, parameters and rules for risk management of the Bank and develops risk management strategies. The Risk Management Department also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are changed as necessary. These limits and implementation policies are distributed to various levels of authorities in order to enhance control effectiveness. The Bank's risk positions are reported to the Board of Directors on a daily and weekly basis. Additionally, the Risk Management Department reviews the latest figures and projections for the Bank's profit and loss accounts and statement of financial position, liquidity position, interest and foreign exchange exposures, as well as yield analysis and macroeconomic environment.

The Asset and Liability Management Committee ("ALCO") sets the strategies concerning interest rate risk, foreign exchange risk and liquidity. ALCO meets weekly to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy and the macroeconomic environment.

The objective of the Bank's Asset and Liability Management and use of financial instruments are to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy and is using its capital to maximize net interest income.

4. FINANCIAL RISK MANAGEMENT (continued)

Audit Committee

The Audit Committee consists of two members of the Board of Directors. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

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

Risk Management Committee of Board of Directors

Risk Management Committee of the Board of Directors perform the following responsibilities:

- In accordance with the Bank’s overall strategy, reviewing and revising the Bank’s risk strategy, risk management policy, risk appetite, enterprise-wide risk management framework and internal control process, supervising and evaluating the execution status and effect, and putting forward suggestions to the Board of Directors;
- Constantly supervising the Bank’s risk management system, supervising and evaluating the setting and organizing methods, working procedure and effectiveness of Risk Management Department, and putting forward improvement opinions;
- Regularly assessing the execution status of the Bank’s risk policies, risk appetite and enterprise-wide risk management, and putting forward suggestions to the Board of Directors,

Credit Risk

Financial instruments contain an element of risk that the counterparties may be unable to meet the terms of the agreements. The Bank’s exposure to credit risk is concentrated in Turkey, where the majority of the activities are carried out. This risk is monitored by strictly adhering to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies and industry. The Bank has in place effective credit evaluation, disbursement and monitoring procedures, and senior management supports these control procedures. The credit risk is well diversified in general and does not concentrate in any one industry/sector nor does it single out companies of one specific size.

Exposure to credit risk is managed through regular analysis of the ability of immediate and potential borrowers to meet principal and interest repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral as well as corporate and personal guarantees.

The credibility of the debtors of the Bank is assessed periodically concerning several criteria such as financial power of customers, business capacity, industry, geographical segment and equity structure and with taking notice of the financial statements of the debtors obtained thoroughly to be audited in accordance with the relevant legislation.

The risks and limits derived from treasury and client based commercial transactions are followed up daily. Additionally, the control of the limits of the correspondent banks is determined by their ratings and the control of the accepted risk level in relation to the Bank’s equity is performed daily. The risk concentration of the off-balance sheet transactions is followed up using the Information Technology System.

The Board of Directors determines transaction limits for the forward and other similar agreement positions held by the Bank and transactions are handled within these limits.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Exposure to credit risk:

	31 December 2019			
	Loans to customers	**Balances with Central Bank**	**Due from banks(**)**	**Investment securities**
Assets amortized at cost				
Individually impaired				
Loans and receivables with limited collectibility	449	-	-	-
Loans and receivables with doubtful collectibility	133,177	-	-	-
Uncollectible loans and receivables	34,428	-	-	-
Gross Amount	168,054	-	-	-
Allowance for impairment	(113,666)	-	-	-
Lifetime ECL impaired credits (stage 3)	*(113,666)*	-	-	-
Carrying amount	**54,388**	**-**	**-**	**-**
Loans with renegotiated terms	68,421	-	-	-
Carrying amount	**68,421**	**-**	**-**	**-**
Past due but not impaired				
High and standard grade	12,110	-	-	-
Closely monitored	14,739	-	-	-
Carrying amount	**26,849**	**-**	**-**	**-**
Neither past due not impaired				
High and standard grade	8,706,369	2,021,096	2,500,617	-
Closely monitored	162,737	-	-	-
Carrying amount	**8,869,106**	**2,021,096**	**2,500,617**	**-**
Allowance for impairment				
12 month ECL (stage 1)	*(43,362)*	-	*(15,511)*	-
Lifetime ECL significant increase in credit risk (stage 2)	*(48,823)*	-	-	-
Carrying amount	**(92,185)**	**-**	**(15,511)**	**-**
Financial assets at fair value through other comprehensive income				
Allowance for impairment				
12 month ECL (stage 1)	-	-	-	*(2,591)*
Lifetime ECL significant increase in credit risk (stage 2)	-	-	-	-
Carrying amount	**-**	**-**	**-**	**(2,591)**
Neither past due nor impaired (*)	-	-	-	4,694,933
Carrying amount	**-**	**-**	**-**	**4,694,933**
Total carrying amount	**8,926,578**	**2,021,096**	**2,485,106**	**4,692,342**

(*) Excluding equity securities.

(**) Including due from banks, cash collateral on reverse purchase agreements and money market placements.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Exposure to credit risk (continued):

	31 December 2018			
	Loans to customers	**Balances with Central Bank**	**Due from banks (**)**	**Investment securities**
Assets amortized at cost				
Individually impaired				
Loans and receivables with limited collectibility	2,817	-	-	-
Loans and receivables with doubtful collectibility	39,676	-	-	-
Uncollectible loans and receivables	50,914	-	-	-
Gross Amount	93,407	-	-	-
Allowance for impairment	(78,587)	-	-	-
Lifetime ECL impaired credits (stage 3)	*(78,587)*	-	-	-
Carrying amount	**14,820**	**-**	**-**	**-**
Loans with renegotiated terms	100,584	-	-	-
Carrying amount	**100,584**	**-**	**-**	**-**
Past due but not impaired				
High and standard grade	18,365	-	-	-
Closely monitored	169,399	-	-	-
Carrying amount	**187,764**	**-**	**-**	**-**
Neither past due not impaired				
High and standard grade	7,412,378	1,757,929	2,350,401	-
Closely monitored	80,459	-	-	-
Carrying amount	**7,492,837**	**1,757,929**	**2,350,401**	**-**
Allowance for impairment				
12 month ECL (stage 1)	*(46,509)*	-	-	-
Lifetime ECL significant increase in credit risk (stage 2)	*(83,254)*	-	-	-
Carrying amount	**(129,763)**	**-**	**-**	**-**
Financial assets at fair value through other comprehensive income				
Allowance for impairment				
12 month ECL (stage 1)	-	-	-	*(5,610)*
Lifetime ECL significant increase in credit risk (stage 2)	-	-	-	-
Carrying amount	**-**	**-**	**-**	**(5,610)**
Neither past due nor impaired (*)	-	-	-	3,866,085
Carrying amount	**-**	**-**	**-**	**3,866,085**
Total carrying amount	**7,666,242**	**1,757,929**	**2,350,401**	**3,860,475**

(*) Excluding equity securities.

(**) Including due from banks, cash collateral on reverse purchase agreements and money market placements.

The above table represents the credit risk exposure of the Group at 31 December 2019 and 31 December 2018, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Past due but not impaired loans

Loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

Allowances for impairment

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

Write-off policy

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off with the approval of the Board of Directors after all the necessary procedures have been completed and the amount of the loss has been determined.

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

	Loans and advances to customers	
31 December 2019	**Gross**	**Net**
Loans and Receivables with Limited Collectibility	449	307
Loans and Receivables with Doubtful Collectibility	133,177	46,350
Uncollectible Loans and Receivables	34,428	7,731
Total	**168,054**	**54,388**

31 December 2018	**Gross**	**Net**
Loans and Receivables with Limited Collectibility	2,817	1,889
Loans and Receivables with Doubtful Collectibility	39,676	10,917
Uncollectible Loans and Receivables	50,914	2,014
Total	**93,407**	**14,820**

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The breakdown of cash and non-cash loans and advances to customers by type of collateral is as follows:

Cash Loans	**31 December 2019**	**31 December 2018**
Secured loans:	-	2,901,652
Secured by cash collateral	-	882,427
Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	-	2,019,225
Unsecured loans	1,944,148	4,879,533
Total	**1,944,148**	**7,781,185**

Non-cash Loans	**31 December 2019**	**31 December 2018**
Secured loans:	-	736,809
Secured by mortgages	-	-
Secured by cash collateral	-	18,045
Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	-	718,764
Unsecured loans	6,987,408	1,634,373
Total	**6,987,408**	**2,371,182**

The breakdown of non-performing loans and receivables based on the types of collaterals held against them is as follows:

	31 December 2019	**31 December 2018**
Secured by mortgages	17,478	1,485
Pledge on vehicles and other collateral	112,782	27,017
Unsecured	37,794	64,905
Total	**168,054**	**93,407**

The collateral amounts on the table above represent the minimum of the fair value of the collateral or the amount of non-performing loan against which the collateral acquired.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

The Group monitors concentrations of credit risk by sector and by geographic location. Industry exposure information of biggest thirteen business sector for aggregate cash loans and non-cash loans is as follows:

	31 December 2019		31 December 2018	
	Cash	**Non-cash**	**Cash**	**Non-cash**
Finance	2,768,055	776,612	2,754,322	446,989
Electricity, gas and water	1,901,060	89,795	1,305,063	13,014
Service	834,691	305,308	549,927	349,036
Construction industry	857,288	322,360	513,986	304,961
Transportation, warehousing and communication	462,094	440,440	671,739	564,046
Food, beverages and tobacco	171,319	410	282,180	405
Tourism	200,368	2,778	212,631	3,193
Paper raw materials and paper products	167,707	142	148,528	181
Mining and stone pits	347,196	46,665	112,968	120,015
Wholesale, retail commerce and motor vehicle services	124,412	42,770	31,310	74,253
Textile, fabrics and yarn industry	1,199	8,161	13,168	10,430
Chemical Industry	81	18,710	8,895	6,644
Agriculture, fishing and forestry	500	322	397	897
Others	460,561	4,932,937	381,898	477,118
Corporate loans	8,296,530	6,987,408	6,987,012	2,371,182
Consumer loans and credit cards	623,663	-	794,150	-
Specialized loans	-	-	23	-
Investment loans	44,183	-	-	-
Loans in arrears	168,054	-	93,407	-
Provision for possible loan losses	(205,851)	-	(208,350)	-
Total	**8,926,578**	**6,987,408**	**7,666,242**	**2,371,182**

Breakdown of non-performing loans is shown below:

	31 December 2019	31 December 2018
Corporate loans	160,863	84,446
Consumer loans	6,068	8,039
Credit cards	1,123	759
Specialized loans	-	163
Total non-performing loans	**168,054**	**93,407**

The Group's activities are mainly concentrated in Turkey. As at 31 December 2019, 91.9% of cash loan portfolio including non-performing loans are granted in Turkey (31 December 2018: 92% in Turkey). Regarding foreign lending, the Group has a structure evaluating the country and market risks of the countries of counterparties. Besides, the outstanding foreign loan transactions of the Group are majorly loans given against cash collateral.

As at 31 December 2019, the share of the Group's receivables from its top 100 cash loan customers in its total cash loan portfolio is 93% (31 December 2018: 89.7%).

As at 31 December 2019, the share of the Group's receivables from its top 100 non-cash loan customers in its total non-cash loan portfolio is 99.9% (31 December 2018: 99.6%).

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

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

Liquidity risk occurs when there is an insufficient amount of cash or cash inflows to fulfill the cash outflows in full and on time, resulting from the unstable cash inflows.

Liquidity risk may occur when there is an inadequate market penetration and the open positions cannot be closed on a timely basis with an appropriate price and sufficient amount due to barriers and break-ups at the markets.

A main objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments to customers and counterparties. The Bank achieves this through the maintenance of a stock of high quality liquid assets.

Net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed the predetermined target levels. The available free lines in the BIST (Borsa Istanbul) Settlement and Custody Bank's Stock Exchange Money Market, Interbank and secondary market are monitored frequently. Regarding maturity mismatch risk in the statement of financial position, the maximum limits have been set by the Board of Directors.

The Bank diversifies its funding with steady deposit base and medium/long-term funds borrowed from international institutions which are mainly placed in interest earning assets. Deposits are obtained from individuals and corporate/commercial entities. The portion of saving deposits over total deposits is 45% as at 31 December 2019 (31 December 2018: 50%). The Bank performs customer concentration analysis on a branch basis and takes short and long term actions to disseminate customers in the branches with concentration risk. Funds borrowed account consists of funds with different characteristics and maturity-interest structures and are provided from different reputable institutions.

Residual contractual maturities of financial liabilities:

31 December 2019	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Due to banks	176,458	293,507	117,050	176,457	-	-	-	-
Deposits	9,790,304	10,412,984	574,899	7,535,881	2,193,064	105,911	3,228	-
Other money market deposits	18,841	18,859	-	18,859	-	-	-	-
Funds borrowed	4,238,007	4,198,454	-	237,614	253	360,174	3,600,413	-
Subordinated loans	1,782,420	1,841,796	-	-	-	-	-	1,841,796
Total	**16,006,030**	**16,765,600**	**691,949**	**7,968,811**	**2,193,317**	**466,085**	**3,603,641**	**1,841,796**
Non-cash loans(*)	**6,987,408**	**6,987,408**	**863,011**	**263,979**	**110,602**	**603,120**	**1,864,379**	**3,282,317**

(*) The letter of guarantees without a defined maturity date due to their business nature are presented at demand column.

31 December 2018	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Due to banks	1,322,553	1,323,987	56,272	765,553	-	502,162	-	-
Deposits	6,699,689	6,946,875	484,816	5,122,824	1,272,076	67,124	35	-
Other money market deposits	346,145	369,943	-	88,862	123,773	-	157,308	-
Funds borrowed	4,082,550	4,122,408	88,367	-	263,457	1,638,308	795,032	1,337,244
Subordinated loans	1,579,084	1,652,660	-	-	-	-	-	1,652,660
Total	**14,030,021**	**14,415,873**	**629,455**	**5,977,239**	**1,659,306**	**2,207,594**	**952,375**	**2,989,904**
Non-cash loans(*)	**2,371,182**	**2,371,182**	**1,008,876**	**263,040**	**175,396**	**357,797**	**566,073**	**-**

(*) The letter of guarantees without a defined maturity date due to their business nature are presented at demand column.

The contractual maturity distribution of derivative contracts are presented in Note 18.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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

	On Demand	Up to 1 month	1 to 3 months	3 to 12 Months	1 to 5 Years	Over 5 Years	No maturity	Total
As at 31 December 2019								
Assets								
Cash and balances with Central Bank	1,132,490	940,965	-	-	-	-	-	2,073,455
Due from banks	137,355	1,685,168	-	-	-	-	-	1,822,523
Money market placements	-	662,583	-	-	-	-	-	662,583
Trading securities	16,613	-	-	-	-	-	-	16,613
Derivative financial assets	-	584	85	-	-	-	-	669
Loans and advances	-	1,089,480	1,179,609	1,734,642	3,161,233	1,761,614		8,926,578
Investment securities	7,466	380,608	57,488	741,692	3,286,907	218,181	-	4,692,342
Tangible assets	-	-	-	-	-	-	118,559	118,559
Intangible assets	-	-	-	-	-	-	8,194	8,194
Deferred tax assets	-	-	-	-	-	30,918	-	30,918
Other assets	-	30,018	1,603	2,149	382	-	4,895	39,047
Total assets	**1,293,924**	**4,789,406**	**1,238,785**	**2,478,483**	**6,448,522**	**2,010,713**	**131,648**	**18,391,481**
Liabilities								
Due to banks	117,050	59,408	-	-	-	-	-	176,458
Deposits from customers	574,899	7,672,644	1,442,347	97,190	3,224	-	-	9,790,304
Funds borrowed and subordinated loans	-	237,622	260	367,763	3,632,362	1,782,420		6,020,427
Derivative financial liabilities		3,859	32	54	-	-	-	3,945
Other money market deposits	-	18,841	-	-	-	-	-	18,841
Provisions	-	-	-	-	-	-	110,079	110,079
Employee benefits	-	-	-	-	-	-	20,975	20,975
Other liabilities	-	16,576	7,356	4,385	41,998	35,873	2,144,264	2,250,452
Total liabilities	**691,949**	**8,008,950**	**1,449,995**	**469,392**	**3,677,584**	**1,818,293**	**2,275,318**	**18,391,481**
Net liquidity gap	**601,975**	**(3,219,544)**	**(211,210)**	**2,009,091**	**2,770,938**	**192,420**	**(2,143,670)**	**-**
As at 31 December 2018								
Total assets	**1,879,577**	**2,381,893**	**1,240,856**	**3,326,142**	**5,298,400**	**1,652,138**	**67,875**	**15,846,881**
Total liabilities	**438,173**	**6,231,549**	**1,331,375**	**2,363,369**	**798,660**	**2,907,749**	**615,046**	**14,685,921**
Net liquidity gap	**1,441,404**	**(3,849,656)**	**(90,519)**	**962,773**	**4,499,740**	**(1,255,611)**	**(547,171)**	**1,160,960**

The contractual maturity distribution of derivative contracts are presented in Note 18.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

As per the Banking Regulation and Supervision Agency's (BRSA) Communiqué "Regulation on Liquidity Coverage Ratio Calculation" published on the Official Gazette no.28948 dated 21 March 2014 and became effective starting from 1 January 2015, liquidity coverage ratios calculated weekly on bank only basis and monthly on consolidated basis are subject to regulatory reporting. Liquidity coverage ratios for foreign currency assets/liabilities and total assets/liabilities should be minimum 80% and 100%, respectively. The Group's consolidated liquidity coverage ratios for 2019 and 2018 are as follows:

Liquidity Coverage Ratios	FC Liquidity Coverage Ratio	Total Liquidity Coverage Ratio
31 December 2019	174.98	235.46
Average (%)	386.04	342.47
Max. (%)	504.95	516.96
Min. (%)	221.18	149.95

Liquidity Coverage Ratios	FC Liquidity Coverage Ratio	Total Liquidity Coverage Ratio
31 December 2018	121.53	233.82
Average (%)	174.41	321.47
Max. (%)	275.59	558.95
Min. (%)	121.53	197.12

Market Risk

The Bank has established market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Control and Risk Management Systems of Banks" announced in the Official Gazette dated 1 November 2006.

"General market risk" is the risk of loss composed of "interest rate risk", "position risk of equity securities" and "foreign exchange risk", regarding the assets and liabilities of the Group's on-off balance sheet, arising from changes in value of positions in the trading book due to changes in equity prices, interest rates and foreign currency exchange rates. The market risk is measured by employing the Value at Risk method. Value at Risk (VaR) is the amount, estimated by using various statistical methods that expresses the maximum loss for a given confidence interval and holding period which a bank may be exposed to as a result of changes in the value of its portfolio or its assets due to fluctuations in interest rates, foreign exchange rates and equity prices.

"Value at Risk" is calculated on a daily basis by employing Standard Method, and internal models (Parametric, Historical Simulation and Monte Carlo methods). In calculating VaR a one-tailed 99% confidence level is used regarding one-day holding period. The results are reported to the Senior Level Risk Committee and Risk Management Committee of Board of Directors in regular periods. By regarding the VaR results, the risk of maturity mismatch is examined in the Risk Committees and the necessary measures are taken by Committee.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Standard method defined in the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" published in Official Gazette no. 29111 dated 6 September 2014 is used in calculating the market risk. The criteria for the standard method have been set by the BRSA via section 2 of "Calculation of Market Risk" and "Communiqué on Capital Requirement Calculation for Market Risk arising from Options". Consolidated and bank only market risk is reported to BRSA on a monthly basis. The consolidated value at market risks calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes are as follows:

	2019			
	As at 31 December 2019	**Average**	**Highest**	**Lowest**
Interest rate risk	4	117	478	3
Equity securities risk (*)	7,648	9,220	12,380	7,411
Currency risk	21,117	14,630	21,117	6,987
Settlement risk	-	-	-	-
Option risk	-	-	-	-
Counterparty credit risk (**)	-	-	-	-
Total value at risk (***)	**359,613**	**299,595**	**359,613**	**189,950**

(*) VaR for mutual funds in trading securities are included here.

(**) Represents counterparty credit risk for only trading accounts.

(***) The minimum and maximum values of Total VaR represent the minimum and maximum values of quarter-end (month-end beginning from July 2019) calculated total VaRs, and are not related to the aggregate of the components of them stated in the table.

	2018			
	As at 31 December 2018	**Average**	**Highest**	**Lowest**
Interest rate risk	468	1,711	2,790	385
Equity securities risk (*)	5,141	2,994	6,479	78
Currency risk	9,385	5,294	9,385	1,795
Settlement risk	-	-	-	-
Option risk	-	-	-	-
Counterparty credit risk (**)	-	-	-	-
Total value at risk (***)	**187,425**	**124,994**	**194,088**	**49,850**

(*) VaR for mutual funds in trading securities are included here.

(**) Represents counterparty credit risk for only trading accounts.

(***) The minimum and maximum values of Total VaR represent the minimum and maximum values of quarter-end (month-end beginning from July 2018) calculated total VaRs, and are not related to the aggregate of the components of them stated in the table.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to adverse movements between currencies. The Treasury manages the Bank's structural foreign exchange risk arising from net position in foreign currencies, mostly in US Dollar and Euro.

The Group's foreign currency position risk is measured by "Standard Method" and "Value at Risk Methods".

The concentrations of assets, liabilities and off balance sheet items are as follows:

As at 31 December 2019	US Dollars	Euro	Others	Total
Assets				
Cash and balances with Central Bank (**)	1,682,939	254,400	699	1,938,038
Due from banks	1,605,408	210,755	20,756	1,836,919
Money market placements	-	-	-	-
Trading securities	-	-	-	-
Loans and advances	4,077,468	3,067,513	-	7,144,981
Investment securities	3,441,832	10,094	-	3,451,926
Tangible assets	-	-	-	-
Intangible assets	-	-	-	-
Deferred tax asset	-	-	-	-
Other assets	2,618	251	2	2,871
Total assets (*)	**10,810,265**	**3,543,013**	**21,457**	**14,374,735**
Liabilities				
Due to banks	59,883	28,931	3,639	92,453
Deposits	4,698,868	2,124,700	69,649	6,893,217
Other money market deposits	-	-	-	-
Funds borrowed	6,017,574	801	-	6,018,375
Provisions	-	-	-	-
Other liabilities (****)	12,700	678,072	15,490	706,262
Total liabilities (*)	**10,789,025**	**2,832,504**	**88,778**	**13,710,307**
Net on-balance sheet position	**21,240**	**710,509**	**(67,321)**	**664,428**
Off-balance sheet position				
Net notional amount of derivatives (***)	135,000	(623,421)	70,249	(418,172)
Net Position	**156,240**	**87,088**	**2,928**	**246,256**
As at 31 December 2018				
Total assets (*)	8,539,063	2,273,364	15,736	10,828,163
Total liabilities (*)	8,934,816	1,827,474	50,596	10,812,886
Net on-balance sheet position	(395,753)	445,890	(34,860)	15,277
Off-balance sheet position	291,313	(231,251)	36,359	96,421
Net Position	**(104,440)**	**214,639**	**1,499**	**111,698**

(*) The amounts recorded as accrual differences of derivative transactions on asset and liability sides are not included above.

(**) As at 31 December 2019, the Group has no precious metal standing in Central Bank of Turkey accounts is consolidated in 'Others' column above (31 December 2018: None).

(***) As at 31 December 2019, the Group has no precious metal swap sales transactions consolidated in 'Others' column above (31 December 2018: None).

(****) Other liabilities include income tax payables.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

Exposure to currency risk

A 10 percent devaluation of the TL against the following currencies as at 31 December 2019 and 2018 would have decreased equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2019		31 December 2018	
	Profit or loss	**Equity (*)**	**Profit or loss**	**Equity (*)**
US Dollar	15,624	15,624	(10,444)	(10,444)
Euro	8,709	8,709	21,464	21,464
Other currencies	293	293	150	150
Total, net	**24,626**	**24,626**	**11,170**	**11,170**

(*) Equity effect also includes profit or loss effect of 10% devaluation of TL against related currencies.

Interest Rate Risk

“Interest rate risk” is the probability of loss due to changes in interest rates depending on the Group’s position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and, unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between interest rate sensitive assets and liabilities. In Turkey, the interest rates are highly volatile. Therefore, interest rate risk is the key component of the Bank's asset and liability management. Interest risk is managed on a portfolio basis by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. Special emphasis is given to providing a balance between the duration of assets and liabilities. Duration, gap and sensitivity analysis are the main methods used to manage the risks. The Bank closely monitors interest rate movements, the interest rate and, re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the date of statement of financial position to the re-pricing date:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
As at 31 December 2019							
Assets							
Cash and balances with Central Bank	1,781,633	-	-	-	-	291,822	2,073,455
Due from banks	1,669,657	-	-	-	-	152,866	1,822,523
Money market placements	662,583	-	-	-	-	-	662,583
Trading securities	-	-	-	-		16,613	16,613
Derivative financial instruments	582	86	1	-	-	-	669
Loans and advances	998,878	3,190,978	2,365,710	1,471,340	899,672	-	8,926,578
Investment securities	737,970	353,453	865,920	2,506,759	218,183	10,057	4,692,342
Total financial assets	**5,851,305**	**3,544,516**	**3,231,630**	**3,978,099**	**1,117,855**	**471,358**	**18,194,763**
Tangible assets	-	-	-	-	-	118,559	118,559
Intangible assets	-	-	-	-	-	8,194	8,194
Deferred tax asset	-	-	-	-	-	30,918	30,918
Other assets	-	-	-	-	-	39,047	39,047
Total assets	**5,851,305**	**3,544,516**	**3,231,630**	**3,978,099**	**1,117,855**	**668,076**	**18,391,481**
Liabilities							
Due to banks	59,408	-	-	-	-	117,050	176,458
Deposits	7,672,644	1,442,347	97,190	3,224	-	574,899	9,790,304
Other money market deposits	18,841	-	-	-	-	-	18,841
Derivative financial instruments	3,859	32	54	-	-	-	3,945
Funds borrowed	237,624	1,500,618	2,448,704	1,833,481	-	-	6,020,427
Other liabilities	769,180	-	-	-	-	1,481,272	2,250,452
Provisions and employee benefits	-	-	-	-	-	131,054	131,054
Total liabilities	**8,761,556**	**2,942,997**	**2,545,948**	**1,836,705**	**-**	**2,304,275**	**18,391,481**
Interest sensitivity gap	**(2,910,251)**	**601,519**	**685,682**	**2,141,394**	**1,117,855**	**(1,636,199)**	**-**
As at 31 December 2018							
Total assets	**3,012,500**	**4,456,343**	**3,547,901**	**3,124,331**	**1,179,164**	**526,642**	**15,846,881**
Total liabilities	**7,215,057**	**2,637,741**	**4,207,172**	**-**	**-**	**625,951**	**14,685,921**
Interest sensitivity gap	**(4,202,557)**	**1,818,602**	**(659,271)**	**3,124,331**	**1,179,164**	**(99,309)**	**1,160,960**

The following table indicates the effective interest rates by major currencies for the major components of the statement of financial position as at 31 December 2019 and 2018:

31 December 2019	EURO %	USD %	YEN%	TL %
Assets				
Cash and Balances with the Central Bank of Turkey	-	1.74	-	11.36
Due from banks	-	4.57	-	-
Money Market Placements	-	-	-	11.73
Investment Securities – FVOCI	1.78	4.48	-	14.43
Loans	2.6	4.71	6.04	14.59
Investment Securities – Amortized Cost	-	6.54	-	10.02
Liabilities				
Due to banks	-	1.71	-	-
Deposits	0.40	2.29	-	11.41
Obligations under repurchase agreements	-	-	-	12.00
Funds Borrowed	2.98	3.13	-	16.89

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

4. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

31 December 2018	EURO %	USD %	YEN%	TL %
Assets				
Cash and Balances with the Central Bank of Turkey	-	1.56	-	8.79
Due from banks	-	5.35	-	27.08
Money Market Placements	-	-	-	24.21
Investment Securities – Available-for-Sale	1.78	4.54	-	21.14
Loans	2.86	5.23	6.04	16.93
Investment Securities – Held to Maturity	-	5.82	-	13.81
Liabilities				
Due to banks	1.16	2.49	-	23.33
Deposits	2.50	4.88	-	25.40
Obligations under repurchase agreements	-	-	-	27.93
Funds Borrowed	-	3.30	-	6.84

In accordance with the BRSA's "Regulation on Measurement and Evaluation of Interest Rate Risk Arising from Banking Accounts via Standard Shock Method", published in the Official Gazette numbered 28034 and dated 23 August 2011, the interest rate risk of the banking book items (items other than trading accounts) is measured and reported monthly to BRSA. The interest rate risks of financial instruments on trading portfolio are considered within the scope of the market risk.

In accordance with the "Regulation on Measurement and Evaluation of Interest Rate Risk Arising from Banking Accounts via Standard Shock Method", for unconsolidated statutory accounts of the Bank, economic valuation differences arising from fluctuations in interest rates, in different currencies are presented in the table below (excluding tax effect) as of 31 December 2019 and 2018.

31 December 2019	Shocks Applied (+/-basis points)	Gains/(Losses)	Gains/Equity-Losses/Equity
TL	500	(85,956)	(2.70)%
	(400)	80,789	2.60%
Euro	200	(45,759)	(1.50)%
	(200)	(4,993)	(0.20)%
US Dollar	200	4,130	0.10%
	(200)	881	0.00%
Total (of negative shocks)		**74,915**	**2.40%**
Total (of positive shocks)		**(127,585)**	**(4.10)%**

31 December 2018	Shocks Applied (+/-basis points)	Gains/(Losses)	Gains/Equity-Losses/Equity
TL	500	(129,423)	(4.6)%
	(400)	121,391	4.3%
Euro	200	34,252	(1.2)%
	(200)	(40,277)	0.2%
US Dollar	200	(33,335)	1.2%
	(200)	4,462	(1.4)%
Total (of negative shocks)		**(128,506)**	**(4.5)%**
Total (of positive shocks)		**85,576**	**3.0%**

4. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk

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

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

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

The Group calculated the value at operational risk in accordance with the "Computation of the Operational Risk" of the circular, "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" published in the Official Gazette numbered 29111 and dated 6 September 2014, using gross profit of the last three years 2017, 2018 and 2019 by using "Basic Indicator Approach" method. Value at operational risk, used in calculation of capital adequacy ratio, is amounting to TL 769,103. The 8% of VaR; TL 61,528 as at 31 December 2019 represents the operational risk that the Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk.

Capital Adequacy

BRSA sets and monitors capital requirements for the Bank both on unconsolidated and consolidated basis. Additionally, the consolidated subsidiaries; ICBC Yatırım and ICBC Portföy are supervised by Turkish Capital Market Board regarding capital adequacy ratios and related calculations.

Capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques" published in the Official Gazette numbered 29111 dated 6 September 2014, "Communiqué on Capital Requirement Calculation for Market Risk of Options" published in the Official Gazette numbered 28337 dated 28 June 2012 and the "Regulation on Equities of Banks" published in the Official Gazette numbered 28756 dated 5 September 2013.

In the calculation of consolidated capital adequacy standard ratio, the accounts and transactions are evaluated by taking into account the relevant legislation. Accounts and transactions are classified in two separate portfolio as "trading accounts" and "banking accounts" and are used in the calculation of market and credit risks. Trading accounts and items deducted from the capital are not considered in the calculation of credit risks. In the calculation of risk weighted assets, amortized and impaired assets are accounted by net amounts after deducting the related amortization and provision amounts.

In the calculation of the amount subject to credit risk, the Group assesses its loans and receivables by taking the risk classes, rating notes and risk mitigation into consideration. "Simple financial collateral method" is used for banking accounts while "comprehensive financial collateral method" is used for trading accounts for taking risk mitigation elements into consideration.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Capital Adequacy (continued)

Counterparty Credit Risk is calculated for derivative transactions, repo transactions, security-stock lending transactions, overdraft security transactions and long term trade transactions.

In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets. The Bank and its subsidiaries' consolidated regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, fair value reserve relating to unrealized gains on securities classified as available-for-sale, revaluation surplus on buildings, actuarial gain/losses and minority interest after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general loan loss provision calculated and recorded in accordance with BRSA standards.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

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

A subordinated loan of USD 300 million (three hundred million USD) was obtained from the main shareholder of the Bank, Industrial and Commercial Bank of China Limited (ICBC), with a maturity of 10 years and repayment after 5 years. The Bank has used TL 1,782,420 of subordinated loans in the calculation of capital adequacy.

The regulatory capital and the capital adequacy ratio declared by the Bank as at 31 December 2019 are as follows:

31 December 2019	**Consolidated**	**Bank Only**
Amount subject to credit risk (I)	16,025,551	15,938,828
Amount subject to market risk (II)	359,607	179,975
Amount subject to operational risk (III)	769,103	698,310
Total Risk-weighted assets and value at market risk and operational risk (I+II+III)=(IV)	**17,154,261**	**16,817,113**
Tier 1 Capital	1,316,002	1,248,852
Tier 2 Capital	1,892,901	1,723,629
Deductions from Capital	(181)	(181)
Total Regulatory Capital	**3,208,722**	**2,972,300**
Total regulatory capital expressed as a percentage of total risk-weighted assets and value at risks	**18.71%**	**18.64%**

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

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

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

	Carrying amount		Fair value	
31 December	**2019**	**2018**	**2019**	**2018**
Financial assets				
Due from banks	1,822,523	2,000,779	1,822,523	2,000,779
Money market placements	662,583	349,622	662,583	349,622
Loans and advances	8,926,578	7,666,242	8,950,213	7,701,216
	11,411,684	**10,016,643**	**11,435,319**	**10,051,617**
Financial liabilities				
Due to banks	176,458	1,322,553	293,507	1,323,987
Deposits	9,790,304	6,699,689	10,412,984	6,946,875
Funds borrowed	4,238,007	4,082,550	4,198,454	4,122,408
Subordinated loans	1,782,420	1,579,084	1,841,796	1,652,660
	15,987,189	**13,683,876**	**16,746,741**	**14,045,930**

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments that are carried at amortized cost:

Deposits with other banks, financial institutions and money market receivables

Fair values of deposits with other banks and financial institutions and money market receivables are considered to approximate their respective carrying values due to their short-term nature.

Loans and Advances

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates with similar currency and remaining maturity to determine their fair value.

Deposits and Funds Borrowed

The estimated fair values of deposits from other banks and customer with no stated maturity, which includes non-interest bearing deposits, are the amount repayable on demand.

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

Fair values of remaining financial assets and liabilities carried at amortized cost, including balances with Central Bank, other money market placements, reserve deposits and other money market deposits are considered to approximate their respective carrying values due to their short-term nature.

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

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value Hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 **-** Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt instruments.

Level 2 **-** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the OTC derivative contracts. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 **-** inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

		31 December 2019		
	Level 1	**Level 2**	**Level 3**	**Total**
Trading securities – FVTPL				
Share certificates	39	16,574	-	16,613
Investment securities – FVOCI				
Share certificates	10,057	-	-	10,057
Turkish government bonds	788,543	-	-	788,543
Eurobonds issued by the Turkish government	531,683	-	-	531,683
Other debt securities	-	473,423	-	473,423
Derivative financial assets	-	669	-	669
Total assets carried at fair value	**1,330,322**	**490,666**	**-**	**1,820,988**
Derivative financial liabilities	-	3,945	-	3,945
Total liabilities carried at fair value	**-**	**3,945**	**-**	**3,945**

		31 December 2018		
	Level 1	**Level 2**	**Level 3**	**Total**
Trading securities				
Share certificates	46	-	-	46
Investment securities – available for sale				
Share certificates	6,255	-	-	6,255
Turkish government bonds	1,079,785	-	-	1,079,785
Eurobonds issued by the Turkish government	518,314	-	-	518,314
Other debt securities	-	874,679	-	874,679
Derivative financial assets	-	30,117	-	30,117
Total assets carried at fair value	**1,598,145**	**904,796**	**-**	**2,509,196**
Derivative financial liabilities	-	1,141	-	1,141
Total liabilities carried at fair value	**-**	**1,141**	**-**	**1,141**

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

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value Hierarchy (continued)

The following table shows a reconciliation of the fair value measurements of financial assets in Level 3 of the fair value hierarchy for the years 2019 and 2018.

	31 December 2019	31 December 2018
Balance at 1 January	6,255	4,107
Total gains/(losses)	3,802	2,148
Additions	-	-
Disposals	-	-
Balance at 31 December	**10,057**	**6,255**

There are no transfers between the first and the second levels in the current year.

The buildings recorded under property and equipment on the statement of financial position are carried at fair value. Such fair value measurement includes inputs of Level 3 of the fair value hierarchy. The fair values of property are determined by third party appraisers commissioned by BRSA and Capital Markets Board at the period ends. The fair value measurements are based on comparison of similar items method, substitution cost method and direct capitalization method.

6. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash on hand	52,359	48,970
Balances with Central Bank	2,021,096	1,757,929
Cash and balances with central banks	**2,073,455**	**1,806,899**
Due from banks	**1,838,034**	**2,000,779**
Money market placements	**662,583**	**349,622**
Cash and cash equivalents	**4,574,072**	**4,157,300**
Less: Income accrual	(6,184)	(15,337)
Less: Reserve deposits at Central Bank	(701,543)	(287,732)
Cash and cash equivalents	**3,866,345**	**3,854,231**

As at 31 December 2019 and 31 December 2018, deposits and placements are as follows:

	31 December 2019				31 December 2018			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Balances with Central Bank	120,143	1,900,953	13.0	2.0	517,015	1,240,914	13.0	2.0
Due from banks	1,115	1,836,919	-	4.5	339	2,000,440	-	5.2
Cash collateral on reverse repurchase agreements	-	-	-	-	-	-	-	-
Money market placements	662,583	-	11.47	-	349,622	-	27.57	-
Total	**783,841**	**3,737,872**			**866,976**	**3,241,354**		

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

6. CASH AND CASH EQUIVALENTS (continued)

Balances with Central Bank include:

	31 December 2019		31 December 2018	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Unrestricted demand deposits	120,143	959,988	517,015	953,182
Restricted reserve requirements	-	940,965	-	287,732
Total	**120,143**	**1,900,953**	**517,015**	**1,240,914**

According to the regulations of the Central Bank of Turkish Republic ("the Central Bank"), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Group's day-to-day operations.

The reserve rates for TL liabilities vary between 1% and 7% for TL deposits and other liabilities according to their maturities as of 31 December 2019 (31 December 2018: 1.5% and 8% 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 31 December 2019 (31 December 2018: 4% and 20% for all foreign currency liabilities).

7. TRADING SECURITIES

	31 December 2019		31 December 2018	
	Amount	Effective Interest Rate (%)	Amount	Effective Interest Rate (%)
Other instruments				
Share certificates	39	-	46	-
Other securities	16,574	-	12,833	-
Total trading securities	**16,613**	**-**	**12,879**	**-**

Trading debt securities have fixed rates.

As at 31 December 2019 and 2018, none of the trading securities are kept as collateral or guarantee.

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

8. INVESTMENT SECURITIES

Fair value through other comprehensive income ("FVOCI")

	31 December 2019	
	Amount	**Effective Interest Rate (%)**
Equity instruments		
Equity securities	10,057	-
Debt instruments		
Turkish government bonds	788,543	10.0-28.0
Eurobonds issued by Turkish government	531,683	1.8-5.3
Other debt securities	473,423	4.2-5.4
Total	**1,803,706**	

As at 31 December 2019, TL 890,157 of investment securities - fair value through other comprehensive income has floating interest rates and the remaining portion has fixed rates.

	31 December 2018	
	Amount	**Effective Interest Rate (%)**
Equity instruments		
Equity securities	6,255	-
Debt instruments		
Turkish government bonds	1,079,785	10.0-28.0
Eurobonds issued by Turkish government	518,314	1.8-5.3
Other debt securities	874,679	4.2-5.4
Total	**2,479,033**	

As at 31 December 2018, TL 903,360 of investment securities - fair value through other comprehensive income has floating interest rates and the remaining portion has fixed rates.

The movement in investment securities - fair value through other comprehensive income is summarized as follows:

	2019
At 1 January	2,479,033
Foreign exchange differences	177,667
Purchases	13,509
Disposals and revaluation differences (sale or redemption)	(866,503)
At 31 December 2019	**1,803,706**

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

8. INVESTMENT SECURITIES

Fair value through other comprehensive income (“FVOCI”) (Continued)

The movement in investment securities - fair value through other comprehensive income is summarized as follows:

	2018
At 1 January	1,989,010
Foreign exchange differences	419,314
Purchases	187,051
Disposals and revaluation differences (sale or redemption)	(116,342)
At 31 December 2018	**2,479,033**

As at 31 December 2019, TL 881,715 of fair value through other comprehensive income (31 December 2018: TL 352,254 of fair value through other comprehensive income) is kept as a guarantee for stock exchange and other money market operations.

As at 31 December 2019 and 2018, certain portion of investment securities is pledged under repurchase agreements. Carrying value of securities pledged under repurchase agreements and carrying value of liabilities that are related to such securities are as follows:

	31 December 2019	**31 December 2018**
Carrying value of securities pledged under repurchase agreements	-	255,363
Carrying value of liabilities of such securities	18,840	250,174

Repurchase agreements mature within one month.

Gains and losses from investment securities comprise of TL 8,292 for derecognition of fair value through other comprehensive income securities for the year ended 31 December 2019 (31 December 2018: TL 883 of fair value through other comprehensive income).

Measured at Amortized Cost (“AC”)

The Group has financial assets classified as measured at amortized cost amounting to TL 2,891,227 as at 31 December 2019. (31 December 2018: 1,383,999)

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

9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2019						
	Amount				Effective interest rate (%)		
	Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	1,152,225	7,041,743	102,561	8,296,529	0.3-31	0.2-8.8	0.3-4.9
Consumer loans	605,580	-	-	605,580	0.3-27.0	-	-
Credit cards	17,406	677	-	18,083	14	1.5	-
Specialized loans	-	-	-	-	-	-	-
Investment loans	44,183	-	-	44,183	-	-	-
Total loans	**1,819,394**	**7,042,420**	**102,561**	**8,964,375**			
Loans under follow-up	**168,054**	**-**	**-**	**168,054**			
12 month ECL (stage 1)	(43,362)	-	-	(43,362)			
Lifetime ECL significant increase in credit risk (stage 2)	(48,823)	-	-	(48,823)			
Lifetime ECL impaired credits (stage 3)	(113,666)	-	-	(113,666)			
Total	**1,781,597**	**7,042,420**	**102,561**	**8,926,578**			

	31 December 2018						
	Amount				Effective interest rate (%)		
	Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	1,689,338	4,994,465	303,209	6,987,012	7.8-36.5	1.9-8.8	0.3-4.9
Consumer loans	774,353	-	-	774,353	0.3-27.0	-	-
Credit cards	19,229	568	-	19,797	20	-	-
Specialized loans	23	-	-	23	1.1-1.3	-	-
Investment loans	-	-	-	-	-	-	-
Total loans	**2,482,943**	**4,995,033**	**303,209**	**7,781,185**			
Loans under follow-up	93,407	-	-	93,407			
12 month ECL (stage 1)	(46,509)	-	-	(46,509)			
Lifetime ECL significant increase in credit risk (stage 2)	(83,254)	-	-	(83,254)			
Lifetime ECL impaired credits (stage 3)	(78,587)	-	-	(78,587)			
Total	**2,368,000**	**4,995,033**	**303,209**	**7,666,242**			

As at 31 December 2019, the amount of loans and advances, on which interest is not being accrued or where interest is suspended, is TL 168,054 (31 December 2018: TL 93,407).

As at 31 December 2019, TL 4,086,143 (31 December 2018: TL 3,285,808) of loans and advances have floating interest rates and the remaining portion has fixed rates.

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

9. LOANS AND ADVANCES TO CUSTOMERS (continued)

Movements in non-performing loans and finance lease receivables:

Movements in the allowance for impairment	**2019**
Allowance for impairment on stage 3 loans	
Allowance at the beginning of year	78,587
Charge for the year	92,695
Recoveries	(7,736)
Provision net of recoveries	84,959
Loans written off during the year and other adjustments(*)	(49,880)
Balance at 31 December 2019	113,666
Allowance for impairment on stage 1 and stage 2 loans	
Allowance at beginning of year	129,763
Charge / (reversal) for the year	(37,578)
Balance at 31 December 2019	92,185
Total allowances for impairment	**205,851**

Reconciliation of provision for impairment of loans and advances	**2019**
Impairment loss for stage 1 and stage 2 loans	84,959
Impairment loss for stage 3 loans	(37,578)
Total provision net of recoveries – for cash loans	47,381
Provision net of recoveries – for non-cash loans and commitments	19,197
Total provision for impairment of loans and advances	**66,578**

Movements in the allowance for impairment	**2018**
Allowance for impairment on stage 1 and stage 2 loans	
Allowance at the beginning of year	72,147
Charge for the year	52,534
Recoveries	(6,011)
Provision net of recoveries	46,523
Loans written off during the year and other adjustments (*)	(40,083)
Balance at 31 December 2018	**78,587**
Allowance for impairment on stage 3 loans	
Allowance at beginning of year	18,595
Charge / (reversal) for the year	111,168
Balance at 31 December 2018	**129,763**
Total allowances for impairment	**208,350**

Reconciliation of provision for impairment of loans and advances	**2018**
Impairment loss for stage 1 and stage 2 loans	46,523
Impairment loss for stage 3 loans	111,168
Total provision net of recoveries – for cash loans	157,691
IFRS 9 transition impact	(24,936)
Provision net of recoveries – for non-cash loans and commitments	(5,919)
Total provision for impairment of loans and advances	**126,836**

(*) In the current period, the Group has written off TL 49,880 portion of its non-performing loans (31 December 2018: TL 40,083). The provision amount written off regarding such transaction is TL 49,880. Besides, TL 3,232 provision for indemnified non-cash loans for which provision has been booked on other provisions account on the liability side in prior period has been transferred to specific allowances account in the current period (31 December 2018: TL 2,964).

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

10. TANGIBLE ASSETS

	Buildings	Furniture and Office Equipment	Leased Assets	Right of use	Motor Vehicles	Total
At 1 January 2019 Net of accumulated depreciation and impairment	19,580	16,659	-		-	36,239
Additions	-	12,294	-	15,385	-	27,679
Addition from Finance Lease Assets		-		80,333		80,333
Disposals, net (**)	(2,390)	(46)	-		-	(2,436)
Revaluation and impairment, net	1,846	-	-		-	1,846
Depreciation charge for the year	(178)	(7,310)	-	(17,648)	-	(25,136)
At 31 December 2019, net of accumulated depreciation and impairment	**18,858**	**21,597**	**-**	**78,070**	**-**	**118,525**
At 1 January 2019						
Cost	23,590	54,986	3,160	-	36	81,772
Revaluation and impairment, net (*)	-	-	-		-	-
Accumulated depreciation	(4,010)	(38,237)	(3,160)		(36)	(45,443)
Net carrying amount	**19,580**	**16,749**	**-**	**-**	**-**	**36,329**
At 31 December 2019						
Cost	23,046	67,280	2,269	95,313	-	187,908
Revaluation and impairment, net (*)	-	-	-		-	-
Accumulated depreciation	(3,795)	(45,637)	(2,269)	(17,648)	-	(69,349)
Net carrying amount	**19,251**	**21,643**	**-**	**77,665**	**-**	**118,559**

(*) As at 31 December 2019, there is TL 14,390 revaluation surplus on buildings (31 December 2018: TL 13,967). Such revaluation surplus is identified as the difference between the net book value and the fair value of property at the reporting date; the date of revaluation. Fair values are determined by a third party appraiser commissioned by BRSA and Capital Markets Board.

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

10. TANGIBLE ASSETS (continued)

	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
At 1 January 2018					
Net of accumulated depreciation and impairment	18,070	18,695	-	-	36,765
Additions	-	4,884	-	-	4,884
Disposals, net (**)	-	-	-	-	-
Revaluation and impairment, net	1,708	-	-	-	1,708
Depreciation charge for the year	(181)	(6,937)	-	-	(7,118)
At 31 December 2018, net of accumulated depreciation and impairment	**19,597**	**16,642**	**-**	**-**	**36,239**
At 1 January 2018					
Cost	21,882	50,102	3,160	36	75,180
Revaluation and impairment, net(*)	-	-	-	-	-
Accumulated depreciation	(3,812)	(31,407)	(3,160)	(36)	(38,415)
Net carrying amount	**18,070**	**18,695**	**-**	**-**	**36,765**
At 31 December 2018					
Cost	21,882	54,986	3,160	36	80,064
Revaluation and impairment, net(*)	1,708	-	-	-	1,708
Accumulated depreciation	(3,993)	(38,344)	(3,160)	(36)	(45,533)
Net carrying amount	**19,597**	**16,642**	**-**	**-**	**36,239**

(*) As at 31 December 2018, there is TL 13,967 revaluation surplus on buildings (31 December 2017: TL 12,259). Such revaluation surplus is identified as the difference between the net book value and the fair value of property at the reporting date; the date of revaluation. Fair values are determined by a third party appraiser commissioned by BRSA and Capital Markets Board.

11. INTANGIBLE ASSETS

Software Licenses and Other	**31 December 2019**	**31 December 2018**
Beginning of the year, net of accumulated amortization	8,171	5,194
Additions	5,146	5,526
Disposals, net	-	-
Amortization charge for the year	(5,123)	(2,549)
At the end of the year, net of accumulated amortization	**8,194**	**8,171**
At beginning of the year		
Cost	30,407	24,878
Accumulated amortization	(22,236)	(19,684)
Net carrying amount	**8,171**	**5,194**
At end of the year		
Cost	35,553	30,407
Accumulated amortization	(27,359)	(22,236)
Net carrying amount	**8,194**	**8,171**

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

12. OTHER ASSETS

	31 December 2019	31 December 2018
Collaterals given	15,284	3,633
Transitory receivables (*)	4,883	13,546
Prepaid expenses	4,767	5,927
Assets to be disposed of (**)	4,176	2,058
Receivables from customers	2,296	5,100
Office supply inventory	720	818
Receivables from futures and options market	602	6,060
Receivables from credit cards and debit cards	602	416
Payments for mutual funds	89	924
Others	5,628	5,429
Total	**39,047**	**43,911**

(*) Transitory receivables mainly include receivables from clearing house of cheques.

(**) Assets to be disposed of account comprise mainly property, acquired from defaulted loan customers and will be mainly realized through sale.

The movement of assets to be disposed of is as follows:

	2019	2018
Opening balance at 1 January	2,058	8,415
Additions	2,834	887
Disposals, net	(622)	(6,908)
Net (charge) / reversal of provision for impairment	(93)	(336)
Closing balance at 31 December	**4,176**	**2,058**

13. DEPOSITS

Due to Banks

	31 December 2019				31 December 2018			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Demand	84,004	33,046	-	-	31,050	21,724	-	-
Time	59,408	-	-	-	190,547	1,079,232	-	-
Total	**143,412**	**33,046**			**221,597**	**1,100,956**		

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

13. DEPOSITS (continued)

Deposits

	31 December 2019				31 December 2018			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Saving								
Demand	40,686	151,538	-	-	24,938	72,323	-	-
Time	1,850,120	2,340,720	4.5-21.5	0.1-4.1	1,789,450	1,486,186	4.5-27.0	0.1-6.8
	1,890,806	**2,492,258**			**1,814,388**	**1,558,509**		
Commercial and other								
Demand	91,326	291,349	-	-	45,058	243,080	-	-
Time	914,955	4,109,610	4.5-21.5	0.1-4.1	201,023	2,837,631	4.5-27.0	0.1-6.8
	1,006,281	**4,400,959**			**246,081**	**3,080,711**		
Total	**2,897,087**	**6,893,217**			**2,060,469**	**4,639,220**		

Other Money Market Deposits

	31 December 2019				31 December 2018			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
Due to banks & mutual funds	18,841	-	8.9-11.4	-	257,264	88 ,881	17.2-25.4	-
Total	**18,841**	**-**			**257,264**	**88,881**		

14. FUNDS BORROWED

	31 December 2019				31 December 2018			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short term(*)								
Fixed interest	2,053	237,622	13.4-17.48	2.18-3.0	1,162,755	792,471	6.8-8.2	3.0-3.1
Medium/long term(*)								
Fixed interest	-	3,998,331	-	2.83-3.68	-	2,127,324	-	3.0-3.68
Total	**2,053**	**4,235,954**			**1,162,755**	**2,919,795**		

(*) The short term and medium/long term allocation of funds borrowed are based on the contractual payment period.

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

14. FUNDS BORROWED (continued)

Repayments of medium/long term borrowing are as follows:

	31 December 2019	31 December 2018
2019	-	-
2020	365,971	533,935
2021	1,528,117	-
2022	603,886	264,738
2024	1,500,358	1,328,651
Total	**3,998,331**	**2,127,324**

Funds borrowed consist of funds obtained from Turkish Eximbank to finance certain export loans given to customers under prevailing regulations and funds obtained from foreign banks and financial institutions. In the current period the majority of the funds borrowed, 100%, are obtained from the Bank’s current shareholder ICBC and group companies of ICBC (31 December 2018: 60%).

Lease payables:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Less Than 1 Year	4,417	-	-	-
Between 1-4 Years	16,062	-	-	-
More Than 4 Years	61,809	-	-	-
Total	**82,288**	**-**	**-**	**-**

15. SUBORDINATED LOANS

The details of subordinated liabilities of the Bank as of 31 December 2019 are presented in the table below:

Lender	Amount USD	Amount TL	Opening date	Maturity	Interest rate (%)
Industrial and Commercial Bank of China Limited (ICBC)	USD 300,000	1,782,420	28 December 2018	10 years	6M USD Libor + 1.75%

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

16. OTHER LIABILITIES, EMPLOYEE BENEFITS AND PROVISIONS

	31 December 2019	31 December 2018
Other liabilities		
Blocked checks and other blockage items	701,105	452,499
Lease payables	82,288	-
Transitory payables	64,281	13,102
Taxes and funds payable	21,622	20,591
Transfer orders	16,649	48,606
Payable for credit card settlements	1,614	1,557
Advances taken	415	30,756
Others	9,251	7,270
	897,225	**574,381**
Employee benefits		
Employee termination benefits	14,114	12,183
Employee vacation pay liability	6,861	5,734
	20,975	**17,917**
Provisions		
Provision for non-cash loans	40,641	8,701
Provisions against lawsuits	13,051	12,515
Provision for premium	56,387	23,244
	110,079	**44,460**
Total	**1,028,279**	**636,758**

Employee Termination Benefits

The movement in provision for employee termination benefits is as follows:

	2019	2018
At 1 January	12,183	10,735
Interest cost	1,200	963
Current service cost	2,831	2,045
Paid during the year	(3,949)	(2,258)
Effects of change in actuarial assumptions	1,849	698
At 31 December	**14,114**	**12,183**

In accordance with existing social legislation, the Bank and its subsidiary incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of full TL 6,380 and full TL 5,434 at 31 December 2019 and 2018, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as at 31 December 2019 and 2018, the Group reflected a liability based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the date of financial position.

The principal actuarial assumptions used at the dates of financial position are as follows:

31 December	2019	2018
Discount rate	4.39	4.11
Expected rates of salary/limit increases	8.3	9.5

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

16. OTHER LIABILITIES, EMPLOYEE BENEFITS AND PROVISIONS (continued)

In the current period, actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognized in the consolidated statement of profit or loss and other comprehensive income, the prior year actuarial gains / losses were recognized in the consolidated statement of profit or loss.

The movement in provision for employee vacation liability is as follows:

	2019	**2018**
At 1 January	5,734	5,242
Paid during the year	(596)	(282)
Current service cost	1,723	774
At 31 December	**6,861**	**5,734**

Provisions

As at 31 December 2019, the Group has provided TL 3,232 provision due to non-cash loans and irrevocable commitments that are not indemnified yet, however whose cash loan balances are impaired (31 December 2018: TL 2,964).

As at 31 December 2019, the Group has provided TL 13,051 provision due to certain lawsuits filed against the Group (31 December 2018: TL 12,515).

The movement in provision for non-cash loans is as follows:

	2019	**2018**
At 1 January	2,964	6,092
IFRS 9 Transition	-	(2,257)
Charge for the year	-	-
Recoveries	-	-
Transfer to specific allowances	268	(871)
At 31 December	**3,232**	**2,964**

The movement in provision against lawsuits is as follows:

	2019	**2018**
At 1 January	12,515	9,546
Charge for the year	536	2,969
Paid during the year	-	-
At 31 December	**13,051**	**12,515**

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

17. TAXATION

General Information

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%. This rate is applied to tax base which is calculated by adding certain non-deductible expenses for tax purposes and deducting certain exemptions (like dividend income) and other deductions on accounting income. If there is no dividend distribution, no further tax charges are made.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

The Bank and its subsidiaries, ICBC Yatırım and ICBC Portföy, are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

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

	2019	**2018**
Consolidated statement of profit or loss		
Current income tax expense	58,851	32,110
Deferred income tax expense / (income)		
Relating to origination and reversal of temporary differences and tax loss	(8,811)	7,254
Income tax expense reported in the consolidated statement of profit or loss	**50,040**	**39,364**

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

	2019	**2018**
Profit before income tax	**121,550**	**122,913**
At Turkish statutory income tax rate of 22%	26,741	27,041
IFRS 9 transition impact	-	15,739
Tax exempt income	(26)	(29)
Non-deductible expenses	467	181
Others, net (*)	22,858	(3,568)
Income tax expense	**50,040**	**39,364**

(*) Includes expected credit losses amounting to TL 33,356 and ,IFRS 16 amounting to .TL (12,833).

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

17. TAXATION (continued)

Deferred Income Tax

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

	Consolidated Statement of Financial Position	
	31 December 2019	**31 December 2018**
Deferred tax assets		
Expected credit losses	33,356	33,278
Liability for employee termination benefits and unused vacation pay liability	4,195	4,050
Valuation differences of securities	2,733	9,638
Provisions	1,587	1,506
Reserve for loan losses	-	-
Valuation differences of derivatives	655	-
Others	3,702	3,466
Gross deferred tax assets	**46,228**	**51,938**
Deferred tax liabilities		
Valuation differences of securities	1,190	506
Valuation and depreciation differences of property and equipment	1,287	1,041
Valuation differences of derivatives	-	5,795
IFRS 16	12,833	-
Gross deferred tax liabilities	**15,310**	**7,342**
Deferred tax assets, net	**30,918**	**44,596**

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

	2019	**2018**
Deferred tax asset, net at 1 January	44,596	15,178
IFRS 9 transition impact	-	15,739
Deferred income tax recognized under profit or loss	8,811	(7,254)
Deferred income tax recognized under shareholders' equity (*)	(22,489)	20,933
Deferred tax asset, net at 31 December	**30,918**	**44,596**

(*) The change in deferred tax asset/liability of TL 8,811 (31 December 2018: TL 7,254), recognized under shareholders' equity, consists of TL (257) (31 December 2018: TL 207) resulting from actuarial gains, TL 154 (31 December 2018: TL (86)) resulting from the revaluation surplus on buildings and TL (22,386) (31 December 2018: TL 20,812) resulting from valuation differences of securities.

Current Income Tax Payable

Income tax payable at 31 December 2019 and 2018 are as follows:

	31 December 2019		**31 December 2018**	
	Bank	**Subsidiaries**	**Bank**	**Subsidiaries**
Current income tax charge	49,173	9,678	28,652	6,324
Prepaid income taxes	(26,905)	(8,031)	(10,651)	(6,324)
Income tax payable, net	**22,268**	**1,647**	**18,001**	**-**

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

18. DERIVATIVES

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

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

	31 December 2019		31 December 2018	
	Fair value assets	**Fair value liabilities**	**Fair value assets**	**Fair value liabilities**
Derivatives held for trading				
Forward currency purchases and sales	440	170	741	23
Currency swap purchases and sales (*)	206	3,761	29,376	1,118
Options purchases and sales	23	14	-	-
Total	**669**	**3,945**	**30,117**	**1,141**

(*) The Group has no fair value assets resulted from precious metal swap purchase and sales transaction (31 December 2018: None).

The fair values of derivative financial instruments are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

As at 31 December 2019 and 2018, the majority of outstanding transactions in derivative financial instruments were with the banks and financial institutions.

The table below shows the notional amounts of derivative instruments analyzed by currency:

31 December 2019	Turkish Lira	US Dollars	Euro	Others	Total
Purchases / inflows					
Currency forwards	419,584	586,335	665	84,090	1,090,674
Currency swaps	-	-	-	-	-
Sales / outflows					
Currency forwards	3,640	450,147	624,086	15,047	1,092,920
Currency swaps	-	-	-	-	-
Total of purchases / inflows	419,584	586,335	665	84,090	1,090,674
Total of sales / outflows	3,641	450,147	624,086	15,046	1,092,920
Net notional position	**419,584**	**586,335**	**665**	**84,090**	**1,090,674**

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

18. DERIVATIVES (continued)

31 December 2018	**Turkish Lira**	**US Dollars**	**Euro**	**Others**	**Total**
Purchases / inflows					
Currency forwards	43,427	54,100	904	1,524	99,955
Currency swaps	-	326,851	85,598	48,023	460,472
Sales / outflows					
Currency forwards	4,874	4,185	88,853	1,165	99,077
Currency swaps	109,270	85,455	228,900	12,023	435,648
Total of purchases / inflows	43,427	380,951	86,502	49,547	560,427
Total of sales / outflows	114,144	89,640	317,753	13,188	534,725
Net notional position	**(70,717)**	**291,311**	**(231,251)**	**36,359**	**25,702**

The table below shows the notional amounts of derivative instruments analyzed by the term to maturity:

31 December 2019	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Currency forwards:						
Purchases / inflows	40,519	8,188	-	-	-	48,707
Sales / outflows	40,434	7,396	-	-	-	47,830
Currency swaps:						
Purchases / inflows	326,273	466,261	-	-	-	792,534
Sales / outflows	326,331	469,293	-	-	-	795,624
Other transactions:						
Purchases / inflows	-	-	-	-	-	-
Sales / outflows	-	-	-	-	-	-
Total of purchases / inflows	366,792	142,387	-	-	-	509,179
Total of sales / outflows	366,765	116,714	-	-	-	483,479
Total of transactions	**733,557**	**259,101**	**-**	**-**	**-**	**992,658**

31 December 2018	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Currency forwards:						
Purchases / inflows	96,795	3,160	-	-	-	99,955
Sales / outflows	96,709	2,367	-	-	-	99,076
Currency swaps:						
Purchases / inflows	326,273	134,199	-	-	-	460,472
Sales / outflows	326,331	109,318	-	-	-	435,649
Other transactions:						
Purchases / inflows	-	-	-	-	-	-
Sales / outflows	-	-	-	-	-	-
Total of purchases / inflows	423,068	137,359	-	-	-	560,427
Total of sales / outflows	423,040	111,685	-	-	-	534,725
Total of transactions	**846,108**	**249,044**	**-**	**-**	**-**	**1,095,152**

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

19. SHARE CAPITAL

	31 December 2019	31 December 2018
Number of common shares, TL 0.1 (in full TL), par value (Authorized and issued)	8,600,000,000	8,600,000,000

In accordance with the decision of the general extraordinary meeting of the Bank dated 9 February 2017, the Bank's capital has decided to increase and the decision was registered by Istanbul Trade Registry Office at 29 June 2017. At this content, the Bank's capital has increased in cash amounting to TL 440,000 from TL 420,000 to TL 860,000 and the whole increase was made in cash. With this increase, ICBC's shareholding ratio at the Bank has increased from 92.82% to 92.84%.

As at 31 December 2019 and 2018, the composition of shareholders and their respective percentage of ownership in historical terms can be summarized as follows:

	31 December 2019		31 December 2018	
	Amount	**%**	**Amount**	**%**
Industrial and Commercial Bank of China Limited (ICBC)	798,424	92.84	798,424	92.84
Publicly held	61,576	7.16	61,576	7.16
Total	**860,000**	**100.00**	**860,000**	**100.00**

The 70% of share capital of the Bank consist of Type A shares and the remaining consist of Type B shares. Three out of five members of the Board of Directors are appointed by Type A shareholders and the remaining two are appointed by Type B shareholders. There is no other privilege appointed.

20. LEGAL RESERVES AND RETAINED EARNINGS

Movement in legal reserves and retained earnings is as follows:

	2019			2018		
	Legal Reserves	**Retained Earnings**	**Total**	**Legal Reserves**	**Retained Earnings**	**Total**
At 1 January	**11,978**	**360,413**	**372,391**	**11,978**	**319,034**	**331,012**
Net profit for the year	-	71,510	71,510	-	83,549	83,549
Changes on initial application of IFRS 9	-	-	-	-	(42,170)	(42,170)
Transfers	-	-	(1,423)	-	-	-
At 31 December	**11,978**	**431,923**	**442,478**	**11,978**	**360,413**	**372,391**

Legal Reserves

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

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

21. DIVIDENDS PAID AND PROPOSED

As at 31 December 2019 and 2018, the Group did not distribute any dividends to shareholders in respect of 2018 and 2017 profits.

22. 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 parent 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 regarded similarly. Accordingly, the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through 31 December 2019.

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

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

	31 December 2019	31 December 2018
Profit attributable to equity holders of the Bank	71,510	83,549
Weighted average number of ordinary shares in issue (thousand)	8,600,000	8,600,000
Basic earnings per thousand share (expressed in full TL)	**0.0083**	**0.0097**

23. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by ICBC which owns 92.84% (31 December 2018: ICBC - 92.84%) of ordinary shares. For the purpose of these consolidated financial statements, shareholders, and ICBC Group companies are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the ICBC's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms and at rates which approximate market rates.

The summary of related party balances and results of transactions are presented below:

Related Party		Cash Loans & Due From Banks	Non-cash Loans	Deposits Taken	Notional Amount of Derivative Transactions	Interest Income	Interest Expense	Other Operating Income	Other Operating Expense
Shareholders	2019	9,932	567,918	-	5,414,782	-	132,883	-	248
	2018	10,107	259,363	31,041	3,172,476	-	95,164	-	-
Others(*)	2019	10,124	-	203	602,792	8	18,266	-	13
	2018	9,152	-	180	1,060,850	2,847	24,326	-	-
Directors' interests	2019	22	-	2,261	-	-	67	17	15
	2018	27	-	992	-	-	33	12	-

(*) As at 31 December 2019, cash loans mainly not include loans granted to Hai Kuo Company, an indirect subsidiary of ICBC China. As at 31 December 2019, deposits taken mainly include TL 203 (31 December 2018: TL 180) due to Hai Kuo Company.

In addition to the balances represented above, the Bank has TL 424 irrevocable commitment to related parties as at 31 December 2019 (31 December 2018: TL 93).

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

23. RELATED PARTY DISCLOSURES (continued)

A subordinated loan of USD 300 million (three hundred million USD) was obtained from the main shareholder of the Bank, Industrial and Commercial Bank of China Limited (ICBC), with a maturity of 10 years and repayment after 5 years. The Bank has used TL 1,782,420 of subordinated loans in the calculation of capital adequacy.

Compensation of Key Management Personnel of the Group

For the year ended 31 December 2019, the executive and non-executive members of the Board of Directors and management received remuneration and fees totaling approximately TL 24,799 (31 December 2018: TL 19,709) comprising salaries and other short-term benefits.

24. FEE AND COMMISSION INCOME AND EXPENSE

	2019	2018
Fee and commission income		
Letters of guarantee	9,502	6,224
Letters of credit, acceptance credits and other guarantees	9,721	6,875
Total	**19,223**	**13,099**
Fees and commission expense		
Corresponding bank fees and other commissions	7,066	8,376
Total	**7,066**	**8,376**

25. INCOME FROM BANKING SERVICES

	2019	2018
Commission income	64,364	65,298
Project evaluation fee	4,605	12,863
Income from credit cards	3,588	3,276
Income from fund management	1,140	2,058
Charges regarding fund transfers	823	862
Charges regarding account transactions	223	268
Income from insurance brokerage	2,158	741
Others	45,230	27,190
Total	**122,131**	**112,556**

26. NET TRADING INCOME/ (EXPENSE)

	2019	2018
Commissions from capital market transactions	7,567	9,168
Gain from derecognition of FVOCI securities	8,292	883
Net trading income from derivative and currency transactions	(23,274)	(7,185)
Other gain/(loss)	(4,923)	318
Total	**(12,338)**	**3,184**

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

27. OTHER INCOME

	2019	2018
Year expenditure collection	11,826	1,216
Collections from loans written off in prior years	4,213	212
Income from sale of property, equipment and assets to be disposed of	186	7,247
Revenue cancellation	123	6,542
Others	7,874	91
Total	**24,222**	**15,308**

28. SALARIES AND EMPLOYEE BENEFITS

	2019	2018
Personnel expenses		
Wages and salaries	126,745	115,079
Other fringe benefits	43,672	15,804
Bonus payments	33,243	26,806
Food expenses	4,699	3,338
Provision for employee termination benefits and unused vacation pay liability	4,687	3,330
Employers' share of social security premiums	2,722	16,243
Total	**215,767**	**180,600**

29. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Repair and maintenance expense	14,073	9,424
Communication expenses	10,032	8,476
Cleaning and other residential expenses	4,700	3,513
Hospitality and representation expenses	4,318	4,622
Heating and lighting expenses	3,851	2,675
Operating lease expenses	3,563	28,185
Transportation expenses	3,227	3,312
Printing and stationary expenses	2,314	1,403
Advertising expenses	1,530	850
Computer expenses	1,028	681
Insurance expenses	382	332
Others	9,437	7,180
Total	**58,454**	**70,653**

30. OTHER EXPENSES

	2019	2018
Short term employee benefits	54,392	23,221
Saving deposit insurance fund premium	10,540	7,226
Consultancy expenses	5,837	2,912
Participation fees	3,104	2,578
Provision for litigations	536	2,968
Others	13,982	2,323
Total	**88,391**	**41,228**

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

31. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Bank and its subsidiary undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	31 December 2019	31 December 2018
Letters of guarantee	2,273,364	2,040,443
Letters of credit	294,068	217,850
Other guarantees	4,419,976	112,889
Total non-cash loans	**6,987,408**	**2,371,182**
Credit card limits	80,622	73,480
Other commitments	53,329	156,906
Total	**7,121,359**	**2,601,568**

Operating Lease Commitments - Group as Lessee

The Group has entered into commercial leases on branch premises. These leases have an average life of 1 to 10 years and with renewal option in the contracts. There are no restrictions placed upon the lessee by entering into these leases. There are no non-cancellable operating leases.

Litigation

In the normal course of its operations, the Group can face with legal disputes, claims and complaints. The necessary provision for those cases is provided based on management estimates and professional advice. As at 31 December 2019, TL 13,051 provision is provided against such litigations (31 December 2018: TL 12,515).

Fiduciary Activities

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

The Group also manages 5 open-ended mutual funds (31 December 2018: 5 open-ended mutual funds), which were established under the regulations of the Turkish Capital Market Board. In accordance with the funds’ charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

32. EVENTS AFTER THE REPORTING PERIOD

A new type of coronavirus (COVID-19), which first appeared in China, was classified by the World Health Organization as an epidemic that affects countries globally on 11 March 2020. The COVID-19 pandemic and the precautions taken against it have impacts on economic conditions, sectors, businesses, consumers, as well as asset and commodity prices, liquidity, exchange rates, interest rates, money and capital markets and many other issues and the future of it remains uncertain. The effects of these effects on the Bank's equity management and capital adequacy, asset quality, credit risk, operational risk, currency risk, interest rate risk, liquidity risk, stock position risk arising from banking accounts, leverage ratio and other risks and indicators and is regularly monitored by the Bank Management. Although the effects of the situation are not known exactly, it is expected to affect the financial status and operating results of the Bank in the foreseeable future. The Bank takes the necessary precautions to keep the negative effects that may arise under control and at a minimum level.