FOURTH SUPPLEMENT dated 12 February 2020 to the Base Prospectus dated 26 April 2019

TÜRKİYE GARANTİ BANKASI A.Ş.

US$6,000,000,000

Global Medium Term Note Programme

This supplement (this "*Supplement*") is supplemental to, and must be read in conjunction with, the Base Prospectus dated 26 April 2019 (the "*Original Base Prospectus*" and, as supplemented by the supplements dated 9 July 2019, 5 September 2019 and 10 December 2019, the "*Base Prospectus,*" which also serves as the "*Listing Particulars*") prepared by Türkiye Garanti Bankası A.Ş. (the "*Issuer*" or the "*Bank*") under the Issuer's global medium term note programme. Capitalised terms used but not otherwise defined herein shall have the meaning ascribed thereto in the Base Prospectus. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("*Euronext Dublin*") for the approval of this Supplement as a supplement to the Listing Particulars (this "*Listing Particulars Supplement*"). Except where expressly provided or the context otherwise requires, where Notes with a maturity of less than one year are to be admitted to trading on the regulated market of Euronext Dublin, references herein to this "Supplement" shall be construed to be references to this "Listing Particulars Supplement" and references herein to the "Base Prospectus" shall be construed to be references to the "Listing Particulars."

This Supplement has been approved by the Central Bank of Ireland pursuant to the Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland (S.I. No. 324 of 2005) (as amended, the "*Irish Prospectus Regulations*"). The Central Bank of Ireland only approves this Supplement as meeting the requirements imposed under Irish and European Union law pursuant to the Irish Prospectus Regulations. This document constitutes a supplement for the purposes of the Irish Prospectus Regulations and has been prepared and published for the purposes of incorporating into the Base Prospectus the latest financial statements and updating the Base Prospectus with certain recent events in connection with the Issuer. As a result, certain modifications to the Base Prospectus are hereby being made. In connection herewith, the Issuer is relying upon Article 46(3) of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017.

A copy of each of: (a) the consolidated BRSA financial statements of the Group as of and for the year ended 31 December 2019 (including any notes thereto and the independent auditor's audit report thereon, the "*Group's New Financial Statements*") and (b) the unconsolidated BRSA financial statements of the Issuer as of and for the year ended 31 December 2019 (including any notes thereto and the independent auditor's audit report thereon, the "*Issuer's New Financial Statements*" and, with the Group's New Financial Statements, the "*New Financial Statements*") has been filed with the Central Bank of Ireland and Euronext Dublin and, by means of this Supplement, is incorporated by reference into, and forms part of, the Base Prospectus. Copies of the New Financial Statements can be obtained without charge from the registered office of the Issuer and from the Issuer's website at: (i) with respect to the Group's New Financial Statements, https://www.garantiinvestorrelations.com/en/images/pdf/31_12_2019_BRSA_Consolidated_financials_and_footnotes.pdf, and (ii) with respect to the Issuer's New Financial Statements, https://www.garantiinvestorrelations.com/en/images/pdf/31122019_BRSA_Unconsolidated_Footnotes.pdf (such website is not, and should not be deemed to constitute, a part of, or be incorporated into, this Supplement or the Base Prospectus). The New Financial Statements, which are in English, were prepared as convenience translations of the corresponding Turkish language financial statements (which translations the Issuer confirms are direct and accurate). The New Financial Statements were not prepared for the purpose of their incorporation by reference into the Base Prospectus.

The New Financial Statements were audited by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of KPMG International Cooperative) ("*KPMG*") and KPMG's audit reports included within the New Financial Statements were qualified with respect to general reserves that were allocated by the Group. These additional provisions were taken in accordance with the conservatism principle applied by the Group in considering the circumstances that might arise from any changes in the economy or market conditions. See "Risk Factors - Risks Relating to the Group's Business - Audit Qualification" in the Base Prospectus as amended by this Supplement.

Statements contained herein shall, to the extent applicable and whether expressly, by implication or otherwise, modify or supersede statements set out in, or previously incorporated by reference into, the Base Prospectus. Where there is any inconsistency between the information contained in (or incorporated by reference into) the Base Prospectus and the information contained herein (or incorporated by reference into the Base Prospectus by means of this Supplement), the information contained herein (or incorporated by reference into the Base Prospectus by means of this Supplement) shall prevail.

Except as disclosed herein (including in the New Financial Statements incorporated by reference into the Base Prospectus by means of this Supplement) and in the previous supplements to the Original Base Prospectus, there has been no: (a) significant new factor, material mistake or inaccuracy relating to the information included in the Original Base Prospectus since the publication of the Original Base Prospectus, (b) significant change in the financial or trading position of either the Group or the Issuer since 31 December 2019 and (c) material adverse change in the financial position or prospects of the Issuer since 31 December 2019.

The Issuer accepts responsibility for the information contained herein. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained herein is in accordance with the facts and contains no omission likely to affect the import of such information. None of the Dealers or the Arranger make any representation, express or implied, regarding, or accept any responsibility for, the contents hereof or any information incorporated by reference into the Base Prospectus by means of this Supplement.

AMENDMENTS

The following amendments are made to the Base Prospectus:

All references in the Base Prospectus to the "EEA" or a "Member State" of the EEA shall be deemed to include the United Kingdom.

PROGRAMME APPROVALS

The CMB Approval referred to on page iii of the Original Base Prospectus is hereby replaced with a reference to the replacement CMB approval letter (dated 7 February 2020 No. 29833736-105.02.02-E.1611) and the final CMB approved issuance certificate (in Turkish: *onaylanmış ihraç belgesi*) (dated 7 February 2020 and numbered 22/BA-194) and the BRSA Approval referred to on such page is hereby replaced with a reference to the replacement BRSA approval letter (dated 13 January 2020 No. 20008792-101.02.01[42]-E.333). References to the applicable Programme Approval(s) throughout the Base Prospectus shall be deemed to be references to these replacement approvals.

INFORMATION RELATING TO THE BENCHMARKS REGULATION

The second sentence of the second paragraph of the section titled "Information Relating to the Benchmarks Regulation" on page iv of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

> As of 12 February 2020, Intercontinental Exchange Benchmark Administration Limited, European Money Markets Institute (EMMI) and Czech Financial Benchmark Facility (CFBF) appear on the Register of Administrators, but none of the other Benchmark Administrators appear on the Register of Administrators, though The Bank of England, as a central bank, is not required to appear on the Register of Administrators pursuant to Article 2(2) of the Benchmarks Regulation.

RISK FACTORS

The third sentence of the fifth paragraph of the risk factor titled "Risks Relating to Turkey – Terrorism and Conflicts" on page 20 of the Original Base Prospectus (which was inserted therein by the supplement dated 10 December 2019) is hereby deleted in its entirety and replaced by the following:

> In addition to objections raised by Syria, Iran and Russia to this military activity, the United States (*inter alios*) has taken certain actions (including sanctions on three Turkish ministers and the ministries of defense and energy, though such sanctions were lifted quickly upon an agreement for a pause of operations by Turkey's military) and might impose additional sanctions upon Turkish military personnel, political figures and/or entities and/or take other actions that might negatively impact the Turkish economy and/or Turkey's relationship with the United States (in fact, both the U.S. House of Representatives and the Foreign Relations Committee of the U.S. Senate in late 2019 passed bipartisan approvals for sanctions (including, without limitation, freezing assets of senior Turkish officials, banning arms transfers to the country, imposing sanctions on Halkbank and potentially imposing fees and penalties on Turkish financial institutions who are found to have knowingly facilitated certain transactions relating to Turkey's military operations in Syria)). On 27 November 2019, the Turkish government signed a Memorandum of Understanding with Libya's Government of National Accord to recognise a shared maritime boundary in the Mediterranean running from Southwestern Turkey to Northeastern Libya. This was further supported by a separate agreement signed in order to expand security and military cooperation between the two countries. On 2 January 2020, the military resolution was accepted by the Turkish parliament and Turkish troops have been deployed in Libya. This incursion into Libya might further aggravate Turkey's geopolitical tensions, including with Russia.

The fourth paragraph of the risk factor titled "Risks Relating to Turkey – Global Financial Crisis and Eurozone Uncertainty" on page 21 of the Base Prospectus is hereby deleted in its entirety and replaced with the following:

> Furthermore, in July 2016, the United Kingdom (the "*UK*") voted to withdraw from the EU. The UK government invoked Article 50 of the Lisbon Treaty on 29 March 2017 marking the beginning of negotiations with the EU relating to the UK's exit. Following the negotiation of a withdrawal agreement (the "*article 50 withdrawal agreement*") between the UK and the EU, the UK ceased to be a member of the EU at 11:00 p.m. (London time) on 31 January 2020. Under the terms of the article 50 withdrawal agreement, a transition period commenced that will last until 31 December 2020. During this period, most EU rules and regulations will continue to apply to and in the

UK and negotiations in relation to a free trade agreement will be ongoing. During the transition period, the UK and the EU might not reach agreement on the future relationship between them or might reach a significantly narrower agreement than that envisaged by the political declaration of the European Commission and the UK government. Due to the on-going political uncertainty with respect to the structure of the future relationship between the UK and the EU, the economic and political consequences for the UK, the EU and other countries (including Turkey) as a result of this process (including any impact upon the European and global economic and market conditions and its possible impact on Sterling, euro and other European exchange rates, and the related uncertainty, during the negotiations on the future trade relationship between the UK and the EU) are difficult to predict.

The following is hereby added to the end of the fifth paragraph of the risk factor titled "Risks Relating to Turkey – High Current Account Deficit" on page 23 of the Original Base Prospectus as amended by way of the supplements dated 5 September 2019 and 10 December 2019:

On 12 December 2019, the Central Bank cut its policy rate by another 200 basis points to 12.00%, followed on 16 January 2020 by a 75 basis points cut to 11.25%.

The first sentence of the second paragraph of the risk factor titled "Risks Relating to the Group's Business - Counterparty Credit Risks" on page 26 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Group's financial results can be significantly affected by the amount of provisions for expected credit losses (before the implementation of TFRS 9 as of 1 January 2018, provisions for probable loan losses).

The last paragraph of the risk factor titled "Risks Relating to the Group's Business – Counterparty Credit Risk" on page 27 of the Original Base Prospectus (which paragraph was inserted into the Base Prospectus by the supplement dated 10 December 2019) is hereby deleted in its entirety.

The third paragraph of the risk factor titled "Risks Relating to the Group's Business - Banking Regulatory Matters" on page 29 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

According to amendments to the Equity Regulation and the 2015 Capital Adequacy Regulation, from 1 January 2022 (which originally had been 1 January 2020), general provisions will: (a) no longer be allowed to be included in the supplementary capital (*i.e.*, Tier 2 capital) of Turkish banks and (b) be deducted from their risk-weighted assets.

The last two sentences of the fifth paragraph of the risk factor titled "Risks Relating to the Group's Business - Foreign Exchange and Currency Risk" starting on page 33 of the Original Base Prospectus as amended by the supplement dated 10 December 2019 are hereby deleted in their entirety and replaced by the following:

On 25 July 2019, 12 September 2019, 24 October 2019, 12 December 2019 and 16 January 2020, the Central Bank altered the direction of changes by decreasing the policy rate by 425 basis points, 325 basis points, 250 basis points, 200 basis points and 75 basis points, respectively, to 11.25%, citing a moderate recovery in the economic activity, improvement in the inflation outlook and anticipated expansionary monetary policy steps from the U.S. Federal Reserve and other central banks in developed economies. In 2019, the Turkish Lira depreciated by 12.5% against the U.S. dollar.

The two paragraphs of the risk factor titled "Risks Relating to the Group's Business - Audit Qualification" on page 42 of the Original Base Prospectus as amended by the previous supplements to the Original Base Prospectus are hereby replaced in their entirety by the following:

The Group's audit reports for the BRSA Financial Statements for 2017, 2018 and 2019 were qualified with respect to general reserves that were allocated by the Group. In 2017, the Bank's management increased the general reserves by TL 860,000 thousand to TL 1,160,000 thousand. In 2018, the Bank's management further increased the general reserves by TL 1,090,000 thousand to TL 2,250,000 thousand, which were then again increased further by TL 250,000 thousand (to TL 2,500,000 thousand) in 2019. In 2017, 2018 and 2019, the general reserves were provided for the possible effects of negative circumstances that might arise in the economy or market conditions.

The Bank's auditors have qualified their respective audit reports for such periods as general reserves are not permitted under the BRSA Accounting and Reporting Legislation. Although these reserves do not impact the Group's level of tax, the Group's capital adequacy ratios and net profit/(loss) might otherwise be higher in the periods in which such reserves are established and lower in the periods in which such reserves are reversed. Future financial statements might include similar qualifications. Each auditor's statements on such qualification can be found in its report attached to each of the applicable financial statements incorporated by reference herein.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Original Base Prospectus and "Recent Developments" included in the Base Prospectus by the supplement dated 10 December 2019 are hereby deleted in their entirety and the first of these is replaced by the section set out on Schedule A hereto.

SELECTED STATISTICAL AND OTHER INFORMATION

The section titled "Selected Statistical and Other Information" included in the Original Base Prospectus is hereby deleted in its entirety and replaced by the section set out on Schedule B hereto.

MANAGEMENT

The section titled "Management - The Executives" starting on page 221 of the Original Base Prospectus is hereby amended by inserting the following at the end of such section:

Recent Developments

On 4 February 2020, Mr. Osman Tüzün, the Bank's Executive Vice President for Talent and Culture, notified the Bank of his departure as of the end of February 2020. Following his departure, Mrs. Didem Dinçer Başer, currently the Executive Vice President for Customer Solutions and Digital Banking, will replace him in such role and Mrs. Işıl Akdemir Evlioğlu, currently the CEO of the Bank's subsidiary Garanti Ödeme Sistemleri A.Ş. (Garanti Payment Systems), will be appointed as the Executive Vice President for Customer Solutions and Digital Banking. Additional information regarding Ms. Evlioğlu is set out below:

Mrs. Işıl Akdemir Evlioğlu graduated from Bilkent University's Department of Economics and earned an MBA degree from the Kellogg School of Management at Northwestern University in the United States. In 2003, she started her professional life as a management consultant at McKinsey, ultimately being responsible for leading the retail banking and payment system practices in the Turkish market as a Junior Partner with various projects both in Turkey and internationally. Mrs. Evlioğlu joined GPS as the Executive Vice President of Marketing in 2012, where she was in charge of product management (credit and debit cards), card portfolio management, customer satisfaction and process optimisation, marketing communication and advertising. In 2017, she was appointed as the CEO of GPS. As of February 2020 (subject to final approval by the BRSA), Mrs. Evlioğlu was appointed as the Executive Vice President of the Bank responsible for Customer Solutions and Digital Banking.

TURKISH REGULATORY ENVIRONMENT

The last paragraph of the section titled "Turkish Regulatory Environment - Loan Loss Reserves - Current Rules" on page 244 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

According to amendments to the Equity Regulation and the 2015 Capital Adequacy Regulation, from 1 January 2022 (which originally had been 1 January 2020), general provisions will: (a) no longer be allowed to be included in the supplementary capital (*i.e.*, Tier 2 capital) of Turkish banks and (b) be deducted from their risk-weighted assets.

The following is hereby inserted as new paragraphs at the end of the section titled "Turkish Regulatory Environment - Liquidity and Reserve Requirements" starting on page 252 of the Original Base Prospectus:

> Effective from 9 August 2019, the Central Bank revised both provision requirements applicable to certain Turkish Lira-denominated liabilities and remuneration rates on reserve accounts maintained with the Central Bank, both as applicable to Turkish banks with annual loan growth rates that fall within a certain range. As of 9 December 2019, it was determined that Turkish banks with an annual growth rate in certain Turkish Lira-denominated loans (determined in real, as opposed to nominal, terms and subject to certain adjustments) of 5 to 15% will be subject to a lowered reserve requirement ratio of: (i) 2% (which is 7% for the banks with a growth rate that does not fall within the aforementioned annual growth rate range) in respect of their Turkish Lira deposits with a maturity of up to three-months and other liabilities with a maturity of up to one year and (ii) 2% (which is 4% for banks with a growth rate that does not fall within the aforementioned annual loan growth range) in respect of their Turkish Lira deposits with a maturity of up to six-months. In addition, banks with a rate of annual loan growth that falls within the aforementioned range receive a higher interest rate (10%) on their reserve accounts maintained in Turkish Lira than is paid by the Central Bank to other banks (0%). As a result of this new regime, long-term commercial loans (which have a strong relation with production and investment) and long-term housing loans (which have a weak relation with imports) are being encouraged by the Central Bank. Loan growth rates will be calculated for every reserve requirement period and banks with real annual loan growth rates complying with the defined conditions will be subject to related reserve requirement ratios and remuneration rates throughout the following three months (six reserve requirement maintenance periods).
>
> On 18 December 2019, the BRSA announced that the total notional amount of a Turkish bank's currency swaps, forwards, options and other similar products with non-residents with a remaining maturity of seven days or fewer where, at the maturity date, such bank pays Turkish Lira and receives foreign exchange shall not exceed 10% of such bank's most recently calculated regulatory capital; *provided* that this restriction does not apply to transactions with a bank's non-Turkish financial subsidiaries and other affiliates that are subject to consolidation.
>
> The Central Bank decided on 28 December 2019 to increase the reserve requirement ratios for foreign exchange deposits/participation funds by 200 basis points for all maturity brackets, but applying a 200 basis point reduction for banks that attain certain Turkish Lira real loan growth conditions.
>
> Effective from 10 January 2020, the Central Bank began applying a new commission on required reserves held in foreign exchange and on notice-foreign exchange deposit accounts held with the Central Bank, which commission seeks to encourage a reverse dollarisation process for deposit/participation funds. As a result, the annual commission rate on U.S. dollar-denominated deposits/participation funds is 2.5% while the annual commission rate for foreign currency-denominated deposits/participation funds other than U.S. dollar-denominated ones is 0.25%.

The four paragraphs under the section titled "Turkish Regulatory Environment - Recent Amendments to the Turkish Insolvency and Restructuring Regime" on page 264 of the Base Prospectus are hereby deleted in their entirety and replaced by the following:

> The Enforcement and Bankruptcy Law No. 2004 prevents a contractual arrangement by which a contractual event of default clause is stipulated to be triggered in case any application is made by a Turkish company for debt restructuring upon settlement (*uzlaşma yoluyla yeniden yapılandırma*) within the scope of this law. In addition, changes were introduced to this law on 15 March 2018 that (*inter alia*) states that the contractual termination, default and acceleration clauses of an agreement cannot be triggered in case the debtor makes a *concordat* application and such application shall not constitute a breach of such agreement.
>
> On 15 August 2018, the BRSA published the Regulation on Restructuring of Debts in the Financial Sector (the "*Restructuring Regulation*"), which was amended on 21 November 2018 and 12 September 2019, with a view to regulate a financial restructuring opportunity for Turkish companies that have entered into loan transactions with: (a) Turkish banks, (b) financial lease, factoring and financing companies, (c) banks and financial institutions established outside Turkey that have directly extended loans to the applicable borrower, (d) multilateral banks and institutions that directly invest in Turkey, (e) special purpose companies established by the foregoing institutions for collection of receivables and/or (f) investment funds that are set up for the collection of receivables ("*Creditor Institutions*"). The Restructuring Regulation sets forth the procedures and principles on any financial restructuring framework agreement(s) (each a "*Framework Agreement*") to be executed amongst the Creditor Institutions and on

the respective financial restructuring agreements to be entered into by and between each respective debtor and the relevant Creditor Institution(s) within the scope of such Framework Agreement(s). This restructuring opportunity extends for a period of two years from 17 July 2019; *however*, the President is authorised to extend the period for an additional two years.

Accordingly, some Creditor Institutions (including most of the Turkish banks) have initially executed a Framework Agreement dated 11 September 2018 (as amended and restated with two respective amendment protocols), which entered into force on 19 September 2018. Furthermore, implementation of the restructuring for companies that are financially indebted against banks and other financial institutions for an outstanding principal amount of TL 25 million or more has recently been initiated with a framework published on the website of the Banks Association of Turkey on 9 October 2019. On 8 November 2019, implementation of a restructuring regime for companies that are financially indebted against banks and other financial institutions for an outstanding principal amount of less than TL 25 million was published. As such, certain borrowers of the Bank might apply for restructuring of their debt.

FINANCIAL STATEMENTS

The financial statements for the Bank and the Group: (a) as of and for the year ended 31 December 2016 are hereby deleted from, and shall no longer be considered to be incorporated by reference into, the Base Prospectus, (b) as of and for the year ended 31 December 2017 that are incorporated by reference into the Original Base Prospectus shall remain so incorporated but excluding the 2016 information therein and (c) for each interim period of 2019 that were incorporated by reference into the Base Prospectus by the supplements dated 9 July 2019, 5 September 2019 and 10 December 2019 are hereby deleted from, and shall no longer be deemed to be incorporated by reference into, the Base Prospectus. Furthermore, the financial information with respect to the Group, the Bank or any other member of the Group (including all related amounts, percentages and discussion) relating to 2016 (including comparisons thereof to 2017 or any other date or period) in the Base Prospectus is hereby deleted in its entirety from, and from the date hereof does not form part of, the Base Prospectus (including, without limitation, in the sections titled “Risk Factors,” “Overview of the Group and the Programme - The Group,” “Summary Financial and Other Data,” “Capitalisation of the Group,” “The Group and its Business” and “Related Party Transactions”).

SCHEDULE A

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial position and results of operations of the Group covers the financial years ended 31 December 2017, 2018 and 2019. Unless otherwise specified, the financial information presented in this discussion has been extracted from the BRSA Financial Statements without material adjustment. This section should be read in conjunction with such BRSA Financial Statements and the other financial information included in (including the information incorporated by reference in) this Base Prospectus (including the section entitled "Presentation of Financial and Other Information"). The BRSA Financial Statements have been prepared in accordance with the BRSA Accounting and Reporting Legislation. A narrative description of differences between IFRS and the BRSA Accounting and Reporting Legislation as adopted by the Issuer in preparing its annual financial statements has been included in Appendix A ("Overview of Differences Between IFRS and BRSA Accounting and Reporting Legislation following the Implementation of TFRS 9").

As of 1 January 2018, the Group started to apply TFRS 9, which replaced TAS 39 (Financial Instruments: Recognition and Measurement) ("*TAS 39*"), in its financial statements. The Group has not restated comparative information for financial instruments for 2017 within the scope of TFRS 9 and, as such, certain information in the Bank's and the Group's BRSA Financial Statements as of and for the years ended 31 December 2018 and 2019 are not comparable to the relevant information in the Bank's and the Group's (as applicable) BRSA Financial Statements as of and for the year ended 31 December 2017. The total difference arising from the adoption of TFRS 9 has, as of 1 January 2018, been recognised directly in the prior periods' profit or loss as of 1 January 2018 in the statement of changes in shareholders' equity. See Note 3.29 of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018 for details of the impact of the first time adoption of TFRS 9 as of 1 January 2018 on the Group's BRSA Financial Statements. For further details regarding the implementation of TFRS 9 principles, see "Critical Accounting Policies – Implementation of TFRS 9" below and Section Three of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018.

Significant Factors Affecting the Group's Financial Condition and Results of Operations

The Group's financial condition, results of operations and prospects depend significantly upon the macroeconomic conditions prevailing in Turkey as well as other factors. The impact of these factors might vary significantly in the future and many of these factors are outside the control of the Group. Prospective investors should (among other things) consider the factors set forth under "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors." The following describes the most significant of such factors since the beginning of 2017.

Political Developments

On 15 July 2016, the Turkish government was subject to an attempted coup by a group within the Turkish army. The Turkish government and the Turkish security forces (including the Turkish army) took control of the situation in a short period of time and the ruling government remained in control. Although the Group's operations have not been materially affected by the attempted coup, the political and social circumstances following the attempted coup, its aftermath (including rating downgrades of Turkey and the Bank) or any other political developments have had and might continue to have a negative impact on the Turkish economy (including the value of the Turkish Lira, international investors' willingness to invest in Turkey and domestic demand), Turkey's relationships with the EU, the United States and/or other jurisdictions, Turkey's institutions (including as a result of arrests, suspension or dismissal of a number of individuals working in the public sector) and regulatory framework, the Bank's and/or the Group's business, liquidity, results of operations and/or conditions (financial or otherwise).

For additional information on political developments in Turkey, see "Risk Factors - Risks Relating to Turkey - Political Developments."

Turkish Economy

Most of the Group's operations are conducted, and substantially all of its customers are located, in Turkey. In addition, much of the business of the Group's non-Turkish subsidiaries is related to Turkey. Accordingly, the Group's ability to recover on loans, and its business, financial condition and results of operations, are substantially dependent upon the political and economic conditions prevailing in Turkey, including factors such as economic growth rates, currency fluctuations, the Central Bank's regulatory policy, inflation and fluctuations in interest rates in Turkey.

The following table provides certain macroeconomic indicators for Turkey, including real GDP growth, inflation rates and the Central Bank's overnight Turkish Lira borrowing interest rate for each of the indicated periods:

	As of or for the year ended 31 December		
	2017	**2018**	**2019**
Nominal GDP at current prices (TL millions)	3,106,537	3,700,989	4,108,174[(4)]
Real GDP growth	7.4%	2.6%	0.9%[(4)]
(Deficit)/surplus of consolidated budget/GDP	(1.5)%	(1.9)%	(2.9)%
CPI[(1)]	11.9%	20.3%	11.84%
Producer Price Inflation[(1)]	15.5%	33.6%	7.4%
Central Bank overnight TL borrowing interest rate, period-end	7.25%	22.50%	10.50%
Central Bank weekly TL repo rate, period-end[(2)]	8.00%	24.00%	12.00%
Refinancing rate of the Central Bank, period-end	9.25%	25.50%	13.50%
Central Bank late liquidity window lending interest rate, period-end	12.75%	27.00%	15.00%
Central Bank weighted average cost of funding, period-end	12.75%	24.00%	11.40%
Nominal appreciation (depreciation) of the Turkish Lira against the U.S. dollar[(3)]	(7.9)%	(38.1)%	(12.5)%
CPI-based real effective exchange rate appreciation (depreciation) (2003=100)	(7.7)%	(11.6)%	(0.3)%
Total gross gold and international currency reserves, period-end (U.S. dollars, millions)	107,651	91,930	106,319

Sources: TurkStat (for nominal GDP at current prices, real GDP growth and inflation), Turkish Treasury, General Directorate of Public Accounts (for deficit/surplus of consolidated budget) and Central Bank (for reference overnight borrowing interest rate, refinancing rate, nominal appreciation (depreciation) of the Turkish Lira against the U.S. dollar, real effective exchange rate and total gross gold and international currency reserves).

(1) Annual percentage change of the applicable index.

(2) The Central Bank announces the weekly repo lending rate as the reference rate.

(3) Central Bank buying rates.

(4) For the 12 month period ended 30 September 2019.

In the first half of 2018, the Bank recorded growth of 9.0% in Turkish Lira-denominated loans; *however*, due to the high volatility and unexpected market developments in the second half of the year, new Turkish Lira-denominated originations in consumer and business loans were lower than the amount of such loans that matured during the period and, as a result, the growth for all of 2018 was only 2.2%. In addition, there was in 2018 a 17.3% increase in foreign currency-denominated loans primarily due to the depreciation of the Turkish Lira. Accordingly, the growth in total loans during 2018 was only 7.0%, with the increase resulting from the depreciation of the Turkish Lira and the corresponding increase (in Turkish Lira terms) of the remaining foreign currency-denominated loans. Conversely, the growth in credit card loans was strong, growing 15.6% during the year.

In the first half of 2019, due to the continuing high interest rate environment, loan demand remained low and the growth in Turkish Lira-denominated loans (excluding Stage 3 loans) was only 0.6%; *however*, starting in July 2019, the Central Bank started reducing rates due to the faster-than-expected downward trend in inflation (reducing to 12.00% by the end of 2019). Following these significant rate cuts, loan demand increased (particularly in the fourth quarter of 2019) and the Group's Turkish Lira-denominated loans (excluding Stage 3 loans) increased by 6.1% in the fourth quarter of 2019, bringing the full year growth to 7.0%. While the growth for the year was balanced across categories, business banking loans were stronger in the first quarter of 2019 and general purpose loans to retail customers were stronger in the fourth quarter of 2019. With respect to foreign currency-denominated loans (excluding Stage 3 loans), there was a decline of 5.9% (calculated in U.S. dollar terms) during 2019, principally due to significant redemptions during the third quarter of 2019.

As of 31 December 2019, total loans represented 64.8% of the Group's assets.

The CPI was 20.3% during 2018 and 11.8% during 2019, while annual domestic producer price inflation during the two years was 33.6% and 7.4%, respectively (source: Turkstat). On 30 January 2019, the Central Bank published its first inflation report of 2019 and reduced its inflation forecasts, predicting a rate of 14.6% for 2019 (previously expecting a rate of 15.2% in the fourth inflation report of 2018) and 8.2% for 2020 (previously expecting a rate of 9.3% in the fourth inflation report of 2018). Inflation-related measures that may be taken by the Turkish government and the Central Bank might have an adverse effect on the Turkish economy.

In December 2016, the Turkish government announced the KGF programme, which aimed to boost economic growth, support high potential companies that have difficulty accessing funding due to collateralisation constraints and help Turkish banks to grow by allowing 0% risk weight to be applied to the guaranteed portion of these loans. See "Risk Factors - Risks Relating to the Group's Business - Counterparty Credit Risk" for additional information about the KGF programme.

Currency Exchange Rates

A significant portion of the Group's assets and liabilities is denominated in foreign currencies, particularly the U.S. dollar and the euro. The share of Turkish Lira-denominated assets and liabilities in the Group's balance sheet has changed from 57.4% and 42.3%, respectively, as of 31 December 2017 to 51.6% and 38.0%, respectively, as of 31 December 2018 and 53.8% and 39.1%, respectively, as of 31 December 2019. While the Group monitors its net open position in foreign currencies (which is the amount by which its foreign currency-denominated assets differ from its foreign currency-denominated liabilities) and each of the Bank and the Group is required to comply with foreign currency net open position limits promulgated by the BRSA, each of the Bank and the Group has maintained and likely will continue to maintain gaps between the balances of its foreign currency assets and liabilities. A bank's limit imposed by the BRSA is defined as an amount plus/minus 20% of the total capital used in the calculation of such bank's regulatory capital adequacy ratios. The Group's and the Bank's foreign currency net long open position ratios were 6.8% and 6.4%, respectively, as of 31 December 2019, 4.2% and 3.8%, respectively, as of 31 December 2018 and 5.0% and 5.2%, respectively, as of 31 December 2017.

The Group had a net long open foreign currency position (including both on and off balance sheet positions) of US$716 million as of 31 December 2019, US$423 million as of 31 December 2018 and US$621 million as of 31 December 2017. The change in the Group's net long foreign currency position as of 31 December 2018 compared to 31 December 2017 was primarily due to relatively higher increases in foreign currency deposits, securities issued and short off-balance sheet position due to derivative transactions.

The following table provides the Group's net open position in different currencies as of the indicated dates:

	As of 31 December		
	2017	**2018**	**2019**
		(millions)	
U.S. dollars	$(345)	$(522)	$18
Euro[(1)]	€604	€585	€354
Other currencies[(2)]	$241	$277	$301
Total net foreign currency position[(1)(2)(3)]	**$621**	**$423**	**$716**

(1) For the convenience of the reader, the total amounts of euro have first been converted into Turkish Lira by using the rates announced by the Bank as of the last day of the applicable year and then converted into U.S. dollars based upon the TL/$ exchange rate as of such dates.

(2) For the convenience of the reader, the total amounts of other currencies have first been converted into Turkish Lira by using the rates announced by the Bank as of the last day of the applicable year and then converted into U.S. dollars based upon the TL/$ exchange rate as of such dates.

(3) The positions indicated are net of the effects of hedging transactions and other off-balance sheet positions.

The Group translates its foreign currency assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains or losses realised upon the sale of such assets, to Turkish Lira in preparing its financial statements at the foreign exchange rate as of the balance sheet date. As a result, the Group's reported income is affected by changes in the value of the Turkish Lira with respect to foreign currencies. The overall effect of exchange rate movements on the Group's results of operations depends upon the successful implementation of the Group's hedging strategies as well as upon the rate of depreciation or appreciation of the Turkish Lira against its principal trading currencies, particularly if such depreciation or appreciation is of a larger scale than anticipated. The Group generally seeks to be fully hedged in terms of foreign exchange exposures; *however*, depending upon market conditions, it may prefer to carry certain open positions through spot or derivative foreign exchange transactions. In such cases, exposures are managed with hedges subject to the limits set by the management of the Bank and its subsidiaries and applicable BRSA legal limits. Recent regulatory changes for foreign currency transactions have aimed to preserve financial stability (*e.g.*, limiting the utilisation of foreign currency-denominated loans to exporters who have a natural foreign currency hedge and restricting the types of business contracts that can be executed in foreign currencies); *however*, the impact of these changes on the Group has been limited.

Currency volatility during 2017, 2018 and 2019 was managed by the Group's reasonably balanced foreign currency position and hedging strategy. The Group had (after considering the Group's hedging strategy and other off-balance sheet positions) net foreign exchange and derivatives losses of TL 1,517,330 thousand in 2017, TL 1,999,596 thousand in 2018 and TL 1,648,978 thousand in 2019, which losses were principally derived from swap costs. See also "Operating Income - Other Operating Income" and "Other Operating Expenses" in "Analysis of Results of Operations for the Years Ended 31 December 2017, 2018 and 2019."

Exchange rate movements also affect the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets and capital, which can affect capital adequacy either positively (for example, if the Turkish Lira appreciates, then assets in foreign currencies convert into fewer Turkish Lira in the calculations of capital adequacy ratios and thus increase the capital adequacy ratios) or negatively (for example, if the Turkish Lira depreciates, then assets in foreign currency convert into more Turkish Lira in the calculations of capital adequacy ratios and thus reduce the capital adequacy ratios). As a result of the 38.1% depreciation of the Turkish Lira against the U.S. dollar in 2018, the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets and capital increased significantly in 2018, with a similar experience in 2019 as a result of a 12.5% depreciation against the U.S. dollar. See "– Capital Adequacy" below.

Interest Rates

One of the primary factors influencing the Group's profitability is the level of interest rates in Turkey, which in turn influences the return on its securities portfolio and its loan and deposit rates. Interest earned and paid on the Group's assets and liabilities reflect, to a certain degree, inflation, expectations regarding inflation, shifts in short-term interest rates set by the Central Bank and movements in long-term real interest rates. The fluctuations in short-term and long-term interest rates impact the Group's net interest income differently based upon the repricing profile of the Group's interest-earning assets and interest-bearing liabilities. As of 31 December 2019, 17.4% of the Bank's Turkish Lira-denominated cash loan portfolio carried a floating rate of interest (17.3% and 20.0% as of 31 December 2017 and 2018, respectively).

The degree of the Group's exposure to interest rate risk is largely a function of the relative tenors of its interest-earning assets and interest-bearing liabilities, its ability to reprice (and the timing of any such repricing of) its interest-earning assets and interest-bearing liabilities (*e.g.*, whether their interest rates are determined on a fixed or floating basis) and its ability to hedge against interest rate risk.

Because the Group's interest-bearing liabilities (principally deposits) generally reprice faster than its interest-earning assets, changes in the short-term interest rates in the economy generally are reflected in the rates of interest paid by the Group on its liabilities before such interest rates are reflected in the rates of interest earned by the Group on its assets. Therefore, when short-term interest rates fall, the Group is positively affected (for example, the value of its fixed rate securities portfolio might increase and its interest margins might improve), but it might also be negatively impacted (for example, through the decline in net interest margins on assets funded by 0% interest rate demand deposits). On the other hand, when short-term rates increase, interest expenses on deposits (which are typically short-term and reset interest rates frequently) increase more significantly and/or quickly than interest income from loans (which are short-, medium- and long-term), resulting in a potential reduction in net interest income and net interest margin. An increase in long-term rates generally has at least a short-term negative effect on the Group's net interest margin because its interest-earning assets generally have a longer repricing duration than its interest-bearing liabilities and because a portion of its interest-earning assets have fixed rates of interest (for example, 64.5%, 58.7% and 59.7% of the Bank's interest-earning assets were fixed-rate as of 31 December 2017, 2018 and 2019, respectively); *however*, 49.4% of the Group's securities portfolio consisted of CPI-linked securities as of 31 December 2019 (31.8% and 35.6% as of 31 December 2017 and 2018, respectively). The Group's yield on its securities increased significantly in 2018 due mainly to higher CPI readings as a consequence of the sharp increase in the inflation rate, whereas, due to downward trend on inflation, income from CPI-linked securities declined in 2019 (the CPI used in the determination of the Group's CPI-linked securities was 25.2% in 2018 and 8.5% in 2019). Despite the significantly lower income from CPI-linked securities, this was offset by the expansion in the core margin (*i.e.*, net interest income excluding interest on CPI-linked securities but including swap costs), which was mainly driven by decreasing funding costs.

The following table provides the Bank's net interest margin and average spread for the indicated periods:

	2017	**2018**	**2019**
Net interest margin	5.6%	6.7%	6.2%
Turkish Lira assets	8.0%	10.3%	9.3%
Foreign currency assets	1.5%	1.1%	1.7%
Average spread			
Turkish Lira assets/liabilities	3.9%	2.5%	7.1%
Foreign currency assets/liabilities	2.4%	2.1%	2.9%

The following table provides the Group's net interest margin and average spread for the indicated periods:

	2017	2018	2019
Net interest margin..................................	5.3%	6.0%	5.9%
Average spread	3.9%	3.9%	3.3%

In 2018, the Group continued to focus on sustainable profitability and further improved its net interest margin due mainly to CPI-linked securities, which improvement was particularly notable in a year in which interest rates almost doubled. Although the high interest rate environment during the year resulted in the compression of core spreads, high inflation led to a significant increase in gains from CPI-linked securities, which hedge the Bank against high inflation. During the year, suppression in the core net interest margin (*i.e.*, net interest margin excluding CPI-linked securities) was more than offset by the income gained from the CPI-linked securities.

In 2019, the Group's net interest margin was unchanged from 2018, reflecting the counter-balanced impact of significantly lower interest rates on CPI-linked securities but an increasing loan-to-deposit spread (*i.e.*, the difference between the average yield earned on loans and the average yield paid on deposits). In the first half of 2019, deposit costs remained at elevated levels due to the continuing high interest rate environment; *however*, the Group's loan-to-deposit spread was relatively flat due to increasing yields on loans. In the second half of the year, this spread increased due to a decline in deposit rates as a result of rate cuts by the Central Bank. While pricing on new loans also declined, the Group benefitted from the faster repricing on deposits than on loans.

Significant Securities Portfolio

The Group has historically generated a significant portion of its interest income from its securities portfolio, with interest income on the Group's securities portfolio in 2017, 2018 and 2019 accounting for 16.9%, 20.0% and 13.5%, respectively, of its total interest income and 12.7%, 17.3% and 9.8%, respectively, of its total operating profit before deducting interest expense, fees and commissions expense and personnel expense when net trading gains/(losses) on securities are also considered. The Group has also experienced large realised and unrealised gains and losses from the mark-to-market valuation and sale of securities, which losses represented 2.8% of the Group's other operating income in 2019, which gains represented 19.5% of the Group's other operating income in 2018 and which losses represented 20.0% of the Group's other operating income in 2017.

While the contribution of income from the Group's securities portfolio (including interest earned, trading income and other income) has been significant over the past three fiscal years, the Group expects that while interest income on the securities portfolio will continue to contribute to net operating profit, trading income will not continue to be as large going forward and the percentage of its assets invested in securities will remain constant or slightly decrease as loan demand is expected to accelerate when the Turkish economy returns to a higher pace of growth in the near future.

The Group's securities portfolio principally contains Turkish government debt securities, with more limited holdings of other securities such as corporate and foreign government debt securities. The Group's investment securities portfolio (which: (a) excludes its trading portfolio and, following the adoption of TFRS 9, financial assets measured at fair value through profit or loss and (b) includes: (i) available-for-sale securities and, following the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income and (ii) held-to-maturity securities and, following the adoption of TFRS 9, financial assets measured at amortised cost) represented 14.2%, 13.0% and 13.2%, respectively, of the Group's total assets as of 31 December 2017, 2018 and 2019. The share of the Group's investment securities portfolio in its total assets decreased slightly in 2018 as the Group increased its cash loan lending, in part due to the Group's strategy to improve its net interest margin, then such share remained fairly constant in 2019. Until the first time adoption of TFRS 9 as of 1 January 2018, as the Group's investment securities portfolio was comprised largely of high quality securities (principally Turkish government debt, most of which was held in the financial assets available-for-sale portfolio), the Group experienced insignificant credit losses on its investment securities portfolio and established immaterial provisions relating thereto during 2017.

As of 1 January 2018, the Group started to apply TFRS 9 in its BRSA Financial Statements and, accordingly, as of 1 January 2018, both financial instrument classifications and impairment calculation principles have fundamentally changed. The TAS 39 measurement categories of "financial assets valued at fair value through profit or loss/financial assets held for trading," "financial assets available-for-sale" and "investments held-to-maturity" were replaced by "financial assets measured at fair value through profit or loss," "financial assets measured at fair value through other comprehensive income" and "financial assets measured at amortised cost," respectively, as a consequence of the first time adoption of TFRS 9.

TFRS 9 also changed the accounting for loan loss impairments by replacing TAS 39's incurred loss approach with a forward-looking expected credit loss ("*ECL*") approach. See Note 3.8 of the Group's BRSA Financial Statements as of and for the year ended 31 December 2019. Therefore, the Group has started to recognise expected losses at initial recognition for all financial assets measured at fair value through other comprehensive income (excluding equity instruments) and financial assets measured at amortised cost in profit or loss effective from 1 January 2018 and, accordingly, the credit losses on the securities portfolio have increased considerably compared to previous periods. Due to accounting policy changes and reclassifications made as a consequence of the implementation of TFRS 9, the figures as of 31 December 2017 are not comparable to the figures for later periods. See Notes 5.1.2, 5.1.4 and 5.1.8 of the Group's BRSA Financial Statements as of and for the year ended 31 December 2019, "Critical Accounting Policies – Implementation of TFRS 9 – Transition to TFRS 9" below and "Selected Statistical and Other Information – Securities Portfolio" below for further details.

Provisions for Expected Credit Losses

The Group's financial results can be significantly affected by the amount of provisions for expected credit losses. Based upon the impairment principles of TFRS 9, the provision expense for losses on loans and other receivables in 2018 was TL 10,836,246 thousand, which was a considerable increase from the provisions for losses on loans and other receivables of TL 3,681,863 in 2017; *however*, this is not comparable to the 2017 figures due to changes in the accounting policy and implementation of TFRS 9 as of 1 January 2018. As of 31 December 2018, the NPL ratio increased to 5.1% from 2.6% as of 31 December 2017, which increase was primarily due to including both lease and factoring receivables under both the loans and the non-performing receivables line items (as applicable) as a result of a change to the presentation of the financial statements as per new rules introduced by the BRSA, a reduction in the Group's loan growth and some transfers (generally with sufficient ECL provisions) from Stage 2 (significant increase in credit risk) to Stage 3 (credit-impaired) as a consequence of the recent contraction in the growth of the Turkish economy, particularly in the fourth quarter of 2018.

In 2019, the NPL ratio continued to deteriorate due to low economic activity and high unemployment levels, with corporate and commercial inflows constituting two-thirds of the NPL inflow during the year. New NPL inflows reached a peak in the third quarter of 2019 but started to improve in the following quarter. In addition, the Bank benefitted during the fourth quarter of 2019 from a new BRSA regulation that allows Turkish banks to move well-provisioned loans off their balance sheet. After including the impact of NPL sales of TL 1.0 billion in 2019 and write-offs/write-downs of TL 876 million during the year, the NPL ratio was 6.8% as of 31 December 2019.

Prior to 1 January 2018, in addition to the provisions that the Group was recording for NPLs according to BRSA requirements (see "Turkish Regulatory Environment – Loan Loss Reserves"), the Bank's management was taking additional provisions in the form of general reserves, which the Bank's management implemented in accordance with the conservatism principle should the management determine this to be prudent. Following the implementation of TFRS 9, such general reserve application continued as detailed below. See "Risk Factors – Risks Relating to the Group's Business – Audit Qualification." The Group is unable to deduct general reserves from its taxable income, and thus an increase in general reserves increases the Group's effective tax rate.

The Bank's management elected to allocate TL 330,000 thousand in general reserves in 2009 in order to act conservatively in the context of the uncertainty created by the global financial crisis. The Bank's management decided to maintain this general reserve in 2010 and 2011, and elected to take a further TL 90,000 thousand reserve in 2011. This general reserve remained outstanding in the Group's financial statements during 2012; *however*, in 2013 the Bank's management reversed TL 115,000 thousand of these reserves. In 2014, the Bank's management decided to increase the level of general reserves by TL 80,000 thousand to TL 415,000 thousand, but, in 2015, the Bank's management decided that certain related risks had diminished and reversed TL 73,000 thousand of these reserves. In 2016, the Bank's management further reversed TL 42,000 thousand of these reserves. In 2017, the Bank's management decided to increase the level of general reserves by TL 860,000 thousand, with the total thus reaching TL 1,160,000 thousand. In 2018, the Bank's management increased the general reserves by TL 1,090,000 thousand to TL 2,250,000 thousand, increasing them again by TL 250,000 thousand in 2019 to TL 2,500,000 thousand, in each case due to the possible effects of negative circumstances that might arise in the economy or in market conditions. KPMG has qualified its audit reports included in the BRSA Financial Statements incorporated by reference into this Base Prospectus because general reserves are not permitted under the Turkish Accounting Standards. See the BRSA Financial Statements incorporated by reference into this Base Prospectus.

Reclassification of Secured Loans

As disclosed in Note 3.30 of the notes to the Group's BRSA Financial Statements as of 31 December 2019, the Group's BRSA Financial Statements as of 31 December 2018 have been restated to make a reclassification between "banks -

other assets" and "deposits - other liabilities" with respect to the collateral that was received and provided on derivative transactions, which thus aligns the items with the Group's BRSA Financial Statements as of 31 December 2019.

Critical Accounting Policies

The Group's accounting policies are integral to understanding its results of operations and financial condition presented in the BRSA Financial Statements. The Group's critical and other significant accounting policies are described in Section Three of the Group's BRSA Financial Statements incorporated by reference herein. Before the first time adoption of TFRS 9 as of 1 January 2018, the Bank's BRSA Financial Statements as of and for the year ended 31 December 2017 were prepared in line with the then-current Turkish banking regulations (see "Selected Statistical and Other Information – Summary of Loan Loss Experience" and "Turkish Regulatory Environment"). The Group's BRSA Financial Statements as of and for the years ended 31 December 2018 and 2019 were prepared in line with TFRS 9 and TFRS 15 standards and (with respect to the BRSA Financial Statements as of and for the year ended 31 December 2019) also TFRS 16 standards. While information for 2017 is not comparable to the information presented for later periods due to the implementation of TFRS 9 as of 1 January 2018, the accounting policy changes as a result of implementing TFRS 15 or any other TFRS/TAS standards (except for TFRS 9 standards) effective as of 1 January 2018 did not have a significant impact on the accounting policies, financial position and/or performance of the Bank and its consolidated financial subsidiaries. Similarly, while information for 2019 is not comparable to the information presented for earlier periods due to the implementation of TFRS 16 as of 1 January 2019, this accounting policy change did not have a significant impact on the accounting policies, financial position and/or performance of the Group.

In the application of the Group's critical accounting policies, the management is required to make judgments, estimates and assumptions about future conditions. The use of available information and the application of judgment are inherent in the formation of estimates. The Group's critical accounting policies are those that are most important to the portrayal of its financial condition and results of operations and that require the Group to make its most difficult and subjective judgments, often as a result of a need to make estimates of matters that are inherently unpredictable. The Bank's management believes that, as of the date of this Base Prospectus, the Group's critical accounting policies where judgment is necessarily applied are those related to expected credit losses, business model assessment, a significant increase in credit risk, the establishment of groups of assets with similar credit risk characteristics, models and assumptions used, establishing the number and relative weightings of forward-looking scenarios and determining the forward looking information relevant to each scenario, probability of default, loss given default, fair value measurement and valuation process, valuation of defined benefit plans and income taxes. Management bases its estimates and judgments upon historical experience and various other factors that the Bank's management believes to be reasonable under the circumstances. The Group's actual results might differ from the estimates under different assumptions, judgments or conditions.

The policies related to the critical accounting judgments are outlined below. All other significant accounting policies that are necessary for a fair presentation of the Group's financial condition and results of operations are presented in Section Three of the Group's BRSA Financial Statements as of and for the year ended 31 December 2019 incorporated by reference into this Base Prospectus.

Implementation of TFRS 9

As of 1 January 2018, the Group started to apply TFRS 9 in its financial statements. The Group has not restated comparative information for financial instruments for 2017 within the scope of TFRS 9 and, as such, certain information in the Bank's and the Group's BRSA Financial Statements as of and for the year ended 31 December 2017 is not comparable to the relevant information in the Bank's and the Group's (as applicable) BRSA Financial Statements for later periods. The total difference arising from the adoption of TFRS 9 has, as of 1 January 2018, been recognised directly in the prior periods' profit or loss as of 1 January 2018 in the statement of changes in shareholders' equity. See Note 3.29 of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018 for details of the impact of the adoption of TFRS 9 as of 1 January 2018 on the consolidated financial statements. For further details regarding the implementation of TFRS 9 principles, see Section Three of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018.

Changes regarding classification and measurement of financial instruments

To determine their classification and measurement category, TFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based upon both the Group's business models for managing the assets and the instruments' contractual cash flow characteristics.

As of 1 January 2018, TAS 39 measurement categories of financial assets measured at fair value through profit or loss, available for sale and held-to-maturity were replaced by: (a) financial assets measured at fair value through profit or loss, (b) debt instruments measured at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition, (c) equity instruments measured at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition (the financial assets referred to in clauses (b) and (c) collectively being "financial assets measured at fair value through other comprehensive income"), and (d) financial assets measured at amortised cost. Further information on these categories is set out below:

Financial assets measured at fair value through profit/loss: These are financial assets other than those that are managed within a business model that aims to collect contractual cash flows or a business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the financial assets; and, if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at a certain date, that are either acquired for generating a profit from short-term fluctuations in prices or are financial assets included in a portfolio aiming for short-term profits. These financial assets are initially recognised at fair value and measured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the statement of profit or loss. Interest income earned on these financial assets, and the difference between their acquisition costs and amortised costs, are recorded as interest income in the statement of profit or loss. The differences between the amortised costs and the fair values of such financial assets are recorded under trading account income/losses in the statement of profit or loss. In cases where such financial assets are sold before their maturities, the gains/losses on such sales are recorded under trading account income/losses.

Financial assets measured at fair value through other comprehensive income: These are financial assets that are managed within a business model that aims to collect contractual cash flows or a business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the financial assets. These financial assets are recognised by adding their transaction cost to their acquisition cost. After their initial recognition, these financial assets are measured at fair value; *provided* that equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost *minus* a provision for impairment. Interest income on these financial assets (calculated using an effective interest rate method) and dividend income on these financial assets are recorded to the statement of profit or loss. "Unrealised gains and losses" arising from the difference between the amortised cost and the fair value of these financial assets are not reflected in the statement of profit or loss until the sale or other disposal of the financial asset and impairment of the financial asset but are accounted under the "other comprehensive income/expense items to be recycled to profit/loss" under shareholders' equity.

Financial assets measured at amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortised cost. These financial assets are initially recognised at their acquisition cost (including the transaction costs) and are subsequently recognised at amortised cost by using an effective interest rate method. Interest income obtained from these financial assets is accounted for in the statement of profit or loss.

The accounting for financial liabilities remains largely the same as it was under TAS 39 except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at fair value through profit or loss (with the condition of not impacting accounting mismatch significantly).

Under TFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based upon the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and non-financial host contracts has not changed.

Impairment

In addition to the new categorisation of financial assets, TFRS 9 changed the accounting method for loan loss impairments by replacing TAS 39's incurred loss approach with the forward-looking ECL approach, which forms an impairment model that has three stages based upon the change in credit quality since initial recognition. The ECLs are measured as an allowance equal to either 12-month ECL for Stage 1 assets or lifetime ECL for Stage 2 or Stage 3 (credit-impaired) assets. An asset moves from Stage 1 to Stage 2 when its credit risk increases significantly since initial recognition of such asset.

Expected credit losses are calculated based upon a probability-weighted estimate of credit losses (the present value of all cash shortfalls) over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due based upon the contract and the cash flows that are expected to be received. The calculation of expected credit losses per each stage is summarised below:

> Stage 1: 12-month expected credit loss represents the expected credit losses that result from default events on a financial asset that are possible within the 12 months after the reporting date and are calculated as the portion of lifetime expected credit losses. This 12-month expected credit loss is calculated based upon a probability of default realised within 12 months after the reporting date. This expected 12-month probability of default is applied on an expected exposure at default, *multiplied by* the loss at a given default rate and discounted with the original effective interest rate.

> Stage 2: When a financial asset has shown a significant increase in credit risk since origination, an allowance for the lifetime expected credit losses is calculated for such financial asset. It is similar to the description for Stage 1, but the probability of default and the loss at a given default rate are estimated through the life of the financial asset. Estimated cash shortfalls are discounted by using the original effective interest rate.

> Stage 3: For financial assets considered to be impaired, the lifetime expected credit losses are calculated. This methodology is similar to Stage 2 and the probability of default is taken into account as 100%.

Following the adoption of TFRS 9 as of 1 January 2018, there is no difference between BRSA Accounting and Reporting Legislation and IFRS regarding impairment principles.

Hedge Accounting

TFRS 9 also introduced hedge accounting rules aiming for alignment with risk management activities; *however*, TFRS 9 allow companies to defer application of TFRS 9 hedge accounting rules and instead choose to continue applying hedge accounting provisions of TAS 39 as a policy choice. Accordingly, as of the date of this Base Prospectus, the Bank and its financial subsidiaries continue to apply hedge accounting in accordance with TAS 39.

Transition to TFRS 9

Reclassifications and remeasurements made for the first time application of TFRS 9 as of 1 January 2018 are set forth in the tables below and the relevant notes are explained in detail below:

Assets	***Notes***	***31 December 2017***	***TFRS 9 Reclassification Effect***	***TFRS 9 Measurement Effect***	***1 January 2018***
FINANCIAL ASSETS (Net)		**107,218,398**	**(160,346)**	**586,217**	**107,644,269**
Cash and Cash Equivalents		53,077,337	—	—	53,077,337
Cash and Balances with Central Bank		*33,603,641*	—	—	*33,603,641*
Banks		*19,470,343*	—	—	*19,470,343*
Money Market Placements		*3,353*	—	—	*3,353*
Financial Assets Measured at Fair Value through Profit/Loss (FVPL)	(1), (2)	2,877,813	(1,788,474)	(5,665)	1,083,674
Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)	(2)	—	28,806,639	589,805	29,396,444
Financial Assets Measured at Amortised Cost	(3)	—	21,627,374	(130,037)	21,497,337
Derivative Financial Assets	(1)	—	2,617,709	-	2,617,709
Non Performing Financial Assets		—	—	-	-
Expected Credit Losses (-)	(7)	—	160,346	(132,114)	28,232
Financial Assets Available for Sale (Net)	(2)	26,277,988	(26,277,988)	—	—
Investments Held to Maturity (Net)	(2), (3)	24,314,540	(24,314,540)	—	—
Derivative Financial Assets Held for Hedging Purpose	(1)	670,720	(670,720)	—	—
LOANS (Net)	(4)	**238,521,489**	**(3,065,811)**	**(735,170)**	**234,720,508**
Loans	(4)	227,992,612	(7,015)	-	227,985,597
Performing Loans	(4)	210,937,017	(19,247,411)	—	191,689,606
Loans under Follow-up[(1)]	(4)	*17,055,595*	*19,240,396*	—	*36,295,991*
Lease Receivables		5,788,436	(350,014)	—	5,438,422
Factoring Receivables		3,379,768	(19,782)	—	3,359,986
Non Performing Receivables		6,176,985	711,471	—	6,888,456
Expected Credit Losses (-)	(7)	4,816,312	3,400,471	735,170	8,951,953
12-Month ECL (Stage 1)	(7)	—	*1,654,925*	*(746,715)*	*908,210*
Significant Increase in Credit Risk (Stage 2)[(1)]	(7)	—	*1,404,367*	*2,127,021*	*3,531,388*
Impaired Credits (Stage 3)[(1)]	(1), (7)	*4,816,312*	*341,179*	*(645,136)*	*4,512,355*
ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS (Net)		**835,552**	—	—	**835,552**
EQUITY INVESTMENTS (Net)		**152,432**	—	—	**152,432**
Associates (Net)		35,751	—	—	35,751
Subsidiaries (Net)	(7)	116,681	—	—	116,681
Joint Ventures (Net)		—	—	—	—
TANGIBLE ASSETS (Net)		**4,096,651**	—	—	**4,096,651**
INTANGIBLE ASSETS (Net)		**379,308**	—	—	**379,308**
INVESTMENT PROPERTIES (Net)		**559,388**	—	—	**559,388**
CURRENT TAX ASSET	(8)	**25,766**	—	**33,674**	**59,440**
DEFERRED TAX ASSET	(8)	**441,932**	—	**956,373**	**1,398,305**
OTHER ASSETS	(7)	**4,100,751**	**(12,660)**	**8,701**	**4,096,792**
TOTAL ASSETS		**356,331,667**	**(3,238,817)**	**849,795**	**353,942,645**

(1) Loans under follow-up for lease and factoring receivables and the corresponding expected credit losses (ECLs) are presented in the corresponding balance sheet line items.

	Notes	31 December 2017	TFRS 9 Reclassification Effect	TFRS 9 Measurement Effect	1 January 2018
			(TL thousands)		
Liabilities					
DEPOSITS		**200,773,560**	—	—	**200,773,560**
FUNDS BORROWED	(5)	**47,104,719**	**(9,332,392)**	—	**37,772,327**
INTERBANK MONEY MARKET FUNDS		**18,637,856**	**-**	—	**18,637,856**
SECURITIES ISSUED (NET)	(5)	**20,794,452**	**(34,983)**	—	**20,759,469**
FUNDS		—	—	—	—
FINANCIAL LIABILITIES MEASURED AT FVTPL	(5)	—	**9,367,375**	—	**9,367,375**
DERIVATIVE FINANCIAL LIABILITIES	(6)	—	**3,097,648**	—	**3,097,648**
Derivative Financial Liabilities Measured at FVTPL		—	3,095,569	—	3,095,569
Derivative Financial Liabilities Measured at FVOCI		—	2,079	—	2,079
DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(6)	**(2,898,822)**	**(2,898,822)**	—	—
DERIVATIVE FINANCIAL LIABILITIES HELD FOR HEDGING PURPOSE	(6)	**198,826**	**(198,826)**	—	—
FACTORING PAYABLES		—	—	—	—
LEASE PAYABLES (Net)		—	—	—	—
PROVISIONS		**6,848,102**	**(3,238,817)**	**(122,885)**	**3,486,400**
General Provisions	(7)	3,673,669	(3,673,669)	—	—
Restructuring Reserves		—	—	—	—
Reserve for Employee Benefits		909,788	—	—	909,788
Insurance Technical Provisions (Net)		389,886	—	—	389,886
Other Provisions	(7)	1,874,759	434,852	(122,885)	2,186,726
CURRENT TAX LIABILITY	(8)	**1,148,797**	—	**150,566**	**1,299,363**
DEFERRED TAX LIABILITY		**14,365**	—	—	**14,365**
LIABILITIES FOR ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS (Net)		—	—	—	—
SUBORDINATED DEBTS		**2,849,471**	—	—	**2,849,471**
OTHER LIABILITIES	(9)	—	**13,456,696**	—	**13,456,696**
MISCELLANEOUS PAYABLES	(9)	**10,376,346**	**(10,376,346)**	—	—
OTHER EXTERNAL FUNDINGS PAYABLE	(9)	**3,080,350**	**(3,080,350)**	—	—
SHAREHOLDERS' EQUITY	(8)	**41,606,001**	—	**822,114**	**42,428,115**
Paid-in Capital		4,200,000	—	—	4,200,000
Capital Reserves		1,526,847	(742,413)	—	784,434
Share Premium		*11,880*	—	—	*11,880*
Share Cancellation Profits		—	—	—	—
Other Capital Reserves		*628,285*	*144,269*	—	*772,554*
Securities Value Increase Fund		*(317,814)*	*317,814*	—	—
Revaluation Surplus on Tangible Assets		*1,747,869*	*(1,747,869)*	—	—
Bonus Shares of Associates, Subsidiaries and Joint-ventures		*912*	*(912)*	—	—
Hedging Reserves (effective portion)		*(544,285)*	*544,285*	—	—
Revaluation Surplus on Assets Held for Sale and Assets of Discontinued Operations		—	—	—	—
Other Comprehensive Income/Expense Items not to be Recycled to Profit and Loss		—	1,436,464	—	1,436,464
Other Comprehensive Income/Expense Items to be Recycled to Profit and Loss		—	661,748	396,257	1,058,005
Profit Reserves		29,224,949	(1,355,799)	—	27,869,150
Legal Reserves		*1,392,259*	—	—	*1,392,259*
Status Reserves		—	—	—	—
Extraordinary Reserves		*25,901,360*	—	—	*25,901,360*
Other Profit Reserves		*1,931,330*	*(1,355,799)*	—	*575,531*
Profit/Loss		6,332,056	—	433,666	6,765,722
Prior Periods Profit/Loss		—	—	*433,666*	*433,666*
Current Period's Net Profit/Loss		*6,332,056*	—	—	*6,332,056*
Minority Interests		322,149	—	(7,809)	314,340
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**356,331,667**	**(3,238,817)**	**849,795**	**353,942,645**

Explanations regarding the Notes:

(1) As of 1 January 2018, "derivative financial assets held for trading" and "derivative financial assets held for hedging purpose" amounting to TL 1,946,989 thousand and TL 670,720 thousand, respectively, in the BRSA Financial Statements as of and for the year ended 31 December 2017 were classified as "derivative financial assets." Additionally, investment funds of TL 110,860 thousand that were classified as "available for sale financial assets" in the BRSA Financial Statements as of and for the year ended 31 December 2017 and the corresponding allowance allocated for such investment

funds amounting to TL 5,665 thousand were classified as "financial assets measured at fair value through profit or loss" as of 1 January 2018.

(2) As of 1 January 2018, debt securities classified as "financial assets available for sale" and "investments held-to-maturity" in the BRSA Financial Statements as of and for the year ended 31 December 2017 amounting to TL 26,119,473 thousand and TL 2,687,166 thousand, respectively, were classified as "financial assets measured at fair value through other comprehensive income" due to the fact that they are assessed within the scope of a business model whose objective is to hold assets in order to collect contractual payments and the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In addition, as of 1 January 2018, financial assets amounting to TL 47,655 thousand in the BRSA Financial Statements as of and for the year ended 31 December 2017 were classified as "financial assets measured at fair value through profit/loss" instead of "financial assets available for sale" due to the fact that the contractual terms of such financial assets do not meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. On the other hand, some equity instruments that were classified as "financial assets available for sale" in the BRSA Financial Statements as of and for the year ended 31 December 2017 were classified under "financial assets measured at fair value through other comprehensive income."

(3) As of 1 January 2018, debt securities amounting to TL 21,627,374 thousand that were classified under "investments held to maturity" in the BRSA Financial Statements as of and for the year ended 31 December 2017 were classified as "financial assets measured at amortised cost" due to the fact that they are assessed within the scope of a business model whose objective is to hold assets in order to collect contractual payments and the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(4) As of 1 January 2018, there exists no loan balance that does not meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Loans amounting to TL 19,247,411 thousand that were classified as "performing loans" in the BRSA Financial Statements as of and for the year ended 31 December 2017 were reclassified as "loans under follow-up" due to having a significant increase in credit risk. In addition, as of 1 January 2018, loans amounting to TL 7,015 thousand that were classified as "loans under follow-up" in the prior year's financial statements have been reclassified as "non-performing loans."

(5) As of 1 January 2018, "future flow" transactions amounting to TL 9,332,392 thousand that were classified under "funds borrowed" and "securities issued" in total amounting to TL 34,983 thousand in the BRSA Financial Statements as of and for the year ended 31 December 2017 were reclassified as "financial liabilities measured at fair value through profit or loss."

(6) As of 1 January 2018, "derivative financial liabilities held for trading" and "derivative financial liabilities held for hedging purpose" amounting to TL 2,898,822 thousand and TL 198,826 thousand, respectively, in the BRSA Financial Statements as of and for the year ended 31 December 2017 were reclassified as "derivative financial liabilities."

(7) As of 1 January 2018, expected losses calculated based upon TFRS 9 were classified into the relevant line items by reversing the entire amount of previously recorded "general provisions." While expected losses calculated for financial assets and loans are classified in the relevant expected losses line items under "assets," expected losses calculated for non-cash loans are classified as "other provisions" under "liabilities." As of 1 January 2018, non-performing lease and factoring receivables that were classified under "leasing receivables" and "factoring receivables" on a net basis in the BRSA Financial Statements as of and for the year ended 31 December 2017 were classified as "non-performing receivables" and "expected credit losses" on a gross basis. Expected losses allocated for other assets are also classified on the relevant line item on a net basis.

(8) As of 1 January 2018, due to the first time adoption of TFRS 9, total shareholders' equity increased (after tax) by TL 822,114 thousand, which amount consisted of a positive classification impact of financial assets of TL 454,103 thousand, a negative expected credit losses calculation impact amounting to TL 471,470 thousand and a positive current and deferred tax impact amounting to TL 839,481 thousand.

(9) As of 1 January 2018, "miscellaneous payables" amounting to TL 10,376,346 thousand and "other external fundings" amounting to TL 3,080,350 thousand in the BRSA Financial Statements as of and for the year ended 31 December 2017 were reclassified as "other liabilities."

Implementation of TFRS 16

The Group started to apply the TFRS 16 accounting standard for leases ("*TFRS 16*") in its consolidated financial statements starting from 1 January 2019. This standard is applied with a modified retrospective approach that recognises the cumulative effect of initially applying this standard at the date of initial application. In this context, comparative information is not restated. The impact of the adoption of TFRS 16 as of 1 January 2019 is presented in the below table:

	Notes	***31 December 2018***	***TFRS 16 Reclassification Effect***	***TFRS 16 Transition Effect***	***1 January 2019***
			(*TL thousands*)		
Tangible Assets (net)	(1),(2)	4,494,918	33,008	1,040,667	5,568,593
Other Assets (net)	(2)	10,878,526	(33,008)	—	10,845,518
Lease Payables (net)	(1),(3)	—	—	1,040,667	1,040,667

Explanations regarding the Notes:

(1) In accordance with TFRS 16, a lease liability and a right-of-use asset amounting to TL 1,040,667 thousand were recognised as of 1 January 2019 for leases that had previously been classified as operating leases.

(2) In accordance with TFRS 16, prepaid rent payments amounting to TL 33,008 thousand that were previously classified under other assets were reclassified under tangible assets as right-of-use.

(3) As of 1 January 2019, the weighted average of the incremental borrowing interest rates applied to Turkish Lira, euro and U.S. dollar lease liabilities presented in the Group's BRSA Financial Statements was 23.6%, 4.2% and 7.0%, respectively.

Impairment of Financial Assets and Loan Loss Reserves

The Group's accounting policy for losses/expected credit losses arising from the impairment of customer loans and other financial assets is described in Note 3.8 of Section Three of the Group's BRSA Financial Statements as of and for the year ended 31 December 2019. Under TFRS 9, the measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information, which is based upon assumptions for future movement of different economic drivers and how these drivers will affect each other. These estimates are driven by a number of factors, changes in which might result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. See Note 3.8 of Section Three of the Group's BRSA Financial Statements as of and for the year ended 31 December 2019 for further discussions about impairment.

The Group reviews its financial assets as of each balance sheet date to determine whether there is objective evidence of impairment. If there is objective evidence that the Group will not be able to collect all amounts due (principal and interest) according to the original contractual terms of a loan, then the loan is considered impaired and classified as an "NPL." Following the implementation of TFRS 9, as of 1 January 2018, Stage 3 (credit-impaired) loans are classified as NPLs. The Group considers an asset to be in default in the following two conditions:

(a) *Objective Default*: There is an objective default if the debt is past due more than 90 days, and

(b) *Subjective Default*: There is a subjective default if a debt is unlikely to be paid regardless of the existence of any past-due amount or the number of days past due.

Accordingly, if there is either an objective default or a subjective default, then the Group considers a financial instrument defaulted and therefore classifies as a Stage 3 (credit-impaired) loan.

Starting from 1 January 2018, the allowance for a loan is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate, including any probable foreclosure of collateral. Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

Any expected credit loss assessment is performed either on a collective basis or an individual basis. Collective assessment is applied for segments defined on the basis of similar risk characteristics. On the other hand, individual assessment is performed for loans that are individually significant and exhibit specific characteristics. Accordingly, certain commercial and corporate loans are individually assessed. Calculations are performed by discounting the expected cash flows for the individual financial instrument to its present value using the effective interest rate.

See also the discussion under "Significant Factors Affecting the Group's Financial Condition and Results of Operations – Provisions for Expected Credit Losses" for further risk assessment of the Group regarding expected credit losses and "Selected Statistical and Other Information – Summary of Loan Loss Experience" below for classification of the Group's loan portfolio and provisions that were required to be reserved before the adoption of TFRS 9 as of 1 January 2018.

Fair Value of Securities

The Group's securities are classified as either financial assets at fair value through profit or loss (after the adoption of TFRS 9, financial assets measured at fair value through profit or loss) or investment securities (which include both financial assets available-for-sale and investments held-to-maturity (financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost, respectively, after the adoption of TFRS 9)). While investments held-to-maturity were recorded at their acquisition cost and measured at amortised cost calculated as per the effective interest rate method, the Group's financial assets available-for-sale (net) (which collectively represented 51.0% of the Group's total securities portfolio (excluding derivative financial assets held for trading classified under financial assets at fair value through profit or loss (net) until transition to TFRS 9 as of 1 January 2018) as of 31 December 2017) were recorded at fair value, with changes in fair value being recorded in income (for the trading portfolio and where there is an impairment or sale of financial assets available-for-sale) or shareholders' equity (for mark-to-market movements in financial assets available-for-sale).

As of 31 December 2018, after the first time adoption of TFRS 9: (a) financial assets measured at amortised cost were recorded at their acquisition cost and measured at amortised cost calculated as per the effective interest rate method and (b) financial assets measured at fair value through other comprehensive income (which collectively represented 51.9% and 49.9%, respectively, of the Group's total securities portfolio as of 31 December 2018 and 2019) were recorded at fair value, with changes in fair value being recorded in income (for the trading portfolio and where there is an impairment or sale of financial assets measured at fair value through other comprehensive income) or shareholders' equity (for mark-to-market movements in financial assets measured at fair value through other comprehensive income). Due to accounting policy changes and reclassifications made as a consequence of business model assessments based upon TFRS 9, the figures as of 31 December 2017 are not comparable to later periods.

The following table sets out the distribution of the Group's securities recorded at fair value as of each of the indicated dates (using the terminology in effect after the implementation of TFRS 9 on 1 January 2018):

	31 December		
	2017	**2018**	**2019**
		(TL thousands)	
Financial assets at fair value through profit or loss (net) (excluding derivative financial assets held for trading)	930,824	559,876	1,011,777
Financial assets available-for-sale (net)	26,277,988	—	—
Financial assets measured at fair value through other comprehensive income	—	27,162,953	28,643,529
Total	**27,208,812**	**27,722,829**	**29,655,306**

Fair value is defined as the value at which a position could be closed out or sold in a transaction with a willing and knowledgeable unrelated party, without any deduction for transaction costs. The Group estimates fair value using quoted market prices when available. When quoted market prices are not available, the Group uses a variety of models that include dealer quotes, pricing models and quoted prices from instruments with similar characteristics or discounted cash flows. The determination of fair value when quoted market prices are not available involves judgment by the Group's management.

There is often limited market data to rely upon when estimating the impact of holding a large or aged position. Similarly, judgment must be applied in estimating prices when no external parameters exist. Other factors that can affect the estimates of fair value include incorrect model assumptions and unexpected correlations. The imprecision in estimating these factors might affect the amount of revenue or loss recorded for a specific asset or liability. As of 31 December 2019, the Group held financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income for which it could not use market prices or observable market inputs to determine fair value representing only 0.05% of its total assets.

In addition to the trading securities and, after the adoption of TFRS 9, financial assets measured at fair value through profit or loss and financial assets available-for-sale and, after the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income, the Group also monitors the fair value of its investments held-to-maturity and, after the adoption of TFRS 9, financial assets measured at amortised cost to determine whether a decline in their fair value reflects that a write-down would be appropriate, which occurs if such a decline represents a loss event as described in Note 3.8 of Section Three of the BRSA Financial Statements as of and for the year ended 31 December 2019. Factors that are used by the Group's management in determining whether a decline is other than temporary and represents a loss event include the credit quality of the issuer, the conditions of the issuer's operations and business segments, the observed period of the loss, the degree of the loss and management's expectations. In addition, as a consequence of the TFRS 9 adoption as of 1 January 2018, the Group has also started to calculate expected credit losses at initial recognition for all financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income that have not yet experienced a loss event.

Derivatives

The Group enters into transactions with derivative instruments, including forward contracts, swaps and options in the foreign exchange and capital markets. For example, the Group enters into interest rate swap transactions in order to hedge certain cash flow exposures primarily on floating rate assets and liabilities through converting its floating rate income/payments into fixed rate income/payments. These derivative transactions are considered to be effective economic hedges under the Group's risk management policies but (other than transactions in which the hedge accounting relationship is evidenced), if they do not qualify for hedge accounting under the specific provisions of TAS 39, are treated as trading derivatives. Derivative financial instruments are recognised in the balance sheet at their fair value.

The fair value of financial instruments is based upon their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, then the fair value of a derivative is estimated using the available market information and the appropriate valuation methodologies; *however*, judgment is necessarily required to interpret market data in order to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realised in an actual transaction.

The fair value of a derivative that is not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract as of the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties. All derivatives are carried as assets when fair value is positive and recorded in the balance sheet under "derivative financial assets measured at fair value through profit or loss" and as liabilities when fair value is negative and recorded in the balance sheet under "derivative financial liabilities measured at fair value through profit or loss." For derivatives that do not qualify for special hedge accounting (which are held for trading purpose instead), any gains or losses arising from changes in fair value are taken directly to income for the period as a component of "trading income/losses (net)" whereas gains and losses on derivative financial assets held for cash flow hedges are reflected directly as a separate component of shareholders' equity and reclassified to income when the hedged transaction is settled. TFRS 9 permits to defer application of TFRS 9 hedge accounting and continue to apply hedge accounting in accordance with TAS 39 as a policy choice. Accordingly, the Group has continued to apply hedge accounting in accordance with TAS 39 in this context.

Defined Benefit Plan

As described in "Management – Compensation – Pension Plans," the Bank has a defined benefit plan for its Turkish employees (*i.e.*, the Fund described therein). As described therein, certain of the assets and obligations of the Fund are subject to transfer to the Social Security Institution of Turkey (*Türkiye Cumhuriyeti Sosyal Güvenlik Kurumu*) (the "*SSF*") and the SSF is required to collect the unfunded portion (if any) from the employee benefit funds and the banks employing the relevant fund participants, which will be severally liable, in annual instalments to be paid over a period of up to 15 years. If there is a shortfall at the time of the transfer of the fund (as determined by the SSF), then the Bank would be liable to make the supplemental payments described above for 15 years.

The excess benefits, which are not subject to the transfer to the SSF, are accounted for in the Group's BRSA Financial Statements in accordance with TAS 19 ("Employee Benefits"). The obligation in respect of this retained portion of the benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, which benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognised past service costs and the fair value of any plan assets are deducted.

Taxation

Income tax is calculated on the basis of taxable income as calculated by applicable tax laws, which differ in certain material respects from BRSA Accounting and Reporting Legislation. The Group's effective tax rate was 23.5% in 2017, 23.4% in 2018 and 23.6% in 2019. In preparing its financial statements, the Group is required to estimate taxes on income, which involves an estimation of current tax expenses together with an assessment of temporary differences resulting from differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group's carrying value of deferred tax assets assumes that the Group will be able to generate sufficient future taxable income based upon estimates and assumptions. If these estimates and related assumptions change in the future, then the Group might be required to record valuation allowances against its deferred tax assets resulting in additional tax expense in its income. The Group evaluates the recoverability of the deferred tax assets on each business day.

Key Performance Indicators

The Group calculates certain ratios in order to measure its performance and compare it to the performance of its main competitors. The following table sets out certain key performance indicators for the Group for the indicated dates/periods, which indicators are (among others) those used by the Group's management to manage its business:

	As of (or for the year ended) 31 December		
Ratios	**2017[(4)]**	**2018**	**2019**
Net interest margin	5.3%	6.0%	5.9%
Net fees and commissions income/expenses to total operating profit	19.6%	18.0%	20.3%
Cost-to-income ratio	46.2%	48.8%	54.0%
Operating expenses to average total assets	2.2%	2.2%	2.4%
NPL ratio	2.6%	5.1%	6.8%
Group's capital adequacy ratios			
Tier 1 capital adequacy ratio[(1)]	14.7%	14.2%	15.4%
Common equity Tier 1 capital adequacy ratio[(2)]	14.7%	14.2%	15.4%
Total capital adequacy ratio[(3)]	16.8%	16.5%	17.8%
Allowance for probable loan losses to NPLs / expected credit losses to NPLs	137.4%	95.2%	89.4%
Loan loss provisions to gross loans / expected credit losses to gross loans	0.7%	2.5%	2.8%
Return on average total assets	1.9%	1.7%	1.5%
Return on average shareholders' equity	16.3%	14.8%	12.2%
Loan-to-deposit ratio	113.6%	104.4%	96.2%

(1) The "Tier 1" capital adequacy ratio is calculated by dividing the "Tier 1" capital (after required deductions) by the aggregate of the value at credit risk, value at market risk and value at operational risk. See "– Capital Adequacy" below.

(2) The common equity Tier 1 capital adequacy ratio is calculated by dividing the "Common Equity Tier 1" capital (after required deductions) by the aggregate of the value at credit risk, value at market risk and value at operational risk. See "– Capital Adequacy" below.

(3) The total capital adequacy ratio is calculated by dividing: (a) the "Tier 1" capital (*i.e.*, its share capital, reserves and retained earnings) *plus* the "Tier 2" capital (*i.e.*, the "supplementary capital," which comprises expected credit losses for Stage 1 and Stage 2 assets (and, for 2017, general provisions), subordinated debt, unrealised gains/(losses) on available-for-sale assets and revaluation surplus (reduced by certain items such as leasehold improvements and intangibles)) and *minus* items to be deducted from capital (the "deductions from capital," which comprises items such as unconsolidated equity interests in financial institutions and assets held for resale but held longer than five years), by (b) the aggregate of the risk-weighted assets and off-balance sheet exposures (*i.e.*, value at credit risk), value at market risk and value at operational risk. See "Capital Adequacy" below.

(4) As of 1 January 2018, the Group started to apply TFRS 9 in its BRSA financial statements, *however*, it has not restated the comparative information for the prior periods within the scope of TFRS 9. Therefore, the information provided as of (or for the year ended) 31 December 2017 is not comparable to the information presented as of (or for the years ended) 31 December 2018 and 2019.

The calculation of the Group's net interest margin for the indicated periods is as follows:

	2017	2018	2019
	(TL thousands, except percentages)		
Net interest income	15,686,570	20,876,933	20,673,425
Average interest-earning assets	296,327,234	346,062,400	349,208,681
Net interest margin	**5.3%**	**6.0%**	**5.9%**

The calculation of the Group's net fees and commissions income/expenses to total operating profit for the indicated periods is as follows:

	2017	2018	2019
	(TL thousands, except percentages)		
Net fees and commissions income/expenses	3,860,413	5,102,687	6,273,573
Total operating profit	19,655,056	28,358,989	30,828,996
Net fees and commissions income/expenses to total operating profit	**19.6%**	**18.0%**	**20.3%**

The calculation of the Group's cost-to-income ratio for the indicated periods is as follows:

	2017	2018	2019
	(TL thousands, except percentages)		
Net interest income	15,686,570	20,876,933	20,673,425
Net fees and commissions income/expenses	3,860,413	5,102,687	6,273,573
Net trading income/losses	(1,842,027)	(1,145,747)	(1,806,062)
Dividend income	7,816	7,691	11,276
Other income	1,942,284	3,517,425	5,676,784
Provisions for loans, provisions for marketable securities and general reserves	(3,148,923)	(10,387,479)	(11,741,709)
Total income	**16,506,133**	**17,971,510**	**19,087,287**
Other operating expenses	7,623,756	8,768,985	10,309,076
Total cost	**7,623,756**	**8,768,985**	**10,309,076**
Cost-to-income ratio	**46.2%**	**48.8%**	**54.0%**

The Group's other operating expenses for 2017 are the other operating expenses (which at that time included personnel expenses) for the relevant period in the Group's BRSA Financial Statements as of and for the year ended 31 December 2017. For 2018 and 2019, the Group's other operating expenses in the above table reflect the sum of the other operating expenses and (due to a change to the presentation of the financial statements as per new rules introduced by the BRSA effective from 1 January 2018) the new separate line item for personnel expenses, both as provided in the Group's BRSA Financial Statements as of and for the years ended 31 December 2018 and 2019.

The calculation of the Group's operating expenses to average total assets for the indicated periods is as follows:

	2017	2018	2019
	(TL thousands, except percentages)		
Other operating expenses	7,623,756	8,768,985	10,309,076
Average total assets	340,161,190	400,060,338	421,330,642
Operating expenses to average total assets	**2.2%**	**2.2%**	**2.4%**

The calculation of the Group's NPL ratio for the indicated dates is as follows:

	As of 31 December		
	2017[1]	2018	2019
	(TL thousands, except percentages)		
Loans	227,992,612	255,889,505	266,610,530
NPLs	6,176,985	13,753,384	19,510,386
Total loans	**234,169,597**	**269,642,889**	**286,120,916**
NPL ratio	**2.6%**	**5.1%**	**6.8%**

(1) As a result of the adoption of TFRS 9 as of 1 January 2018, the Group changed the provision calculation principles for loans and other receivables from the BRSA's rule based provisioning approach to the forward-looking ECL approach and, as a result, the figures for 2017 are not comparable to the figures for later periods.

The calculation of the Group's allowance for expected credit losses to NPLs (or, before the implementation of TFRS 9 as of 1 January 2018, allowance for probable loan losses to NPLs) for the indicated dates is as follows:

	As of 31 December		
	2017	2018	2019
	(TL thousands, except percentages)		
Specific provisions	4,816,312	-	-
Expected credit losses (Stage 3)	-	8,124,589	12,182,934
General provisions	3,673,669	-	-
Expected credit losses (Stages 1 & 2)	-	4,969,439	5,260,715
Total provisions	**8,489,981**	**13,094,028**	**17,443,649**
NPLs	6,176,985	13,753,384	19,510,386
Allowance for probable loan losses to NPLs / expected credit losses to NPLs	**137.4%**	**95.2%**	**89.4%**

The calculation of the Group's return on average shareholders' equity for the indicated periods is as follows:

	2017	2018	2019
	(TL thousands, except percentages)		
Net profit/(loss)	6,387,974	6,706,605	6,241,390
Average shareholders' equity	39,085,286	45,164,334	51,202,307
Return on average shareholders' equity	**16.3%**	**14.8%**	**12.2%**

The calculation of the Group's return on average total assets for the indicated periods is as follows:

	2017	2018	2019
	(TL thousands, except percentages)		
Net profit/(loss)	6,387,974	6,706,605	6,241,390
Average total assets	340,161,190	400,060,338	421,330,642
Return on average total assets	**1.9%**	**1.7%**	**1.5%**

The calculation of the Group's expected credit losses to gross loans (or, before the implementation of TFRS 9 as of 1 January 2018, loan loss provisions to gross loans) for the indicated dates is as follows:

	As of 31 December		
	2017	2018	2019
	(*TL thousands, except percentages*)		
Specific provisions for loans and other receivables	1,782,034	-	-
Expected credit losses (Stage 3)	-	5,012,604	6,918,054
General provisions	497,877	-	-
Expected credit losses (Stages 1 & 2)	-	4,245,176	4,573,655
Total provision expenses	**2,279,911**	**9,257,780**	**11,491,709**
Collections	(727,291)	(2,464,810)	(4,166,567)
Net provision expense	**1,552,620**	**6,792,970**	**7,325,142**
Average total loans (average total cash loans in 2017)	220,056,324	267,427,429	260,561,591
Loan loss provisions to gross loans / expected credit losses to gross loans	**0.7%**	**2.5%**	**2.8%**

Analysis of Results of Operations for the Years Ended 31 December 2017, 2018 and 2019

As of 31 December 2019, the Bank had the following market shares among commercial banks (each as measured on a bank-only basis): (a) based upon BRSA weekly data, 10.1% of performing loans, 13.1% of consumer loans (including credit cards), 10.6% of consumer mortgage loans, 19.2% of consumer credit cards, 10.45% in customer deposits and 13.4% in customer demand deposits, and (b) based upon BRSA monthly data, 10.0% of total assets, 13.1% in net fees and commissions and 14.8% in net income.

The following summary financial and operating data as of and for the years ended 31 December 2017, 2018 and 2019 have been extracted from the Group's BRSA Financial Statements incorporated by reference into this Base Prospectus, without material adjustment. This information should be read in conjunction with such BRSA Financial Statements (including the notes thereto), which have been audited by KPMG. See "Risk Factors – Risks Relating to the Group's Business – Audit Qualification."

The table below summarises the Group's income statement and (after the change to the presentation of the financial statements as per new rules introduced by the BRSA) statement of profit or loss for the indicated years, the components of which are described in greater detail in the following sections:

	2017(1)	2018	2019
		(*TL thousands*)	
Interest income	28,360,370	41,246,027	42,045,625
Interest expense	(12,673,800)	(20,369,094)	(21,372,200)
Net interest income	**15,686,570**	**20,876,933**	**20,673,425**
Net fees and commissions income/expenses	3,860,413	5,102,687	6,273,573
Dividend income	7,816	7,691	11,276
Net trading income/losses (net)	(1,842,027)	(1,145,747)	(1,806,062)
Other operating income	1,942,284	3,517,425	5,676,784
Total operating profit	**19,655,056**	**28,358,989**	**30,828,996**
Provisions for losses on loans and other receivables	(3,681,863)	—	—
Expected credit losses	—	(10,836,246)	(12,347,652)
Other operating expenses(2)	(7,623,756)	(8,768,985)	(10,309,076)
Profit/(loss) before taxes	**8,349,437**	**8,753,758**	**8,172,268**
Provision for taxes	(1,961,463)	(2,047,153)	(1,930,878)
Net profit/(loss)	**6,387,974**	**6,706,605**	**6,241,390**
Attributable to equityholders of the Bank	6,332,056	6,641,652	6,164,914
Attributable to minority interests	55,918	64,953	76,476

(1) As of 1 January 2018, the Group started to apply TFRS 9 in its BRSA financial statements, *however*, it has not restated the comparative information for the prior periods within the scope of TFRS 9. Therefore, the information for 2017 is not comparable to the information presented for later periods.

(2) Prior to 1 January 2018, "personnel expenses" were accounted for under "other operating expenses" line item. Effective as of 1 January 2018, personnel expenses are presented as a separate line item under "total operating profit" due to a change to the presentation of the financial statements as

per new rules introduced by the BRSA. Therefore, for comparison purposes, this line item includes personnel expenses amounting to TL 3,645,278 thousand and TL 4,187,991 thousand, respectively, in 2018 and 2019. See "Significant Factors Affecting the Group's Financial Condition and Results of Operations - Key Performance Indicators."

Net Profit/(Loss)

The Group's net profit/(loss) for a period is calculated by reducing its total operating profit for such period by expected credit losses (since 1 January 2018) / provisions for losses (prior to 1 January 2018) on loans and other receivables, other operating expenses and provision for taxes for such period. The Group's net profit/(loss) for 2019 was TL 6,241,390 thousand, a 6.9% decrease from TL 6,706,605 thousand in 2018, which itself was a 5.0% increase from TL 6,387,974 thousand in 2017. The net profit/(loss) for these three years was affected by certain exceptional items, which are quantified in the table below:

	2017	2018	2019
Exceptional items		*(TL thousands)*	
Sale/liquidation of equity participations and other assets..	(14,278)	—	(15,782)
Sale of NPLs	(75,957)	(126,328)	(87,780)
Other income[(1)]..	—	—	83,000
Other operating expenses[(2)]	270,771	—	—
General reserves[(3)]..	860,000	1,090,000	250,000
Tax effects of the items listed above...........................	15,191	13,000	18,898
Total impact on net profit/(loss)..............................	**1,055,727**	**976,672**	**248,336**
Net profit/(loss)..	6,387,974	6,706,605	6,241,390
Net profit/(loss) adjusted for exceptional items.....	**7,443,701**	**7,683,277**	**6,489,726**

(1) This only includes an administrative fee reversal.
(2) This figure includes repayments of fees and commissions to customers recognised in prior years and the related legal expenses borne by the Bank as per decisions of the Turkish Competition Board or other relevant courts.
(3) See "Provisions for Expected Credit Losses" above. As such general reserves are not permitted under the BRSA Accounting and Reporting Legislation, the Group's independent auditors noted this departure in the Group's BRSA Financial Statements by qualifying their audit opinion. Should the Bank's management determine that market conditions have improved to such an extent that such additional provisions are not required, then they might elect to reverse such reserves in future periods, which would have the result of increasing income in such period.

Net profit/(loss) adjusted for exceptional items decreased by 15.5% in 2019 as compared to the amount in 2018, which amount was an increase of 3.2% as compared to the amount in 2017. In 2018, this increase was a result of the increase in the net interest income together with fee growth and increased efficiencies through disciplined cost management. In 2019, the decrease was mainly due to lower interest earned on CPI-linked securities.

The following sections describe the components of the Group's net profit/(loss) (*i.e.*, total operating profit, other operating expenses and provision for taxes) in greater detail.

Total Operating Profit

The Group's total operating profit is comprised of its net interest income, net fees and commissions income/expenses, dividend income, net trading income/losses and other operating income. Each of these is described in greater detail below. The following table identifies the share that these categories have represented in the Group's total operating profit before taxes for each of the indicated years:

	2017	2018	2019
Net interest income..	79.8%	73.6%	67.1%
Net fees and commissions income/expenses	19.6%	18.0%	20.3%
Dividend income..	0.0%	0.0%	0.0%
Net trading income/losses..................................	(9.4)%	(4.0)%	(5.9)%
Other operating income	10.0%	12.4%	18.5%

Net Interest Income

The Group's net interest income is the difference between its interest income and its interest expense (each described below) and is the principal area of income for the Group. As a result, the differential between the interest rates that the Group receives on interest-earning assets and the interest rates that it pays on interest-bearing liabilities (*i.e.*, its average spread) and the volume of such assets and liabilities have the most significant impact on the Group's results of operations. This net interest income represented 79.8%, 73.6% and 67.1% of the Group's total operating profit in 2017, 2018 and 2019, respectively.

Net interest income amounted to TL 20,673,425 thousand in 2019, which was a 1.0% decrease from TL 20,876,933 thousand in 2018, which itself was a 33.1% increase from TL 15,686,570 thousand in 2017. There has been a general decline in margins in the Turkish market from 2010 onwards as a result of increased competition across all sectors of the Group's business; *however*, the Group's net interest margins (as further described below) and volumes, especially in lending activities (as further described in "Assets - Loans" below), increased in 2018 and 2019 mainly as a result of increases in both interest rates and size of interest-earning assets, especially loans.

The Group's net interest margin was 5.9% in 2019, compared to 6.0% in 2018 and 5.3% in 2017. In 2018, in addition to the Group's strategy of being focused on more profitable products, the increase in the Group's net interest margin resulted from an increase in both interest rates and inflation, particularly in the second half of the year. In 2019, the Group's net interest margin was unchanged from 2018, reflecting the counter-balanced impact of significantly lower interest rates on CPI-linked securities but an increasing loan-to-deposit spread.

The average spread for the Bank declined in 2018 principally due to the repricing of interest-bearing liabilities (principally deposits) faster than interest-bearing assets (principally loans having longer repricing duration as a consequence of sharp increase in interest rate environment). The average spread for the Group remained essentially flat in 2018. In 2019, the Group's average spread decreased slightly, which was principally due to increased deposit costs when compared to 2018 notwithstanding the Central Bank's commencement of rate cuts in the second half of 2019. See also "– Significant Factors Affecting the Group's Financial Condition and Results of Operations – Interest Rate Environment."

Interest Income. Interest income is the interest (including the amortisation of interest-earning assets purchased at a discount and the interest component of lease receivables entered into for margin management purposes) and certain loan-related fees (such as closing fees received on project finance loans) received by the Group on its interest-earning assets, principally loans and debt securities. Interest income is a function of both the volume of interest-earning assets and the yield that the Group earns on these holdings. In 2019, the Group's interest income increased by 1.9% to TL 42,045,625 thousand from TL 41,246,027 thousand, which itself was a 45.4% increase from TL 28,360,370 thousand in 2017. The following table sets out the interest earnings on the Group's interest-earning assets during each of the indicated years:

	2017(1)	**2018**	**2019**
		(TL thousands)	
Interest income on loans(2)	21,912,595	30,971,635	33,866,206
Interest income on reserve deposits	222,596	324,582	233,541
Interest income on banks	451,750	640,894	855,208
Interest income on money market transactions	14,022	37,728	395,622
Interest income on securities portfolio	4,791,622	8,261,754	5,658,911
Financial lease income	442,460	539,811	511,531
Other interest income	525,325	469,623	524,606
Total interest income	**28,360,370**	**41,246,027**	**42,045,625**

(1) As of 1 January 2018, the Group started to apply TFRS 9 in its BRSA financial statements, *however*, it has not restated the comparative information for financial instruments within the scope of TFRS 9 for the prior periods. Therefore, the information for 2017 is not comparable to the information presented for later periods.

(2) Interest income on the factoring business was presented under "other interest income" as of 31 December 2017 and under "interest income on loans" as of 31 December 2018 and 2019. Interest income from the factoring business was TL 281,143 thousand, TL 471,010 thousand and TL 368,679 thousand as of 31 December 2017, 2018 and 2019, respectively. See "Critical Accounting Policies – Implementation of TFRS 9 – Transition to TFRS 9."

As noted above, interest income is a function of both the volume of, and yield earned on, the Group's interest-earning assets. In 2018 and 2019, the increase in interest income was principally due to a 41.3% and 9.3% increase, respectively, in "interest income on loans" resulting largely from increasing loan volumes and improved yields through the Group's selective lending strategy on more profitable products. In 2018, the increasing trend in "interest income on securities portfolio" continued with a 72% increase, which was due both to a sharp increase in interest rates and considerably higher yields provided by CPI-linked securities as a result of the high inflation environment. In 2019, interest income on loans increased due in large part to increasing yields on loans, while interest income from securities decreased significantly due to lower interest on CPI-linked securities as inflation rates declined. As a result, total interest income in 2019 increased only slightly from 2018.

The following table sets forth the average yield earned by the Bank (daily average) and the Group (quarterly average) on certain interest-earning assets for the indicated years. For additional information with respect to the Bank's interest income, including with respect to Turkish Lira- and foreign currency-denominated assets, see "Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential – Average Balance Sheet and Interest Data" and "– Net Changes in Interest Income and Expense – Volume and Rate Analysis."

	2017	2018	2019
Total average yield for the Bank.................	**10.68%**	**13.53%**	**13.70%**
Deposits at banks....................................	4.56%	4.72%	5.76%
Investments in securities	11.59%	19.82%	13.40%
Loans and advances to customers............	10.86%	13.05%	14.55%
Total average yield for the Group	**9.72%**	**12.39%**	**11.77%**

The increase in the yield earned by the Bank in 2018 compared to 2017 primarily resulted from the Bank's strategy to improve net interest margin and focus on income from core banking operations. In 2019, as the Bank followed the same strategy, there were further improvements in yields in 2019 when compared to 2018.

The growth in the Group's interest income in the past three years was primarily due to strong increases in both the size of its loan portfolio and the yield earned on its interest-earning assets. As interest on CPI-linked securities and loans under the KGF programme were elevated in 2017, they did not contribute to the increase in average yield in 2018; *however*, despite a 11.25% rate hike by the Central Bank in 2018, the Group obtained strong net interest margins on its Turkish Lira-denominated assets. While the Bank's management expects that, in the near future, lending growth will accelerate compared to 2018 and 2019, it also expects that loan yields will be on a downward trend as a result of the decreasing interest rate environment.

Interest Expense. Interest expense is the interest and certain loan-related fee expenses (such as fees paid on syndicated loans) of the Group on its interest-bearing liabilities, principally time deposits. As with interest income, interest expense is a function of both the volume of interest-bearing liabilities and the interest rates that the Group pays on these liabilities. In 2019, the Group's interest expense increased by 4.9% to TL 21,372,200 thousand from TL 20,369,094 thousand in 2018, itself an increase of 60.7% from TL 12,673,800 thousand in 2017. The following table sets out the interest expense on the Group's interest-bearing liabilities by category during each of the indicated years:

	2017	2018	2019
		(TL thousands)	
Interest on deposits...	8,439,849	14,756,035	16,529,107
Interest on funds borrowed...................................	1,323,169	1,965,032	1,799,135
Interest on money market transactions..................	1,309,125	1,193,709	117,758
Interest on securities issued..................................	1,579,644	2,388,905	2,650,526
Lease interest expense..	-	3,234	188,093
Other interest expenses	22,013	62,179	87,581
Total interest expense	**12,673,800**	**20,369,094**	**21,372,200**

The increases in the Group's interest expense in 2018 and 2019 were principally in line with the increase in the size of its funding base and interest rates. As noted above, changes in the interest rates that the Group pays on its interest-bearing liabilities significantly affect the Group's interest expense. As the Group's interest-bearing deposits represent the largest portion of its liabilities (48.7%, 53.2% and 52.9%, respectively, as of 31 December 2017, 2018 and 2019), the interest rates that the Group pays on its deposits typically have the largest impact on the Group's interest expense. The following table sets forth the average interest rates paid by the Bank (daily average) and the Group (quarterly average) on interest-bearing deposits and other interest-bearing liabilities for the indicated years:

	2017	2018	2019
Total interest rates for the Group	**5.62%**	**7.75%**	**8.13%**
Total interest rates for the Bank	**5.66%**	**7.75%**	**8.28%**
Deposits	5.61%	8.11%	8.87%
Short-term debt (one year or less).....	8.26%	9.36%	7.31%
Long-term debt	5.01%	6.04%	6.55%
Repurchase agreements.....................	8.18%	17.47%	7.14%

In 2018, the increase in the interest rates was principally due to the increasing interest rate environment, which environment also continued in the first nine months of 2019. See "- Financial Condition - Liabilities" below.

For additional information with respect to the Bank's interest expense, including with respect to the size of and yield paid on Turkish Lira- and foreign currency-denominated liabilities, see "Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential – Liabilities – Average Interest-Bearing Liabilities" and "– Net Changes in Interest Income and Expense – Volume and Rate Analysis." In addition, certain information on the interest rates paid by the Group on its interest-bearing liabilities can be found in "Selected Statistical and Other Information – Funds Borrowed and Certain Other Liabilities" below.

Net Fees and Commissions Income/Expenses

The second largest component of the Group's operating income is its net fees and commissions income/(expenses). The Group earns fee and commission income on both capital-intensive products (such as origination fees on cash loans and fees for credit cards, letters of credit and guarantees) and capital-free products (such as money transfers, payment system fees, investment advice and brokerage fees in respect of debt and equity trading). The principal drivers for fee and commission income are money transfer and payment system fees. The Bank's management expects the contribution of fee and commission income to the Group's overall operating income to increase, particularly with the expected growth in its money transfer and payment system fees; *however*, the Turkish government periodically imposes limits or prohibitions on fees and commissions that a bank may charge for certain banking services, and the adoption of any such limits or prohibitions might result in lower fees and commissions income for the Group.

The Group's net fees and commissions income/expenses for 2019 was TL 6,273,573 thousand, an increase of 22.9% from TL 5,102,687 thousand, itself an increase of 32.2% from TL 3,860,413 thousand in 2017. While strong growth was experienced throughout the Group's fee and commission sources in 2018, this increase was primarily due to the increase in interest rates during the year - for example, some payment system fees, such as merchant fees and interchange fees, are linked to prevailing market rates and the 1,125 basis points increase in the Central Bank's funding costs resulted in an extraordinary 32.2% increase in net fees and commissions income in 2018. In 2019, the Group sustained its strong growth momentum due particularly to the growth in credit cards, non-cash loan fees and money transfer fees; *however*, due to the imposition of a new legal cap on the fees that can be charged to merchants, the Bank's management expects that fees and commissions from the payment systems business, which is the largest component of fees and commissions, will contribute to a decline in fees and commission income in 2020. In addition, the BRSA and Central Bank amended the applicable fee and commission regulations by issuing separate decrees on 10 February 2020 that (effective as of 1 March 2020) impose new limitations on certain fees and commissions that Turkish banks may charge to customers, including imposing a limit on fees for electronic funds transfers, which might negatively impact the fees and commissions earned by the Group.

The following table sets out the breakdown of the Group's fees and commissions income and expenses and their respective amounts during each of the indicated years:

	2017	2018	2019
		(TL thousands)	
Fees and commissions received	**5,118,766**	**6,944,272**	**8,643,797**
Non-cash loans...	433,188	587,647	721,434
Others...	4,685,578	6,356,625	7,922,363
Fees and commissions paid...............................	**1,258,353**	**1,841,585**	**2,370,224**
Non-cash loans...	3,868	2,238	15,350
Others...	1,254,485	1,839,347	2,354,874
Net Fees and Commissions Income..................	**3,860,413**	**5,102,687**	**6,273,573**

Dividend Income

Dividend income, which is principally received from the Group's securities portfolio and certain small equity investments, is a very small portion of the Group's income. Dividend income of TL 7,816 thousand in 2017, TL 7,691 thousand in 2018 and TL 11,276 thousand in 2019 each represented less than 0.1% of the Group's total operating profit for the year.

Net Trading Income/Losses

Net trading income/losses, which represent trading account income/losses, income/losses from derivative financial instruments and foreign exchange gain/losses, have frequently been a negative contributor to total operating profit in recent periods. In 2017, the Group experienced a net trading loss of TL 1,842,027 thousand, which was followed by net trading losses of TL 1,145,747 thousand and TL 1,806,062 thousand, respectively, in 2018 and 2019. In 2018 and 2019, the net trading losses resulted from foreign exchange losses experienced due to the high swap funding cost of the Group in Turkish Lira.

The following table sets out the categories of the Group's net trading income/losses during each of the indicated years:

	2017	2018	2019
		(TL thousands)	
Trading Income			
Trading account income	1,514,746	1,591,473	492,021
Derivative financial instruments	9,872,180	21,709,326	28,315,997
Foreign exchange gain	53,627,118	140,441,530	104,556,905
Total trading income	**65,014,044**	**163,742,329**	**133,364,923**
Trading Losses			
Trading account losses	(1,839,443)	(737,624)	(649,105)
Derivative financial instruments	(13,138,901)	(20,869,699)	(31,251,304)
Foreign exchange losses	(51,877,727)	(143,280,753)	(103,270,576)
Total trading losses	**(66,856,071)**	**(164,888,076)**	**(135,170,985)**
Net trading income/losses	**(1,842,027)**	**(1,145,747)**	**(1,806,062)**

Other Operating Income

Other operating income includes various additional sources of income, including the collection or reversal of previous periods' provisions (including from the sale of NPLs), banking services-related costs recharged to customers, premium income from insurance business and income on custody services. Total other operating income in 2019 amounted to TL 5,676,784 thousand, compared to TL 3,517,425 thousand in 2018 and TL 1,942,284 thousand in 2017; *however*, the 2017 financial information is not comparable to later periods due to the application of TFRS 9 in the BRSA financial statements as of 1 January 2018. The following table sets out the Group's other operating income by category for each of 2018 and 2019:

	2018	2019
	(TL thousands)	
Prior Year Reversals	2,464,810	4,166,567
Stage 1	998,259	1,156,539
Stage 2	587,115	1,731,371
Stage 3	641,597	1,129,416
Others	237,839	149,241
Income from term sale of assets	179,793	103,562
Others	872,822	1,406,655
Other operating income	**3,517,425**	**5,676,784**

Other operating income for 2019 of TL 5,676,784 thousand increased by 61.4% from TL 3,517,425 thousand in 2018, which itself increased by 81.1% from TL 1,942,284 thousand in 2017.

In 2019, non-performing receivables of the Bank amounting to TL 952,362 thousand (TL 865,748 thousand in 2017 and TL 316,908 thousand in 2018) were sold for a consideration of TL 63,094 thousand (TL 56,015 thousand in 2017 and TL 17,550 thousand in 2018). While (for 2019) TL 952,362 thousand (TL 854,989 thousand in 2017 and TL 316,908 thousand in 2018) of provisions were recorded in the previous periods for these sold receivables, a gain of TL 63,094 thousand (TL 45,256 thousand in 2017 and TL 17,550 thousand in 2018) was recognised under "other operating income" as a result of such sale.

In 2019, a portion of the non-performing loans, lease receivables and factoring receivables of certain consolidated financial subsidiaries of the Bank amounting to TL 74,451 thousand (TL 332,791 thousand in 2017 and TL 36,842 thousand in 2018) was sold for a consideration of TL 7,472 thousand (TL 30,288 thousand in 2017 and TL 13,184 thousand in 2018). A gain from these sales amounting to TL 5,788 thousand was recognised in 2019 under "other operating income" (net gains of TL 21,918 thousand and TL 11,101 thousand, respectively, in 2017 and 2018) considering the related provision of TL 72,767 thousand (TL 324,421 thousand in 2017 and TL 34,759 thousand in 2018) had been provided against in the accompanying consolidated financial statements in prior periods. In 2017, revenue earned from subsequent collections of such receivables sold in prior periods, amounting to TL 507 thousand was recognised in the income statement under "other operating income."

Provision for Losses on Loans or other Receivables

Provision for losses on loans and other receivables as of 31 December 2018 and 2019. The Group's results might be materially negatively affected by provisions that the Group takes for its ECLs on financial assets and loans measured at amortised cost, financial assets measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts not measured at fair value through profit or loss based upon TFRS 9. During the transition to TFRS 9, the Group implemented an impairment model, which has three stages based upon the changes in credit quality since initial recognition. ECLs are required to be measured through a loss allowance:

(a) at an amount equal to 12-month ECL (*i.e.*, ECL that results from default events on the financial instrument that are possible within 12 months after the reporting date) (referred to as Stage 1), or

(b) for lifetime ECL (*i.e.*, lifetime ECL that results from all possible default events over the life of the financial instrument) (referred to as Stage 2 and Stage 3).

A loss allowance for lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments within the scope of impairment, ECLs are measured at an amount equal to the 12-month ECL. The Group's provisions for losses on loans and other credit receivables for 2018 and 2019 are not comparable to these provisions for 2017 due to the first time adoption of new TFRS 9 impairment rules as of 1 January 2018.

The following table sets out the Group's expected credit losses by category during 2018 and 2019:

	2018	**2019**
	(TL thousands)	
Expected credit losses	**9,257,780**	**11,491,709**
12 month ECL (Stage 1)	*1,062,942*	*1,567,920*
Significant increase in credit risk (Stage 2)	*3,182,234*	*3,005,735*
Impaired credits (Stage 3)	*5,012,604*	*6,918,054*
Impairment losses on securities	**39,699**	**16,569**
Financial assets measured at fair value through profit or loss	*37,125*	*12,752*
Financial assets measured at fair value through other comprehensive income	*2,574*	*3,817*
Impairment losses on associates, subsidiaries and joint-ventures	**20,832**	—
Associates	—	—
Subsidiaries	*20,832*	—
Joint-ventures (business partnership)	—	—
Others[(1)]	**1,517,935**	**839,374**
Total	**10,836,246**	**12,347,652**

(1) Includes general reserves amounting to TL 1,090,000 thousand in 2018 and TL 250,000 thousand in 2019.

The following table sets out the Group's expected credit losses for loans as of 31 December 2018 and 2019:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	(TL thousands)			
Balances at beginning of period (1 January 2018)	908,210	3,531,388	4,512,355	8,951,953
Additions during the period (+)	1,665,196	5,005,345	3,111,983	9,782,524
Disposal (-)	(2,365,129)	(1,117,884)	(952,422)	(4,435,435)
Debt sale (-)	(649)	—	(351,667)	(352,316)
Write-offs (-)	—	—	(2,254,607)	(2,254,607)
Transfer to Stage 1	1,234,803	(1,227,561)	(7,242)	—
Transfer to Stage 2	(570,081)	612,034	(41,953)	—
Transfer to Stage 3	(5,805)	(3,920,918)	3,926,723	—
Foreign currency differences	75,605	1,144,885	181,419	1,401,909
Balance as of 31 December 2018	**942,150**	**4,027,289**	**8,124,589**	**13,094,028**
Additions during the period (+)	2,011,898	5,584,149	4,713,858	12,309,905
Disposal (-)	(2,511,214)	(3,178,773)	(1,080,557)	(6,770,544)
Debt sale (-)	—	—	(1,025,130)	(1,025,130)
Write-offs (-)	(133)	(8)	(874,821)	(874,962)
Transfer to Stage 1	1,276,145	(1,270,029)	(6,116)	—
Transfer to Stage 2	(520,603)	552,520	(31,917)	—
Transfer to Stage 3	(7,050)	(1,957,492)	1,964,542	—
Foreign currency differences	35,939	275,927	398,486	710,352
Balance as of 31 December 2019	**1,227,132**	**4,033,583**	**12,182,934**	**17,443,649**

Provision for losses on loans and other receivables as of 31 December 2017. In 2017, the provision for losses on loans and other receivables is principally comprised of amounts for specifically-identified impaired and non-performing cash loans (*i.e.*, "specific provisions for loans and other receivables") *plus* a further portfolio-basis allowance amount that the Bank's management believes to be adequate to cover the inherent risk of loss present in the pool of performing cash loans (*i.e.*, the "provision for possible losses").

In 2017, the Group's provisions for losses on loans or other receivables included an increase of TL 860,000 thousand in the provision for possible losses (*i.e.*, general reserves) to TL 1,160,000 thousand, which more than offset a decline in specific provisions for loans and other receivables. This increase in general reserves reflects the Group's conservative risk approach due to the possible effects of negative circumstances that might arise in the economy or in market conditions. See "Risk Factors – Risks Relating to the Group's Business – Audit Qualification" and "Selected Statistical and Other Information – Summary of Loan Loss Experience."

In addition to these specific provisions and general provisions and small amounts of "impairment losses on financial assets" (*i.e.*, securities), the Group's provision for losses on loans or other receivables includes provisions for tangible assets, other receivables and (where applicable) reversal of related provisions.

The following table sets out the Group's provision for losses on loans and other receivables by category during 2017:

	2017
	(TL thousands)
Provision for losses on loans or other receivables	**3,681,863**
Specific provisions for loans and other receivables	1,782,034
General provisions	497,877
Impairment losses on financial assets	9,012
Others(1)	1,392,940

(1) Includes general reserves amounting to TL 860,000 thousand.

The following table sets out the movements in the Group's specific provisions, which are reflected on the balance sheet as offsets to the value of the Group's loans, during 2017:

	2017
	(TL thousands)
Movements in specific loan provisions	
Balances at End of Prior Period	4,791,089
Additions during the Period (+)	2,316,068
Restructured/Rescheduled Loans (-)	—
Collections during the Period (-)(1)	(1,209,438)
Write-Offs (-)(2)	(1,081,407)
Balance at the end of the period............	**4,816,312**

(1) Foreign exchange rate changes of the collections of foreign subsidiaries' are included.
(2) Includes also the sale of non-performing loans.

The Group's NPL ratio increased to 5.1% as of 31 December 2018 from 2.6% as of 31 December 2017 and then increased again to 6.8% as of 31 December 2019. In 2018, the increase was primarily due to the inclusion of both lease and factoring receivables under both the loans and the non-performing receivables line items (as applicable) as a result of a change to the presentation of the financial statements as per new rules introduced by the BRSA, a reduction in the Group's loan growth and some transfers (generally with sufficient ECL provisions) from Stage 2 (significant increase in credit risk) to Stage 3 (credit-impaired) as a consequence of the recent contraction in the growth of the Turkish economy. The increase in 2019 was principally caused by new commercial and corporate NPLs as a result of volatility and declines in GDP during the first half of the year.

The effect of NPL sales on the Group's NPL ratio was to reduce it by 0.50%, 0.12% and 0.33% in 2017, 2018 and 2019, respectively (*i.e.*, the NPL ratio for such periods would have been higher by such amounts had such sales not occurred).

The Group also reflects on its balance sheet a category of "loans under follow-up," which are loans transferred to Stage 2 due to a significant increase in credit risk since initial recognition based upon TFRS 9. This amount was TL 38,470,914 thousand as of 31 December 2019 (TL 38,712,181 thousand as of 31 December 2018), portions of which amount might later either be transferred to Stage 1 (*i.e.*, when a loan becomes a loan in good standing) or be transferred to Stage 3 and treated as an NPL (and have related specific provisions) should a loan become non-performing.

The Bank's management increased the general reserves by TL 860,000 thousand (to TL 1,160,000 thousand) in 2017, by TL 1,090,000 thousand (to TL 2,250,000 thousand) in 2018 and by TL 250,000 thousand (to TL 2,500,000 thousand) in 2019 due to the possible effects of negative circumstances that might arise in the economy or in market conditions. The BRSA Financial Statements were qualified with respect to general reserves that were allocated by the Group. The provisions were taken in accordance with the conservatism principle applied by the Group in considering the circumstances that may arise from any changes in the economy or market conditions. See "Risk Factors – Risks Relating to the Group's Business – Audit Qualification."

Write-off policy

The general policy of the Bank regarding the write-off process for loans is to write-off a loan that has, during the legal follow-up process, been determined to be uncollectible. As of 31 December 2019, total loans written-off from assets were TL 142,715 thousand (TL 2,255,570 thousand as of 31 December 2018).

An amendment to the Classification of Loans and Provisions Regulation entered into force on 27 November 2019, which amendment enables Turkish banks to write down and move off their balance sheets the portion of a loan that is classified as a "Group V" loan (Loans Considered as Losses) if it cannot reasonably be expected to be recovered. As a result, the Bank performs both objective and subjective assessments of its Group V loans to determine whether there is such a reasonable expectation.

In accordance with TFRS 9, provisions are provided for the portion of a loan that is not expected to be recovered. Accordingly, a loan that is classified in "Group V" and cannot reasonably be expected to be recovered (after considering the opinion of the department responsible) from the collection of such loan and/or the provisions provided for such loan can be subject to this write-down operation. In addition, a loan that meets the conditions set out below is assessed by the Bank as having lost its ability to be collected and thus can be written-down based upon the opinion of the relevant department: (a) such loan has been monitored as a non-performing loan for at least two years, (b) there has not been any collection on such loan in the last 6 months and (c) there not being any tangible collateral other than a pledge over movable assets.

As of 31 December 2019, the Bank's written-down "Group V" loans amounted to TL 712,527 thousand and the Bank's consolidated subsidiaries' written-down "Group V" loans amounted to TL 20,950 thousand.

Other Operating Expenses

The Group's other operating expenses include traditional business expenses such as depreciation and amortisation expenses on tangible and intangible assets and operational lease-related expenses. Prior to 1 January 2018, personnel expenses were accounted for under "other operating expenses" line item. Effective as of 1 January 2018, personnel expenses are presented as a separate line item under "total operating profit" due to a change to the presentation of the financial statements as per new rules introduced by the BRSA. Therefore, for comparison purposes, "other operating expenses" in 2018 and 2019 include personnel expenses amounting to TL 3,645,278 thousand and TL 4,187,991 thousand, respectively. Other operating expenses in 2019 increased by 17.6% to TL 10,309,076 thousand from TL 8,768,985 thousand in 2018, itself a 15.0% increase from TL 7,623,756 thousand in 2017. The increases in 2018 and 2019 principally resulted from increases in personnel expenses and other normal course expenses. See "- Personnel expenses" below.

As noted above, as a banking institution, the Group's management focuses closely on the Group's efficiency and (within the context of maintaining the quality of its services) seeks to decrease its cost-to-income ratio. The Group's cost-to-income ratio increased to 54.0% in 2019 from 48.8% in 2018, which itself had increased from 46.2% in 2017. A similar ratio monitored by the Group is its ratio of operating expenses to average total assets, which ratio was 2.2% in 2017 and 2018 and 2.4% in 2019. The increase in the cost-to-income ratio in 2018 was due both to the volatility in the value of the Turkish Lira and an increase in the inflation rate during the period whereas the increase in 2019 was largely due to lower interest income on CPI-linked securities, the impact of inflation of operating costs and higher provisioning.

The following table sets out the Group's other operating expenses by category during each of the indicated periods:

	2017	**2018**	**2019**
		(TL thousands)	
Personnel expenses[1]	3,205,846	3,645,278	4,187,991
Reserve for employee termination benefits	46,291	75,965	103,721
Impairment losses on tangible assets	677	3,975	24,104
Depreciation expenses of tangible assets	286,244	339,986	400,186
Impairment losses on intangible assets	—	—	328
Amortisation expenses of intangible assets	107,554	127,014	140,883
Impairment losses on assets to be disposed	1,707	79,524	23,167
Depreciation expenses of right-of-use assets	—	—	327,302
Impairment losses on assets held for sale and discontinued assets	—	—	1,578
Operational lease-related expenses	470,021	534,796	177,721
Repair and maintenance expenses	66,231	91,374	92,014
Advertisement expenses	202,213	225,277	183,420
Loss on sale of assets	12,372	7,119	9,273
Other expenses[2]	2,318,398	2,781,175	3,362,896
Others[3]	906,202	857,502	1,274,492
Other operating expenses	**7,623,756**	**8,768,985**	**10,309,076**

(1) Prior to 1 January 2018, "personnel expenses" were accounted for under "other operating expenses" line item. Effective as of 1 January 2018, personnel expenses are presented as a separate line item under "total operating profit" due to a change to the presentation of the financial statements as per new rules introduced by the BRSA.

(2) Other expenses includes various normal course expenses such as legal expenses, utility charges, none of which is individually material. See Note 5.4.7 in Section Five to the Group's BRSA Financial Statements as of and for the year ended 31 December 2019.

(3) Others includes SDIF-related expenses, repayments of certain fees and commissions to customers and insurance business-claim losses. See Note 5.4.7 Section Five to the Group's BRSA Financial Statements as of and for the year ended 31 December 2019.

Personnel expenses, the largest other operating expense, is discussed in greater detail below.

Personnel expenses. The Group's other operating expenses include the salaries and wages that it pays to its employees. Personnel expenses increased by 14.9% to TL 4,187,991 thousand in 2019 from TL 3,645,278 thousand in 2018, itself a 13.7% increase from TL 3,205,846 thousand in 2017. The increases in 2018 and 2019 were principally the result of higher wage levels due to salary increases driven by inflation. The Group's management anticipates that the currently elevated level of Turkish inflation will result in higher personnel expenses in 2020. As of 31 December 2017, 2018 and 2019, the Group had 21,850, 21,316 and 21,618 employees, respectively.

Provision for Taxes

The Group is subject to different forms of income taxation in each market in which it has operations, although the principal driver is Turkish taxation of the Group's taxable income. Taxation and duties other than on income are included in operating expenses whereas taxation on income is applied to profit/(loss) before taxes in order to determine the Group's net operating profit/(loss) after taxes. The provision for taxes for a particular period is a combination of the current tax charge, which is the tax that is calculated to apply to the taxable income for such period, and deferred tax charges/(credits), which reflect the Group's calculation of taxes that it might be required to pay in the future as a result of certain events (*e.g.*, mark-to-market increases in the valuation of financial assets, which would result in the payment of taxes should such financial asset be sold).

Income taxation charges for 2019 amounted to TL 1,930,878 thousand, which was a 5.7% decrease from TL 2,047,153 thousand in 2018, which itself was a 4.4% increase from TL 1,961,463 thousand in 2017. The Group's taxation charges for 2019 included deferred tax credit of TL 431,237 thousand whereas 2018 included deferred tax charges of TL 240,558 thousand as a result of improvements in mark-to-market valuation of derivative financial instruments and 2017 included a deferred tax credit of TL 322,836 thousand. The provision for taxes in 2018 and 2019 also reflects the 5 December 2017 amendment to tax laws that increased the corporate tax rate for all corporations (including the Issuer) to 22% from 20% for three years starting from 2018. The increases in the Group's taxation charges for 2018 and 2019 reflect both the large increase in the Group's taxable income as well as the tax effect of general reserves.

The corporate tax rate, which had been 20% since 1 January 2006, was temporarily increased to 22% for 2018, 2019 and 2020 (with the Council of Ministers authorised to reduce this back to 20% should they so determine). The Group's effective income tax rate (calculated based upon its reported provision for taxes *divided by* its profit/(loss) before taxes) for 2017, 2018 and 2019 was 23.5%, 23.4% and 23.6%, respectively. The deviations from the applicable tax rate in these years were due to both general reserves and general provision amounts being not deductible based upon the BRSA Accounting and Reporting Legislation. In line with the TAS 12 standard for income taxes, deferred tax assets and liabilities are to be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, in each case based upon the tax rates (and tax laws) that have been enacted (or substantively enacted) by the end of the reporting period. The Group thus has made deferred tax calculations according to the rates of 20% or 22%, as applicable, corresponding to the maturity of the assets and liabilities.

Taxes on income from the Group's non-Turkish operations were immaterial in each of 2017, 2018 and 2019.

Financial Condition

The following summary balance sheet data for each of the indicated dates have been extracted from the Group's BRSA Financial Statements (including the notes thereto). This information should be read in conjunction with the Group's BRSA Financial Statements.

	As of 31 December 2018	% of Total	As of 31 December 2019	% of Total
	(TL thousands, except for percentages)			
Assets[(1)]				
Cash and cash equivalents	67,155,496	16.8	72,098,035	16.8
Financial assets measured at fair value through profit/(loss) (FVTPL)[(1)]	4,641,037	1.2	5,219,300	1.2
Financial assets measured at fair value through other comprehensive income (FVOCI)	27,162,953	6.8	28,643,529	6.7
Derivative financial assets	4,093,695	1.0	2,999,557	0.7
Loans[(2)]	256,009,555	64.1	277,506,599	64.8
Lease receivables	6,966,040	1.7	6,184,154	1.4
Factoring receivables	2,586,133	0.6	2,430,163	0.6
Other financial assets measured at amortised cost[(3)]	24,654,009	6.2	27,720,342	6.5
Expected credit losses (-)[(4)]	(13,148,150)	(3.3)	(17,563,538)	(4.1)
Assets held for sale and assets of discontinued operations[(1)]	857,695	0.2	1,452,258	0.3
Ownership investments (net)	132,871	0.0	153,854	0.0
Tangible assets	4,494,918	1.1	5,528,299	1.3
Intangible assets	416,072	0.1	479,906	0.1
Investment property	558,309	0.1	569,719	0.1
Current tax assets	175,266	0.0	86,217	0.0
Deferred tax assets	1,519,177	0.4	1,882,010	0.4
Other assets	10,878,525	3.0	13,163,744	3.2
Total assets	**399,153,601**	**100.0**	**428,554,148**	**100.0**
Liabilities				
Deposits	244,237,777	61.2	277,277,325	64.7
Funds borrowed	33,339,727	8.4	25,622,059	6.0
Money markets funds	2,634,590	0.7	1,786,861	0.4
Securities issued (net)	26,911,463	6.7	21,026,537	4.9
Financial liabilities measured at FVTPL	12,312,230	3.1	14,342,293	3.3
Derivative financial liabilities	4,510,162	1.1	4,239,665	1.0
Lease payables	—	—	1,134,770	0.3
Provisions	5,369,512	1.3	6,526,373	1.5
Current tax liability	646,881	0.2	1,251,975	0.3
Deferred tax liability	19,121	0.0	29,480	0.0
Subordinated debts	3,977,018	1.0	4,729,707	1.1
Other liabilities	18,308,278	4.6	16,536,356	3.9
Total liabilities	**352,266,759**	**88.3**	**374,503,401**	**87.4**
Shareholders' equity	**46,886,842**	**11.7**	**54,050,747**	**12.6**
Total liabilities and shareholders' equity	**399,153,601**	**100.0**	**428,554,148**	**100.0**

(1) As disclosed in Note 5.1.2.2 of the Group's BRSA Annual Financial Statements as of and for the year ended 31 December 2019, financial assets measured at fair value through profit/(loss) includes a loan amounting to US$710,982,828 (US$782,928,541 as of 31 December 2018) provided to LYY as described in "Risk Factors - Risks Relating to the Group's Business - Counterparty Credit Risk". The fair value of such loan was determined to be TL 4,207,523 thousand as of 31 December 2019 and TL 4,081,161 thousand as of 31 December 2018. This loan has been classified under financial assets measured at fair value through profit/loss as a result of the implementation of TFRS 9. As disclosed in Note 5.1.9.2 of the Group's BRSA Annual Financial Statements as of and for the year ended 31 December 2019, at the ordinary general assembly meeting of the shareholders of LYY held on 23 September 2019, it was decided to convert a predetermined part of the loan into capital as agreed in the initial shareholders' agreement. As a result of such capitalisation, the nominal value of the Bank's shares in LYY increased from TL 11 thousand to TL 881,140 thousand. As of 31 December 2019, this amount was classified as part of the "assets held for sale and assets of discontinued operations," with the resulting valuation difference recorded on the loan being reflected as an impairment in "assets held for sale and assets of discontinued operations." On 19 September 2019, an international investment bank was authorised by the shareholders of LYY to identify potential purchasers of the shares of Türk Telekom held by LYY.

(2) According to required changes in the format of BRSA Financial Statements effective from 1 January 2019, non-performing loans amounting to TL 13,753,384 thousand as of 31 December 2018 that were previously classified as a separate line item under the "Loans (net)" line item have been reclassified to the "Loans," "Lease receivables" and "Factoring receivables" line items, as applicable.

(3) According to required changes in the format of BRSA Financial Statements effective from 1 January 2019, financial assets measured at amortised cost amounting to TL 24,654,009 thousand as of 31 December 2018 that were previously classified as "financial assets measured at amortised cost" under the "Financial assets (net)" line item have been reclassified to the "Other financial assets measured at amortised cost" line item.

(4) According to required changes in the format of BRSA Financial Statements effective from 1 January 2019, and parallel to the reclassification described in footnote (3), expected credit losses for financial assets measured at amortised cost amounting to TL 54,125 thousand as of

31 December 2018 that were previously classified under the "Financial assets (net)" line item have been reclassified to the "Expected credit losses(-)" line item.

	2017	% of Total
	(TL thousands, except for percentages)	
Assets		
Cash and balances with central bank	33,603,641	9.5
Financial assets at fair value through profit or loss (net)	2,877,813	0.8
Banks	19,470,343	5.5
Interbank money markets	3,353	0.0
Financial assets available-for-sale (net)	26,277,988	7.4
Loans	229,353,285	64.4
Factoring receivables	3,379,768	0.9
Investments held-to-maturity (net)	24,314,540	6.8
Investments in associates (net)	35,751	0.0
Investment in subsidiaries (net)	116,681	0.0
Lease receivables (net)	5,788,436	1.6
Derivative financial assets held for hedging purpose	670,720	0.2
Tangible assets (net)	4,096,651	1.1
Intangible assets (net)	379,308	0.1
Investment property (net)	559,388	0.2
Tax asset	467,698	0.1
Assets held for sale and assets of discontinued operations (net)	835,552	0.2
Other assets	4,100,751	1.2
Total assets	**356,331,667**	**100.0**
Liabilities		
Deposits	200,773,560	56.4
Derivative financial liabilities held for trading	2,898,822	0.8
Funds borrowed	47,104,719	13.2
Interbank money markets	18,637,856	5.2
Securities issued (net)	20,794,452	5.8
Miscellaneous payables	10,376,346	2.9
Other external fundings payable	3,080,350	0.9
Derivative financial liabilities held for hedging purpose	198,826	0.1
Provisions	6,848,102	1.9
Tax liability	1,163,162	0.3
Subordinated debts	2,849,471	0.8
Total liabilities	**314,725,666**	**88.3**
Shareholders' equity	**41,606,001**	**11.7**
Total liabilities and shareholders' equity	**356,331,667**	**100.0**

The following summary balance sheet data for each of the indicated dates have been extracted from the Group's BRSA Financial Statements. This information should be read in conjunction with the BRSA Financial Statements.

Assets

As of 31 December 2019, the Group's total assets amounted to TL 428,554,148 thousand, a 7.4% increase from TL 399,153,601 thousand as of 31 December 2018, which itself was a 12.0% increase from TL 356,331,667 thousand as of 31 December 2017. Cash and balances with central banks (and, after a change to the presentation of the financial statements as per new rules introduced by the BRSA, cash and cash equivalents) represented 9.5%, 18.1% and 16.8% of the Group's total assets as of 31 December 2017, 2018 and 2019, respectively, as most of the Group's funds are invested in interest-earning assets. The following describes the Group's loans and financial assets (including: (a) financial assets at fair value through profit or loss (net) and, after the adoption of TFRS 9, financial assets measured at fair value through profit or loss, (b) financial assets available-for-sale (net) and, after the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income and (c) investments held-to-maturity and, after the adoption of TFRS 9, financial assets measured at amortised cost), which jointly represented 79.4% of the Group's total assets as of 31 December 2017, 77.4% as of 31 December 2018 and 77.0% as of 31 December 2019.

Loans. Loans to customers represented 64.4%, 64.1% and 64.8% of the Group's total assets as of 31 December 2017, 2018 and 2019, respectively. The Group's loans amounted to TL 277,506,599 thousand as of 31 December 2019, an 8.4% increase from TL 256,009,555 thousand as of 31 December 2018, itself an 11.6% increase from TL 229,353,285 thousand as of 31 December 2017. Note 5.1.5 in Section Five to the BRSA Financial Statements as of and for the year ended 31 December 2019 provides significant details about the breakdown of the Group's loan portfolio, including information on performing loans, collateral, maturity, consumer loan breakdown and provisions. The increase in 2018 also reflects the impact of the inclusion of both lease and factoring receivables into the loans line item as a result of a change to the presentation of the financial statements as per new rules introduced by the BRSA.

This growth was spread across a wide range of groups and industries, reflecting the Group's ability to meet the strong demand for consumer loans and loans to certain industry sectors (including energy and transportation vehicles) and (in 2018) the impact of the KGF programme. While the energy sector in Turkey was under pressure in recent years due to suppressed energy prices, the Bank's management expects recovery in this sector since the energy prices have stabilised. The Bank has allocated high levels of provisions for loans granted to the energy sector. On the other hand, the Bank has a low direct exposure to the real estate sector and benefits from state guarantees for its loans to various large infrastructure projects. In 2018, the growth in the Group's loan portfolio was principally a result of an expansion in credit card loans, together with the impact of the significant increase in foreign exchange rates. While the growth in Turkish Lira-denominated loans during 2019 was balanced across categories, business banking loans were stronger in the first quarter of 2019 and general purpose loans to retail customers were stronger in the fourth quarter of 2019. With respect to foreign currency-denominated loans, there was a decline of 5.9% (calculated in U.S. dollar terms) during 2019, principally due to significant redemptions during the third quarter of 2019 and decreased demand for new loans.

In 2019, the Group's NPLs increased by 41.9% to TL 19,510,386 thousand as of 31 December 2019 from TL 13,753,384 thousand as of 31 December 2018, itself a 122.7% increase from TL 6,176,985 thousand as of 31 December 2017. As described in further detail below, the increase in NPLs in 2018 was mainly due to categorising new loans as Stage 3 and adding both non-performing lease and factoring receivables into NPLs. In 2019, the Group's NPLs increased due to low economic activity and high unemployment levels, principally for retail and SME loans during the first half of 2019 and then corporate and commercial loans during the second half of the year (corporate and commercial inflows constituting two-thirds of the NPL inflow during the year). New NPL inflows reached a peak in the third quarter of 2019 but started to improve in the following quarter. In addition, the Bank benefitted during the fourth quarter of 2019 from a new BRSA regulation that allows Turkish banks to move well-provisioned loans off their balance sheet. As of 31 December 2018 and 2019, the Group's restructured loans amounted to TL 8,770,525 and TL 11,758,186, respectively. For additional information on the movement of the NPL balances in the Group's balance sheet, see Note 5.1.5.10 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2019.

In 2018, the Group's NPL ratio increased to 5.1% from 2.6% as of 31 December 2017, which was primarily due to the inclusion of both lease and factoring receivables into both the loans and the non-performing receivables line items as a result of a change to the presentation of the financial statements as per new rules introduced by the BRSA, a reduction in the Group's loan growth and some transfers (generally with sufficient ECL provisions) from Stage 2 (significant increase in credit risk) to Stage 3 (credit-impaired) as a consequence of the recent contraction in the growth of the Turkish economy. In 2019, the Group's NPL ratio increased to 6.8% from 5.1% in 2018, which increase was principally caused by new commercial and corporate NPLs as a result of volatility and declines in GDP during the first half of the year.

For additional information on the Group's loan portfolio, see "Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential – Average Balance Sheet and Interest Data" and "– Summary of Loan Loss Experience."

Financial Assets. Financial assets (including: (a) financial assets at fair value through profit or loss (net) and, after the adoption of TFRS 9, financial assets measured at fair value through profit or loss, (b) financial assets available-for-sale (net) and, after the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income and (c) investments held-to-maturity and, after the adoption of TFRS 9, financial assets measured at amortised cost), principally Turkish government securities, have historically represented a significant portion of the Group's assets. As of 31 December 2017, 2018 and 2019, investment securities represented 14.2%, 13.0% and 13.2%, respectively, of the Group's total assets. In each of these years, the decline in investment securities as a portion of the Group's total assets was the result of a lower growth rate in financial assets compared to the growth rate of the Group's total assets, reflecting the Group's focus on lending growth due to the strength of the Turkish economy. The following table provides information as to the breakdown of the Group's financial asset portfolio (excluding derivative financial assets held for trading) as of the indicated dates:

	As of 31 December					
	2017	% of Total	2018	% of Total	2019	% of Total
	(TL thousands, except for percentages)					
Financial assets at fair value through profit or loss (net)						
Financial assets held for trading	***930,824***	***1.8***	—	—	—	—
Government securities	*820,578*	*1.6*	—	—	—	—
Equity securities	*68,173*	*0.1*	—	—	—	—
Other securities	*42,073*	*0.1*	—	—	—	—
Financial assets valued at fair value through profit or loss	—	—	—	—	—	—
Total financial assets at fair value through profit or loss (net)	**930,824**	**1.8**	—	—	—	—
Financial assets measured at fair value through profit/(loss)[(1)]						
Government securities[(1)]	—	—	*259,574*	*0.5*	*461,891*	*0.8*
Equity securities[(1)]	—	—	*200,326*	*0.4*	*333,420*	*0.6*
Other financial assets[(1)]	—	—	*99,976*	*0.2*	*216,466*	*0.4*
Total financial assets measured at fair value through profit/(loss)[(1)]	—	—	**559,876**	**1.1**	**1,011,777**	**1.8**
Financial assets available-for-sale (net)						
Equity securities	274,872	0.5	—	—	—	—
Government securities	22,579,220	43.8	—	—	—	—
Other securities	3,423,896	6.7	—	—	—	—
Total financial assets available-for-sale (net)	**26,277,988**	**51.0**	—	—	—	—
Financial assets measured at fair value through other comprehensive income[(1)]						
Government securities[(1)]	—	—	*22,831,811*	*43.6*	*24,819,743*	*43.3*
Equity securities[(1)]	—	—	*235,462*	*0.5*	*382,381*	*0.7*
Other financial assets[(1)]	—	—	*4,095,680*	*7.8*	*3,441,405*	*6.0*
Total financial assets measured at FVOCI[(1)]	—	—	**27,162,953**	**51.9**	**28,643,529**	**50.0**
Investments held-to-maturity (net)						
Government securities	*20,232,556*	*39.3*	—	—	—	—
Other securities	*4,081,984*	*7.9*	—	—	—	—
Total investments held-to-maturity (net)	***24,314,540***	***47.2***	—	—	—	—
Financial assets measured at amortised cost[(1)]						
Government securities[(1)]	—	—	*24,606,227*	*47.0*	*27,558,636*	*48.1*
Other financial assets[(1)]	—	—	*47,782*	*0.1*	*161,706*	*0.3*
Total financial assets measured at amortised cost[(1)]	—	—	**24,654,009**	**47.1**	**27,720,342**	**48.4**
Expected credit losses (-)[(1)]	—	—	**(54,125)**	**(0.1)**	**(119,889)**	**(0.2)**
Total	**51,523,352**	**100.0**	**52,322,713**	**100.0**	**57,255,759**	**100.0**

(1) As of 1 January 2018, the Group started to apply TFRS 9 in the BRSA financial statements, *however*, it has not restated the comparative information for the prior periods for financial instruments in the scope of TFRS 9. Therefore, the information for 2017 is not comparable to the information presented for later periods.

As of 31 December 2017, 2018 and 2019, respectively, securities issued by Turkey represented 84.7%, 91.1% and 92.2% of the Group's securities portfolio consisting of: (a) financial assets at fair value through profit or loss (net) and, after the adoption of TFRS 9, financial assets measured at fair value through profit or loss (each excluding derivative financial assets), (b) financial assets available-for-sale (net) and, after the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income and (c) investments held-to-maturity and, after the adoption of TFRS 9, financial assets measured at amortised cost.

The most significant changes in the Group's securities portfolio from 2017 to 2019 was the increase in holdings of Turkish government securities held as investments held-to-maturity and, after the adoption of TFRS 9, financial assets measured at amortised cost in the table above, which increased from 39.3% of the Group's total investment securities portfolio as of 31 December 2017 to 48.1% as of 31 December 2019. Total financial assets measured at amortised cost increased slightly to TL 24,654,009 thousand as of 31 December 2018 due to the first time adoption of new classification rules based upon TFRS 9.

Pursuant to Turkish market practice, the Group pledges securities to acquire funding under security repurchase agreements. The Group utilises such funding depending upon the difference in rates paid on deposits compared to Central Bank rates, which vary based upon market conditions as well as Central Bank policy. The securities in its securities portfolio that were so pledged amounted to TL 1,913,380 thousand as of 31 December 2017, TL 1,208,216 thousand as of 31 December 2018 and TL 1,902,476 thousand as of 31 December 2019, comprising 3.7%, 2.3% and 3.3%, respectively, of the Group's total securities portfolio.

For additional information on the Group's securities portfolio, see Notes 5.1.2, 5.1.3 and 5.1.8 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2019 and "Selected Statistical and Other Information – Securities Portfolio."

Liabilities

As of 31 December 2019, the Group's total liabilities amounted to TL 374,503,401 thousand, a 6.3% increase from TL 352,266,759 thousand as of 31 December 2018, which itself was an 11.9% increase from TL 314,725,666 thousand as of 31 December 2017.

The Group's TL 245,785,692 thousand in average interest-bearing liabilities during 2019 resulted primarily from average time deposits of customers (74.9%), average funds borrowed (12.0%) and average securities issued (10.6%). These same categories represented 62.6%, 19.9% and 8.9%, respectively, of the Group's TL 225,291,196 thousand in average interest-bearing liabilities during 2017 and 68.2%, 16.6% and 10.5%, respectively, of the Group's TL 253,131,644 thousand in average interest-bearing liabilities during 2018.

The following summarises the three principal categories of the Group's liabilities - deposits, funds borrowed and securities issued.

Deposits. Deposits have been and are expected to continue to be the most important source of funding for the Group. The Group's total deposits amounted to TL 277,277,325 thousand as of 31 December 2019, a 13.5% increase from TL 244,237,777 thousand as of 31 December 2018, which itself was a 21.6% increase from TL 200,773,560 thousand as of 31 December 2017. Foreign currency deposits (principally U.S. dollars and euro) represented 56.1%, 57.4% and 59.2% of the Group's total deposits as of 31 December 2017, 2018 and 2019, respectively. For additional information on the Group's deposits, see Note 5.2.1 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2019 and "Selected Statistical and Other Information – Deposits."

Funds borrowed. As deposits are generally of a short-term duration, the Group has obtained wholesale funding on a more limited basis principally to better match the maturity and currency of its longer-term assets. This funding has included the Bank's borrowings (including syndicated bank loans) and financings collateralised by certain of the wire transfers and other remittances received by the Bank from its correspondent banks and other senders of such transfers; *however*, as of 1 January 2018 (as a result of the TFRS 9 adoption), certain of these financings collateralised by certain of the wire transfers and other remittances are designated under "Financial Liabilities Measured at Fair Value through Profit/Loss" following the reassessments performed regarding the characteristics of the transactions, while others are classified under "Securities Issued" and are measured at amortised cost. As such, funds borrowed as of 31 December 2018 and 2019 are not comparable to funds borrowed as of 31 December 2017. Funds borrowed amounted to TL 25,622,059 thousand as of 31 December 2019 (6.0% of the Group's total liabilities), TL 33,339,727 thousand as of 31 December 2018 (8.4% of the Group's total liabilities) and TL 47,104,719 thousand as of 31 December 2017 (13.2% of the Group's total liabilities). It is important to note that a portion of these liabilities (either when incurred or as a result of aging) are themselves short-term (as of 31 December 2019, 16.9% of funds borrowed were "short term" (*i.e.*, having a remaining term-to-maturity of one year or less) as compared to 13.7% as of 31 December 2017 and 15.6% as of 31 December 2018). For additional information on the Group's funds borrowed, see Note 5.2.2 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2019 and "Selected Statistical and Other Information – Funds Borrowed and Certain Other Liabilities."

Securities issued. Securities issued amounted to TL 21,026,537 thousand as of 31 December 2019, constituting 4.9% of the Group's total liabilities, decreasing its share of the Group's total liabilities as compared to TL 26,911,463 thousand as of 31 December 2018 (6.7% of the Group's total liabilities) and TL 20,794,452 thousand as of 31 December 2017 (6.6% of the Group's total liabilities). The increase in 2018 was due primarily to the reclassification of financings collateralised by certain wire transfers and other remittances that the Bank receives from its correspondent banks and other senders of such transfers to "securities issued" from "funds borrowed" as of 1 January 2018. In 2019, the decline was due to the Bank's strategy for its wholesale portfolio, taking into consideration the high liquidity levels of the Bank and unfavourable market conditions for new issuances. For example, the Bank did not refinance two eurobonds that matured in 2019 but instead took opportunities in the market to have smaller issuances in alternative funding sources such as diversified payment rights future flow transactions, green bonds and bilateral loans. The share of the outstanding balances of such transactions in the Group's balance sheet changes depending upon the relative costs of funding in the market; *however*, it has increased in recent years due to the Group's successful use of the Programme (which it launched in 2013). For additional information on the Group's securities issued, see Note 5.2.4 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2019.

Shareholders' Equity

The Group's total shareholders' equity as of 31 December 2019 amounted to TL 54,050,747 thousand, which was an increase of 15.3% from TL 46,886,842 thousand as of 31 December 2018, which itself was a 12.7% increase from TL 41,606,001 thousand as of 31 December 2017. Shareholders' equity principally changes as a result of the Group's net profit/(loss) and changes in the amount of unrealised gains and losses on available-for-sale assets and, after the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income (which changes are not included in profit/(loss)). The following tables summarise the components of the Group's shareholders' equity as of the indicated dates:

	As of 31 December	
	2018	**2019**
	(TL thousands)	
Paid-in capital	4,200,000	4,200,000
Capital reserves	784,434	784,434
Other comprehensive income/expense items not to be recycled to profit or loss	1,473,394	1,642,584
Other comprehensive income/expense items to be recycled to profit or loss	611,843	1,371,976
Profit reserves	32,977,973	39,612,929
Profit/(loss)	6,641,652	6,164,914
Minority interest	197,546	273,910
Total shareholders' equity	**46,886,842**	**54,050,747**

	As of 31 December 2017(1)
	(TL thousands)
Paid-in capital	4,200,000
Capital reserves	1,526,847
Securities value increase fund	*(317,814)*
Revaluation surplus on tangible assets	*1,747,869*
Hedging reserves	*(544,285)*
Other	*641,077*
Profit reserves	29,224,949
Profit/(loss)	6,332,056
Minority interest	322,149
Total shareholders' equity	**41,606,001**

(1) As of 1 January 2018, the Group started to apply TFRS 9 in the BRSA financial statements, *however*, it has not restated the comparative information for the prior periods for financial instruments in the scope of TFRS 9. Therefore, the information for 2017 is not comparable to the information presented for later periods.

For additional information on the Group's shareholders' equity, see Note 5.2.14 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2019. In addition, see "Capital Adequacy" below.

The Bank's dividend policy is to distribute up to 30% of the distributable net profit subject (as is required by law) to the approval of the BRSA; *however*, the BRSA delivered a recommendation letter to banks suggesting that they not distribute dividends in 2019 due to the recovery in the economy following the volatility in 2018 and 2019.

Off-Balance Sheet Commitments and Contingencies

In the normal course of business in order to meet the needs of its customers and to hedge the Group's own positions (and generally not for speculative purposes), the Group enters into certain off-balance sheet transactions. These transactions expose the Group to credit risk that is not reflected on the Group's balance sheet. The Group applies to these transactions the same credit policies in making commitments and assuming conditional obligations as it does for on-balance sheet transactions, including the requirement to obtain collateral when it is considered necessary.

The most significant category of such transactions includes letters of guarantee, letters of credit, bank acceptances and other support that the Group provides to its import and export customers, as well as off-balance sheet exposure for derivative financial instruments and the Group's commitments to make loans to its borrowers.

The following summarises the three principal categories of the Group's off-balance sheet exposures – letters of credit and similar transactions, commitments to customers under credit facilities and derivative financial instruments. See also Note 5.3 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2019 for additional information.

Guarantees and sureties. Most of the Group's letters of guarantee and credit were issued (or confirmed) in connection with the export and trade finance-related activities of the Group's customers. The following table summarises the Group's exposure under such transactions as of the indicated dates:

	As of 31 December		
	2017	**2018**	**2019**
		(TL thousands)	
Letters of guarantee	39,689,501	50,173,770	50,427,390
Letters of credit	14,769,516	14,685,922	10,676,483
Bank acceptance	1,550,650	2,788,829	1,579,043
Other guarantees	185,727	66,907	74,179
Total guarantees and sureties	**56,195,394**	**67,715,428**	**62,757,095**

The Group generates significant amounts of fees from these transactions while incurring very small amounts of credit losses thereon as almost all of these transactions expire without any need for payment by the Group (for example, a letter of credit that expires when the related buyer of goods makes its payment to the seller) until adoption of TFRS 9 on 1 January 2018. The Group has not, since the beginning of 2017, experienced any material credit events with respect to its guarantees and sureties. Starting from 1 January 2018, the Group accounts for expected credit losses for non-cash exposures, including irrevocable unused credit card limits at initial recognition by using credit conversion factors in line with TFRS 9.

Commitments. The Group's "commitments" are composed principally of unused credit limits for credit cards, overdrafts, checks and loans to customers and commitments for credit-linked-notes, under which the Group has unused commitments of TL 77,012,810 thousand as of 31 December 2019, an increase of 17.5% from TL 65,539,928 thousand as of 31 December 2018, which itself was an increase of 13.8% from TL 57,591,889 thousand as of 31 December 2017. These increases are consistent with the general growth of the Group's lending business, including its credit card business.

Derivative Financial Instruments. The Group's exposure to derivative transactions arises principally in connection with customer-dealing and funding activities. The Group also enters into certain derivatives transactions in order to hedge its currency, interest rate and other risks. The Group enters into derivative financial instruments with domestic and foreign counterparties that it considers to be creditworthy (mostly with an investment grade rating) or, in most cases, that are fully secured. As of 31 December 2019, the Group's face values of outstanding derivative contracts arising from various derivatives amounted to TL 354,979,893 thousand, a 1.6% decrease from TL 360,581,304 thousand as of 31 December 2018, which was itself a 4.4% decrease from TL 377,209,517 thousand as of 31 December 2017. The changes resulted from currency swap transactions and interest rate swaps entered into for the Group and its customers mainly in order to hedge the positions against the volatility in exchange rates and interest rates in the markets. See Note 5.3.2 in Section Five of the BRSA Financial Statements as of and for the year ended 31 December 2019 and, for a breakdown of the Group's commitments arising from derivatives as of 31 December 2017, 2018 and 2019, see "Selected Statistical and Other Information – Derivative Transactions."

Governments in the United States, Europe and elsewhere have made or are expected to make changes in laws relating to derivatives transactions, including how they settle. The Bank's management does not anticipate that such changes will have a material adverse effect on its ability to obtain reasonably-priced hedges for its currency, interest rate and other risks; however, the volatility in the markets in recent years has made certain derivatives more expensive than in previous years and such increased costs might make the Group's hedging operations less cost-effective. On the other hand, recent regulatory changes for foreign currency transactions have aimed to preserve financial stability (*e.g.*, limiting the utilisation of foreign currency-denominated loans to exporters who have a natural foreign currency hedge and restricting the types of business contracts that can be executed in foreign currencies); *however*, the impact of these changes on the Group is very limited.

Capital Adequacy

Each of the Bank and the Group is required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures. In accordance with these guidelines, each of the Bank and the Group must maintain a total capital ratio in excess of 8% calculated in accordance with BRSA regulations. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4% higher than the legal capital ratio (see "Turkish Regulatory Environment - Capital Adequacy" for further details).

In order to implement the rules of the report entitled "A Global Regulatory Framework for More Resilient Banks and Banking Systems" published by the Basel Committee in December 2010 and revised in June 2011 (*i.e*., Basel III) into Turkish law, the Equity Regulation and amendments to the 2012 Capital Adequacy Regulation each entered into force on 1 January 2014. Subsequently, the BRSA replaced the 2012 Capital Adequacy Regulation with the 2015 Capital Adequacy Regulation, which entered into force on 31 March 2016. The Equity Regulation defines capital of a bank as the sum of: (a) principal capital (*i.e*., Tier 1 capital), which is composed of core capital (*i.e.,* Common Equity Tier 1 capital) and additional principal capital (*i.e*., additional Tier 1 capital) and (b) supplementary capital (*i.e*., Tier 2 capital) *minus* capital deductions. Pursuant to the 2015 Capital Adequacy Regulation: (i) both the unconsolidated and consolidated minimum common equity Tier 1 capital adequacy ratio are 4.5% and (ii) both unconsolidated and consolidated minimum Tier 1 capital adequacy ratio are 6.0%.

In calculating its capital adequacy ratios, the 2015 Capital Adequacy Regulation allows the Bank to use ratings of eligible external credit assessment institutions (namely Fitch, S&P, Moody's, Japan Credit Rating Agency, Ltd., DBRS Ratings Ltd. and, as of 12 January 2017, International Islamic Rating Agency) while calculating the risk-weighted assets for capital adequacy purposes. On 27 January 2017, Fitch (whose ratings the Bank has been using to calculate its risk-weighted assets) downgraded Turkey's sovereign credit rating to "BB+" (with a "stable" outlook) from "BBB-" (with a "negative" outlook). According to guidance published by the BRSA on 24 February 2017, foreign exchange-required reserves held with the Central Bank are subject to a 0% risk weight, which amendment offset the negative impact on capital adequacy that otherwise would have resulted from the Fitch downgrade. Each of S&P, Moody's and Fitch downgraded certain credit ratings of Turkey and the Bank in 2018 and 2019 (S&P no longer provides a credit rating for the Bank). See "The Group and its Business - Credit Ratings."

The Group maintains regulatory capital adequacy ratios on both a Bank-only and consolidated basis in excess of the regulatory minimums required and recommended levels. The Group's Tier 1 capital adequacy ratio declined from 14.7% as of 31 December 2017 to 14.2% as of 31 December 2018 and then increased to 15.4% as of 31 December 2019 (16.4%, 15.8% and 17.0%, respectively, with respect to the Bank), whereas the Group's common equity Tier 1 capital adequacy ratio declined from 14.7% as of 31 December 2017 to 14.2% as of 31 December 2018 before increasing to 15.4% as of 31 December 2019 (16.5%, 15.8% and 17.0%, respectively, with respect to the Bank). The Group's total capital adequacy ratio declined from 16.8% as of 31 December 2017 to 16.5% as of 31 December 2018 and then increased to 17.8% as of 31 December 2019 (18.7%, 18.3% and 19.6%, respectively, with respect to the Bank).

The following table sets forth the calculation of the Group's capital adequacy ratios as of each of the indicated dates:

	As of 31 December		
	2017	2018	2019
	(TL thousands, except percentages)		
Paid-in capital	4,200,000	4,200,000	4,200,000
Paid-in capital inflation adjustment	772,554	772,554	772,554
Reserves	27,527,097	32,977,973	39,612,929
Profit	6,332,056	6,641,652	6,164,914
Tier 1 Capital (I)	40,806,228	46,033,825	53,708,108
Tier 2 Capital (II)	5,909,875	7,538,990	8,450,176
Deductions (III)	30,879	14,041	7,930
Own Funds (I+II-III)	46,685,224	53,558,774	62,150,354
Risk Weighted Assets (including market and operational risk)	278,024,586	324,153,343	349,007,519
Capital Ratios:			
Tier 1 capital adequacy ratio	14.7%	14.2%	15.4%
Common equity Tier 1 capital adequacy ratio	14.7%	14.2%	15.4%
Total capital adequacy ratio	16.8%	16.5%	17.8%

The significant increases in the Group's capital in 2018 and 2019 represented the growth in the Group's retained earnings despite the significant depreciation of the Turkish Lira.

Liquidity and Funding

The Group manages its assets and liabilities to seek to ensure that it has sufficient liquidity to meet its present and future financial obligations and that it is able to take advantage of appropriate business opportunities as they arise. Liquidity risk represents the potential for loss as a result of limitations on the Group's ability to adjust future cash flows to meet the needs of depositors and borrowers and to fund operations on a timely and cost-effective basis. Financial obligations arise from withdrawals of deposits, repurchase transactions, extensions of loans or other forms of credit, as well as the Group's own working capital needs.

The ability to replace interest-bearing deposits at their maturity is a key factor in determining liquidity requirements, as well as the exposure to interest and exchange rate risks. The Group's principal sources of funding are short-term and demand deposits and the Group has developed a diversified and stable deposit base in each of its retail, commercial, corporate and SME business lines, including having one of the largest shares of the Turkish demand deposit market. The Bank's management believes that funds from the Group's deposit-taking operations generally will continue to meet its liquidity needs for the foreseeable future; *however*, maturities of large borrowings or securities offerings do from time to time require the Group to have sufficient liquidity on hand, which does require the Group to closely monitor market conditions for potential opportunities to obtain replacement financing on a cost-effective basis. As of 31 December 2017, 2018 and 2019, the Group's loan-to-deposit ratio was 113.6%, 104.4% and 96.2%, respectively. For additional information on deposits, see "Selected Statistical and Other Information – Deposits."

To a lesser extent, the Group also funds its operations through short-term and long-term borrowings, "diversified payment rights" (future flow) transactions, eurobond issuances and other domestic and international transactions. The Bank uses the relationships that it develops with its correspondent banks in connection with international payment and trade-related finance activities to raise funds from the syndicated loan markets. The Bank has also capitalised on its ability to generate foreign currency-denominated payments from abroad (such as diversified payment rights) by tapping international capital markets through "future flow" transactions. See "Selected Statistical and Other Information – Funds Borrowed and Certain Other Liabilities."

The Bank may issue, from time to time, additional Series of notes under the Programme, which (as permitted by the Programme) may be in any currency, with any tenor and with any interest rate and which issuances may be listed or unlisted.

The Bank is subject to the BRSA's regulations on the measurement of the liquidity adequacy of a bank. The Regulation on Liquidity Coverage Ratios was published in order to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period. According to this regulation, the liquidity coverage ratios of banks is not permitted to fall below 100% on an aggregate basis and 80% on a foreign currency-only basis; *however*, pursuant to the BRSA decision dated 26 December 2014 (No. 6143) (the "*BRSA Decision on Liquidity Ratios*"), for the period between 5 January 2015 and 31 December 2015, such ratios were applied as 60% and 40%, respectively, and such ratios were increased by ten percentage points for each year from 1 January 2016 until 1 January 2019.

The Group's month-end liquidity ratios as of the last day of each of the last three months of the past three fiscal years are shown below:

	Turkish Lira + Foreign Currency	Foreign Currency
31 October 2017	140.63%	151.78%
30 November 2017	157.44%	205.74%
31 December 2017	140.28%	136.20%
31 October 2018[1]	166.20%	175.63%
30 November 2018[1]	149.33%	138.61%
31 December 2018[1]	163.06%	157.88%
31 October 2019[1]	206.61%	220.36%
30 November 2019[1]	202.15%	193.72%
31 December 2019[1]	212.98%	207.47%

(1) Starting from 1 January 2018, the liquidity ratios as of a month-end date are calculated as simple averages of daily observations during the month.

The following table sets out the calculation of the Group's period-end liquidity ratios during each of the past three fiscal years, including the "liquidity coverage ratios" that are applied to the applicable asset and liability category in determining (with respect to assets) how much liquidity the Group maintains and (with respect to liabilities) how much liquidity the Group is required to maintain:

	2017		2018		2019	
	TL + FC	Foreign Currency	TL + FC	Foreign Currency	TL + FC	Foreign Currency
			(TL thousands, except percentages)			
High-Quality Liquid Assets						
Total high-quality liquid assets	64,790,253	40,139,185	90,168,173	53,913,275	102,661,331	58,434,851
Cash Outflows						
Retail deposits and deposits from small business customers, of which	12,251,062	6,599,097	15,763,919	9,106,152	18,090,913	11,218,920
Stable deposits	1,313,169	13,337	1,308,579	21,079	1,802,748	38,976
Less stable deposits	10,937,893	6,585,760	14,455,340	9,085,073	16,288,165	11,179,944
Unsecured wholesale funding, of which	34,871,826	19,709,976	42,406,606	23,913,305	38,814,766	21,585,616
Non-operational deposits	21,421,150	13,772,645	28,071,155	18,524,043	25,042,213	16,891,126
Unsecured funding	13,450,676	5,937,331	14,335,451	5,389,262	13,772,553	4,694,490
Secured wholesale funding	-	-	-	-	99,823	-
Other cash outflows, of which	11,511,430	11,493,014	25,838,426	22,983,621	14,940,052	10,840,072
Outflows related to derivative exposures and other collateral requirements	8,160,609	10,645,765	22,357,173	22,411,751	5,207,995	6,681,664
Payment commitments and other off-balance sheet commitments granted for debts to financial markets	3,350,821	847,249	3,481,253	571,870	9,732,057	4,158,408
Other revocable off-balance sheet commitments and contractual obligations	32,986	22,624	30,899	24,313	32,025	23,868
Other irrevocable or conditionally revocable off-balance sheet obligations	2,981,979	2,042,196	3,625,805	2,479,392	593,215	581,772
Total Cash Outflows	**61,649,283**	**39,866,907**	**87,665,655**	**58,506,783**	**72,570,794**	**44,250,248**
Cash Inflows						
Secured receivables	-	-	-	-	-	-
Unsecured receivables	15,575,537	6,682,654	29,638,064	17,244,172	22,708,645	11,362,322
Other cash inflows	1,631,773	8,244,841	1,219,136	6,423,779	178,217	4,446,090
Total Cash Inflows	**17,207,310**	**14,927,495**	**30,857,200**	**23,667,951**	**22,886,862**	**15,808,412**
Total High-Quality Liquid Assets (HQLA)	**64,790,253**	**40,139,185**	**90,168,173**	**53,913,275**	**102,661,331**	**58,434,851**
Total Net Cash Outflows	**44,441,973**	**24,939,412**	**56,808,455**	**34,838,832**	**49,683,933**	**28,441,834**
Liquidity Coverage Ratio	**146.12%**	**164.58%**	**159.53%**	**157.37%**	**207.25%**	**207.18%**

In addition to the liquidity ratios described above, the Bank is also required to maintain deposits with the Central Bank against a minimum reserve requirement. These reserve deposits are calculated on the basis of Turkish Lira and foreign currency liabilities taken at the rates determined by the Central Bank. The Turkish Lira reserve deposits started to provide interest monthly as of November 2014 and have been providing interest quarterly since January 2015, which interest is paid by the Central Bank on the first business day following the end of March, June, September and December. U.S. dollar reserve deposits have been providing interest since May 2015. The interest rates are calculated by the Central Bank according to market conditions.

The Group's banks in the Netherlands and Romania are also subject to similar reserve deposit requirements. For detailed information on the Group's reserve deposits requirements see Note 5.1.1 to the Group's BRSA Financial Statements as of and for the year ended 31 December 2019.

Capital Expenditures

As a financial group, capital expenditures are not a material part of the Group's expenses and principally relate to expenses for branch expansion. The following table summarises the Group's capital expenditures for each of the indicated periods:

	2017	**2018**	**2019**
		(TL thousands)	
Real estates	318,974	1,016,562	126,770
Leased tangible assets	1,573	23,217	-
Right-of-use assets	-	-	1,595,125
Vehicles	4,808	4,626	5,097
Other tangible assets	330,777	597,535	273,251
Intangible assets	158,307	152,061	201,667
Total capital expenditures	**814,439**	**1,794,001**	**2,201,910**

SCHEDULE B

SELECTED STATISTICAL AND OTHER INFORMATION

The following tables present certain selected statistical and other information for the Group (or, when information about the Group is not readily available or relevant, the Bank) as of the indicated dates and for the periods indicated. Except as specifically noted herein, the selected statistical and other information should be read in conjunction with the BRSA Financial Statements and the information included in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

I. Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

A. Average Balance Sheet and Interest Data

The following tables set out the average balances of assets and liabilities, and the interest earned or expensed on such amounts, of the Bank for the indicated years. For purposes of the following tables, except as otherwise indicated, the average is calculated on a daily basis for each respective period and is based upon management estimates (and thus are not equivalent to the parallel APM definitions). For purpose of the following tables: (a) non-accruing credits have been treated as non-interest earning assets and (b) loan fees have been included in interest income.

	For the year ended 31 December								
	2017			2018			2019		
	Average Balance	Avg. Yield	Interest Income	Average Balance	Avg. Yield	Interest Income	Average Balance	Avg. Yield	Interest Income
				(TL thousands, except percentages)					
ASSETS									
Average Interest-Earning Assets									
Deposits with banks[1]	11,821,022	4.56%	538,704	17,563,589	4.72%	828,302	22,522,048	5.76%	1,297,619
Turkish Lira	3,562,389	7.90%	281,313	3,247,383	11.01%	357,671	2,873,044	27.75%	797,338
Foreign Currency	8,258,633	3.12%	257,391	14,316,206	3.36%	470,631	19,649,004	2.55%	500,281
Investments in securities	40,828,533	11.59%	4,732,483	41,437,400	19.82%	8,214,272	41,701,459	13.40%	5,586,243
Turkish Lira	28,316,982	14.15%	4,007,973	28,548,821	26.18%	7,475,332	27,603,273	17.58%	4,852,224
Foreign currency	12,511,551	5.79%	724,510	12,888,579	5.73%	738,940	14,098,186	5.21%	734,019
Loans and advances to customers, and other interest-earning assets	196,486,173	10.86%	21,336,595	227,215,123	13.05%	29,670,999	225,399,607	14.55%	32,800,548
Turkish Lira	124,338,536	13.76%	17,104,653	141,688,791	16.75%	23,730,878	143,234,802	18.72%	26,816,691
Foreign currency	72,147,637	5.87%	4,231,942	85,526,332	6.93%	5,940,121	82,164,805	7.28%	5,983,857
Total for Average Interest-Earning Assets	**249,135,728**	**10.68%**	**26,607,782**	**286,216,112**	**13.53%**	**38,713,573**	**289,623,114**	**13.70%**	**39,684,410**
Turkish Lira	**156,217,907**	**13.69%**	**21,393,939**	**173,484,995**	**18.19%**	**31,563,881**	**173,711,119**	**18.69%**	**32,466,253**
Foreign currency	**92,917,821**	**5.61%**	**5,213,843**	**112,731,117**	**6.34%**	**7,149,692**	**115,911,995**	**6.23%**	**7,218,157**
Average Non-Interest-Earning Assets									
Cash and cash equivalents	4,498,452			10,984,893			15,499,264		
Tangibles	5,123,120			5,656,587			6,908,313		
Equity participations	6,054,984			6,985,990			8,063,415		
Other assets and accrued income	40,574,042			50,270,753			56,193,995		
Average Total Non-Interest-Earning Assets	**56,250,598**			**73,898,223**			**86,664,987**		
Average Total Assets	**305,386,326**			**360,114,335**			**376,288,101**		

(1) Comprises balances with banks and interbank funds sold.

	For the year ended 31 December								
	2017			2018			2019		
	Average Balance	Avg. Rate	Interest Expense	Average Balance	Avg. Rate	Interest Expense	Average Balance	Avg. Rate	Interest Expense
	(TL thousands, except percentages)								
LIABILITIES									
Average Interest-Bearing Liabilities									
Deposits from customers...	149,326,903	5.61%	8,375,847	181,131,702	8.11%	14,697,039	184,633,627	8.87%	16,382,233
Turkish Lira	71,557,666	9.58%	6,858,199	86,400,128	14.27%	12,327,508	92,899,138	15.67%	14,561,720
Foreign currency.........	77,769,237	1.95%	1,517,648	94,731,574	2.50%	2,369,531	91,734,489	1.98%	1,820,513
Short-term debt and other interest bearing liabilities(1).........................	11,263,059	8.26%	930,294	5,432,903	9.36%	508,535	2,754,556	7.31%	201,378
Turkish Lira	7,495,706	12.02%	900,909	3,640,056	12.98%	472,657	1,227,009	13.21%	162,115
Foreign currency.........	3,767,353	0.78%	29,385	1,792,847	1.99%	35,878	1,527,547	2.57%	39,263
Long-term debt and other interest bearing liabilities ..	49,397,655	5.01%	2,475,339	62,912,981	6.04%	3,802,058	61,736,107	6.55%	4,044,573
Turkish Lira	5,946,685	11.28%	670,734	5,773,128	15.23%	879,149	5,219,605	22.15%	1,155,998
Foreign currency.........	43,450,970	4.15%	1,804,605	57,139,853	5.12%	2,922,909	56,516,502	5.11%	2,888,575
Repurchase agreements	4,376,613	8.18%	357,952	3,410,289	17.47%	595,736	406,598	7.14%	29,034
Turkish Lira	3,332,086	10.74%	357,801	3,371,929	17.67%	595,654	86,020	17.59%	15,135
Foreign currency.........	1,044,527	0.01%	151	38,360	0.21%	82	320,578	4.34%	13,899
Total for Average Interest-Bearing Liabilities..........................	**214,364,230**	**5.66%**	**12,139,432**	**252,887,875**	**7.75%**	**19,603,368**	**249,530,888**	**8.28%**	**20,657,218**
Turkish Lira.............	**88,332,143**	**9.95%**	**8,787,643**	**99,185,241**	**14.39%**	**14,274,968**	**99,431,772**	**15.99%**	**15,894,968**
Foreign currency	**126,032,087**	**2.66%**	**3,351,789**	**153,702,634**	**3.47%**	**5,328,400**	**150,099,116**	**3.17%**	**4,762,250**
Average Non-Interest-Bearing Liabilities and Equity									
Deposits-demand.............	40,906,840			49,880,630			61,606,969		
Accrued expenses and other liabilities.................	11,137,159			12,658,371			14,463,663		
Current and deferred tax liabilities	739,544			95,966			609,368		
Shareholders' equity and net profit	38,238,553			44,591,493			50,077,213		
Total Average Non-Interest-Bearing Liabilities and Equity....	**91,022,096**			**107,226,460**			**126,757,213**		
Total Average Liabilities and Equity......	**305,386,326**			**360,114,335**			**376,288,101**		

(1) Interbank Money Market (*Bankalararası Para Piyasası*) placements are included under "Short-term debt and other interest bearing liabilities."

The following tables set out the average balances of assets and liabilities, and the interest earned or expensed on such amounts, of the Group for the indicated years. For purposes of the following tables, the average is calculated as the average of the opening, quarter-end and closing balances for the applicable year. For the purpose of the following tables: (a) non-accruing credits have been treated as non-interest earning assets and (b) loan fees have been included in interest income.

	For the year ended 31 December								
	2017			2018			2019		
	Average Balance	Average Yield	Interest Income	Average Balance	Average Yield	Interest Income	Average Balance	Average Yield	Interest Income
	(TL thousands, except percentages)								
ASSETS									
Average Interest-Earning Assets									
Banks	8,807,861	5.13%	451,750	11,026,262	5.81%	640,894	4,401,733	19.43%	855,208
Financial Assets at Fair Value through Profit/(Loss)(1)	2,863,926	—	—	502,517	14.48%	72,763	4,757,325	2.39%	113,531
Interbank Money Market Placements..	51,004	27.49%	14,022	112,575	33.51%	37,728	5,640,525	7.01%	395,622
Financial Assets Available-for-Sale(2)	24,591,318	10.37%	2,550,023	26,926,437	15.39%	4,145,126	27,886,385	9.98%	2,784,388
Loans	219,490,283	9.98%	21,912,595	260,913,267	11.87%	30,971,635	276,985,606	12.23%	33,866,206
Investments Held-to-Maturity(3)	23,319,022	9.44%	2,200,379	22,615,305	17.88%	4,043,865	26,877,843	10.27%	2,760,992
Total for Average Interest-Earning Assets......................	**279,123,414**	**9.72%**	**27,128,769**	**322,096,363**	**12.39%**	**39,912,011**	**346,549,417**	**11.77%**	**40,775,947**
Average Non-Interest-Earning Assets	61,037,776			77,963,975			74,781,225		
Total Average Assets......................	**340,161,190**			**400,060,338**			**421,330,642**		

(1) In 2018 and 2019, Financial Assets Measured at Fair Value through Profit/(Loss).
(2) In 2018 and 2019, Financial Assets Measured at Fair Value through Other Comprehensive Income.
(3) In 2018 and 2019, Financial Assets Measured at Amortised Cost.

	For the year ended 31 December								
	2017			2018			2019		
	Average Balance	Average Rate	Interest Expense	Average Balance	Average Rate	Interest Expense	Average Balance	Average Rate	Interest Expense
	(TL thousands, except percentages)								
LIABILITIES									
Average Interest-Bearing Liabilities									
Deposits...............................	141,112,643	5.98%	8,439,849	175,060,215	8.43%	14,756,253	184,019,927	8.98%	16,529,107
Funds borrowed	44,876,997	2.95%	1,323,169	38,814,303	5.06%	1,965,032	29,541,572	6.09%	1,799,135
Interbank Money Market Takings................................	17,137,068	7.64%	1,309,125	5,426,142	22.00%	1,193,709	1,705,535	6.90%	117,758
Securities Issued	22,164,414	7.13%	1,579,644	42,796,396	5.58%	2,388,905	44,113,227	6.01%	2,650,526
Total for Average Interest-Bearing Liabilities	**225,291,122**	**5.62%**	**12,651,787**	**262,097,056**	**7.75%**	**20,303,899**	**259,380,261**	**8.13%**	**21,096,526**
Average Non-Interest-Bearing Liabilities and Equity	114,870,068			137,963,282			161,950,381		
Total Average Liabilities and Equity......	**340,161,190**			**400,060,338**			**421,330,642**		

The following table shows the net interest income and net yield for the Bank for each of the indicated years.

	As of 31 December		
	2017	2018	2019
	(TL thousands, except percentages)		
Net Interest Income			
Turkish Lira	12,606,296	17,288,913	16,571,285
Foreign currency..........................	1,862,054	1,821,292	2,455,907
Total	**14,468,350**	**19,110,205**	**19,027,192**
Net Yield			
Turkish Lira	8.07%	9.97%	9.54%
Foreign currency..........................	2.00%	1.62%	2.12%
Total	**5.81%**	**6.68%**	**6.57%**

The following table shows the net interest income and net yield for the Group for each of the indicated years.

	As of 31 December		
	2017	2018	2019
	(TL thousands, except percentages)		
Net Interest Income	15,686,570	20,876,933	20,673,425
Net Yield	5.62%	6.48%	5.97%

B. Net Changes in Interest Income and Expense – Volume and Rate Analysis

The following table provides a comparative analysis of net changes in interest earned and interest expensed by reference to changes in average volume and rates for the years indicated for the Bank. Net changes in net interest income are attributed either to changes in average balances (volume changes) or changes in average rates (rate changes) for interest-earning assets and sources of funds on which interest is earned or expensed. Volume change is calculated as the change in volume multiplied by the current rate, while rate change is the change in rate multiplied by the previous volume. Average balances represent the average of the opening and closing balances for the respective year. For purpose of the following tables, NPLs have been treated as non-interest earning assets.

	For the year ended 31 December 2019/2018 Increase (decrease) due to changes in		
	Volume	**Rate**	**Net Change**
		(TL thousands)	
Interest Income			
Deposits with banks	42,984	426,333	469,317
Turkish Lira	*(103,889)*	*543,556*	*439,667*
Foreign currency	*146,873*	*(117,223)*	*29,650*
Investments in securities	(103,235)	(2,524,794)	(2,628,029)
Turkish Lira	*(166,213)*	*(2,456,895)*	*(2,623,108)*
Foreign currency	*62,978*	*(67,899)*	*(4,921)*
Loans and advances to customers, and other interest-earning assets	33,542	3,096,007	3,129,549
Turkish Lira	*289,448*	*2,796,365*	*3,085,813*
Foreign currency	*(255,906)*	*299,642*	*43,736*
Total interest income	**(26,709)**	**997,546**	**970,837**
Interest Expense			
Deposits from customers	959,445	725,749	1,685,194
Turkish Lira	*1,018,705*	*1,215,507*	*2,234,212*
Foreign currency	*(59,260)*	*(489,758)*	*(549,018)*
Short-term debt and other interest-bearing liabilities	(325,854)	18,697	(307,157)
Turkish Lira	*(318,816)*	*8,274*	*(310,542)*
Foreign currency	*(7,038)*	*10,423*	*3,385*
Long-term debt and other interest-bearing liabilities	(154,449)	396,964	242,515
Turkish Lira	*(122,590)*	*399,439*	*276,849*
Foreign currency	*(31,859)*	*(2,475)*	*(34,334)*
Repurchase Agreements	(565,904)	(798)	(566,702)
Turkish Lira	*(578,140)*	*(2,379)*	*(580,519)*
Foreign currency	*12,236*	*1,581*	*13,817*
Total interest expense	**(86,762)**	**1,140,612**	**1,053,850**
Net change in net interest income	**60,053**	**(143,066)**	**(83,013)**

	For the year ended 31 December		
	2018/2017		
	Increase (decrease) due to changes in		
	Volume	**Rate**	**Net Change**
		(TL thousands)	
Interest Income			
Deposits with banks	158,042	131,556	289,598
Turkish Lira	*(34,695)*	*111,053*	*76,358*
Foreign currency	*192,737*	*20,503*	*213,240*
Investments in securities	82,322	3,399,467	3,481,789
Turkish Lira	*60,706*	*3,406,653*	*3,467,359*
Foreign currency	*21,616*	*(7,186)*	*14,430*
Loans and advances to customers, and other interest-earning assets	3,844,482	4,489,922	8,334,404
Turkish Lira	*2,905,924*	*3,720,301*	*6,626,225*
Foreign currency	*938,558*	*769,621*	*1,708,179*
Total interest income	**4,084,846**	**8,020,945**	**12,105,791**
Interest Expense			
Deposits from customers	2,541,813	3,779,379	6,321,192
Turkish Lira	*2,117,711*	*3,351,598*	*5,469,309*
Foreign currency	*424,102*	*427,781*	*851,883*
Short-term debt and other interest-bearing liabilities	(539,707)	117,948	(421,977)
Turkish Lira	*(500,651)*	*72,399*	*(428,252)*
Foreign currency	*(39,056)*	*45,549*	*6,493*
Long-term debt and other interest-bearing liabilities	673,806	652,913	1,326,719
Turkish Lira	*(26,430)*	*234,845*	*208,415*
Foreign currency	*700,236*	*418,068*	*1,118,304*
Repurchase Agreements	4,894	232,890	237,784
Turkish Lira	*7,039*	*230,814*	*237,853*
Foreign currency	*(2,145)*	*2,076*	*(69)*
Total interest expense	**2,680,806**	**4,783,130**	**7,463,936**
Net change in net interest income	**1,404,040**	**3,237,815**	**4,641,855**

II. Securities Portfolio

The Group's securities portfolio comprises trading securities (*i.e.*, debt and equity securities that the Group principally holds for the purpose of short-term profit taking, which are reflected in the balance sheet as "financial assets at fair value through profit or loss") (following the adoption of TFRS 9 as of 1 January 2018, "financial assets measured at fair value through profit or loss") and investment securities (*i.e.*, both held-to-maturity securities and available-for-sale securities (following the adoption of TFRS 9 as of 1 January 2018, "financial assets measured at amortised cost" and "financial assets measured at fair value through other comprehensive income," respectively)). The Group also enters into purchases (or sales) of securities under agreements to resell (or repurchase) substantially identical investments at a certain date in the future at a fixed price (*i.e.*, "repos"). Securities sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for the related securities portfolio as appropriate. The Group's portfolio of marketable securities consists primarily of Turkish government securities (including bonds, treasury bills and eurobonds) denominated in Turkish Lira, U.S. dollars and euro.

As of 31 December 2019, the size of the Group's aggregate securities portfolio increased by 9.5% to TL 57,375,648 thousand from TL 52,376,838 thousand as of 31 December 2018, itself a 1.7% increase from TL 51,523,352 thousand as of 31 December 2017. These changes resulted primarily from the Group's strategy of seeking selective/controlled growth in lending (that is, excess deposits were invested in securities).

A. Book Value of Securities

The following table sets out a breakdown of securities (on a book-value basis) held by the Group as of the indicated dates:

	As of 31 December		
	2017	2018	2019
		(TL thousands)	
Financial assets at fair value through profit or loss	**930,824**	—	—
TL-denominated	911,131	—	—
Foreign currency-denominated and indexed	19,693	—	—
Financial assets measured at fair value through profit or loss	—	**559,876**	**1,011,777**
TL-denominated	—	305,745	692,738
Foreign currency-denominated and indexed	—	254,131	319,039
Available-for-sale	**26,277,988**	—	—
TL-denominated	22,222,532	—	—
Foreign currency-denominated and indexed	4,055,456	—	—
Financial assets measured at fair value through other comprehensive income	—	**27,162,953**	**28,643,529**
TL-denominated	—	18,254,325	18,274,036
Foreign currency-denominated and indexed	—	8,908,628	10,369,493
Held-to-maturity	**24,314,540**	—	—
TL-denominated	*12,900,962*	—	—
Foreign currency-denominated and indexed	11,413,578	—	—
Financial assets measured at amortised cost	—	**24,654,009**	**27,720,342**
TL-denominated	—	18,586,328	20,732,279
Foreign currency-denominated and indexed	—	6,067,681	6,988,063
Total	**51,523,352**	**52,376,838**	**57,375,648**

Financial Assets Measured at Fair Value through Profit or Loss) (Trading Securities before the adoption of TFRS 9)

In 2017, the Group's trading securities portfolio was composed of debt and equity securities that the Group principally holds for the purpose of short-term profit taking. These include investments designated as trading instruments. Following the adoption of TFRS 9, these securities are referred to as "financial assets measured at fair value through profit or loss" and any financial asset that does not qualify for amortised cost measurement at fair value through other comprehensive income must be measured after initial recognition at fair value through profit or loss.

After initial recognition, securities that are classified as held-for-trading (and "financial assets measured at fair value through profit or loss" following the adoption of TFRS 9) are measured at estimated fair value. When market prices are not available or if liquidating the Group's position would reasonably be expected to affect market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realised.

The following table sets out a breakdown of the Group's financial assets measured at fair value through profit or loss (trading securities before the adoption of TFRS 9) as of the indicated dates:

	As of 31 December		
	2017	2018	2019
		(TL thousands)	
Government securities	820,578	259,574	461,891
Equity securities	68,173	200,326	333,420
Other securities	42,073	99,976	216,466
Total	**930,824**	**559,876**	**1,011,777**

As of 31 December 2019, the size of the Group's financial assets measured at fair value through profit or loss increased by 80.7% to TL 1,011,777 thousand from TL 559,876 thousand as of 31 December 2018, which itself had decreased by 39.9% from TL 930,824 thousand as of 31 December 2017 after the adoption of the new classification rules based upon TFRS 9. The Group's portfolio of financial assets measured at fair value through profit or loss comprises Turkish Lira-denominated bonds, eurobonds, bonds issued by corporations (including financial institutions) and foreign governments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Fair Value of Securities."

Investment Securities Portfolio

In 2017, investment securities comprised held-to-maturity securities and available-for-sale securities. Held-to-maturity securities are financial assets with fixed or determinable payments and fixed maturities that the Group intends and has the ability to hold to maturity. The Group cannot classify any financial asset as held-to-maturity if the Group has, during the current fiscal year or during the two preceding fiscal years, sold or transferred any held-to-maturity securities before their maturities as per TAS 39 (except certain permissible transfers). Available-for-sale securities are financial assets that are not held for trading purposes or held-to-maturity. Available-for-sale instruments include certain debt and equity investments. The Group classified investment securities depending upon the intention of management at the time of the purchase thereof.

In 2018 and 2019, following the adoption of TFRS 9, investment securities comprised financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost. Financial assets measured at fair value through other comprehensive income are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial assets measured at amortised cost are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The contractual terms of both financial asset categories should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Assets Measured at Amortised Cost (Held-to-Maturity Portfolio before the adoption of TFRS 9)

The Group's portfolio of held-to-maturity securities (and "financial assets measured at amortised cost" following the adoption of TFRS 9) primarily consists of Turkish Lira-denominated government bonds and treasury bills, Turkish government eurobonds and bonds issued by foreign governments.

The following table sets out certain information relating to the Group's portfolio of financial assets measured at amortised cost (held-to-maturity securities before the adoption of TFRS 9) as of the indicated dates (including income accruals):

	As of 31 December		
	2017	**2018**	**2019**
		(TL thousands)	
Government securities	20,232,556	24,606,227	27,558,636
Other securities	4,081,984	47,782	161,706
Total	**24,314,540**	**24,654,009**	**27,720,342**

As of 31 December 2019, the size of the Group's financial assets measured at amortised cost (including income accruals) (the held-to-maturity portfolio before the adoption of TFRS 9) increased by 12.4% to TL 27,720,342 thousand from TL 24,654,009 thousand as of 31 December 2018, which itself had increased by 1.4% from TL 24,314,540 thousand as of 31 December 2017. The increase in 2018 was primarily due to the first time adoption of the new classification rules based upon TFRS 9 and, accordingly, the 2018 and later portfolios are not directly comparable to the 2017 portfolio. In 2019, the foreign exchange-denominated security portfolio remained stable whereas the Turkish Lira-denominated portfolio grew as a result of the purchase of floating rate notes and growth in the interest accruals on CPI-linked securities.

Financial Assets Measured at Fair Value through Other Comprehensive Income (Available-for-Sale Portfolio before the adoption of TFRS 9)

The Group's portfolio of available-for-sale securities ("financial assets measured at fair value through other comprehensive income" following the adoption of TFRS 9) consists of Turkish government bonds and treasury bills, Turkish government eurobonds and bonds issued by corporations (including financial institutions) and foreign governments.

The following table sets out certain information relating to the portfolio of financial assets measured at fair value through other comprehensive income (available-for-sale securities before the adoption of TFRS 9) as of the indicated dates:

	As of 31 December		
	2017	**2018**	**2019**
	(TL thousands)		
Government securities	22,579,220	22,831,811	24,819,743
Equity securities	274,872	235,462	382,381
Other securities	3,423,896	4,095,680	3,441,405
Total	**26,277,988**	**27,162,953**	**28,643,529**

As of 31 December 2019, the size of the Group's financial assets measured at fair value through other comprehensive income (the available-for-sale securities portfolio before the adoption of TFRS 9) increased by 5.5% to TL 28,643,529 thousand from TL 27,162,953 thousand as of 31 December 2018, which itself had increased by 3.4% from TL 26,277,988 thousand as of 31 December 2017. The increase in 2018 was primarily due to the adoption of the new classification rules based upon TFRS 9 and, accordingly, the 2018 and later portfolios are not directly comparable to the 2017 portfolio. In 2019, the foreign exchange-denominated security portfolio remained stable whereas the Turkish Lira-denominated portfolio grew as a result of the purchase of floating rate notes (which more than offset a decline in fixed coupon bonds) and growth in the interest accruals on CPI-linked securities.

As of 31 December 2017, 2018 and 2019, the Group's BRSA Financial Statements included unrealised loss (net of tax) on its available for sale portfolio (financial assets measured at fair value through other comprehensive income following the adoption of TFRS 9) amounting TL 317,814 thousand as of 31 December 2017 and TL 1,037,859 thousand as of 31 December 2018 and an unrealised gain (net of tax) amounting to TL 115,381 thousand as of 31 December 2019 in other comprehensive income under shareholders' equity.

In 2018 and 2017, net gains transferred to income on disposal from other comprehensive income amounted to TL 11,799 thousand and TL 30,723 thousand, respectively, whereas in 2019, net gains transferred to income on disposal from other comprehensive income amounted to TL 186,760 thousand.

B. Maturities of Securities

The following tables set out the maturities of the securities in the Group's total securities portfolio as of 31 December 2019:

	1 year or less	**After 1 year through 5 years**	**After 5 years**	**Undistributed**	**Total**
			(*TL thousands*)		
Financial assets measured at fair value through profit or loss	683,855	278,547	49,375	—	1,011,777
Financial assets measured at fair value through other comprehensive income	6,907,146	13,881,337	7,855,046	—	28,643,529
Financial assets measured at amortised cost	4,933,002	13,251,602	9,535,738	—	27,720,342
Total	**12,524,003**	**27,411,486**	**17,440,159**	—	**57,375,648**

	1 year or less	After 1 year through 5 years	After 5 years	Undistributed	Total
Financial assets measured at fair value through profit or loss	5.5%	1.0%	0.3%	—	1.8%
Financial assets measured at fair value through other comprehensive income	55.2%	50.6%	45.0%	—	49.9%
Financial assets measured at amortised cost	39.3%	48.4%	54.7%	—	48.3%
Total	**100.0%**	**100.0%**	**100.0%**	—	**100.0%**

	1 year or less	After 1 year through 5 years	After 5 years	Total
		(TL thousands)		
Turkish government bonds and treasury bills	10,039,976	26,796,906	16,003,392	52,840,274
Bonds issued by corporations	1,950	154,695	—	156,645
Others	2,482,077	459,885	1,436,767	4,378,729
Total	**12,524,003**	**27,411,486**	**17,440,159**	**57,375,648**

	1 year or less	After 1 year through 5 years	After 5 years	Total
Turkish government bonds and treasury bills	80.2%	97.8%	91.8%	92.1%
Bonds issued by corporations	0.0%	0.6%	—	0.3%
Others	19.8%	1.6%	8.2%	7.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The following table sets out the remaining maturities of the Group's consolidated securities portfolio as of the indicated dates:

	As of 31 December		
	2017	2018(1)	2019(1)
		(TL thousands)	
Financial assets at fair value through profit or loss	**2,877,813**	—	—
Three months or less	1,176,905	—	—
Over three months through 12 months	632,539	—	—
Over one year through five years	748,677	—	—
Over five years	319,692	—	—
Financial assets measured at fair value through profit or loss	—	**559,876**	**1,011,777**
Three months or less	—	231,371	330,418
Over three months through 12 months	—	74,158	353,437
Over one year through five years	—	186,880	278,547
Over five years	—	67,467	49,375
Financial assets available-for-sale	**26,277,988**	—	—
Three months or less	836,329	—	—
Over three months through 12 months	1,302,458	—	—
Over one year through five years	12,784,887	—	—
Over five years	11,354,314	—	—
Financial assets measured at fair value through other comprehensive income	—	**27,162,953**	**28,643,529**
Three months or less	—	589,831	5,032,509
Over three months through 12 months	—	2,482,510	1,874,637
Over one year through five years	—	15,977,178	13,881,337
Over five years	—	8,113,434	7,855,046
Investments held-to-maturity	**24,314,540**	—	—
Three months or less	157,110	—	—
Over three months through 12 months	1,106,532	—	—
Over one year through five years	3,310,421	—	—
Over five years	9,077,305	—	—
Undistributed	10,663,172	—	—
Financial assets measured at amortised cost	—	**24,654,009**	**27,720,342**
Three months or less	—	—	153,560
Over three months through 12 months	—	80,177	4,779,442
Over one year through five years	—	12,673,025	13,251,602
Over five years	—	11,900,807	9,535,738
Undistributed	—	—	—
Total	**53,470,341**	**52,376,838**	**57,375,648**

(1) 2018 and 2019 figures do not include "Derivative financial assets."

The following table sets out the Group's total securities portfolio, including derivative financial assets held for trading in 2017, in Turkish Lira and in foreign currencies as of the indicated dates:

	As of 31 December		
	2017	2018(1)	2019(1)
		(TL thousands)	
Turkish Lira-denominated securities	37,414,394	37,146,398	39,699,053
Foreign currency and foreign currency-indexed securities	16,055,947	15,230,440	17,676,595
Total securities	**53,470,341**	**52,376,838**	**57,375,648**

(1) 2018 and 2019 figures do not include "Derivative financial assets."

C. Securities Concentrations

As of 31 December 2019, the Group did not hold debt securities of any one issuer that (in the aggregate) had a book value in excess of 10% of the Group's shareholders' equity, other than securities issued by the Turkish government. As of such date, the Group's TL 52,840,270 thousand of Turkish government securities represented 97.8% of the Group's shareholders' equity.

The following table provides information regarding financial assets measured at fair value through profit/(loss) (financial assets at fair value through profit/(loss) in 2017 before the adoption of TFRS 9): (a) provided as collateral/blocked assets with respect to various banking, insurance and asset management transactions and (b) subject to repurchase agreements as of the indicated dates:

	As of 31 December		
	2017	**2018**	**2019**
		(*TL thousands*)	
Collateralised/blocked assets	15,522	20,931	3,327,079
Assets subject to repurchase agreements	2,834	1,605	39,534
Total	**18,356**	**22,536**	**3,366,613**

The following table provides information regarding financial assets measured at fair value through other comprehensive income (financial assets available-for-sale in 2017 before the adoption of TFRS 9): (a) provided as collateral/blocked assets with respect to various banking, insurance and asset management transactions and (b) subject to repurchase agreements as of the indicated dates:

	As of 31 December		
	2017	**2018**	**2019**
		(*TL thousands*)	
Collateralised/blocked assets	11,241,085	5,387,187	3,475,678
Assets subject to repurchase agreements	914,260	1,160,491	1,128,143
Total	**12,155,345**	**6,547,678**	**4,603,821**

The following table provides information regarding financial assets measured at amortised cost (investments held-to-maturity in 2017 before the adoption of TFRS 9): (a) provided as collateral/blocked assets with respect to various banking, insurance and asset management transactions and (b) subject to repurchase agreements as of the indicated dates:

	As of 31 December		
	2017	**2018**	**2019**
		(*TL thousands*)	
Collateralised/blocked assets	12,953,676	6,563,771	8,236,967
Assets subject to repurchase agreements	996,286	46,120	734,799
Total	**13,949,962**	**6,609,891**	**8,971,766**

Pursuant to market practice, the Group pledges securities to acquire funding under security repurchase agreements. The securities so pledged amounted to TL 1,913,380 thousand as of 31 December 2017, TL 1,208,216 thousand as of 31 December 2018 and TL 1,902,476 thousand as of 31 December 2019, comprising 3.7%, 2.3% and 3.3%, respectively, of the Group's securities portfolio on such dates. Such securities are included in the above tables.

III. Loans

The Group's loans (*i.e.*, cash loans) amounted to TL 277,506,599 thousand as of 31 December 2019, increasing by 8.4% from TL 256,009,555 thousand as of 31 December 2018, which itself increased by 11.9% compared to TL 229,353,285 thousand as of 31 December 2017. These increases in the Group's loans and advances to customers resulted from an increase in foreign currency exchange rates together with customer-driven growth but slowed down in line with the volatility in financial conditions. In addition, the increase in 2018 reflects the impact of including both lease and factoring receivables under the loans line item as a result of a change to the presentation of the financial statements as per new rules introduced by the BRSA. As discussed below, there are several important characteristics of the Group's loans portfolio, including diversification based upon sector and currency.

Loans represent the largest component of the Group's assets. As of 31 December 2018 and 2019, the Group's total loans and advances to customers, less expected credit losses but including lease and factoring receivables, comprised 63.2% and 62.7%, respectively, of the Group's total assets. By comparison, as of 31 December 2017, this amount (but excluding lease and factoring receivables) was 64.4% of the Group's total assets.

As of 31 December 2019, on the basis of the total amount of cash loans advanced, 70.5% of the Bank's loans were fixed rate and the rest were variable rate. The average interest rate that the Bank charged to borrowers in 2019 was 19.2% for Turkish Lira-denominated loans and advances and 6.7% for foreign currency-denominated loans and advances, calculated on the basis of daily averages of balances and interest rates and according to the Bank's management's estimates, as compared to 19.3% and 6.9%, respectively in 2018 and 15.9% and 5.9%, respectively, in 2017.

The Group provides financing for various purposes and although the majority of commercial and corporate loans have an average maturity of up to 36 months, for certain commercial and corporate loans (such as working capital and project finance loans) and for certain retail loans (such as mortgage loans) the maturities are up to 10 years (or occasionally over 10 years). As of 31 December 2019, the Group's loans with remaining maturities over one year and over five years composed 34.4% and 9.0%, respectively, of the Group's total loans.

A. Types of Loans

The following table sets out the composition of the Group's total performing loan portfolio (but excluding financial lease receivables and factoring receivables) by industry sectors as of the indicated dates:

	As of 31 December					
	2017		**2018**		**2019**	
	(TL thousands, except percentages)					
Consumer loans	69,040,236	30.8%	72,304,769	29.8%	78,043,645	30.6%
Energy	27,450,279	12.2%	32,382,711	13.3%	35,485,939	13.9%
Transportation vehicles and sub-industries	7,375,056	3.3%	13,215,283	5.4%	15,325,412	6.0%
Service sector	16,276,996	7.2%	17,673,573	7.3%	13,868,612	5.4%
Food	10,916,782	4.9%	11,052,350	4.5%	11,767,079	4.6%
Metal and metal products	6,941,650	3.1%	8,017,309	3.3%	9,784,596	3.8%
Textile	9,186,309	4.1%	9,712,055	4.0%	9,728,110	3.8%
Construction	12,333,468	5.5%	10,991,942	4.5%	9,480,724	3.7%
Financial institutions	9,551,987	4.3%	8,239,820	3.4%	9,230,837	3.6%
Transportation and logistics	9,684,755	4.3%	8,177,170	3.4%	8,802,260	3.4%
Tourism	5,364,524	2.4%	5,609,165	2.3%	6,807,197	2.7%
Chemistry and chemical products	5,226,844	2.3%	5,859,083	2.4%	5,463,662	2.1%
Durable consumption	3,123,230	1.4%	5,065,700	2.1%	4,906,646	1.9%
Agriculture and stockbreeding	3,750,865	1.7%	4,491,352	1.8%	4,586,005	1.8%
Stone/rock and related products	2,474,379	1.1%	3,215,142	1.3%	3,748,730	1.5%
Machinery and equipment	2,877,161	1.3%	3,363,328	1.4%	3,618,916	1.4%
Data processing	2,794,048	1.2%	2,543,519	1.0%	2,929,683	1.1%
Mining	2,404,023	1.1%	2,436,370	1.0%	2,833,013	1.1%
Paper and paper products	1,572,641	0.7%	1,809,345	0.7%	2,137,610	0.8%
Electronic/optical/medical equipment	1,465,279	0.7%	1,327,109	0.5%	1,409,346	0.6%
Plastic products	992,123	0.4%	872,430	0.4%	938,134	0.4%
Others	13,714,144	6.0%	14,596,175	6.2%	14,441,429	5.8%
Total	**224,516,779**	**100.0%**	**242,955,700**	**100.0%**	**255,337,585**	**100.0%**

B. Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table sets out certain information relating to the maturity profile of the Bank's performing cash loan portfolio (based upon scheduled repayments but excluding interest accruals) as of 31 December 2019:

	1 year or less(1)	After 1 year through 5 years	After 5 years	Total
		(TL thousands)		
Total performing cash loans	61,301,170	94,543,237	78,539,569	234,383,976

(1) Includes demand loans, loans having no stated schedule of repayment and no stated maturity and overdrafts.

Composition of Loan Portfolio by Currency

As of 31 December 2019, foreign currency-denominated loans comprised 42.0% of the Group's loan portfolio (of which U.S. dollar-denominated obligations were the most significant), compared to 43.4% as of 31 December 2018 and 39.8% as of 31 December 2017. The share of foreign currency-denominated loans increased in the Group's loan portfolio as of 31 December 2018 and 2019 compared to previous years primarily due to the depreciation of the Turkish Lira.

The following table sets out an analysis by currency of the exposure of the Group's cash loans portfolio as of the indicated dates:

	As of 31 December(1)					
	2017		**2018(2)(3)**		**2019(2)(3)**	
	(TL thousands, except percentages)					
Turkish Lira..................	138,177,890	60.2%	147,996,753	56.6%	161,409,007	58.0%
U.S. dollar	45,724,612	19.9%	55,644,651	21.3%	53,583,880	19.2%
Euro and others	45,450,783	19.9%	57,876,896	22.1%	63,480,032	22.8%
Total......................	**229,353,285**	**100.0%**	**261,518,300**	**100.0%**	**278,472,919**	**100.0%**

(1) The foreign currency-indexed loans included under TL-denominated loans in the Group's BRSA Financial Statements are presented above under the relevant foreign currency column.
(2) Stage 1 and Stage 2 expected credit losses are excluded.
(3) Lease and factoring receivables are included.

In 2017, lower inflation and a gradual decline in interest rates led to greater confidence in the banking system and an increase in Turkish Lira-denominated loans. Retail loans, which are a growing portion of the Group's total loans, are generally denominated in Turkish Lira. In 2018, the growth in the Group's loan portfolio was principally the result of an expansion in credit card loans and depreciation of the Turkish Lira. While the growth in Turkish Lira-denominated loans during 2019 was balanced across categories, business banking loans were stronger in the first quarter of 2019 and general purpose loans to retail customers were stronger in the fourth quarter of 2019. With respect to foreign currency-denominated loans, there was a decline of 5.9% (calculated in U.S. dollar terms) during 2019, principally due to significant redemptions during the third quarter of 2019.

C. Risk Elements

1. Non-performing Loans and Restructured or Rescheduled Non-Performing Loans

The following table sets out the composition of the Group's total NPLs (gross) and restructured or rescheduled loans as of the indicated dates:

	As of 31 December		
	2017	**2018(1)**	**2019(1)**
		(TL thousands)	
NPLs..	6,176,985	13,753,384	19,510,386
Restructured or rescheduled loans......................	2,043,592	8,770,525	11,758,186

(1) Lease and factoring receivables (amounting to TL 1,204,679 thousand for NPLs and TL 247,430 thousand for restructured or rescheduled loans as of 31 December 2018 and TL 1,210,809 thousand for NPLs and TL 287,186 thousand for restructured or rescheduled loans as of 31 December 2019) are included.

A loan is categorised as non-performing (following the adoption of TFRS 9, as Stage 3) when 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 agreement due to a lack of assets, a high indebtedness ratio, insufficient working capital and/or insufficient equity on the part of the customer. See "Summary of Loan Loss Experience" for certain criteria in relation to concepts of the "restructuring" of loans pursuant to the Classification of Loans and Provisions Regulation that replaced the former regulation and became effective as of 1 January 2018.

2. Potential Problem Loans

As of 31 December 2019, there were no material amount of loans that are not included in the preceding table but for which information known to the Group about possible credit problems of borrowers caused the Bank's management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and that may result in disclosure of such loans in the above table for future years. See "Summary of Loan Loss Experience" below.

3. Loan Concentrations

As of 31 December 2019, the Group's loan portfolio did not contain any concentration of credits that exceeded 10% of its total loans that are not otherwise already disclosed as a category of loans pursuant to "Types of Loans" above. For the purposes of this paragraph, loan concentrations are considered to exist when there are credits to a multiple number of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions.

From an individual borrower perspective, as of 31 December 2019, the gross cash loans to the Bank's 10 largest customers (on a Bank-only basis) represented approximately 9.3% of its gross loan portfolio (including loans measured at fair value through profit or loss), as compared to approximately 9.4% as of 31 December 2018 and 7.6% as of 31 December 2017. In recent years, as a result of improvements in the Turkish economy, the percentage of smaller loans in the loan portfolio has been on an increasing trend. Although limited to some extent by the Group's selective growth strategy, the percentage of small loans like retail and SME loans increased in 2017, 2018 and 2019, as the economy improved and customer demand increased and (despite the recent contraction in economic activities as a result of the volatility in financial markets) might continue to increase in the near future.

D. Other Interest-Earning Assets

As of 31 December 2019, the Group's other interest-earning assets did not include any non-loan assets that would be included in III.C.1. ("Nonaccrual and Restructured Loans") or III.C.2. ("Potential Problem Loans") above if such assets were loans.

IV. Summary of Loan Loss Experience

The Bank's head office risk committee: (a) is responsible for monitoring the Bank's loan portfolio and establishing allowances and provisions in relation thereto based upon reports provided by the branch or other applicable risk committees and (b) provides monthly reports directly to the Bank's Board of Directors detailing all aspects of the Bank's loan activity, including the number of new problem loans, the status of existing NPLs and the level of collections. The head office risk committee also conducts evaluations of other assets and off-balance sheet contingent liabilities.

According to the default definition, a financial asset is considered to be in objective default when more than 90 days past due or subjective default when unlikely to be paid. The Bank considers a financial asset to be defaulted, and Stage 3 (credit-impaired), as follows:

Objective Default: Financial assets that are past due more than 90 days. The current definition of default used by the Bank and its consolidated financial subsidiaries is based upon a more than 90 days past due definition (*i.e.*, default status starts on the 91st day).

Subjective Default: Financial assets that are considered to be unlikely to be paid. Whenever it is considered that an obligor is unlikely to pay its credit obligations, the related financial asset is considered to be in default regardless of the existence of any past-due amount or the number of days past due.

Before the adoption of TFRS 9 as of 1 January 2018, the Bank classified its loan portfolio in its BRSA Financial Statements in accordance with then-current Turkish banking regulations. See "Turkish Regulatory Environment." In accordance with the applicable regulations, the Bank currently makes specific allowances for expected credit losses. These specific allowances must be increased gradually so that the reserves reach a ceiling level of 100% of the NPL, subject to the amount and type of collateral securing such loan. As noted above, a loan is categorised as non-performing when interest, fees or principal remain unpaid 90 days after the due date. The Group maintains a stricter provisioning policy than required by applicable regulations and seeks to maintain credit loss reserves of equal or greater amounts than NPLs after consideration of the fair value of collateral received.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, banks were required to reserve adequate provisions for loans and other receivables until the end of the month in which the payment of such loans and receivables had been delayed. This previous regulation also required Turkish banks to provide a general provision of at least 1% of the total cash loan portfolio *plus* at least 0.2% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) (except for: (a) commercial cash loans defined in Group I, for which the general provisions were to be equal to at least 0.5% of the total commercial cash loan portfolio, (b) commercial non-cash loans defined in Group I above, for which the general provision were to be equal to at least 0.1% of the total commercial non-cash commercial loan portfolio, (c) cash and non-cash loans defined in Group I for SMEs and relating to transit trade, export, export sales and deliveries and services, activities resulting in gains of foreign currency and syndicate loans used for the financing of large-scale public tenders, for which the general loan loss provision were to be calculated at 0%) for standard loans defined in Group I above and a general provision calculated at 2.0% of the total cash loan portfolio *plus* 0.4% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) for closely-monitored loans defined in Group II (except for: (i) commercial cash loans, cash loans for SMEs and relating to transit trade, export, export sales and deliveries and services, and activities resulting in gains of foreign currency, for which the general loan loss provision was to be equal to at least 1.0%, and (ii) non-cash loans related to the items stated in clause (i) above, for which the general loan loss provision was to be equal to 0.2%). The Group could also decide to increase the level of general provision for some specific group of loans depending upon their risk profile.

Starting from 1 January 2018, TFRS 9 changed the accounting method for loan loss impairments by replacing TAS 39's incurred loss approach with the forward-looking ECL approach, which forms an impairment model that has three stages based upon the change in credit quality since initial recognition. The ECLs are measured as an allowance equal to either 12-month ECL for Stage 1 assets or lifetime ECL for Stage 2 or Stage 3 (credit-impaired) assets. An asset moves from Stage 1 to Stage 2 when its credit risk increases significantly since initial recognition.

At each reporting date, it is assessed whether the credit risk on a financial asset has increased significantly since initial recognition. When making the assessment, the change in the risk of a default occurring on the financial asset is determined.

As of each reporting date, if the credit risk on a financial asset has not increased significantly since initial recognition, then the loss allowance for that financial asset is set at an amount equal to its 12-month expected credit losses; *however*, if there is a significant increase in the credit risk of a financial asset since initial recognition, a loss allowance regarding such financial asset is set at an amount equal to lifetime expected credit losses.

ECLs are calculated based upon a probability-weighted estimate of credit losses (the present value of all cash shortfalls) over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due based upon the contract and the cash flows that are expected to be received. The calculation of ECLs per each stage is summarised in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Implementation of TFRS 9 - Impairment."

The Group's NPLs amounted to TL 6,176,985 thousand, TL 13,753,384 thousand and TL 19,510,386 thousand as of 31 December 2017, 2018 and 2019, respectively. The Group's NPL ratio and NPLs to total cash loans and non-cash loans were 2.6%, 5.1% and 6.8% and 2.1%, 4.1% and 5.6%, respectively, as of 31 December 2017, 2018 and 2019. As of 31 December 2019, 10.3% and 21.2% of the Group's performing cash loans excluding financial leases and factoring receivables were credit card and consumer loans, respectively. The Group's allowance for expected credit losses to NPLs (allowance for probable loan losses to NPLs in 2017 before the implementation of TFRS 9) was 137.4%, 95.2% and 89.4% as of 31 December 2017, 2018 and 2019, respectively (with the figure for 2017 reflecting the different provision rules that were in effect prior to the implementation of TFRS 9 as of 1 January 2018). For the impact of the implementation of TFRS 9 on the Bank's NPLs, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Implementation of TFRS 9 - Transition to TFRS 9."

Starting from 1 January 2018, in order for the restructured non-performing corporate and commercial loans to be classified as Stage 2, all of the following conditions must be met:

- recovery in debt service,

- at least one year should have transpired since the date of restructuring,

- payment of all accrued and overdue amounts by the debtor (interest and principal) since the date of restructuring/refinancing or the date when the debtor is classified as non-performing (the earlier date to be considered) and fulfillment of the payment condition of all overdue amounts as of the date of restructuring/refinancing, and

- collection of all overdue amounts, termination of the reasons for classification of the financial asset as a non-performing receivable (based upon the conditions mentioned above) and having no overdue more than 30 days as of the date of reclassification.

During the follow-up period of at least two years following the date of restructuring/refinancing, if there is a new restructuring/refinancing or a delay of more than 30 days, then the transactions that were non-performing at the beginning of the follow-up period are classified as non-performing again. Performing or non-performing retail loans that are subject to restructuring are removed from the watchlist only if the debt is paid in full.

Corporate and commercial companies for which financial assets have been restructured and refinanced can be removed from the watchlist when all of the following conditions are met:

- after a thorough review of the company's financial data and its owners' equity position, it is not anticipated that the owner(s) of the company will face financial difficulties and it is assessed that the restructured debt will be paid on time (starting from the date when the debt is restructured, all due principal and interest payments will be made on time), and

- at least two years shall have transpired since the date of restructuring (or, if it is later, the date of removal from non-performing loan category), at least 10% (or the ratio then specified in the applicable law) of the total principal amount at the time of the restructuring/refinancing shall be paid and no overdue amount (principal and interest) shall remain at the date of the restructuring/refinancing.

In addition, when the conditions that trigger a transfer to Stage 2 are no longer met, the exposure is transferred to Stage 1. If the credit risk on financial assets for which lifetime expected credit losses have been recognised subsequently improves so that the requirement for recognising lifetime expected credit losses is no longer met, then the loss allowance is measured at an amount equal to the 12-month expected credit losses (with a resulting gain recognised in profit or loss).

Analysis of the Allowance for Loan Losses

The following table sets forth an analysis of the movements in the allowance for expected credit losses (before the implementation of TFRS 9 on 1 January 2018, allowance for probable loan losses) on loans and advances to customers for the Group for each year indicated below:

	2019[1]			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	(TL thousands)			
Balances at beginning of period	**942,150**	**4,027,289**	**8,124,589**	**13,094,028**
Additions during the period (+)	2,011,898	5,584,149	4,713,858	12,309,905
Disposal (-)	(2,511,214)	(3,178,773)	(1,080,557)	(6,770,544)
Debt sale (-)	-	-	(1,025,130)	(1,025,130)
Write-offs (-)	(133)	(8)	(874,821)	(874,962)
Transfer to Stage 1	1,276,145	(1,270,029)	(6,116)	-
Transfer to Stage 2	(520,603)	552,520	(31,917)	-
Transfer to Stage 3	(7,050)	(1,957,492)	1,964,542	-
Foreign currency differences	35,939	275,927	398,486	710,352
Balances at end of period	**1,227,132**	**4,033,583**	**12,182,934**	**17,443,649**

(1) Includes expected credit losses for lease and factoring receivables.

	2018[1]			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	(TL thousands)			
Balances at beginning of period	**908,210**	**3,531,388**	**4,512,355**	**8,951,953**
Additions during the period (+)	1,665,196	5,005,345	3,111,983	9,782,524
Disposal (-)	(2,365,129)	(1,117,884)	(952,422)	(4,435,435)
Debt sale (-)	(649)	-	(351,667)	(352,316)
Write-offs (-)	-	-	(2,254,607)	(2,254,607)
Transfer to Stage 1	1,234,803	(1,227,561)	(7,242)	-
Transfer to Stage 2	(570,081)	612,034	(41,953)	-
Transfer to Stage 3	(5,805)	(3,920,918)	3,926,723	-
Foreign currency differences	75,605	1,144,885	181,419	1,401,909
Balances at end of period	**942,150**	**4,027,289**	**8,124,589**	**13,094,028**

(1) Includes expected credit losses for lease and factoring receivables.

	2017			
	Corporate/ Commercial Loans	**Consumer Loans**	**Credit Cards**	**Total**
	(TL thousands)			
Balances at beginning of period	**2,320,019**	**1,483,459**	**987,611**	**4,791,089**
Additions, recoveries and reversals, (net) (+)	564,320	312,812	229,498	1,106,630
Write-offs (-)	(564,969)	(251,182)	(265,256)	(1,081,407)
Balances at end of period	**2,319,370**	**1,545,089**	**951,853**	**4,816,312**

The amount of the net additions to the allowance charged to the income statement and (following a change to the presentation of the financial statements as per new rules introduced by the BRSA) statement of profit or loss were TL 1,106,630 thousand in 2017, TL 6,748,998 thousand in 2018 and TL 6,249,713 thousand in 2019.

V. Deposits

As of 31 December 2019, the Group's major source of funds for its lending and investment activities were deposits, which accounted for 74.0% of the Group's total liabilities (compared to 69.3% as of 31 December 2018 and 63.8% as of

31 December 2017). Funds borrowed accounted for 6.8% of total liabilities as of 31 December 2019, compared to 9.5% of total liabilities as of 31 December 2018, which was down from 15.0% as of 31 December 2017. Other sources of funding include interbank money markets, securities issued and subordinated debts.

The following table sets out the Group's deposits and other sources of funding as of the indicated dates:

	As of 31 December					
	2017		**2018**		**2019**	
	(TL thousands, except percentages)					
Deposits	200,773,560	69.2%	244,237,777	75.6%	277,277,325	80.4%
Funds borrowed	47,104,719	16.2%	33,339,727	10.3%	25,622,059	7.4%
Interbank money markets	18,637,856	6.4%	2,634,590	0.8%	1,786,861	0.5%
Securities issued[(1)]	20,794,452	7.2%	39,223,693	12.1%	35,368,830	10.3%
Subordinated debts	2,849,471	1.0%	3,977,018	1.2%	4,729,707	1.4%
Total	**290,160,058**	**100.0%**	**323,412,805**	**100.0%**	**344,784,782**	**100.0%**

(1) Includes financial liabilities measured at fair value through profit or loss.

Deposits

The Group's deposits consist of demand and time deposits. Current accounts generally bear no interest and can be withdrawn upon demand. For time deposits, different interest rates are paid on the various types of accounts offered by the Group. The Group's deposits mainly comprise foreign currency-denominated deposits and Turkish Lira-denominated saving and commercial deposits.

The following table sets out a breakdown of the Group's deposits by composition as of the indicated dates:

	As of 31 December		
	2017	**2018**	**2019**
		(TL thousands)	
Foreign currency	109,187,043	132,709,926	155,551,201
Saving	59,721,066	69,535,761	74,772,332
Commercial	22,997,202	26,638,996	31,765,607
Bank deposits	1,625,822	5,383,118	2,668,751
Public and other	7,242,427	9,969,976	12,519,434
Total	**200,773,560**	**244,237,777**	**277,277,325**

The following table sets out a breakdown of the Bank's deposits by composition as a daily average during the indicated periods (excluding expense accruals) and the average interest rate paid thereon:

	2017		2018		2019	
	Average Deposits	**Average Interest Rate**	**Average Deposits**	**Average Interest Rate**	**Average Deposits**	**Average Interest Rate**
	(TL thousands, except percentages)					
Demand deposits[1]	**40,906,841**	**0.00%**	**49,880,629**	**0.00%**	**61,606,969**	**0.00%**
Foreign currency	21,620,316	0.00%	28,426,512	0.00%	38,315,711	0.00%
From banks	—	—	—	—	—	—
From governments and official institutions	—	—	—	—	—	—
From other customers	21,620,316	0.00%	28,426,512	0.00%	38,315,711	0.00%
Turkish Lira	19,286,525	0.01%	21,454,117	0.01%	23,291,258	0.00%
From banks	223,565	0.00%	260,822	0.00%	308,121	0.00%
From governments and official institutions	1,065,671	0.00%	1,579,658	0.00%	1,583,791	0.00%
From other customers	17,997,289	0.00%	19,613,637	0.00%	21,399,346	0.00%
Savings deposits	**45,108,480**	**9.70%**	**52,934,247**	**14.44%**	**56,731,452**	**15.75%**
Foreign currency	—	—	—	—	—	—
Turkish Lira	45,108,480	0.00%	52,934,247	0.00%	56,731,452	0.00%
From banks	—	—	—	—	—	—
From governments and official institutions	—	—	—	—	—	—
From other customers	45,108,480	9.70%	52,934,247	14.44%	56,731,452	15.75%
Time Deposits	**104,218,423**	**3.84%**	**128,197,455**	**5.50%**	**127,902,176**	**5.82%**
Foreign currency	77,769,237	1.95%	94,731,574	2.50%	91,734,488	1.98%
From banks	650,082	0.00%	727,081	0.00%	113,750	0.00%
From governments and official institutions	—	—	—	—	—	—
From other customers	77,119,155	0.00%	94,004,493	0.00%	91,620,738	0.00%
Turkish Lira	26,449,186	9.39%	33,465,881	14.00%	36,167,688	15.56%
From banks	592,525	0.00%	634,329	0.00%	348,952	0.00%
From governments and official institutions	46,228	0.00%	34,572	0.00%	60,427	0.00%
From other customers	25,810,433	0.00%	32,796,980	0.00%	35,758,309	0.00%
Total	**190,233,743**	4.40%	**231,012,331**	6.36%	**246,240,597**	6.65%

(1) Demand deposits generally do not bear interest; *however*, there are occasional exceptions negotiated with customers such as corporations with large deposits.

The following table sets out by maturity the amount outstanding of the Bank's time deposits of US$100,000 or more (or its equivalent) as of 31 December 2019:

	3 months or less	Over 3 months through 6 months	Over 6 months through 12 months	Over 12 months
	(TL thousands)			
Deposits over U.S. $100,000				
Foreign currency	59,239,343	1,564,437	1,873,208	3,077,060
Turkish Lira	40,119,272	227,447	503,134	5,805,891

The Group's deposits are comprised of demand and time deposits. The Group's deposits increased by 13.5% to TL 277,277,325 thousand as of 31 December 2019 compared to TL 244,237,777 thousand as of 31 December 2018, which itself was a 21.6% increase from TL 200,773,560 thousand as of 31 December 2017.

The following table sets out certain information relating to deposits as of the indicated dates:

	As of 31 December		
	2017	2018	2019
		(TL thousands)	
Demand deposits	54,284,609	63,398,646	88,870,838
Time deposits	146,488,951	180,839,131	188,406,487
Total	**200,773,560**	**244,237,777**	**277,277,325**

The following table sets out certain information relating to the deposits in Turkish currency and foreign currency as of the indicated dates:

	As of 31 December[1]					
	2017		2018		2019	
			(TL thousands, except percentages)			
Turkish Lira deposits	91,586,517	45.6%	111,527,851	45.7%	121,726,124	43.9%
Foreign currency deposits	109,187,043	54.4%	132,709,926	54.3%	155,551,201	56.1%
Total	**200,773,560**	**100.0%**	**244,237,777**	**100.0%**	**277,277,325**	**100.0%**

(1) Gold deposits included under deposits in the Group's BRSA Financial Statements are presented under other liabilities.

In 2019, the share of foreign currency deposits in total deposits increased due to a strong trend towards dollarisation during the year during the decline in the Turkish Lira; *however*, the Group managed to increase its Turkish Lira deposit base and held a share of Turkish Lira deposits of 43.9% as of 31 December 2019.

The following table sets out the maturity of deposits made with the Group by amount as of the indicated dates:

	As of 31 December		
	2017	2018	2019
		(TL thousands)	
Three months or less	170,302,261	198,784,824	248,016,829
Over three months through 12 months	14,122,796	25,362,435	12,160,113
Over one year	16,291,011	20,042,813	17,063,405
Accumulating Deposits	57,492	47,705	36,978
Total	**200,773,560**	**244,237,777**	**277,277,325**

VI. Return on Equity and Assets

The following table sets out certain of the Group's selected financial ratios and other data for the indicated periods:

	2017	2018	2019
		(TL thousands, except percentages)	
Average total assets	340,161,190	400,060,338	421,330,642
Average shareholders' equity	39,085,286	45,164,334	51,202,307
Average shareholders' equity as a percentage of average total assets	11.5%	11.3%	12.2%
Return on average total assets	1.9%	1.7%	1.5%
Return on average shareholders' equity	16.3%	14.8%	12.2%

VII. Funds Borrowed and Certain Other Liabilities

Funds Borrowed

The following table sets out a breakdown of funds borrowed by the Group from banks outstanding as of the indicated dates by maturity profile:

	As of 31 December		
	2017	**2018**	**2019**
		(TL thousands)	
Short-term..	6,457,015	5,185,663	4,318,619
Medium- and long-term....................	40,647,704	28,154,064	21,303,440
Total	**47,104,719**	**33,339,727**	**25,622,059**

The Bank's management believes that the changes in the short- and long-term debts described in the table above are consistent with the Group's strategy, including to diversify the sources of non-deposit funding.

The following table sets out certain information as to the currency of the Group's funds borrowed from banks outstanding as of the indicated dates:

	As of 31 December					
	2017		**2018**		**2019**	
			(TL thousands, except percentages)			
Turkish currency......................	1,134,258	2.4%	1,185,677	3.6%	2,687,955	10.5%
Foreign currency......................	45,970,461	97.6%	32,154,050	96.4%	22,934,104	89.5%
Total.................................	**47,104,719**	**100.0%**	**33,339,727**	**100.0%**	**25,622,059**	**100.0%**

The following table sets out a breakdown of the Bank's borrowings, including securities issued and subordinated debts (for short-term borrowings, including the short-term portion of long-term borrowings), outstanding as of the indicated dates (excluding expense accruals) and the maximum amount in each category outstanding at any month-end during the indicated year (short-term being of one year or less):

	As of 31 December					
	2017		**2018**		**2019**	
	Amount	**Maximum Month-end Amount**	**Amount**	**Maximum Month-end Amount**	**Amount**	**Maximum Month-end Amount**
			(TL thousands)			
Short-term borrowings from banks and other institutions	1,823,593	3,476,122	1,635,630	1,925,468	1,364,981	1,900,432
Foreign currency.............	*1,590,030*	*3,110,910*	*1,231,097*	*1,520,935*	*587,496*	*655,713*
Turkish Lira.....................	*233,563*	*365,212*	*404,533*	*404,533*	*777,485*	*1,244,719*
Long-term borrowings...........	60,572,251	60,572,251	66,307,131	97,344,423	58,462,802	77,148,280
Foreign currency.............	*53,185,430*	*53,185,430*	*62,657,773*	*88,919,500*	*7,304,708*	*7,866,995*
Turkish Lira.....................	*7,386,821*	*7,386,821*	*3,649,358*	*8,424,923*	*51,158,094*	*69,281,285*
Total	**62,395,844**	**64,048,373**	**67,942,761**	**99,269,891**	**59,827,783**	**79,048,712**

The following table sets out a breakdown of the Bank's approximate average daily borrowings for the indicated years and the approximate weighted average interest rate thereon:

	2017		**2018**		**2019**	
	Average Amount	**Interest Rate**	**Average Amount**	**Interest Rate**	**Average Amount**	**Interest Rate**
			(TL thousands, except percentages)			
Short-term borrowings from banks and other institutions	11,263,060	8.26%	5,432,903	9.36%	2,754,556	7.31%
Foreign currency	*3,767,354*	*0.78%*	*1,792,847*	*1.99%*	*1,227,009*	*2.57%*
Turkish Lira	*7,495,706*	*12.02%*	*3,640,056*	*12.98%*	*1,527,547*	*13.21%*
Long-term borrowings...........................	49,397,655	5.01%	62,912,981	*6.04%*	61,736,107	6.55%
Foreign currency	*43,450,970*	*4.15%*	*57,139,853*	*5.12%*	*5,219,605*	*5.11%*
Turkish Lira	*5,946,685*	*11.28%*	*5,773,128*	*15.23%*	*56,516,502*	*22.15%*
Total	**60,660,715**	**5.61%**	**68,345,884**	**6.31%**	**64,490,663**	**6.58%**

The following tables set out a description of the Group's material long-term funds borrowed as of the indicated dates (with many of the indicated interest rates being based upon a floating rate and thus re-set periodically):

	As of 31 December 2019			
	Interest rate	**Latest maturity**	**Amount in original currency**	**Outstanding Amount**
			(millions)	*(TL thousands)*
ICBC	4%	2020	US$300	1,776,235
EIB I+V	3-4%	2024	US$214	1,265,281
EIB III	9-12%	202	TL1,059	1,058,833
Proparco	2-3%	2028	€118	786,680
IFC	3%	2024	€84	558,309
EBRD-I	20%	2023	TL271	270,500
EFSE	2-3%	2023	€40	262,527
İşbank AG	2-3%	2022	€39	259,133
EIB VI	1%	2023	€22	147,952
Akbank AG	3%	2022	€21	139,663
EBRD-II	1%	2025	US$8	45,973
IFC	5%	2023	RON24	33,040
Others				14,699,314
Total				**21,303,440**

	As of 31 December 2018			
	Interest rate	**Latest maturity**	**Amount in original currency**	**Outstanding Amount**
			(millions)	*(TL thousands)*
ICBC	5%	2020	US$250	1,317,466
Syndicated Loan II	5%	2019	US$180	948,582
ING DIBA	3-4%	2020	US$149	785,892
EIB I+V	3-4%	2023	US$149	785,306
Proparco	2%	2028	€100	602,188
Bilateral Loan I	5%	2019	US$100	526,990
EIB II, III and IV	9%	2020	TL494	493,945
Bilateral Loan II	5%	2019	US$50	263,495
EFSE	3%	2022	€28	168,412
OPIC	6%	2019	US$14	75,887
EBRD-II	1%	2025	US$9	48,359
Others				22,137,542
Total				**28,154,064**

	As of 31 December 2017			
	Interest rate	**Latest maturity**	**Amount in original currency**	**Outstanding Amount**
			(millions)	*(TL thousands)*
DPR Future Flow Transaction XVI	4%	2034	US$1,000	3,775,800
DPR Future Flow Transaction XVII	4%	2034	US$550	2,076,690
Deutsche Bank AG II	3%	2019	US$500	1,887,900
DPR Future Flow Transaction XVIII	3-4%	2019	US$420	1,583,386
DPR Future Flow Transaction XIV	4%	2026	US$349	1,317,189
DPR Future Flow Transaction XVIII	3%	2023	US$286	1,078,799
DPR Future Flow Transaction XXII	4%	2022	US$250	943,950
ICBC	4%	2020	US$250	930,077
Syndicated Loan II	3%	2019	US$180	679,644
ING DIBA	2%	2019	US$161	654,264
Syndicated Loan I	3%	2018	US$150	565,158
DPR Future Flow Transaction XX	3%	2021	US$150	563,390
Bilateral Loan I	4%	2019	US$145	547,491
Proparco	2%	2028	€100	450,670
DPR Future Flow Transaction XXI	1%	2021	€90	407,610
DPR Future Flow Transaction XIX	3%	2027	US$95	356,515
EIB I	2-4%	2022	US$92	348,531
EIB V	3%	2023	US$79	298,279
DPR Future Flow Transaction XXI	1%	2021	€63	283,063
DPR Future Flow Transaction XIX	3%	2020	US$75	281,933
DPR Future Flow Transaction XX	3%	2021	US$60	224,892
EIB III	10%	2020	TL219	218,513
EIB II	9%	2019	TL206	206,250
Bilateral Loan II	4%	2019	US$50	188,790
DPR Future Flow Transaction XX	3%	2021	US$49	187,410
DPR Future Flow Transaction XX	3%	2021	US$49	187,410
DPR Future Flow Transaction XII	1%	2022	€39	178,669
DPR Future Flow Transaction XII	1%	2022	€39	178,669
DPR Future Flow Transaction XX	1%	2021	€50	178,597
DPR Future Flow Transaction XV	3%	2018	US$44	165,191
EFSE	3%	2022	€36	164,493
DPR Future Flow Transaction XV	2%	2018	€34	152,854
DPR Future Flow Transaction IX	1%	2018	€26	116,941
OPIC	4%	2019	US$29	108,744
EIB-IV	9%	2019	TL69	68,958
EBRD-II	1%	2025	US$11	39,980
Others				19,051,004
Total				**40,647,704**

The Group's short-term funds borrowed included the following syndicated loan facilities as of 31 December 2017, 2018 and 2019:

(a) as of 31 December 2017: two one year-syndicated loan facilities to be utilised for general trade finance purposes including export and import contracts, in two tranches of: (i) US$468,000,000 and €805,500,000 with rates of Libor + 1.15% and Euribor + 1.05% *per annum*, respectively, and (ii) US$405,000,000 and €648,500,000 with rates of Libor + 1.05% and Euribor + 0.95% *per annum*, respectively,

(b) as of 31 December 2018: two one year-syndicated loan facilities to be utilised for general trade finance purposes, including export and import contracts, in two tranches of: (i) US$457,000,000 and €670,500,000 with rates of Libor + 1.00% and Euribor + 0.90% *per annum*, respectively, and (ii) US$249,000,000 and €463,500,000 with rates of Libor + 2.00% and Euribor + 1.90% *per annum*, respectively, and

(c) as of 31 December 2019: two one year-syndicated loan facilities to be utilised for general trade finance purposes, including export and import contracts, in two tranches of: (i) US$326,000,000 and €408,750,000 with rates of Libor + 2.00% and Euribor + 1.90% *per annum*, respectively, and (ii) US$229,500,000 and €518,800,000 with rates of Libor + 1.85% and Euribor + 1.70% *per annum*, respectively.

Interbank Money Markets

Interbank money markets includes Borsa İstanbul money market takings, obligations under repurchase agreements and interbank money market takings as set forth in the table below:

	As of 31 December		
	2017	2018	2019
		(TL thousand)	
Interbank money market takings	15,604,794	—	—
İstanbul Stock Exchange[1] money market takings	1,286,649	1,345,840	321,870
Obligations under repurchase agreements	1,746,413	1,288,750	1,464,991
Total	**18,637,856**	**2,634,590**	**1,786,861**

(1) Borsa İstanbul.

The Group's obligations arising from agreements for the repurchase/resale of securities amounted to TL 1,464,991 thousand as of 31 December 2019, as compared to TL 1,288,750 thousand as of 31 December 2018 (TL 1,746,413 thousand as of 31 December 2017), representing 0.3%, 0.3% and 0.5%, respectively, of the total assets of the Group as of such dates. The securities sold by the Group under such repurchase agreements are recognised in the BRSA Financial Statements as being owned by the Group, but subject to a pledge (see II.C. (Securities Portfolio - Securities Portfolio Concentrations) above).

Securities Issued

In 2019, the Group issued securities in Turkish Lira and foreign currencies. The outstanding amount of such securities amounted to TL 35,368,830 thousand as of 31 December 2019 and TL 39,223,693 thousand as of 31 December 2018. The following table sets out a breakdown of securities issued by the Group as of the indicated dates by maturity profile:

	As of 31 December					
	2017		2018		2019	
	Short Term	Medium and Long-Term	Short Term	Medium and Long-Term	Short Term	Medium and Long-Term
			(TL thousands)			
Nominal	4,065,669	17,392,202	1,995,155	25,538,526	4,832,936	17,914,860
Cost	3,926,455	17,153,577	1,901,820	25,449,062	4,822,428	17,839,621
Carrying Value	4,003,253	16,791,199	1,953,147	24,958,316	4,825,540	16,200,997

Recent Indebtedness

The Bank issues, and may issue in the future, from time to time: (a) additional Series of Notes under the Programme, which (as permitted by the Programme) are, and in the future may be, in any currency, with any tenor and with any interest rate, which issuances may be listed or unlisted, (b) additional series under its covered bond programme, which might be in any currency, with any tenor and with any interest rate, which issuances may be listed or unlisted, and (c) other obligations. The Bank might also incur, from time to time, additional obligations under its "diversified payment rights" programme and/or similar programmes, which might be in any currency, with any tenor and with any interest rate.

Subordinated Debts

The following tables set out a description of the Group's subordinated debts (including expense accruals) as of the indicated dates.

	As of 31 December 2019		
	Latest Maturity	Interest Rates	Carrying Value
	(TL thousands, except percentages)		
Subordinated debt of US$750 million	2027	6.125%	4,468,229
Subordinated debt of TL 252.9 million	2029	TLREF + 1.30%	261,478

	As of 31 December 2018		
	Latest Maturity	Interest Rates	Carrying Value
	(TL thousands, except percentages)		
Subordinated debt of US$750 million	2027	6.125%	3,977,018

	As of 31 December 2017		
	Latest Maturity	Interest Rates	Carrying Value
	(TL thousands, except percentages)		
Subordinated debt of US$750 million	2027	6.125%	2,849,471

On 23 May 2017, the Bank raised US$750 million in subordinated debt, which has a term of 10 years due May 2027, with its first Basel III-compliant Tier 2 issuance in the international capital market. On 9 October 2019, the Bank raised TL 252.9 million in subordinated debt, which debt has a term of 10 years and is due in October 2029.

Non-Cash Loans and Other Contingent Liabilities

The Group enters into certain financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of its customers. These instruments, which include non-cash loans (letters of guarantee, acceptance credits, letters of credit and other guarantees and sureties) and other commitments and contingencies, involve varying degrees of credit risk and are not reflected in the Group's balance sheet. The Group's maximum exposure to credit losses for letters of guarantee and acceptance credits and letters of credit is represented by the contractual amount of these transactions. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements.

The following table sets out certain details of the Group's non-cash loans as of the indicated dates:

	As of 31 December		
	2017	2018	2019
		(TL thousands)	
Letters of guarantee	39,689,501	50,173,770	50,427,390
Letters of credit	14,769,516	14,685,922	10,676,483
Bills of exchange and acceptances	1,550,650	2,788,829	1,579,043
Other guarantees and endorsements	185,727	66,907	74,179
Total	**56,195,394**	**67,715,428**	**62,757,095**

As of 31 December 2019, non-cash loans of the Group decreased by 7.3% to TL 62,757,095 thousand from TL 67,715,428 thousand as of 31 December 2018, itself, an increase of 20.5% from TL 56,195,394 thousand as of 31 December 2017. The Group issues letters of guarantee, letters of credit, acceptance credits and other payment commitments arising in a wide variety of transactions.

As of 31 December 2019, the Group's commitments for unused credit limits and promotions of credit cards, checks and loans to customers, and commitments for loan granting and other revocable and irrevocable commitments amounted to

TL 77,012,810 thousand, an increase of 17.5% from TL 65,539,928 thousand as of 31 December 2018, itself an increase of 13.8% compared to TL 57,591,889 thousand as of 31 December 2017.

Derivative Transactions

Forward foreign exchange contracts are agreements to purchase or sell a specific quantity of a foreign currency or precious metals at an agreed-upon price with delivery and settlement on a specified future date. Such contracts include only deliverable contracts. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency exchange rates.

The Group's outstanding derivative transactions (*e.g.* spots, forwards, swaps, future rate agreements, options and forward agreements for gold trading) amounted to TL 377,209,517 thousand as of 31 December 2017, TL 360,581,304 thousand as of 31 December 2018 and TL 354,979,893 thousand as of 31 December 2019.

The following table sets out the breakdown of notional amounts of outstanding derivative contracts by type of transaction as of the indicated dates:

	As of 31 December		
	2017	**2018**	**2019**
		(TL thousands)	
Derivative Financial Instruments held for Risk Management			
A. Total Derivative Financial Instruments held for Risk Management	**45,432,524**	**63,513,233**	**65,947,571**
Fair value hedges	18,369,318	23,405,554	21,442,958
Cash flow hedges	27,063,206	40,107,679	44,504,613
Foreign Currency related Derivative Transactions (I)	**270,298,951**	**206,307,889**	**190,548,764**
Currency forwards – Purchases	17,198,110	12,310,399	8,095,692
Currency forwards – Sales	17,370,106	12,503,861	7,991,909
Currency swaps – Purchases	105,371,319	73,705,134	76,871,544
Currency swaps – Sales	101,078,109	69,931,117	73,578,681
Currency options – Purchases	14,387,810	17,278,564	11,353,535
Currency options – Sales	14,738,436	18,771,295	11,990,502
Currency futures – Purchases	65,117	873,470	336,092
Currency futures – Sales	89,944	934,049	330,809
Interest Rate related Derivative Transactions (II)	**46,550,471**	**72,250,033**	**78,504,759**
Interest rate swaps – Purchases	18,131,550	29,339,477	35,374,771
Interest rate swaps – Sales	18,131,550	29,339,477	35,374,771
Interest rate options – Purchases	9,247,686	11,921,185	6,649,121
Interest rate options – Sales	988,997	1,554,239	888,120
Securities options – Purchases	9,414	24,665	87,880
Securities options – Sales	22,395	52,924	100,492
Interest rate futures – Purchases	—	—	—
Interest rate futures – Sales	18,879	18,066	29,604
Other Trading Derivatives (III)	14,927,571	18,510,149	19,978,799
B. Total Trading Derivatives (I+II+III)	**331,776,993**	**297,068,071**	**289,032,322**
Total Derivative Transactions (A+B)	**377,209,517**	**360,581,304**	**354,979,893**