

**Türkiye Halk Bankası Anonim Şirketi  
And Its Subsidiaries**

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

## **Türkiye Halk Bankası Anonim Şirketi and Its Subsidiaries**

### **TABLE OF CONTENTS**

	<b>Page</b>
Consolidated statement of financial position	1
Consolidated statement of profit or loss and other comprehensive income	2-3
Consolidated statement of changes in equity	4
Consolidated statement of cash flows	5
Notes to the consolidated year end financial statements	7-76

## INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Türkiye Halk Bankası A.Ş.

### Qualified Opinion

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

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

### Basis for Qualified Opinion

During the current period, the Group reversed the total amount of general reserve amounting to TRY 451.000 thousand which was booked as of 31 December 2018. If the mentioned general provision had not been made in the prior period and not reversed in the current period, the prior periods’ income would be higher by TRY 451.000 thousand and the net profit for the period would be lower by TRY 451.000 thousand as at 31 December 2019.

The Group reclassified the government bonds amounting to TRY 18.965.006 thousand, which were previously classified under financial assets at fair value through other comprehensive income according to the business model prepared in accordance with IFRS 9, into financial assets measured at amortised cost and reversed the marketable securities revaluation fund accumulated under other comprehensive income or loss to be reclassified through profit or loss amounting to TRY 2.229.977 thousand on 23 May 2018. The reclassification constitutes a departure from IFRS 9. The government bonds reclassified into financial assets measured at amortised cost as at 31 December 2019 amounted to TRY 17.116.550 thousand. If such classification were not made, total assets and shareholders’ equity excluding tax effect would be lower by TRY 1.119.260 thousand as at 31 December 2019.

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

## Emphasis of Matter

As detailed in Note 39, we draw attention to the following:

On 15 October 2019, an indictment prepared by the New York Southern District Attorney General of the United States (“US”) Department of Justice for violation of Iranian sanctions and a lawsuit was filed against the Bank in the New York Southern District Court (“District Court”). The lawsuit action at the District Court is ongoing.

In addition, the appeal process of the case which resulted in conviction for the defendant former executive of the Bank, who was released on 19 July 2019 and returned back to Turkey, is ongoing.

At this stage, the Bank's Management stated that there were no penalty, sanction or measure arising from the ongoing case against the Bank. There is an uncertainty with respect to any decisions by the US authorities that may adversely affect the financial position of the Bank. No provision has been made in the accompanying consolidated financial statements related to these matters. Our opinion is not modified in respect of these matters.

## Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
<p><b><i>Impairment of loans in accordance with IFRS 9</i></b></p> <p>Impairment of loans and receivables is a key area of judgement for the management. The Group has the total loans and receivables amounting to TRY 306.800.841 thousands, which comprise 65% of the Group's total assets in its consolidated financial statements and the total provision for impairment amounting to TRY 12.031.340 as at 31 December 2019.</p> <p>As of 1 January 2018, the Group started to recognize provisions for impairment in accordance with the IFRS 9 requirements. Applied accounting policies are explained in detail in the Note 4.15. The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions.</p> <p>The Group exercises significant decisions using judgement, interpretation and assumptions over calculating loan impairments. These judgements, interpretations and assumptions are key in the development of the financial models built to measure the expected credit losses on loans.</p> <p>There is a potential risk of impairment losses/provisions provided/will be provided may not meet the requirements of the IFRS 9. Failure in determining the loans and receivables that are impaired and not recording the adequate provision for these impaired loans is the aforementioned risk. Accordingly, impairment of loans is considered as a key audit matter.</p>	<p>As part of our audit work, the following procedures were performed:</p> <p>We assessed and tested the design, implementation and operating effectiveness of key controls applied by the Group with respect to classification of loans and determination and calculation of impairments. Our information system experts have also participated to perform these procedures.</p> <p>We have read and analysed the relevant contract terms to assess management's accounting policy and classification of the instrument for selected samples.</p> <p>We have performed loan review procedures on selected samples of loans and receivables with the objective of identifying whether the loss event had occurred and whether the provision for impairment has been recognized in a timely manner within the framework of the provisions of the relevant legislation.</p> <p>We have tested relevant inputs and assumption used by the management in each stage of the expected credit loss calculation by considering whether the inputs and assumptions appear reasonable, the relationship between the assumptions and whether the assumptions are interdependent and internally consistent, whether the assumptions appropriately reflect current market information and collections, and whether the assumptions appear reasonable when considered collectively with other assumptions, including those for the same accounting estimates and those for other accounting estimates.</p>

<p>Related explanations relating to the impairment of loans and receivables are presented in Note 11.</p>	<p>We have tested historical loss data to validate the completeness and accuracy of key parameters.</p> <p>We have tested whether the model is applied to appropriate groupings of assets which share credit risk characteristics and whether the historical loss rates were incurred under economic conditions representative of those that may exist during the assets' exposure periods.</p> <p>We tested the application of the model to the relevant inputs and the mathematical integrity of each stage of the expected credit loss calculation.</p> <p>Based on our discussions with the Group management, we evaluated whether the key assumptions and other judgements underlying the estimations of impairments were reasonable.</p> <p>Our specialists are involved in all procedures related to models and assumptions.</p> <p>In addition, we have evaluated the appropriateness of specific impairment provision with supportable input for non-performing loans which are assessed on individual basis by the Group. Based on our discussions with the Group management, we have evaluated and challenged whether the key assumptions and other judgements underlying the estimation of impairment were reasonable.</p> <p>We have reviewed disclosures made within the IFRS 9 framework in the consolidated financial statements of the Group with respect to loans and receivables and related impairment provisions.</p>
<p><b>Key Audit Matter</b></p>	<p><b>How the matter was addressed in the audit</b></p>
<p><b>Valuation of Pension Fund Obligations</b></p> <p>Defined benefit pension plan that the Bank provides to its employees is managed by Türkiye Halk Bankası AŞ Emekli Sandığı Vakfı and T.C. Ziraat Bankası ve T. Halk Bankası Çalışanları Emekli Sandığı Vakfı ("Plan") which were established by the 20th provisional article of the Social Security Law numbered 506 ("Law").</p> <p>As disclosed in Note 4.18 to the consolidated financial statements, the Plan is composed of benefits which are subject to transfer to the Social Security Foundation ("SSF") as per the Social Security Law no.5510 provisional article 20, and other social rights and pension benefits provided by the Bank that are not transferable to the SSF. The Council of Ministers has been authorized to determine the transfer date. Following the transfer, the funds and the institutions that employ the funds' members will cover the non-transferable social rights and pension benefits provided under the Plan even if it is included in foundation deed.</p>	<p>Our audit work included the following procedures:</p> <p>We involved external experts (actuary) in our audit team to evaluate the assumptions used in the calculation of the pension obligations and the appropriateness of the estimates.</p> <p>It has been tested whether the plan assets meet plan obligations in accordance with the methods and assumptions used.</p> <p>In addition, reconciliations and tests were carried out through sampling of the accuracy of the data provided to the Bank's actuary.</p> <p>We have assessed whether there is a significant change in the actuarial assumptions, methods, legal regulations and legislation used in the calculations and whether the assumptions are reasonable.</p>

<p>As of 31 December 2019, the Bank's transferrable liabilities are calculated by an independent actuary using the actuarial assumptions regulated by the Law, and in accordance with the Decision of the Council of Ministers announced in the Official Gazette dated 15 December 2006 and No.26377. The valuation of the Plan liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, inflation levels, demographic assumptions, and the impact of changes in the Plan. Management uses expert opinion of the independent actuary in assessing uncertainties related to these underlying assumptions and estimates.</p> <p>As described in Note 26 the subjectivity of key judgments and assumptions, plus the uncertainty around the transfer date and basis of the transfer calculation given the fact that the technical interest rate is prescribed under the Law, we considered this a key audit matter.</p>	
<p><b>Key Audit Matter</b></p>	<p><b>How the matter was addressed in the audit</b></p>
<p><b>Information Technologies Audit</b></p> <p>The Group and its finance functions are dependent on the IT-infrastructure for the continuity of its operations, and the demand for technology-enabled business services is rapidly growing in the Group and its subsidiaries. Controls over reliability and continuity of the electronic data processing are within the scope of the information systems internal controls audit. The reliance on information systems within the Group means that the controls over access rights, continuity of systems, privacy and integrity of the electronic data are critical and found to be key area of focus as part of our risk based scoping.</p>	<p>Procedures within the context of our information technology audit work:</p> <p>We identified and tested the Group' controls over information systems as part of our audit procedures.</p> <p>Information generation comprise all layers of information systems including applications, networks, transmission systems and database. The information systems controls tested are categorized in the following areas:</p> <ul style="list-style-type: none"> <li>• Manage security</li> <li>• Manage changes</li> <li>• Manage operations</li> </ul> <p>We selected high-risk areas as, database logging and change management control activities, to prevent and detect whether accesses to financial data had been identified in a timely manner.</p> <p>We tested the accesses and logging controls underlying all applications that have direct or indirect impacts on financial data generation.</p> <p>Automated controls and integration controls are tested to underly and detect changes and accesses in the process of financial data generation.</p> <p>We also tested the appropriateness and accuracy of the information produced by the entity and information used in controls reports as inputs to our controls and outputs generated by the IT components.</p> <p>Finally, we understood and tested the controls over database, network, application and operating system layers of applications.</p>

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

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

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

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

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

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

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

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

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



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

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

The engagement partner on the audit resulting in this independent auditor's report is Hasan Kılıç.

*DRT Bağımsız Denetim ve Şirketler A.Ş.*

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

Istanbul, 29 May 2020



**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF 31 DECEMBER 2019**

(Currency - In thousands of Turkish Lira ("TRY"))

	Notes	31 December 2019	31 December 2018
<b>Assets</b>			
Cash on hand	8	3.861.328	4.591.888
Balances with Central Bank	9	16.702.412	14.074.205
Reserve deposits at Central Bank	9	14.746.070	16.909.521
Due from banks	10	4.250.633	5.209.855
Financial assets at fair value through profit or loss		17.457.755	15.601.016
- Securities		201.682	164.555
- Derivative financial instruments	27	1.151.992	1.062.081
- Collaterals of borrowed securities	29	16.104.081	14.374.380
Loans and receivables	11	306.800.841	258.608.521
Insurance premium receivables	13	13.892	1.302.817
Investment securities:		87.760.696	61.192.513
- Debt and other instruments at FVTOCI	12	15.299.315	4.870.916
- Debt and other instruments at amortised cost	12	72.461.381	56.321.597
Investment in equity-accounted investees	14	499.882	449.370
Property and equipment	15	9.323.015	4.636.507
Intangible assets	16	208.517	185.789
Non-current assets held for sale	17	1.076.418	9.336
Investment properties	19	1.104.463	973.401
Deferred tax assets	25	51.201	103.929
Other assets	20	4.713.469	5.281.321
<b>Total assets</b>		<b>468.570.592</b>	<b>389.129.989</b>
<b>Liabilities</b>			
Deposits from banks	21	27.704.929	31.018.394
Deposits from customers	21	272.932.126	219.530.941
Obligations under repurchase agreements	22	51.975.174	7.571.439
Loan and advances from banks	23	17.376.874	18.148.601
Interbank money market borrowings	24	1.364.167	30.646.830
Derivative financial instruments	27	353.718	410.339
Debt securities issued	28	19.294.132	16.334.300
Borrowed securities	29	16.104.081	14.374.380
Subordinated liabilities	28	12.184.846	6.182.084
Insurance contract liabilities	13	55.117	3.325.812
Lease liabilities		644.059	85
Provisions	26	1.711.874	1.961.935
Income tax payables	25	423.926	46.756
Deferred tax liabilities	25	317.460	455.760
Non-current liabilities held for sale	17	3.184.317	2.030
Other liabilities	26	10.784.492	9.595.494
<b>Total liabilities</b>		<b>436.411.292</b>	<b>359.605.180</b>
<b>Equity</b>			
Share capital	30	2.578.184	2.578.184
Share premium		39.773	39.740
Reserves	31	5.521.500	4.593.842
Retained earnings		23.732.590	22.066.402
<b>Total equity attributable to equity holders of the Bank</b>		<b>31.872.047</b>	<b>29.278.168</b>
Non-controlling interests		287.253	246.641
<b>Total equity</b>		<b>32.159.300</b>	<b>29.524.809</b>
<b>Total liabilities and equity</b>		<b>468.570.592</b>	<b>389.129.989</b>

The notes on pages 7 to 76 are an integral part of these consolidated year end financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR**  
**LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency - In thousands of Turkish Lira ("TRY"))

	Notes	1 January - 31 December 2019	1 January - 31 December 2018
<b>Interest income:</b>			
-Interest income on loans		37.221.483	28.994.809
-Interest income on securities		9.197.377	7.076.242
-Interest income on finance leases		322.356	272.064
-Interest income on deposits at banks		441.098	768.103
-Interest income on other money market placements		69.368	57.991
-Other interest income		417.053	377.199
		<b>47.668.735</b>	<b>37.546.408</b>
<b>Interest expense:</b>			
-Interest expense on deposits		(23.004.497)	(20.294.575)
-Interest expense on other money market deposits		(9.445.246)	(5.795.550)
-Interest expense on borrowings		(552.139)	(769.204)
-Interest expense on debt securities issued		(2.637.772)	(1.553.806)
-Interest expense on finance leases		(96.205)	-
-Other interest expense		(264.155)	(256.471)
		<b>(36.000.014)</b>	<b>(28.669.606)</b>
<b>Net interest income</b>		<b>11.668.721</b>	<b>8.876.802</b>
Fees and commission income	36	3.851.049	2.734.187
Fees and commission expenses	36	(1.134.567)	(799.146)
<b>Net fee and commission income</b>		<b>2.716.482</b>	<b>1.935.041</b>
Net trading income from securities		294.927	33.081
Net trading income / (loss) from derivative financial instruments		(1.473.142)	1.979.161
Foreign exchange gain / (losses), net		(2.049.539)	(1.797.452)
Net impairment losses on financial assets		(2.994.625)	(3.079.004)
Income from insurance operations		264	-
Cost of insurance operations		(26.352)	-
Dividend income		4.601	13.118
Other operating income	34	957.516	652.161
Other operating expenses	35	(6.572.438)	(5.038.796)
Other provision expense		(136.385)	(821.625)
<b>Operating profit</b>		<b>2.390.030</b>	<b>2.752.487</b>
Share of profit of equity-accounted investees		33.538	26.620
<b>Profit before income tax</b>		<b>2.423.568</b>	<b>2.779.107</b>
Income tax charge	25	(312.030)	(250.721)
<b>Profit for the year from continuing operations</b>		<b>2.111.538</b>	<b>2.528.386</b>
Profit for the year from discontinuing operation	18	193.535	169.465
<b>Net profit for the year</b>		<b>2.305.073</b>	<b>2.697.851</b>
<b>Other comprehensive income</b>			
<b>Items that will be never classified to profit or loss:</b>			
Re-measurement of employee termination benefits		(87.021)	24.320
Revaluation differences of property and equipment		206.466	211.669
Related tax		12.943	(10.672)
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Fair value reserve (Debt and other instruments at FVTOCI):			
Change in fair value		239.641	566.586
Amount transferred to profit or loss		303.367	14.225
Foreign currency translation differences		(4.392)	(54.085)
Related tax		(90.898)	(94.925)
<b>Other comprehensive income for the period, net of tax</b>		<b>580.106</b>	<b>657.118</b>
<b>Total comprehensive income for the period</b>		<b>2.885.179</b>	<b>3.354.969</b>

The notes on pages 7 to 76 are an integral part of these consolidated year end financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR**  
**LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

(Currency - In thousands of Turkish Lira ("TRY"))

	<i>Notes</i>	<b>1 January - 31 December 2019</b>	<b>1 January - 31 December 2018</b>
<b>Profit attributable to:</b>			
Equity holders of the Bank		2.279.808	2.673.406
Non-controlling interests		25.265	24.445
<b>Profit for the period</b>		<b>2.305.073</b>	<b>2.697.851</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Bank		2.859.914	3.330.524
Non-controlling interests		25.265	24.445
<b>Total comprehensive income for the period</b>		<b>2.885.179</b>	<b>3.354.969</b>
<b>Basic earnings per share (for full TRY per share)</b>	<b>32</b>	<b>1,8238</b>	<b>2,1387</b>

The notes on pages 7 to 76 are an integral part of these consolidated financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR END 31 DECEMBER 2019**

(Currency - In thousands of Turkish Lira ("TRY"))

	Notes	Total equity attributable to equity holders of the Bank						Non-controlling interests	Total equity
		Share capital	Share premium	Reserves		Retained earnings	Total		
				Fair value reserves	Other reserves				
<b>Balances at 1 January 2018</b>		<b>2.578.184</b>	<b>39.737</b>	<b>(612.931)</b>	<b>4.166.125</b>	<b>19.931.310</b>	<b>26.102.425</b>	<b>210.124</b>	<b>26.312.549</b>
Impact of adopting IFRS 9 & 15 at 1 January 2018	4	-	-	-	-	(147.427)	(147.427)	4	(147.423)
<b>New balances at 1 January 2018</b>		<b>2.578.184</b>	<b>39.737</b>	<b>(612.931)</b>	<b>4.166.125</b>	<b>19.783.883</b>	<b>25.954.998</b>	<b>210.128</b>	<b>26.165.126</b>
<b>Total comprehensive income for the period</b>									
<b>Net profit for the period</b>		-	-	-	-	<b>2.673.406</b>	<b>2.673.406</b>	<b>24.445</b>	<b>2.697.851</b>
<b>Other comprehensive income, net of tax</b>		-	-	-	-	-	-	-	-
Re-measurements of defined benefit plans, net of tax		-	-	-	19.368	-	19.368	-	<b>19.368</b>
Fair value reserve (Available-for-sale financial assets):		-	-	-	-	-	-	-	-
Net change in fair value		-	-	471.661	-	-	471.661	-	<b>471.661</b>
Net amount transferred to profit or loss		-	-	14.225	-	-	14.225	-	<b>14.225</b>
Revaluation differences of property and equipment		-	-	-	205.949	-	205.949	-	<b>205.949</b>
Foreign currency translation differences		-	-	-	(54.085)	-	(54.085)	-	(54.085)
<b>Total other comprehensive income</b>		-	-	<b>485.886</b>	<b>171.232</b>	-	<b>657.118</b>	-	<b>657.118</b>
<b>Total comprehensive income for the period</b>		-	-	<b>485.886</b>	<b>171.232</b>	<b>2.673.406</b>	<b>3.330.524</b>	<b>24.445</b>	<b>3.354.969</b>
<b>Transactions with the owners, recorded directly in equity</b>									
Transfers to other reserves	31	-	-	-	382.896	(208.575)	174.321	1.564	<b>175.885</b>
Dividends to equity holders	31	-	-	-	-	(186.274)	(186.274)	(2.521)	<b>(188.795)</b>
<b>Changes in ownership interests in subsidiaries</b>									
Change in non-controlling interests without a change in control		-	-	-	-	-	-	-	-
Other		-	3	-	634	3.962	4.599	13.025	<b>17.624</b>
<b>Balances at 31 December 2018</b>		<b>2.578.184</b>	<b>39.740</b>	<b>(127.045)</b>	<b>4.720.887</b>	<b>22.066.402</b>	<b>29.278.168</b>	<b>246.641</b>	<b>29.524.809</b>
<b>Balances at 1 January 2019</b>		<b>2.578.184</b>	<b>39.740</b>	<b>(127.045)</b>	<b>4.720.887</b>	<b>22.066.402</b>	<b>29.278.168</b>	<b>246.641</b>	<b>29.524.809</b>
<b>Total comprehensive income for the period</b>									
<b>Net profit for the period</b>		-	-	-	-	<b>2.279.808</b>	<b>2.279.808</b>	<b>25.265</b>	<b>2.305.073</b>
<b>Other comprehensive income, net of tax</b>		-	-	-	-	-	-	-	-
Re-measurements of defined benefit plans, net of tax		-	-	-	(69.617)	-	(69.617)	-	(69.617)
Fair value reserve (Debt and other instruments at FVTOCI):		-	-	-	-	-	-	-	-
Net change in fair value		-	-	148.743	-	-	148.743	-	<b>148.743</b>
Net amount transferred to profit or loss		-	-	303.367	-	-	303.367	-	<b>303.367</b>
Revaluation differences of property and equipment		-	-	-	202.005	-	202.005	-	<b>202.005</b>
Foreign currency translation differences		-	-	-	(4.392)	-	(4.392)	-	(4.392)
<b>Total other comprehensive income</b>		-	-	<b>452.110</b>	<b>127.996</b>	-	<b>580.106</b>	-	<b>580.106</b>
<b>Total comprehensive income for the period</b>		-	-	<b>452.110</b>	<b>127.996</b>	<b>2.279.808</b>	<b>2.859.914</b>	<b>25.265</b>	<b>2.885.179</b>
<b>Transactions with the owners, recorded directly in equity</b>									
Transfers to other reserves	31	-	-	-	612.218	(612.218)	-	-	-
Dividends to equity holders	31	-	-	-	-	(1.402)	(1.402)	1.402	-
<b>Changes in ownership interests in subsidiaries</b>									
Change in non-controlling interests without a change in control		-	-	-	(52.349)	-	(52.349)	-	(52.349)
Other		-	33	-	(212.317)	-	(212.284)	13.945	<b>(198.339)</b>
<b>Balances at 31 December 2019</b>		<b>2.578.184</b>	<b>39.773</b>	<b>325.065</b>	<b>5.196.435</b>	<b>23.732.590</b>	<b>31.872.047</b>	<b>287.253</b>	<b>32.159.300</b>

The notes on pages 7 to 76 are an integral part of these consolidated financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency - In thousands of Turkish Lira ("TRY"))

	Notes	1 January - 31 December 2019	1 January - 31 December 2018
<b>Cash flows from operating activities</b>			
Profit for the period		2.305.073	2.697.851
<b>Adjustments for:</b>			
Depreciation and amortisation	35	515.302	255.187
Net impairment loss on loans and advances	11	3.026.846	2.449.632
Net interest income		(11.668.721)	(8.959.531)
Dividend income		(4.601)	(13.185)
Provision for employee termination benefits	35	105.866	77.464
Net gain on sale of property and equipment		(33.330)	-
Share of profit of equity-accounted investees		(33.538)	(26.620)
Income tax expense	25	312.030	250.721
		<b>(5.475.073)</b>	<b>(3.268.481)</b>
Change in financial assets at fair value through profit or loss		(1.768.837)	(42.439)
Change in due from banks		-	(11.619)
Change in loans and advances		(52.972.613)	(52.235.987)
Change in other assets		(296.035)	(9.389.397)
Change in deposits from banks		(3.408.437)	11.890.000
Change in deposits from customers		53.709.536	43.814.081
Change in loans and advances from banks		(1.269.042)	(4.756.024)
Change in other liabilities		19.098.843	10.236.045
Interest received		42.017.429	33.712.282
Dividends received		4.601	13.185
Interest paid		(36.205.992)	(26.586.389)
Income tax paid		(105.110)	(172.670)
Employee termination benefits paid	26	(52.564)	(36.263)
<b>Net cash used in operating activities</b>		<b>13.276.706</b>	<b>3.166.324</b>
<b>Cash flows from investing activities</b>			
Acquisitions of joint ventures, associates and subsidiaries		(111.070)	(310.473)
Proceeds from sale of joint ventures, associates and subsidiaries		39.375	-
Acquisitions of FVTOCI investment securities		(21.377.381)	(12.081.446)
Proceeds from sale of FVTOCI investment securities		11.592.662	6.051.624
Acquisitions of amortised cost investment securities		(19.959.111)	(17.449.447)
Proceeds from sale of amortised cost investment securities		7.407.102	6.368.539
Acquisitions of property and equipment		(560.278)	(418.990)
Proceeds from sale of property and equipment		699.780	236.886
Other cash (used in)/provided from investing activities		(94.100)	(72.480)
<b>Net cash (used in)/provided from investing activities</b>		<b>(22.363.021)</b>	<b>(17.675.787)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of debt securities		12.282.799	8.553.666
Cash used for repayment of debt securities		(4.478.815)	(2.763.036)
Dividends paid	31	-	(188.795)
Repayment of the lease liabilities		(226.591)	-
<b>Net cash provided from financing activities</b>		<b>7.577.393</b>	<b>5.601.835</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1.508.922)</b>	<b>(8.907.628)</b>
Cash and cash equivalents at 1 January		23.448.588	27.122.992
Effect of change in currency rate fluctuations on cash held		2.353.847	5.233.224
<b>Cash and cash equivalents at 31 December 2019</b>		<b>24.293.513</b>	<b>23.448.588</b>

The notes on pages 7 to 76 are an integral part of these consolidated year end financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**Notes to the consolidated financial statements:**

<b><u>Note description</u></b>	<b><u>Page:</u></b>
1 Activities of the Bank and the Group	7
2 Statement of compliance	8
3 Basis of preparation	8
4 Significant accounting policies	10
5 Financial risk management	27
6 Financial instruments	48
7 Operating segments	50
8 Cash on hand	53
9 Balances with Central Bank	53
10 Due from banks	54
11 Loans and receivables	54
12 Securities portfolio	57
13 Insurance receivables and insurance contract liabilities	58
14 Equity accounted investees	59
15 Property and equipment	60
16 Intangible assets	61
17 Non-current assets held for sale	61
18 Discontinued operations	61
19 Investment properties	62
20 Other assets	63
21 Deposits	63
22 Obligations under repurchase agreements	64
23 Loans and advances from banks	64
24 Interbank money market borrowings	65
25 Taxation	65
26 Other liabilities and provisions	68
27 Derivative financial instruments	70
28 Debt securities issued and subordinated liabilities	71
29 Collaterals of borrowed securities and borrowed securities	71
30 Share capital	72
31 Reserves and dividends paid and proposed	72
32 Earnings per share	72
33 Related parties	73
34 Other operating income	74
35 Other operating expenses	74
36 Fee and commission income and expenses	74
37 Additional cash flow information	74
38 Commitments and contingencies	75
39 Other matters	75
40 Subsequent events	76

# TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency-In thousands of Turkish Lira (“TRY”))

#### 1. Activities of the Bank and the Group

Türkiye Halk Bankası Anonim Şirketi (the “Bank” or “Halkbank”) began its operations in accordance with the law no: 2284 in 1938 and still continues its activities as a public commercial bank. As of 31 December 2019, the Bank operates with a total of 1006 branches consisting of 1000 domestic and 6 foreign branches that are 5 in Turkish Republic of Northern Cyprus (“TRNC”) and 1 in Bahrain. Domestic branches include 41 satellite branches. The Bank has also 3 representative offices that are 1 in England, 1 in Singapore and 1 in Iran. The operations of Türkiye Halk Bankası AŞ and subsidiaries (the “Group”) consists of banking, securities, financial leasing, factoring services, brokerage and insurance services provided primarily to local customers. The consolidated financial statements of the Group include the accounts of the Bank, Halk Sigorta AŞ, Halk Hayat ve Emeklilik AŞ, Halk Yatırım Menkul Değerler AŞ, Halk Finansal Kiralama AŞ, Halk Banka AD, Skopje, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Faktoring AŞ, Halkbank A.D., Beograd, Halk Varlık Kiralama AŞ, Halk Osiguruvanje AD, Skopje, and Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ.

As per the Higher Council of Privatization decision numbered 2006/69 dated 11 August 2006, the state shares were transferred to the Privatization Administration and 99,9% of the Bank shares were decided to be sold before 25 May 2008 using the block sale method. 13th Department of Council of State with its decision numbered 2006/4258 dated 29 November 2006 decided to cease the execution of the High Council of Privatization’s decision numbered 2006/69 dated 11 August 2006.

The first phase of the privatization process of the Bank corresponding to 24,98% was completed in the first week of May 2007 and Halkbank shares were started to be traded on Borsa İstanbul (BIST) as of 10 May 2007.

The second phase of the privatization process of the Bank corresponding to 23,92% of the shares that were previously held by the Privatization Administration was completed on 21 November 2012 and after the second public offering and privatization, the 48,90% of the Bank shares have been traded on BIST.

The shares belonging to the T.C. Prime Ministry Privatization Administration were transferred to the Türkiye Varlık Fonu on 10 March 2017 pursuant to the Decree of the Higher Council for Privatization No. 2017/1 dated 3 February 2017.

In November 2004, the Bank merged with Pamukbank Türk Anonim Şirketi (“Pamukbank”), integrated its operations and IT systems. In 2006, the Bank acquired a controlling share ownership in three companies - Halk Sigorta AŞ, a property, health and casualty insurance company, Halk Hayat ve Emeklilik AŞ, a life insurance company and Halk Yatırım Menkul Değerler AŞ, an equity brokerage services company.

The Bank established Halk Gayrimenkul Yatırım Ortaklığı AŞ (“Halk GYO”) in 2010. Halk GYO’s main line of business is, to form and improve real estate portfolios and to invest in real estate based capital market instruments. Its main operative target is, based on the Capital Markets Board’s (“CMB”) regulation regarding the real estate investment trusts, to invest in capital market instruments based on real estates, real estate projects and rights based on real estates. 28% shares of Halk GYO started to be traded on BIST at 22 February 2013.

Halk Finansal Kiralama AŞ (“Halk Leasing”), was an associate of the Bank with 47,75% of the shares and accounted for according to the equity method until 27 May 2011. The Group obtained the control of Halk Leasing by acquiring 52,24% of the shares and voting interests in the company as of 27 May 2011. As a result, the Group’s equity interest in Halk Leasing has increased from 47,75% to 99,99%. Halk Leasing was established in September 1991 in Turkey and operates under the provisions of the Turkish financial leasing law number 3226.

Halk Banka AD Skopje, formerly Export and Credit Bank AD Skopje is a subsidiary of the Bank. The Group obtained the control of Halk Banka AD, Skopje by acquiring 98,12% of the shares and voting interests of the company as of 8 April 2011 and 8 August 2011. Halk Banka AD Skopje has taken over Ziraat Banka AD Skopje which was a subsidiary of Turkish state bank that operating in Macedonia, through the merger as of 1 October 2012. As a result, the Group’s equity interest in Halk Banka AD, Skopje has increased from 98,12% to 98,78% and as at 31 December 2016 it is 99,03%. Halk Banka AD, Skopje is operating in the Republic of Macedonia. Between 1 January – 31 December 2018, the Bank paid TRY 53.864 for 0,13% shares of Halkbank A.D. Skopje increased its shares to 99,17%. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services. In addition, the Company has been engaged in insurance activities through Halk Osiguruvanje purchased on 28 January 2019. Between 1 January – 31 December 2019, Halk Banka Skopje AD acquired 100% shares of Halk Osiguruvanje A.D. amounting to TRY 19,346.

Halk Faktoring AŞ (“Halk Faktoring”), a subsidiary of the Bank established in 2012, was registered on 6 June 2012. Halk Faktoring’s main line of business is to provide factoring services that include legitimate commercial lending for all domestic and international trade operations.

Halk Yatırım Menkul Değerler AŞ (“Halk Yatırım”), was set up in 1997 to carry out capital markets activities, to purchase and sell capital markets instruments, and to execute stock exchange transactions. The company became a subsidiary in early 2006 when Halkbank bought the shares of Türkiye Halk Bankası Personnel Provident Fund.

# TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency-In thousands of Turkish Lira (“TRY”))

#### 1. Activities of the Bank and the Group (continued)

The Bank obtained the control of Halkbank AD, Beograd by acquiring 76,76% of the shares and voting interests of the company as of 28 May 2015. Its main activities include commercial lending, accepting deposits, foreign exchange transactions, and payment operation services in the country and abroad and retail banking services. On the date of 24 November 2015 Bank’s share has increased into 82,47% by the increase of its capital. As of 31 December 2017, The Bank paid TRY 14.894 for 17,42% shares of Halkbank A.D. Beograd and increased its shareholding 99,89%. Between 1 January - 31 December 2018, the Bank paid TRY 202.726 for 0,11% shares of Halkbank A.D. Beograd increased its shares to 99,99%.

Bileşim Alternatif Dağıtım Kanalları AŞ (“Bileşim AŞ”), a subsidiary of the Bank established in 1998. As of 22 July 2013, the Bank purchased 76% shares of Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri A.Ş. which was the associate of the Bank, from Ziraat Group (the shares of T.C. Ziraat Bank A.Ş. was 61%, the shares of Ziraat Finansal Kiralama A.Ş. was 15%) and thus the company became the Bank’s subsidiary. Bileşim AŞ’s main line of business is to provide ATM operations, call center services, merchant operations and printing office operations to domestic and international customers.

Halk Varlık Kiralama A.Ş. (“Halk Varlık”) was established on 3 October 2017 with the purpose of issuing “Lease Certificate” in accordance with the Capital Markets Board Law No. 6362, the CMB Communiqué and the related regulations of the CMB.

Halk Sigorta AŞ (“Halk Sigorta”) was founded in 1958 under the leadership of Halkbank as the first cooperative in Turkey to engage in a full array of insurance activities with the participation of the Artisans and Tradesmen Loan and Guarantee Cooperatives. Halk Sigorta’s business name was changed to Halk Sigorta AŞ from Birlik Sigorta AŞ at the Extraordinary General Assembly Meeting held on 27 December 2010.

Halk Hayat ve Emeklilik AŞ (“Halk Emeklilik”) was established in 1998 under the business name of Birlik Hayat Sigorta AŞ to operate in life and personal accident insurance, coinsurance, reinsurance and retrocession businesses for individuals both in Turkey and abroad. Halk Emeklilik became a subsidiary in early 2006 when Halkbank acquired the shares held by Türkiye Halk Bankası Personnel Provident Fund.

Within the scope of the planned structural reforms within the framework of the New Economic Program, the negotiations has started Türkiye Varlık Fonu Yönetimi A.Ş. (“TVF”) for the transfer of 89,18% of the shares of Halk Sigorta A.Ş and all shares of Halk Hayat ve Emeklilik A.Ş. owned by the Bank by the TVF establishing a new company to acquire these shares. Based on this decision of combining the insurance and life and pension companies under the control of public banks under a single umbrella, the Bank has classified Halk Sigorta and Halk Hayat ve Emeklilik A.Ş. as Non-Current Assets for Held for Sale and Discontinued Operations in the current period.

#### 2. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The consolidated financial statements were authorised for issue by the Board of Directors.

#### 3. Basis of preparation

These consolidated financial statements are presented in Turkish Lira (“TRY”), which is the Bank’s functional currency. Except as otherwise indicated, financial information presented in TRY has been rounded to the nearest thousand.

The consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the items presented on a fair value basis that are financial assets at fair value through profit or loss, derivative financial assets and liabilities, FVTOCI investment securities whose fair value can reliably be measured and buildings whose fair value can reliably be measured by an independent appraiser.

#### 3.1. Use of judgement and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.



**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**3. Basis of preparation** (continued)

**3.1. Use of judgement and estimates** (continued)

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

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items, highlighted as the ‘critical accounting estimates and judgements’ below, it is possible that the outcomes in the next financial year could differ from those on which management’s estimates are based. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements. Management’s selection of accounting policies that contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

***Impairment***

Regarding the impairment of amortised cost financial assets and financial assets measured at fair value through other comprehensive income (‘FVOCI’), the most significant judgements relate to defining what is considered to be a significant increase in credit risk, determining the lifetime and point of initial recognition of revolving facilities, and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. A high degree of uncertainty is involved in making estimations using assumptions that are highly subjective and very sensitive to the risk factors. See Note Note 4.15 – *financial assets*.

An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Group considers the following factors:

- The market’s assessment of creditworthiness as reflected in the bond yields;
- The rating agencies’ assessments of the creditworthiness;
- The ability of the country to access the capital markets for new debt issuance;
- The probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

***Measurement of fair values***

The Group has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the management.

The team reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

•Level 1: Assets and liabilities are classified as level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

•Level 2: Assets and liabilities classified as level 2 have been valued using models whose inputs are observable either directly or indirectly. Valuations based on observable inputs include assets and liabilities such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**3. Basis of preparation** (continued)

**3.1. Use of judgement and estimates** (continued)

*Measurement of fair values* (continued)

•Level 3: Assets and liabilities are classified as level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined via reference to observable inputs, historical observations or using other analytical techniques.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 5 –financial instruments.

Critical accounting estimates and judgements:

The majority of valuation techniques employ only observable market data. However, some of the financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs. ‘Unobservable’ in this context means that there is little or no current market data available from which to determine the price at which an arm’s length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

**3.2. Functional and presentation currency**

Functional currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TRY). The functional currency of the Bank’s foreign subsidiaries is the respective local currency. Until 31 December 2005, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 (“Financial Reporting in Hyperinflationary Economies”) were no longer applicable, the financial statements of these companies were restated for the changes in the general purchasing power of TRY based on IAS 29, which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous periods be restated in the same terms.

**4. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

Where necessary, comparative figures are classified to conform with changes in presentation in the current year.

**4.1. Basis of consolidation**

*Subsidiaries*

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

Subsidiaries are the entities controlled by the Bank. The control exists if and only if; 1) when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities, 2) exposure, or rights, to variable returns from its involvement with the affiliate, 3) the ability to use its power over the affiliate to affect the amount of its returns.

The Bank reassesses its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Companies where the Bank exercises significant influence, but do not have operating and financial control are accounted for using the equity method.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.1. Basis of consolidation** (continued)

*Subsidiaries (continued)*

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

The accounting policies of subsidiaries are adjusted when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance.

Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

	Place of incorporation	Direct ownership		Indirect ownership	
		31	31	31	31
		December 2019	December 2018	December 2019	December 2018
Halk Yatırım Menkul Değerler AŞ	Istanbul	99,96%	99,96%	100,00%	99,96%
Halk Sigorta AŞ	Istanbul	89,18%	89,18%	95,32%	95,32%
Halk Hayat ve Emeklilik AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Gayrimenkul Yatırım Ortaklığı AŞ	Istanbul	79,33%	79,33%	79,36%	79,36%
Halk Finansal Kiralama AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Banka AD, Skopje	Skopje	99,29%	99,16%	99,29%	99,16%
Halk Faktoring AŞ	Istanbul	97,50%	97,50%	100,00%	100,00%
Halk Banka A.D. Beograd	Beograd	100,00%	100,00%	100,00%	100,00%
Halk Varlık Kiralama A.Ş.	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Osiguruvanje A.D., Skopje	Skopje	-	-	99,29%	-
Bileşim Alternatif Dağıtım Kanalları AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%

**Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire; plus  
if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

**Acquisitions of non-controlling interests**

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

**Investments in associates (equity-accounted investees)**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.1. Basis of consolidation** (continued)

*Investments in associates (equity-accounted investees) (continued)*

The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

The equity-accounted associates of the Group as of 31 December 2019 and 31 December 2018 are as follows:

	Place of incorporation	Shareholding interest	
		31 December 2019	31 December 2018
Demir-Halk Bank NV	Rotterdam	30,00%	30,00%
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara	31,47%	31,47%
Türk P ve I Sigorta AŞ	Istanbul	16,67%	16,67%

The reporting dates of the associates and the Group are identical and the associates’ accounting policies conform to those by the Group for similar transactions and events.

**4.2 Foreign currency**

*Foreign currency transactions*

Transactions in foreign currencies are translated into Turkish Lira, which is the presentation currency of the Group, using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of FVTOCI, which are recognised directly in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The Group started to apply fair value hedge accounting as at 1 July 2015 by designating the exchange rate risk of Halkbank AD, Beograd, Demirhalkbank NV and Halkbank AD, Skopje are foreign investments that are recognized under fair value accounting as hedged item, in compliance with “IAS 39 Financial Instruments: Recognition and Measurement”. Accordingly, the effective portion of the foreign exchange differences is recorded under equity in the current period.

*Foreign operations*

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to TRY at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to TRY at exchange rates approximating to the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payables to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.2 Foreign currency** (continued)

*Foreign operations* (continued)

As at 31 December 2019 and 31 December 2018, foreign currency assets and liabilities of the Group are mainly in US Dollar (“USD”) and EUR. The TRY/USD and TRY/EUR exchange rates as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019		31 December 2018	
	Period end	Average	Period end	Average
TRY / USD	5,9000	5,8281	5,2700	4,8112
TRY / EUR	6,6210	6,4781	6,0265	5,6588

**4.3 Interest**

Interest income and expenses are recognised in the profit or loss using the effective interest method except for the interest income on overdue loans. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

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

Interest income and expenses presented in the consolidated statement of income include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest rate basis,
- interest on FVTOCI investment securities calculated on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

**4.4 Fees and commission**

Commissions received from financial assets are recognised on an effective rate basis over the contractual period and unearned part is presented in other liabilities.

Commissions given for financial liabilities are recognised on a straight-line basis over the contractual period and prepaid part is presented in other assets.

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

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

**4.5 Net trading income**

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, the disposal of fair value through other comprehensive income financial assets, gains and losses on derivative financial instruments and foreign exchange differences.

**4.6 Dividends**

Dividend income is recognised when the right to receive the income is established.

**4.7 Income tax charge**

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.7 Income tax charge** (continued)

following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

The Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Critical accounting estimates and judgements:

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies. In the absence of a history of taxable profits, the most significant judgements relate to expected future profitability and to the applicability of tax planning strategies, including corporate reorganisations.

**4.8 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, unrestricted balances held with central banks and highly liquid financial original maturities of less than three months, which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

**4.9 Repurchase transactions**

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognised in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets FVTPL, amortised cost or FVTOCI as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognised on an accruals basis over the period of the transaction and are included in “interest income” or “interest expenses”.

**4.10 Property and equipment**

***Recognition and measurement***

Items of property, plant and equipment except for lands and buildings which are measured at fair value, are measured at cost less accumulated depreciation and any accumulated impairment losses. Beginning from the second quarter of 2015, the Group, has changed its accounting policy for lands and buildings from historical cost method to revaluation method for the lands and buildings. Buildings are stated at fair value as of revaluation date less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within the other operating income or other operating expenses in profit or loss.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.10 Property and equipment** (continued)

*Recognition and measurement* (continued)

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

*Subsequent costs*

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

*Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	<b>Useful life</b>
Buildings	50 years
Other tangible assets	3 – 25 years
Leasehold improvements	4 – 5 years
Safes (vaults)	50 years

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

*Derecognition*

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

**4.11 Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties in the attached consolidated financial statements that are purchased prior to 1 January 2005 are carried at their 31 December 2004 dated restated costs and property and equipment that are purchased in the subsequent periods are carried at cost, less any accumulated depreciation and any impairment losses. Investment properties are amortized by using the straight line method during their useful lives. Gain or loss arising from the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of that asset and is recognized in profit or loss.

**4.12 Intangible assets**

*Intangible assets acquired*

Intangible assets acquired separately before 1 January 2006 are carried at restated cost for the effects of inflation in TRY units current at 31 December 2005 less accumulated amortisation and impairment losses, and items of intangible assets acquired after 1 January 2006 are carried at acquisition cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. Estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis. The related costs are amortised over 5 years based on their economic lives.

*Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

*(Currency-In thousands of Turkish Lira ("TRY"))*

**4. Significant accounting policies** (continued)

**4.13 Non-current assets held for sale**

Certain non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

Within the scope of the planned structural reforms as per the framework of the New Economic Program, the negotiations has started Türkiye Varlık Fonu Yönetimi A.Ş. ("TVF") for the transfer of 89,18% of the shares of Halk Sigorta A.Ş and all shares of Halk Hayat ve Emeklilik A.Ş. owned by the Bank by the TVF establishing a new company to acquire these shares. Based on this decision of combining the insurance and life and pension companies under the control of public banks under a single umbrella, the Bank has classified Halk Sigorta and Halk Hayat ve Emeklilik A.Ş. as Non-Current Assets for Held for Sale and Discontinued Operations in the current period.

**4.14 Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that one not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**4.15 Financial Assets**

Financial instruments comprise financial assets, financial liabilities and derivative instruments. The financial assets are included in the balance sheet of the Group, if the Group is a legal party of these financial assets.

Financial assets mainly constitute the majority of the commercial activities and operations of the Group. These instruments have the ability to expose, affect and diminish the risks of liquidity, credit and interest in the financial statements.

Fair value is the amount for which an asset could be exchanged or a liability could be settled, between knowledgeable willing parties in an arm's length transaction. Market value is the amount obtainable from the sale or payable on the acquisition of a financial instrument in an active market, if one exists.

The estimated fair values of financial assets have been determined by the Group using the available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Hence, estimations presented in this report may not be same with the prices in the current market conditions in the case of assets disposals. Book values of some financial assets (which equals to their costs) are assumed to approximate to their fair values due to their short term nature.

Classification of the category of a financial instrument at initial recognition depends on both the business model for managing the financial assets and their contractual cash flow characteristics.



**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.15 Financial Assets** (continued)

*Assessment of Business Model*

The Group classifies its financial assets in accordance with IFRS 9 through its business model which is used for financial assets management.

The Group’s business model is related with how the Group manages its financial assets to generate cash flows. In other terms, the source of cash flows depends on the Group’s business model whether the cash flow is generated from contractual terms or through sale of financial asset or both.

Classification of financial assets is made at initial recognition considering the aim of purchase of the financial asset.

The Group’s business models are classified in three main categories in accordance with IFRS 9.

**1. A business model whose objective is to hold assets in order to collect contractual cash flows:**

A business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The purpose of the business model does not require to hold to collect the contractual cash flows of the instruments over their life, even the aim of the business model is to hold the instruments up to maturity for the contractual cash flows. Therefore, even when financial asset sales are anticipated or expected to occur in the future, the business model may still be a model that aims to retain financial assets in order to collect contractual cash flows.

The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial assets 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.

**2. A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets:**

The Group may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Fair value changes of the financial assets that are held within the scope of this business model are accounted for under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**3. Other Business Models:**

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The Group makes its decisions on the basis of business model, which is based on the fair value of the assets and manages the assets to obtain their fair value. Therefore, if the financial assets are held for the purpose of obtaining cash flows arising from their sale, the change in fair value are measured at fair value through profit or loss.

*Measurement Categories of Financial Assets and Liabilities*

As of 1 January 2018, the Group classified all its financial assets based on the business model for managing the financial assets. Accordingly, the financial assets are classified as per IFRS 9 in three main categories listed below:

1. Financial assets measured at amortized cost,
2. Financial assets measured at fair value through other comprehensive income and
3. Financial assets measured at fair value through profit/loss.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.15 Financial Assets** (continued)

*Measurement Categories of Financial Assets and Liabilities* (continued)

IFRS 9, explains how financial assets are classified in accordance with methods explained in Article 1 and 2 and other than these financial assets, remaining financial assets are classified in accordance with the method detailed in Article 3.

In addition, the Bank's securities portfolio includes government bonds indexed to consumer prices (CPI), which are valued and accounted for based on the effective interest method based on the index calculated by taking into account the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate. The reference indices used in the calculation of the actual coupon payment amounts of these assets are generated according to the CPI of previous two months. The Bank determines the estimated inflation rate accordingly. The inflation rate estimated by taking into consideration the expectations of the CBRT and the Bank's expectations is updated during the year when deemed necessary.

**1. Financial Assets Measured at Amortised Cost**

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

- a) Asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- b) Contractual terms of the financial asset 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 are loans and receivables and financial assets. Subsequent to the initial recognition, financial investments are accounted for at amortised cost calculated by using the effective interest rate method. Loans are initially recognized with their cost and carried at their amortized costs calculated using the internal rate of return subsequent to recognition.

**2. Financial Assets Measured at Fair Value through other comprehensive income**

A financial asset is measured if both of the following conditions are met:

- a) Financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- b) Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

**3. Financial Assets Measured at Fair Value through profit or loss**

The financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement. However, the Group may irrevocably prefer to apply to the financial assets at fair value through other comprehensive income for reflecting future changes in fair value for certain investments in equity instruments that would normally be measured at fair value through profit or loss at the time of initial inception in the financial statements.

***Cash Equivalents and Banks***

Cash and bank balances in foreign currencies are valued by using the Group's current period end exchange rates. The presented values of cash in TRY, foreign currency cash and banks at balance sheet are the estimated fair values of these assets.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.15 Financial Assets** (continued)

*Loans and receivables*

Loans and receivables represent unquoted financial assets in an active market that provide money, goods or services to the debtor with fixed or determinable payments.

Loans and receivables are initially recognized with their fair values including settlement costs and carried at their amortized costs calculated using the internal rate of return subsequent to recognition. Transaction fees, dues and other expenses paid for loan guarantees are recognized under the profit and loss accounts.

Consumer and corporate cash loans are recognized under the accounts specified by the Uniform Chart of Accounts and Explanations with their original balances based on their context.

Foreign currency indexed consumer and corporate loans are followed at TRY accounts after converting into TRY by using the opening exchange rates. At the subsequent periods, increases and decreases in the loan capital are recognized under the foreign currency income and expense accounts in the income statement depending on foreign currency rates being higher or lower than opening date rates.

Repayments are calculated using the exchange rates at the repayment dates and exchange differences are recognized under the foreign currency income and expense accounts in the income statement.

**Impairment of Financial Assets**

As of 1 January 2018, it is recognised a loss allowance for expected credit losses on financial assets and loans measured at amortised cost, financial assets measured at FVTOCI, loan commitments and financial guarantee contracts not measured at FVTPL based on IFRS 9 which came into force starting from 1 January 2018. Financial assets measured at fair value are not assessed for impairment.

As of the reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition in accordance with IFRS 9. When making the assessment, the Group shall use the change in the risk of a default occurring for the financial instrument.

As of the reporting date, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group shall measure the loss allowance for that financial instrument at an amount equal to 12 month expected credit losses. However, if there is a significant increase in credit risk of a financial instrument since initial recognition, the Group measures loss allowance regarding such instrument at an amount equal to lifetime expected credit losses.

The Group calculates the expected credit loss on a collective basis by grouping the financial assets having common credit risk features or on an individual basis.

The Group constituted a policy in order to make an assessment whether the credit risk on a financial instrument has increased significantly since initial recognition by taking into consideration the change in the risk of a default event occurring over the expected life of the financial instrument.

**Calculation of expected credit losses**

A credit loss is present value of calculated difference between the total cash flows that will occur based on the contractual terms of financial instruments and the total cash flows, which the Group expects to collect, with the initial effective interest rate. The Group estimates the cash flows over the expected life of the financial instrument by taking into account all contractual terms of the financial instrument, and considers the weighted average of loan losses according to the relevant default risks for determining expected credit losses.

IFRS 9 Financial Instruments Standard allows the calculation of expected credit loss provisions in aggregate or individually by grouping financial assets with common credit risk characteristics. The Bank has been collectively calculating and accounting for expected credit loss provisions. As of 31 December 2019, the Bank has individually assessed a portion of the loans, which were classified as the 3rd stage lifetime expected credit loss-default whose ECL was collectively calculated since the date of transition to IFRS 9 standard as of 1 January 2018, on a prudent basis by assessing alternative cash flows and possible sales of collaterals, and reflected the results of this assessment in the expected credit loss provisions in the financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.15 Financial Assets** (continued)

**Probability of Default (PD)**

It is defined as the probability that the debtor does not fulfill its obligations to the Group or in other words it can not repay its debts to the Group. This ratio is calculated for each loan based on various statistical assumptions depending on the maturity, internal behavioral model, external behavioral model and financial module data. The probability values take a value between 0 and 1, and as the probability value increases, the likelihood of the credit defaulting increases.

*Forward Looking Information*

According to IFRS 9 “Financial Instruments”, the Group uses forecast information in the probability of default models. The Group makes estimates and judgments, which are constantly analyzed based on statistical data, actual and forecast information, as well as management experience, including expectations regarding future events that are reasonable in current circumstances. In assessing expected credit losses, the Group takes into account reasonable and confirmed information on current and projected future economic conditions. In this regard, the Group updates projected macroeconomic scenarios, which are taken into account in determining expected credit losses when it is necessary. The Group also updates the risk metrics based on the latest available external and internal statistics for the purposes of determining most relevant probability of default and losses in case of default. In order to reflect objectively the impact of the macroeconomic conditions and in accordance with the recommendations of the IASB and the BRSA, the Group adopted the main approaches to assessing the level of expected credit losses that have the most significant effect on the amounts recorded in the consolidated financial statements.

**Loss given Default (LGD)**

This is the parameter indicates the expected economic loss of the Group if the credit defaults. In the case of the credit defaults and the Group collects the entire amount of the default, LGD is zero, in the case of no collection, LGD is 100% percent. LGD rates are reviewed on a maximum of 1 year basis.

**Exposure at Default (EAD)**

It is the parameter that indicates how much of a loan will default. The default amount for a spot or installment loan is the amount, which is listed on the payment schedule at the time of default. Additionally, the default amount for the credit cards and limit gaps of overdraft accounts and non-cash loans, are calculated with a parameter called credit conversion rate (LCR). The default risk amount in the future is estimated by calculating by the statistical methods with the credit conversion rate, since it is not known at the time of loan origination due to undrawn commitment for limit of credit cards and overdraft accounts.

**12 Month Probability of Default**

It is the estimated probability of default occurring within the next 12 months following the balance sheet date. According to IFRS 9, in the case of that there is no significant increase in credit risk of a financial instrument since its first recognition, the Group shall measure at the provision for loss of the related financial instrument as equal as 12 month expected credit losses.

In the case of a customer or a loan that is classified under Standard Loans (Stage I), the provision for loan is calculated on 365 days even if the maturity of the loan is above 1 year. In the case of maturity of the loan is under 1 year, number of days left to maturity (except revolving loans and credit cards) are used in calculations.

**Lifetime Expected Credit Losses**

It is the estimated expected credit losses occurring within the next 12 months following the balance sheet date. According to IFRS 9, in the case of that there is no significant increase in credit risk of a financial instrument since its first recognition, the Bank shall measure at the provision for loss of the related financial instrument as equal as 12 month expected credit losses.

In the case of a customer or loan is classified as Stage 2 or Stage 3, the provision for expected credit loss is measured at the lifetime probability of default. Despite the fact that the methods for used calculation for provision of expected credit loss are similar for Stage 2 and Stage 3 loans, the probability of default for Stage 3 credits is accepted as 100%.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.15 Financial Assets** (continued)

**Lifetime Expected Credit Losses** (continued)

IFRS 9 Standard does not include a direct definition of default, but requires a consistent definition of default to be used in credit risk management. The Group is considering qualitative indicators (e.g. financial commitments), if appropriate, when defining a default according to IFRS 9, for the purpose of determining the risk of business default and adopts a definition of default, consistent with the definition used for in-house credit risk management purposes for the relevant financial instruments. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. “The definition of default used for these purposes applies consistently to all financial instruments unless information can be obtained that demonstrates that another definition of default is more appropriate for a particular financial instrument.” in line with the Communiqué on Calculation of the Risk Weighted Exposure Amount for Credit Risk by Internal-ratings Based Approaches assumes that debt defaulted if at least one of the following two conditions occurs.

a) Considering that a debtor is unlikely to pay credit obligations to the Bank and to the Bank’s consolidated financial subsidiaries without using guarantees

b) Considering that a debt having past due more than 90 days to the Bank or its financial subsidiaries

The expected loan loss provision for the loans classified as non-performing loans (Stage 3) is calculated using the estimation of loss given default (LGD). Aforementioned estimation is based on the historical data on a segment basis and determined by the principle loss charge, being the remaining amount after the collection made within the period after each segment has defaulted.

**Low Credit Risk**

IFRS 9 standard states that in some cases, the credit risk on a financial instrument can be calculated as low if the financial instrument has a low risk of default when there is no reliable past default data.

According to IFRS 9, if the entity determines that a financial instrument has a low credit risk as of the reporting date, it assumes that the credit risk on the financial instrument has not increased significantly following its initial recognition in the financial statement. Those transactions in the Group are classified as follows:

a) Central Bank of the Republic of Turkey (CBRT) transactions (Currencies held in CBRT and reserve requirements)

b) Securities (Fair value through other comprehensive income and financial assets measured at amortised cost)

a) Treasury Loans (Transactions with Treasury Republic of Turkey)

b) Loans guaranteed by Treasury of Republic of Turkey

**The Rules of Significant Increase in Credit Risk**

Significant increase in credit risk requires measurement of the Group’s provision for expected credit losses at lifetime probability of default instead of 12 month expected credit loss. In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2.

Critical accounting estimates and judgements:

In determining ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Judgement has been applied in determining the lifetime and point of initial recognition of revolving facilities. The PD, LGD and EAD models, which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling, and for the incorporation of ‘Upside scenarios’, that have not generally been subject to experience gained through stress testing. The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.16 Financial liabilities**

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities are classified as either equity instruments or other financial liabilities.

***Equity instruments***

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

***Other financial liabilities***

Other financial liabilities, including borrowings and deposits are the Group’s sources of debt funding.

Borrowings and deposits are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**4.17 Provisions**

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

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

**Critical accounting estimates and judgements:**

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken on the assessment of litigation, property (including onerous contracts) and similar obligations. Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous judgements and estimates as appropriate. At more advanced stages, it is typically easier to make judgements and estimates around a better defined set of possible outcomes. However, the amount provisioned can remain very sensitive to the assumptions used. There could be a wide range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved. Provisions for customer remediation also require significant levels of estimation and judgement. The amounts of provisions recognised depend on a number of different assumptions, such as the volume of inbound complaints, the projected period of inbound complaint volumes, the decay rate of complaint volumes, the population identified as systemically mis-sold and the number of policies per customer complaint.

**4.18 Employee benefits**

***Defined benefit plans***

In accordance with existing social legislation in Turkey, the Bank and its subsidiaries in Turkey are required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

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

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.18 Employee benefits** (continued)

*Defined benefit plans* (continued)

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 26 are reviewed regularly. The carrying value of employee termination benefit provisions as of 31 December 2019 is TRY 739.735 (31 December 2018: TRY 550.381).

*Defined contribution plans*

The foundations, Türkiye Halk Bankası AŞ Employee Pension Fund and T.C. Ziraat Bankası and T. Halk Bankası Employee Pension Fund, that the employees of the Bank are a member, were founded in accordance with the provisional article 20 of the Social Security Law numbered 506 (“Law”). Provisional article 23 of the Banking Act No: 5411 requires the Bank’s pension funds founded in the scope of Law to be transferred to the Social Security Foundation (“SSF”) within 3 years subsequent to the publishing date of the act. The procedure and essentials for the transfer were determined by the Council of Ministers’ decision dated 30 November 2006 and numbered 2006/11345. However, with the decree of the Constitutional Court numbered E.2005/139, K.2007/13 and K.2007/33 published in the Official Gazette dated 31 March 2007 and numbered 26479, the first paragraph of the temporary first article of the provisional article 23 of the Banking Act No: 5411 is cancelled and the execution has been ceased starting from the date the decree is published.

After the justified decree related to cancelling the provisional article 23 of the Banking Law was announced by the Constitutional Court on the Official Gazette dated 15 December 2007 and numbered 26731, Grand National Assembly of Turkey (“GNA”) started to work on establishing new legal regulations; and after, the “Law Regarding the Amendments to the Social Security and General Health Insurance Act and Certain Laws and Decree Laws” numbered 5754 which was published on the Official Gazette dated 8 May 2008 and numbered 26870 approved at the General Assembly of the GNA and came into effect.

The new law decrees that the contributors of the bank pension funds, the ones who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the SSF and will be subject to this Law within 3 years after the release date of the related article, without any need for further operation. The three-year transfer period can be prolonged for maximum 2 years by the Council of Ministers’ decision. Related transfer period has been prolonged for 2 years by the Council of Ministers’ decision dated 14 March 2011, which was published on the Official Gazette dated 9 April 2011 and numbered 27900. In addition, by the Law numbered 6283 “Emendating Social Security and General Health Insurance Act”, which was published on the Official Gazette dated 8 March 2012 and numbered 28227, this period of 2 years has been raised to 4 years.

The statement “The Council of Ministers have entitled to determine transfer period” has taken place in the scope of the Article 51 of the Law No: 6645 which was published on the Gazette on 23 April 2015 and numbered 29335.

The members of the plan receive pension benefits on retirement, dependent on several factors such as age, years of service and compensation. The Group recognized the liability in the statement of financial position in respect to these plans equal to the present value of the defined benefit obligation at the balance sheet less the fair value of the assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the expected interest rates for Turkish Lira. The methodology included the calculation of the defined benefit obligation using 9,8% as a discount rate and inclusion of the present value of future employee contributions in plan assets. Based on the results of the actuarial report prepared as of 31 December 2019 and 31 December 2018, no technical deficit has been reported.

*Short-term benefits*

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

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

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

*(Currency-In thousands of Turkish Lira (“TRY”))*

**4. Significant accounting policies** (continued)

**4.19 Insurance businesses**

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

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

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

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

For long-term insurance contracts, premiums are recognised as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under income from insurance operations in the accompanying consolidated statement of profit or loss.

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

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

**Reserve for outstanding claims:** The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported (“IBNR”) is also established as described below. In the accompanying consolidated financial statements, reserve for outstanding claims is presented by netting off amounts recoverable from reinsurers under insurance contract liabilities. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an ‘each claim-file’ basis. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under insurance contract liabilities in the accompanying consolidated statement of financial position. Long term insurance contracts: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions.

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

Long term insurance contracts are presented under insurance contract liabilities in the accompanying consolidated financial statements.

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



**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

*(Currency-In thousands of Turkish Lira (“TRY”))*

**4. Significant accounting policies** (continued)

**4.19 Insurance businesses** (continued)

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

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

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

If the result of the test is that a loss is required to be recognised, the first step is to reduce any intangible item arising from business combinations related to insurance. If there is still a loss remaining, then the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

Income generated from pension business: Revenue arising from asset management and other related services offered by the insurance affiliate of the Bank are recognised in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

**4.20 Earnings per share**

Earnings per share from continuing operations disclosed in the accompanying consolidated statement of income is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank.

**4.21 Events after the reporting period**

Events after the reporting period that provide additional information about the Group’s position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

**4.22 Segment reporting**

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

**4.23 Revenue**

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 Revenue from Contracts with Customers standard provides single and comprehensive model and guidance regarding recognition of revenue and replaces IAS 18 Revenue Standard. The Standard is in effect starting from 1 January 2018 and the positive effect of the Group’s financial statements, which have been booked to the opening equity amounting to TRY 8.002 dated 1 January 2018 without restating previous period financial statements.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.24 Changes in Accounting Policies**

**IFRS 16 Leases**

The Group assesses whether the contract has the quality of a lease or whether the transaction includes a lease at the beginning of a contract.

A lease agreement is an agreement between two or more parties that gives the tenure the legally enforceable rights and obligations of the underlying asset. In case the contract is transferred for a certain period of time to control the use of the asset defined for a price, it is either leased or includes a lease. The Group reflects the existence of a right-of-use and a lease liability to the financial statements at the effective date of the lease.

***Existence of right-of-use:***

As a result of internal evaluations, the Bank accounts real estate and vehicles subject to operational lease in accordance with IFRS 16. ATMs, and other leasing transaction balances are not considered within the scope of IFRS 16 as they are below the materiality level and the corresponding rent payments are recognized under Other Operating Expenses.

At the commencement date, the Group measures the right-of-use real estates considered as the cost of right-of-use asset being the right-of-use asset in accordance with IFRS 16. The cost of the right-of- use;

- a) The amount of the initial measurement of the lease liability,
- b) Any lease payments made at or before the commencement date, less any lease incentives received,
- c) Any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

When applying the cost method, the Group takes into account the accumulated depreciation and impairment losses for the subsequent period measurement of the existence of right-of-use. The Group applies the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating real assets considered as right-of-use asset.

The Group applies IAS 36 Impairment of Assets to determine whether the real estates considered as right-of-use assets are impaired and to account for any impairment loss identified.

***The Lease Obligations:***

Based on IFRS 16, at the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the alternative borrowing interest rate.

After the commencement date, the Group measures the lease liability as follows:

- a) Increasing the carrying amount to reflect interest on the lease liability,
- b) Reducing the book value to reflect the lease payments made,
- c) Reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

In the event of a modification in the lease agreement which affects the lease payments or defined assets, the Bank re-measures its lease liability by using the current borrowing rate. The Bank reflects the remeasured leasing liability and the right-of-use in the financial statements. On the other hand, changes such as the shortening of the lease term, the termination of the contract and the decreases in the scope of the underlying asset, the gains or losses are recognized in profit or loss.

**First Transition to IFRS 16 Leases Standard**

The Group applied IFRS 16 “Leases” standard as of 1 January 2019 in its financial statements.

IFRS 16 Leases standard abolishes the dual accounting model previously applied for lessees through recognizing finance leases in the balance sheet whereas recognizing operational lease as off-balance sheet. Instead, it is set forth a single model similar to the accounting of finance leases (on balance sheet). For lessors, the accounting stays almost the same. The Group preferred to adopt the facilitative procedure at its first transition date and has not made any changes in the comparative financial statements of the previous period.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**4. Significant accounting policies** (continued)

**4.24 Changes in Accounting Policies** (continued)

**First Transition to IFRS 16 Leases Standard** (continued)

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

	1 January 2019	31 December 2019
Existence of Right-of-use		
Real Estate	579.938	724.302
Vehicles	96.363	92.875
<b>Total</b>	<b>676.301</b>	<b>817.177</b>

In accordance with IFRS 16, the Group recognized a lease liability and right-of-use asset amounting to TRY 668.438 as of 1 January 2019 for leases previously classified as operating leases.

In accordance with IFRS 16, the Group recognised prepaid rent payments amounting to TRY 7.863 as of 1 January 2019, under tangible assets as right-of-use which were previously classified under prepaid expenses.

As of 1 January 2019, the weighted average of the incremental borrowing interest rates applied to TL, EUR, USD and GBP lease liabilities presented in the Bank’s statement of financial position are 21,98%, 3,01%, 4,97% and 1,59% respectively.

	1 January 2019
Operational Leasing Commitments	1.104.863
Contracts that are excluded from the scope of IFRS 16 (-)	121.964
Total Leasing Liability	982.899
<b>Discounted Lease Obligation</b>	<b>668.438</b>

**5. Financial risk management**

**Organization of the Risk Management Function**

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

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

The Group Risk Management reports to the Board of Directors through the Audit Committee and is responsible for identifying, measuring, monitoring and reporting Market, Credit and Operational Risk. Market Risk includes interest rate, foreign exchange and price risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

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

**Credit risk**

The Group manages its credit risk by limiting its risk. Under the risk management the Bank rates each of its loans given to customers (legal or real) and requires additional guarantees from its customers with high risk ratings, or does not provide loans to such customers, or applies strategies in order to decrease the level risk of such loan. The Group’s credit risk is focused in Turkey where its main operations take place. During the loan application process, limits for product and customers are taken into consideration and these limits are controlled regularly. The related loan units within the Bank are responsible for defining limits for sectors and geographical regions.

The risks and limits attributable to banks and transactions with correspondent banks are followed up on a daily basis. Off balance sheet risk concentration on individual customers and banks are also followed up daily.

Those loans which are renewed or restructured are traced not only according to their relevant regulations, but are also traced by the risk management process where they are re-considered for their credit group and weight. With these methods, new precautions are taken and loans that have longer maturities have greater credit risks than the short-term loans.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Credit risk** (continued)

The credibility of the debtors of the Bank is assessed periodically in accordance with the Communiqué on “Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves.” Audited financial statements are obtained for loans to be granted are audited as required by the related legislation. Loan limits are updated by the initiative of the Bank’s Credit Committee and top management, as deemed necessary and in accordance with the changes in economic conditions. The Bank obtains adequate collateral for loans given and other receivables. Such collateral comprises of suretyships, mortgages on property, cash blockages and cheques.

Indemnified non-cash loans are weighted in the same risk group with the non-performing loans and recorded in the follow up accounts according to their collaterals.

The percentage of the top 100 cash loan customers of the Bank to the total loan portfolio is 26,38% (31 December 2018: 27,46%).

The percentage of the top 100 non-cash loan customers of the Bank to the total non-cash loan portfolio is 41,22% (31 December 2018: 44,16%).

The percentage of the total cash and non-cash loan balances of the top 100 clients to the total of assets and off-balance sheet items is 17,50% (31 December 2018: 18,92%).

Derivatives:

The Group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group’s overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management (continued)**

**Credit risk (continued)**

*Credit-related commitments (continued)*

Sectoral breakdown of cash and non-cash loans except retail loans is as follows:

	<b>31 December 2019</b>	
	<b>Cash (only banks)</b>	<b>Non-cash</b>
Agricultural	<b>1.346.670</b>	<b>334.661</b>
<i>Farming and raising livestock</i>	1.141.319	86.072
<i>Forestry</i>	21.398	715
<i>Fishing</i>	183.953	247.874
Manufacturing	<b>73.721.024</b>	<b>32.174.043</b>
<i>Mining</i>	3.203.620	669.192
<i>Production</i>	57.720.909	28.250.970
<i>Electric, gas and water</i>	12.796.495	3.253.881
Construction	<b>20.315.518</b>	<b>24.010.203</b>
Services	<b>124.347.325</b>	<b>32.322.224</b>
<i>Wholesale and retail trade</i>	50.843.082	17.125.529
<i>Hotel, food and beverage services</i>	15.068.047	2.725.282
<i>Transportation and telecommunication</i>	15.718.642	5.004.632
<i>Financial institutions</i>	2.225.052	3.591.257
<i>Real estate and renting services</i>	34.578.912	3.218.048
<i>Self-employment services</i>	1.126.322	27.085
<i>Education services</i>	2.151.832	183.338
<i>Health and social services</i>	2.635.436	447.053
Other	<b>24.192.345</b>	<b>2.188.699</b>
<b>Total loans</b>	<b>243.922.882</b>	<b>91.029.830</b>

	<b>31 December 2018</b>	
	<b>Cash (only banks)</b>	<b>Non-cash</b>
Agricultural	1.061.597	193.248
<i>Farming and raising livestock</i>	968.306	80.020
<i>Forestry</i>	7.274	520
<i>Fishing</i>	86.017	112.708
Manufacturing	57.958.246	31.943.932
<i>Mining</i>	2.542.324	564.283
<i>Production</i>	43.367.930	28.128.642
<i>Electric, gas and water</i>	12.047.992	3.251.007
Construction	19.387.087	22.084.627
Services	105.996.409	28.341.503
<i>Wholesale and retail trade</i>	41.792.804	14.027.981
<i>Hotel, food and beverage services</i>	13.453.702	1.772.291
<i>Transportation and telecommunication</i>	12.845.572	3.423.963
<i>Financial Institutions</i>	1.997.824	4.246.777
<i>Real estate and renting services</i>	31.019.105	4.352.270
<i>Self-employment services</i>	900.396	22.759
<i>Education services</i>	2.136.506	136.467
<i>Health and social services</i>	1.850.500	358.995
Other	19.421.070	1.106.665
<b>Total loans</b>	<b>203.824.409</b>	<b>83.669.975</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Credit risk** (continued)

Credit risk types according to sectors and geographical concentration:

Credit risk of the Group as of 31 December 2019 and 31 December 2018 is calculated and credit risk types according to sectors and geographical concentration are presented in accordance with the “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” published in Official Gazette no. 29111 dated 6 September 2014 which is complaint to Basel III.

Sectoral breakdown of risk weighted assets is as follows:

	31 December 2019	31 December 2018
Agricultural	6.278.374	1.262.994
<i>Farming and raising livestock</i>	3.406.982	1.052.002
<i>Forestry</i>	374.534	9.200
<i>Fishing</i>	2.496.858	201.792
Manufacturing	217.652.717	97.035.746
<i>Mining</i>	310.538	3.402.407
<i>Production</i>	202.197.077	79.230.435
<i>Electric, gas and water</i>	15.145.102	14.402.904
Construction	24.872	21.151.192
Services	114.782.995	134.912.169
<i>Wholesale and retail trade</i>	44.807.578	52.625.140
<i>Hotel, food and beverage services</i>	17.681.052	15.878.068
<i>Transportation and telecommunication</i>	4.066.931	16.020.647
<i>Financial institutions</i>	11.643.119	36.364.308
<i>Real estate and renting services</i>	33.402.600	7.185.694
<i>Self-employment services</i>	-	1.404.770
<i>Education services</i>	127.911	2.263.850
<i>Health and social services</i>	3.053.804	3.169.692
Other	161.179.083	183.594.975
<b>Total risk weighted assets</b>	<b>499.918.041</b>	<b>437.957.076</b>

Information according to geographical concentration:

	31 December 2019	31 December 2018
Domestic	482.159.545	424.473.768
EU Countries	3.376.409	5.960.305
OECD Countries <sup>(*)</sup>	232.142	467.574
USA, Canada	1.676.259	4.743.721
Other countries	10.620.037	2.310.657
Off-shore banking regions	1.853.649	1.051
<b>Total risk weighted assets</b>	<b>499.918.041</b>	<b>437.957.076</b>

(\*) OECD Countries other than the EU Countries, USA and Canada.

Credit quality per class of financial assets:

Due from banks, financial assets at fair value through profit or loss, FVTOCI investment securities and amortized cost investment securities do not include overdue and individually impaired assets, as of 31 December 2019 and 31 December 2018.

Aging analysis of past due but not impaired financial assets per classes of financial instruments:

31 December 2019	Between 30 and 60 days	Between 61 and 90 days	Total
Loans and advances	1.647.668	1.666.527	3.314.195
<b>Total</b>	<b>1.647.668</b>	<b>1.666.527</b>	<b>3.314.195</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Credit risk** (continued)

<b>31 December 2018</b>	<b>Between 30 and 60 days</b>	<b>Between 61 and 90 days</b>	<b>Total</b>
Loans and advances	1.789.898	1.345.309	3.135.207
<b>Total</b>	<b>1.789.898</b>	<b>1.345.309</b>	<b>3.135.207</b>

As of 31 December 2019, the fair value of collaterals held against the past due but not yet impaired loans amounts to TRY 24.976.536. The net value and type of the collaterals is as follows:

<b>Collateral type <sup>(1)</sup></b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Real estate mortgage	11.541.948	9.040.540
Salary pledge, vehicle pledge and pledge of commercial undertaking	371.405	346.327
Financial collaterals (Cash, securities pledge, etc.)	80.926	1.122
Cheque /bills	172.918	73.795
Suretyships	4.109.100	2.902.109
Other	8.700.239	3.947.984
<b>Total</b>	<b>24.976.536</b>	<b>16.311.877</b>

(1) The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered in the table above. Income accruals are not included in the table.

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
<i>Loans and advances <sup>(1) (2)</sup></i>		
Corporate loans	10.793.746	6.593.561
SME loans	177	185
Consumer loans	64.983	44.816
<b>Total</b>	<b>10.858.906</b>	<b>6.638.562</b>

(1) Accruals are not included to the table above.

(2) Presents loans accounted for under restructured or rescheduled loan accounts.

<b>Corporate and Commercial loans</b>	<b>Internal/External valuation grade</b>	<b>Total</b>	<b>SMEs</b>	<b>Internal/External valuation grade</b>	<b>Total</b>
Risk rating group 1	KT1	9.065.926	Risk rating group 1	KB1	4.533.679
Risk rating group 2	KT2	22.690.239	Risk rating group 2	KB2	5.650.017
Risk rating group 3	KT3	22.327.419	Risk rating group 3	KB3	6.848.472
Risk rating group 4	KT4	22.711.436	Risk rating group 4	KB4	7.380.605
Risk rating group 5	KT5	32.594.318	Risk rating group 5	KB5	6.084.992
Risk rating group 6	KT6	32.121.518	Risk rating group 6	KB6	5.173.288
Risk rating group 7	KT7	22.672.526	Risk rating group 7	KB7	5.416.432
Risk rating group 8	KT8	15.633.871	Risk rating group 8	KB8	4.899.881
Risk rating group 9	KT9	26.664.328	Risk rating group 9	KB9	2.177.638
Risk rating group 10	KT10	10.119.083	Risk rating group 10	KB10	4.558.870
<b>Total</b>		<b>216.600.664</b>	<b>Total</b>		<b>52.723.874</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management (continued)**

**Credit risk (continued)**

<b>Micro Firms</b>	<b>Internal/External valuation grade</b>	<b>Total</b>	<b>Artisans</b>	<b>Internal/External valuation grade</b>	<b>Total</b>
Risk rating group 1	MK1	1.574.803	Risk rating group 1	ES1	3.405.786
Risk rating group 2	MK2	1.724.037	Risk rating group 2	ES2	3.787.792
Risk rating group 3	MK3	1.344.445	Risk rating group 3	ES3	5.365.881
Risk rating group 4	MK4	1.591.231	Risk rating group 4	ES4	5.804.851
Risk rating group 5	MK5	1.370.238	Risk rating group 5	ES5	4.904.386
Risk rating group 6	MK6	1.351.412	Risk rating group 6	ES6	3.549.354
Risk rating group 7	MK7	1.074.912	Risk rating group 7	ES7	2.422.119
Risk rating group 8	MK8	1.098.688	Risk rating group 8	ES8	1.913.816
Risk rating group 9	MK9	1.401.818	Risk rating group 9	ES9	1.011.552
Risk rating group 10	MK10	1.825.571	Risk rating group 10	ES10	249.241
<b>Total</b>		<b>14.357.155</b>	<b>Total</b>		<b>32.414.778</b>

<b>Risk Group</b>	<b>Definition of risk group</b>
1	The firm is a positive firm with its financial and non-financial criteria and it can pursue its high credibility in the long run.
2	
3	The firm that has performed its optimization and has a high credibility in the short run and is a credible firm in the medium run.
4	
5	
6	The firm cannot retain optimization in the major parts of its financials and non-financial criteria. But it's a credible firm in the short run.
7	
8	The major part of its financial and non-financial criteria is negative and the firm is having difficulties in meetings its commitments. But it has guaranteed short run credibility dependent on the positive conjecture.
9	The firm force acceptable risk limits when it's financial and non-financial criteria considered together, and have poor credibility.
10	



**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Credit risk** (continued)

**Offsetting financial assets and financial liabilities**

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

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

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

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

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

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

				Related amounts not offset in the statement of financial position			
	Types of financial assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
<b>31 December 2019</b>	Derivatives - trading assets	1.151.992	-	1.151.992	-	319.597	832.395
<b>31 December 2018</b>	Derivatives - trading assets	1.062.081	-	1.062.081	-	231.727	830.354

  

				Related amounts not offset in the statement of financial position			
	Types of financial liabilities	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral pledged	Net amount
<b>31 December 2019</b>	Derivatives - trading liabilities	353.718	-	353.718	-	165.108	188.610
<b>31 December 2018</b>	Derivatives - trading liabilities	410.339	-	410.339	-	296.569	113.770

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Liquidity risk**

The liquidity risk occurs when there is insufficient cash or cash inflows to meet the cash outflows fully and timely. Liquidity risk may also occur when the market penetration is not adequate, when the open position cannot be closed immediately at the suitable prices in sufficient amounts due to barriers and break-ups in the markets.

The liquidity risks of the Bank are managed within the framework of risk and transaction limits approved by the Board of Directors and the duties and responsibilities of the units related to liquidity risk management are notified in written. Within this scope, limits determined in terms of TRY and FC are followed for gap values according to certain maturity tranches for liquidity analysis. On the other hand, for Treasury transactions; There are upper limits on TL and FX terms in all maturities in the over-the-counter market, upper limits on repo and reverse repo transactions that can be realized in TRY and FC terms with maximum FX position limits on all maturities in the interbank market, and maximum limits on foreign currency position, forward and swap transactions.

Liquidity risk analyzes (gap analysis, core deposit reports, etc.) are conducted on a daily basis and shared with the Bank's top management and related departments. Periodical stress tests are performed in line with the Bank's liquidity management policies. On the other hand, metrics within the scope of “Liquidity Emergency Action Plan” (LEAP) approved by the Board of Directors and early warning indicators related to these metrics are monitored on a daily basis. Written actions, if required, to be taken as part of this plan are determined. In extent with LEAP, necessary actions and their priority for possible liquidity stress/crisis have been determined and Liquidity Risk Committee have been established.

The extension of the maturity structure of term deposits which reflects the primary funding source for the Bank, the development of new products encouraging savings and the protection of core deposit levels have been implemented as a strategic objective. Limits have been determined for issuing bonds based on Turkish Lira to provide long term funding resource for the purposes of extending maturity structure of liabilities besides deposits.

For the purposes of utilizing advantage of the new borrowing facilities in line with the needs of the Bank, alternative funding resources are evaluated in parallel with the close monitoring of price/cost movements in international capital markets and with convenient conditions.

The reduction of liquidity risk is provided by effective collateral management structure. The Bank participates in the organized markets (CBRT, BIST and TAKASBANK). Debt upper limits and balance sheet size are determined under certain criteria by the relevant authorities. Existing limits available to use are continuously monitored with the cooperation of Treasury Management Middle Office and Treasury Operations Department though the Bank's projected and instant liquidity needs under the condition that depositing and/or withdrawing additional collateral.

The consolidated main funding source of the Bank is deposits, other funding sourced are money market borrowings, securities issued and subordinated debt instruments, funds borrowed, and the rest consists of other sources.

Analysis of non-derivative financial liabilities by remaining contractual maturities:

<b>31 December 2019</b>	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Gross nominal outflow</b>	<b>Carrying amount</b>
<b>Liabilities</b>							
Deposits	224.897.157	54.591.169	21.132.904	2.072.131	36.641	302.730.002	300.637.055
Obligations under repurchase agreements	52.336.993	9.229	-	-	-	52.346.222	51.975.174
Loans and advances from banks	1.132.255	1.036.984	4.245.774	7.172.298	4.636.997	18.224.308	17.376.874
Interbank money market borrowings	-	1.364.167	-	-	-	1.364.167	1.364.167
Debt securities issued	1.178.663	7.247.000	3.862.787	8.496.753	-	20.785.203	19.294.132
<b>Total</b>	<b>279.545.068</b>	<b>64.248.549</b>	<b>29.241.465</b>	<b>17.741.182</b>	<b>4.673.638</b>	<b>395.449.902</b>	<b>390.647.402</b>
<b>31 December 2018</b>	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Gross nominal outflow</b>	<b>Carrying amount</b>
<b>Liabilities</b>							
Deposits	182.643.839	49.115.829	19.099.012	1.146.346	19.202	252.024.228	250.549.335
Obligations under repurchase agreements	7.762.847	348.648	-	-	-	8.111.495	7.571.439
Loans and advances from banks	1.165.345	1.831.553	4.160.500	6.471.364	5.467.120	19.095.882	18.148.601
Interbank money market borrowings	-	30.646.830	-	-	-	30.646.830	30.646.830
Debt securities issued	1.691.031	1.915.256	3.073.272	11.429.907	-	18.109.466	16.334.300
<b>Total</b>	<b>193.263.062</b>	<b>83.858.116</b>	<b>26.332.784</b>	<b>19.047.617</b>	<b>5.486.322</b>	<b>327.987.901</b>	<b>323.250.505</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management (continued)**

**Liquidity risk (continued)**

Analysis of the Group’s derivative financial instruments notional amounts according to their remaining maturities:

<b>31 December 2019</b>	<b>Up to one month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Forwards contracts – buy	1.629.947	878.352	879.250	2.279	-	3.389.828
Forward contracts – sell	1.979.327	1.313.154	881.542	2.278	-	4.176.301
Swaps – buy	11.610.340	1.151.809	1.789.967	1.534.000	-	16.086.116
Swaps – sell	13.791.267	1.146.479	1.626.617	960.870	-	17.525.233
Credit default swap – buy	-	-	-	-	-	-
Credit default swap – sell	-	-	-	-	-	-
Forward precious metal – buy	508.892	445.729	-	-	-	954.621
Forward precious metal – sell	132.599	-	-	-	-	132.599
Money buy options	1.085.237	675.013	-	-	-	1.760.250
Money sell options	1.086.024	674.240	-	-	-	1.760.264
Interest rate swap-buy	20.000	70.000	2.493.714	177.333	11.092.704	13.853.751
Interest rate swap-sell	20.000	70.000	2.493.714	177.333	11.092.704	13.853.751
Swaps Precious Metal - Buy	2.149.575	-	-	-	-	2.149.575
Swaps Precious Metal – Sell	-	-	-	-	-	-
<b>Total</b>	<b>34.013.208</b>	<b>6.424.776</b>	<b>10.164.804</b>	<b>2.854.093</b>	<b>22.185.408</b>	<b>75.642.289</b>

  

<b>31 December 2018</b>	<b>Up to one month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Forwards contracts – buy	3.605.673	870.825	952.254	-	-	5.428.752
Forward contracts – sell	1.731.132	652.669	850.428	-	-	3.234.229
Swaps – buy	5.474.414	447.174	1.003.129	1.370.200	-	8.294.917
Swaps – sell	5.469.755	558.552	1.113.630	843.910	-	7.985.847
Credit default swap – buy	-	-	-	-	-	-
Credit default swap – sell	-	-	-	-	-	-
Forward precious metal – buy	89.699	-	-	-	-	89.699
Forward precious metal – sell	1.925.522	224.248	-	-	-	2.149.770
Money buy options	218.558	49.200	2.661.875	-	-	2.929.633
Money sell options	218.538	49.200	2.661.875	-	-	2.929.613
Interest rate swap-buy	-	-	-	2.278.648	6.417.794	8.696.442
Interest rate swap-sell	-	-	-	2.278.648	6.417.794	8.696.442
<b>Total</b>	<b>18.733.291</b>	<b>2.851.868</b>	<b>9.243.191</b>	<b>6.771.406</b>	<b>12.835.588</b>	<b>50.435.344</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Liquidity risk** (continued)

Presentation according to remaining maturities at the date of statement of financial position:

	Demand	Up to 1 month	1-3 months	3-12 months	1 year to 5 years	Over 5 years	Undistributed	Total
<b>31 December 2019</b>								
<b>Assets</b>								
Cash on hand	3.861.328	-	-	-	-	-	-	3.861.328
Balances with and reserve deposits at Central Bank	479.988	30.818.432	-	150.062	-	-	-	31.448.482
Due from banks	2.521.653	1.664.373	33.312	26.233	25	5.037	-	4.250.633
Financial assets at fair value through profit or loss	8.674	61.147	36.878	16.392.593	523.778	287.868	146.817	17.457.755
Loans and advances	18.490.682	19.996.922	16.411.998	79.241.930	137.915.789	34.743.520	-	306.800.841
Investments securities	-	751.731	1.575.160	8.344.331	43.962.933	32.971.494	155.047	87.760.696
Other assets	300.075	2.766.829	1.475.471	2.242.049	1.633.559	5.631.509	2.941.365	16.990.857
<b>Total assets</b>	<b>25.662.400</b>	<b>56.059.434</b>	<b>19.532.819</b>	<b>106.397.198</b>	<b>184.036.084</b>	<b>73.639.428</b>	<b>3.243.229</b>	<b>468.570.592</b>
<b>Liabilities and equity</b>								
Deposits from banks	6.066.738	13.123.091	8.508.642	6.458	-	-	-	27.704.929
Deposits from customers	48.281.713	156.935.578	45.614.499	20.039.248	2.024.949	36.139	-	272.932.126
Obligations under repurchase agreements	-	51.380.227	4.947	-	-	590.000	-	51.975.174
Loans and advances from banks	18	891.855	1.006.528	4.084.214	5.181.511	6.212.748	-	17.376.874
Interbank money market borrowings	-	1.364.167	-	-	-	-	-	1.364.167
Debt securities issued	-	1.154.408	7.105.778	3.403.317	7.630.629	-	-	19.294.132
Other liabilities <sup>(1)</sup>	1.654.895	7.071.099	370.130	19.777.540	4.287.823	12.602.403	32.159.300	77.923.190
<b>Total liabilities and equity</b>	<b>56.003.364</b>	<b>231.920.425</b>	<b>62.610.524</b>	<b>47.310.777</b>	<b>19.124.912</b>	<b>19.441.290</b>	<b>32.159.300</b>	<b>468.570.592</b>
<b>Liquidity gap</b>	<b>(30.340.964)</b>	<b>(175.860.991)</b>	<b>(43.077.705)</b>	<b>59.086.421</b>	<b>164.911.172</b>	<b>54.198.138</b>	<b>(28.916.071)</b>	<b>-</b>

<sup>(1)</sup> Shareholders’ equity is presented in the “undistributed” column.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Liquidity risk** (continued)

Presentation according to remaining maturities at the date of statement of financial position (continued):

	<b>Demand</b>	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Undistributed</b>	<b>Total</b>
<b>31 December 2018</b>								
Assets								
Cash on hand	4.591.888	-	-	-	-	-	-	4.591.888
Balances with and reserve deposits at Central Bank	321.544	30.534.902	-	127.280	-	-	-	30.983.726
Due from banks	2.225.644	2.966.445	2.030	15.698	38	-	-	5.209.855
Financial assets at fair value through profit or loss	6.150	513.539	378.869	14.652.233	27.548	21.478	1.199	15.601.016
Loans and advances	3.160.268	15.139.374	15.195.175	77.568.360	113.285.389	34.259.955	-	258.608.521
Investments securities	-	267.274	1.147.679	4.086.231	26.600.348	28.956.952	134.029	61.192.513
Other assets	245.776	137.085	916.130	311.689	591.977	30.996	10.708.817	12.942.470
<b>Total assets</b>	<b>10.551.270</b>	<b>49.558.619</b>	<b>17.639.883</b>	<b>96.761.491</b>	<b>140.505.300</b>	<b>63.269.381</b>	<b>10.844.045</b>	<b>389.129.989</b>
<b>Liabilities and equity</b>								
Deposits from banks	20.673.730	8.787.811	1.541.557	15.296	-	-	-	31.018.394
Deposits from customers	32.418.383	121.328.054	46.774.591	17.962.662	1.028.477	18.774	-	219.530.941
Obligations under repurchase agreements	-	4.580.330	340.631	-	2.123.478	527.000	-	7.571.439
Loan and advances from banks	36	985.835	1.801.634	3.909.489	5.748.994	5.702.613	-	18.148.601
Interbank money market borrowings	-	30.646.830	-	-	-	-	-	30.646.830
Debt securities issued	-	1.682.721	2.026.971	2.427.811	10.196.797	-	-	16.334.300
Other liabilities <sup>(1)</sup>	1.294.385	7.090.927	486.156	17.323.238	2.053.242	8.106.727	29.524.809	65.879.484
<b>Total liabilities and equity</b>	<b>54.386.534</b>	<b>175.102.508</b>	<b>52.971.540</b>	<b>41.638.496</b>	<b>21.150.988</b>	<b>14.355.114</b>	<b>29.524.809</b>	<b>389.129.989</b>
<b>Liquidity gap</b>	<b>(43.835.264)</b>	<b>(125.543.889)</b>	<b>(35.331.657)</b>	<b>55.122.995</b>	<b>119.354.312</b>	<b>48.914.267</b>	<b>(18.680.764)</b>	<b>-</b>

<sup>(1)</sup> Shareholders’ equity is presented in the “undistributed” column.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Liquidity risk** (continued)

Net liquidity gap

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

**Market risk**

The Bank's market risks are managed within the framework of the “Policies Related to the Management of the Market Risk” approved by the Board of Directors, and the trading activities of the positions and portfolios subject to the market risks are carried out in accordance with the “Policy and Application Procedures regarding the Management of the Positions Held for the Trading Strategy”.

The Bank's market risks are measured by two methods, namely the standard method and the risk measurement method. In statutory reporting, the standard method is used in accordance with the “Regulation Regarding the Measurement and Evaluation of Banks' Capital Adequacy” published in the Official Gazette dated 23 October 2015 and numbered 29511. In addition, the risk measurement model and the value at risk (VAR) are measured in accordance with the “Communiqué on Calculation of Market Risk and Risk Measurement Models and Evaluation of Risk Measurement Models” published in the Official Gazette dated 23 October 2015 and numbered 29511.

Within the scope of the Bank's "Policies for the Management of Market Risks"; VAR based limit and risk appetite has been determined and VAR results calculated by historical simulation method have been associated with statutory equity. The level of compliance with these limits is monitored daily. On the other hand, periodic stress tests are applied for market risks.

Concerning market risks, the results obtained by both the standard method and the risk measurement model and the level of compliance with the limits are reported to the Bank's Top Management and related business units on a daily basis.

The Group's average market risk calculated as of the end of months in the related periods is as follows:

	31 December 2019			31 December 2018		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest rate risk	228.865	423.940	153.787	114.286	201.906	51.054
Share risk	19.761	24.742	12.880	13.271	19.396	8.550
Currency risk	357.817	627.945	228.171	179.780	377.688	105.377
Commodity risk	-	-	-	-	-	-
Settlement risk	-	-	-	-	-	-
Options risk	30.741	163.732	2.050	21.262	36.668	3.613
<b>Amount subject to total risk</b>	<b>637.184</b>	<b>1.240.359</b>	<b>396.888</b>	<b>328.599</b>	<b>635.658</b>	<b>168.594</b>

**Currency risk**

Foreign currency risk indicates the possibilities of potential losses that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Group are taken into account. Net short and long position of the Turkish Lira equivalent to each foreign currency is calculated.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Currency risk** (continued)

The Group’s exposure to foreign currency risk is limited. However, possible foreign currency risks are calculated in foreign currency risk table in the frame of the standard method weekly and monthly as to follow up the foreign currency risk periodically. When deemed necessary, foreign currency swap transactions are made with the banks.

*Foreign currency sensitivity:*

The Group is mainly exposed to EUR and USD currency risk.

The following table details the Group’s sensitivity to a 10% increase and decrease in the TRY against USD, EUR and other foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign exchange rates.

	Change in currency rate	Effect on profit / loss	
		2019	2018
USD	10% increase	(406.303)	(45.255)
EUR	10% increase	172.657	3.806
Other	10% increase	(18.233)	106.615

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

	EUR	USD	Other FC	Total
<b>31 December 2019</b>				
<b>Assets</b>				
Cash on hand	662.184	993.625	835.144	2.490.953
Balances with Central Bank	4.425.703	11.231.706	-	15.657.409
Reserve deposits at Central Bank	11.266.442	816.918	2.609.654	14.693.014
Due from banks	1.227.948	1.435.172	992.832	3.655.952
Financial assets at fair value through profit or loss	-	64	9.890	9.954
Loans and advances	48.838.724	38.870.469	3.488.044	91.197.237
Investment securities	9.507.543	12.731.656	1.353.636	23.592.835
Investment in equity- accounted investees	476.980	-	-	476.980
Property and equipment	-	-	201.549	201.549
Other assets	1.805.726	1.737.713	92.552	3.635.991
<b>Total assets</b>	<b>78.211.250</b>	<b>67.817.323</b>	<b>9.583.301</b>	<b>155.611.874</b>
<b>Liabilities</b>				
Deposits from banks	9.160.439	4.189.063	500.838	13.850.340
Deposits from customers	60.282.800	51.347.396	12.109.505	123.739.701
Obligations under repurchase agreements	2.356.660	594.634	-	2.951.294
Loan and advances from banks	8.350.631	4.392.018	14.246	12.756.895
Debt securities issued	-	10.512.530	-	10.512.530
Other liabilities	6.922.813	780.257	273.579	7.976.649
<b>Total liabilities</b>	<b>87.073.343</b>	<b>71.815.898</b>	<b>12.898.168</b>	<b>171.787.409</b>
<b>Net on balance sheet position</b>	<b>(8.862.093)</b>	<b>(3.998.575)</b>	<b>(3.314.867)</b>	<b>(16.175.535)</b>
<b>Net off balance sheet position</b>	<b>8.232.005</b>	<b>(64.451)</b>	<b>3.132.568</b>	<b>11.300.122</b>
Derivative financial assets	9.662.721	8.011.214	4.032.321	21.706.256
Derivative financial liabilities	1.430.716	8.075.665	899.753	10.406.134

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Currency risk** (continued)

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

	<b>EUR</b>	<b>USD</b>	<b>Other FC</b>	<b>Total</b>
<b>31 December 2018</b>				
<b>Assets</b>				
Cash on hand	804.954	1.958.411	568.709	3.332.074
Balances with Central Bank	4.464.690	7.142.606	-	11.607.296
Reserve deposits at Central Bank	10.575.608	541.421	5.540.230	16.657.260
Due from banks	686.997	3.625.590	652.192	4.964.779
Financial assets at fair value through profit or loss	-	21.455	1.125	22.580
Loans and advances	47.357.714	41.774.693	2.872.554	92.004.961
Investment securities	840.657	11.570.955	891.807	13.303.419
Investment in equity- accounted investees	431.547	-	-	431.547
Property and equipment	-	-	124.956	124.956
Other assets	323.046	1.793.792	52.881	2.169.718
<b>Total assets</b>	<b>65.485.213</b>	<b>68.428.923</b>	<b>10.704.454</b>	<b>144.618.590</b>
<b>Liabilities</b>				
Deposits from banks	8.688.941	5.570.330	783.313	15.042.584
Deposits from customers	47.083.052	44.091.737	6.853.596	98.028.385
Obligations under repurchase agreements	-	5.402.273	-	5.402.273
Loan and advances from banks	8.714.381	5.253.406	20.069	13.987.856
Debt securities issued	-	12.024.839	-	12.024.839
Other liabilities	574.870	779.147	142.723	1.496.740
<b>Total liabilities</b>	<b>65.061.244</b>	<b>73.121.732</b>	<b>7.799.701</b>	<b>145.982.677</b>
<b>Net on balance sheet position</b>	<b>423.969</b>	<b>(4.692.809)</b>	<b>2.904.753</b>	<b>(1.364.087)</b>
<b>Net off balance sheet position</b>	<b>(385.913)</b>	<b>4.240.264</b>	<b>(1.838.600)</b>	<b>2.015.751</b>
Derivative financial assets	1.504.108	10.029.426	966.638	12.500.172
Derivative financial liabilities	1.890.021	5.789.162	2.805.238	10.484.421



**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Interest rate risk**

The Group’s standard interest rate shock methods are being used on a daily basis in respect of measuring the risk arising from repricing mismatch of asset and liability items. The duration within the limits set by Banking Regulation and Supervision Agency that obtained from the calculation intended for demand deposits by using core deposit and duration analysis is taken into account.

The interest rate risk of the banking book items is calculated by taking into account the worst ratio for the Group among the calculated ratios by dividing the total of the differences in terms of maturities and currencies with the shareholders’ equity. The mentioned difference is the difference between the net position amounts which are derived from the cash flows of the on-balance and off-balance sheet positions included in the interest sensitive banking book items discounted by the ratios derived from the application of positive and negative shocks, and the net position amounts which are discounted by the ratios without applying the shocks. The maximum limit regarding the economic value change is 20% of shareholders’ equity.

During the maturity distribution of the related cash flows, remaining maturities are taken into account for fixed rate instruments and repricing dates are taken into account for flexible interest instruments. The net amounts of non-performing loans are placed to the relevant maturity periods longer than six months and except demand time interval under other receivables with considering their estimated collection durations. Foreign currency indexed asset and liabilities are placed to related forms by taking into accounts their indexed currency types.

In defining the maturity of demand deposits, average durations which are calculated by statistical analysis are being used.

*Interest rate sensitivity:*

The impact on financial statements as of 31 December 2019 regarding interest rate instabilities stated below as presented in different currencies:

	<b>Currency</b>	<b>Applied shock (+/- x basis points)</b>	<b>Gains/ losses</b>	<b>Gains/shareholders’ equity – losses/ shareholders’ equity</b>
1	TRY	500 (400)	(7.837.303) 7.628.456	(16,84%) 16,39%
2	EUR <sup>(*)</sup>	200 (200)	1.367.969 (1.859.217)	2,94% (3,99%)
3	USD	200 (200)	(1.558.638) 2.184.010	(3,35%) 4,69%
<b>Total (For negative shocks)</b>			<b>7.953.249</b>	<b>17,09%</b>
<b>Total (For positive shocks)</b>			<b>(8.027.972)</b>	<b>(17,25%)</b>

<sup>(\*)</sup> Other currencies are shown under EUR

The impact on financial statements as of 31 December 2018 regarding interest rate instabilities stated below as presented in different currencies:

	<b>Currency</b>	<b>Applied shock (+/- x basis points)</b>	<b>Gains/ losses</b>	<b>Gains/shareholders’ equity – losses/ shareholders’ equity</b>
1	TRY	500 (400)	(4.147.592) 3.990.457	(11,17%) 10,75%
2	EUR <sup>(*)</sup>	200 (200)	610.795 (654.359)	1,64% (1,76%)
3	USD	200 (200)	(1.027.985) 1.493.270	(2,77%) 4,02%
<b>Total (For negative shocks)</b>			<b>4.829.368</b>	<b>13,01%</b>
<b>Total (For positive shocks)</b>			<b>(4.564.782)</b>	<b>(12,30%)</b>

<sup>(\*)</sup> Other currencies are shown under EUR

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Interest rate risk** (continued)

*Average interest rates applied to financial instruments:*

<b>Current period</b>	<b>EURO</b>	<b>USD</b>	<b>JPY</b>	<b>TRY</b>
<b>Assets</b>				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the CBRT <sup>(5)</sup>	-	-	-	10,00
Due from other banks and financial institutions <sup>(1)</sup>	0,18	1,09	-	10,06
Financial assets at fair value through profit and loss	-	4,76	-	11,80
Money market placements	-	-	-	11,37
FVTOCI financial assets	2,78	5,15	-	18,15
Loans <sup>(2)</sup>	5,21	7,04	3,10	13,93
Amortized cost investments	4,77	5,93	-	19,62
<b>Liabilities</b>				
Bank deposits	0,35	2,49	-	9,12
Other deposits <sup>(4)</sup>	0,45	1,86	0,25	9,87
Money market borrowings	2,21	6,61	-	11,37
Sundry creditors <sup>(3)</sup>	-	-	-	4,50
Bonds issued	-	4,38	-	14,45
Funds provided from other financial institutions <sup>(4)</sup>	1,21	3,26	3,10	11,99
<b>Prior Period</b>				
<b>Assets</b>				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the CBRT <sup>(5)</sup>	-	2,00	-	13,00
Due from other banks and financial institutions <sup>(1)</sup>	0,19	2,22	-	19,58
Financial assets at fair value through profit and loss	-	6,62	-	19,73
Money market placements	-	-	-	22,00
Available-for-sale financial assets	4,05	5,83	-	22,81
Loans <sup>(2)</sup>	5,09	7,22	1,54	16,25
Held-to-maturity investments	-	5,61	-	21,93
<b>Liabilities</b>				
Bank deposits	2,72	5,30	-	24,33
Other deposits <sup>(4)</sup>	2,45	4,53	0,25	18,82
Money market borrowings	-	4,55	-	23,35
Sundry creditors <sup>(3)</sup>	-	-	-	4,75
Bonds issued	-	4,46	-	16,87
Funds provided from other financial institutions <sup>(4)</sup>	1,37	3,17	1,40	21,95

<sup>(1)</sup> Interest rates are calculated using weighted average method for money placement amounts as of balance sheet date.

<sup>(2)</sup> Interest rates for loans given as of the balance sheet date are calculated by using client based weighted average interests

<sup>(3)</sup> Declared maximum deposits interest rate with a maturity of twelve months as of 31 December 2019.

<sup>(4)</sup> Customer based calculated interest rates are applied to TRY and FC deposits as of 31 December 2019.

<sup>(5)</sup> Average interest rates for reserve requirements of the CBRT.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Interest rate risk** (continued)

Interest rate sensitivity based on repricing dates:

	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
<b>31 December 2019</b>							
<b>Assets</b>							
Cash on hand	-	-	-	-	-	3.861.328	3.861.328
Balances with and reserve deposits at Central Bank	1.211.251	-	-	-	-	30.237.231	31.448.482
Due from banks	1.789.783	75.925	26.233	25	-	2.358.667	4.250.633
Financial assets at fair value through profit or loss	69.821	36.878	16.392.593	523.778	287.868	146.817	17.457.755
Loans and advances	72.821.853	47.433.244	82.557.824	68.879.279	12.231.986	22.876.655	306.800.841
Investment securities	1.099.384	26.993.250	12.294.678	23.775.889	23.447.564	149.931	87.760.696
Other assets	2.463.410	1.051.857	1.714.880	1.828.684	275.174	9.656.852	16.990.857
<b>Total assets</b>	<b>79.455.502</b>	<b>75.591.154</b>	<b>112.986.208</b>	<b>95.007.655</b>	<b>36.242.592</b>	<b>69.287.481</b>	<b>468.570.592</b>
<b>Liabilities and equity</b>							
Deposits from banks	13.223.458	8.494.169	6.062	-	-	5.981.240	27.704.929
Deposits from customers	155.025.988	47.071.325	17.657.100	1.957.470	16.198	51.204.045	272.932.126
Obligations under repurchase agreements	51.380.227	4.947	-	-	590.000	-	51.975.174
Loans and advances from banks	1.852.476	5.131.640	4.388.711	2.241.874	3.687.807	74.366	17.376.874
Interbank money market borrowings	1.364.167	-	-	-	-	-	1.364.167
Debt securities issued	1.154.408	7.105.778	3.403.317	7.630.629	-	-	19.294.132
Other liabilities <sup>(1)</sup>	1.741.924	65.508	18.330.452	95.511	10.888.695	46.801.100	77.923.190
<b>Total liabilities and equity</b>	<b>225.742.648</b>	<b>67.873.367</b>	<b>43.785.642</b>	<b>11.925.484</b>	<b>15.182.700</b>	<b>104.060.751</b>	<b>468.570.592</b>
On balance sheet interest sensitivity gap-Long	-	-	69.200.566	83.082.171	21.059.892	-	173.342.629
On balance sheet interest sensitivity gap-Short	(146.287.146)	7.717.787	-	-	-	(34.773.270)	(173.342.629)
Off balance sheet interest sensitivity gap-Long	611.253	1.663.639	7.773.732	88.667	5.546.352	21.390.139	37.073.782
Off balance sheet interest sensitivity gap-Short	(21.238)	(424.625)	(7.917.232)	(1.049.537)	(5.546.352)	(21.376.900)	(36.335.884)
<b>Total position</b>	<b>(145.697.131)</b>	<b>8.956.801</b>	<b>69.057.066</b>	<b>82.121.301</b>	<b>21.059.892</b>	<b>(34.760.031)</b>	<b>737.898</b>

<sup>(1)</sup> Shareholders’ equity is presented in the “non-interest bearing” column.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency-In thousands of Turkish Lira (“TRY”))

**5. Financial risk management** (continued)

**Interest rate risk** (continued)

Interest rate sensitivity based on repricing dates (continued):

	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
<b>31 December 2018</b>							
<b>Assets</b>							
Cash on hand	-	-	-	-	-	4.591.888	4.591.888
Balances with and reserve deposits at Central Bank	16.093.521	-	-	-	-	14.890.205	30.983.726
Due from banks	3.233.834	-	15.421	-	-	1.960.600	5.209.855
Financial assets at fair value through profit or loss	512.458	406.232	277.252	185	21.478	14.383.411	15.601.016
Loans and advances	40.464.724	34.427.744	100.296.021	63.187.946	14.453.851	5.778.235	258.608.521
Investment securities	592.227	18.018.228	8.807.826	12.853.165	20.814.057	107.010	61.192.513
Other assets	952.046	828.385	185.299	41.429	1.328	10.933.983	12.942.470
<b>Total assets</b>	<b>61.848.810</b>	<b>53.680.589</b>	<b>109.581.819</b>	<b>76.082.725</b>	<b>35.290.714</b>	<b>52.645.332</b>	<b>389.129.989</b>
<b>Liabilities and equity</b>							
Deposits from banks	8.733.726	1.535.846	14.896	-	-	20.733.926	31.018.394
Deposits from customers	120.338.792	46.331.914	17.657.731	1.021.878	18.037	34.162.589	219.530.941
Obligations under repurchase agreements	4.580.330	340.631	-	2.123.478	527.000	-	7.571.439
Loans and advances from banks	1.166.612	5.804.740	4.209.579	3.149.178	3.627.999	190.493	18.148.601
Interbank money market borrowings	30.646.830	-	-	-	-	-	30.646.830
Debt securities issued	1.682.721	2.026.971	2.427.811	10.196.797	-	-	16.334.300
Other liabilities <sup>(1)</sup>	3.574.149	52.464	1.858.456	14.641.120	6.870.185	38.883.110	65.879.484
<b>Total liabilities and equity</b>	<b>170.723.160</b>	<b>56.092.566</b>	<b>26.168.473</b>	<b>31.132.451</b>	<b>11.043.221</b>	<b>93.970.118</b>	<b>389.129.989</b>
On balance sheet interest sensitivity gap-Long	-	-	83.413.346	44.950.274	24.247.493	-	152.611.113
On balance sheet interest sensitivity gap-Short	(108.874.350)	(2.411.977)	-	-	-	(41.324.786)	(152.611.113)
Off balance sheet interest sensitivity gap-Long	1.131.188	1.413.449	4.506.341	1.139.324	3.208.897	13.021.620	24.420.819
Off balance sheet interest sensitivity gap-Short	(745.075)	(1.049.773)	(4.084.721)	(1.983.234)	(3.208.897)	(12.906.156)	(23.977.856)
<b>Total position</b>	<b>(108.488.237)</b>	<b>(2.048.301)</b>	<b>83.834.966</b>	<b>44.106.364</b>	<b>24.247.493</b>	<b>(41.209.322)</b>	<b>442.963</b>

<sup>(1)</sup> Shareholders' equity is presented in the “non-interest bearing” column.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency - In thousands of Turkish Lira ("TRY"))

**5. Financial risk management (continued)**

**Capital adequacy**

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency (BRSA). The minimum ratio is 8% (12% if a bank operates in offshore markets). These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The bank operates in offshore markets. As of 31 December 2019 and 31 December 2018, its capital adequacy ratio is above 12%.

The Bank's consolidated regulatory capital position at 31 December 2019 and 31 December 2018 was as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Tier 1 capital	37.559.198	29.034.181
Tier 2 capital	8.728.461	8.396.621
Deductions from capital	(11.332)	(9.972)
<b>Total regulatory capital</b>	<b>46.276.327</b>	<b>37.420.830</b>
Risk-weighted assets	297.590.914	252.966.471
Value at market risk	12.630.875	3.869.238
Operational risk	21.710.397	18.548.003
Counterparty credit risk and the amount of the discount threshold under the equity (subject to a 250% risk weight)	7.046.646	4.749.069
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13,65%	13,36%
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	11,08%	10,36%

**Fair value of financial instruments**

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

	<b>Carrying amount</b>		<b>Fair value</b>	
	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Financial assets</b>				
Cash on hand	3.861.328	4.591.888	3.861.328	4.591.888
Balances with Central Bank	16.702.412	14.074.205	16.702.412	14.074.205
Reserve deposits at Central Bank	14.746.070	16.909.521	14.746.070	16.909.521
Due from banks	4.250.633	5.209.855	4.250.633	5.209.855
Loans and receivables	304.017.264	255.628.001	301.534.436	247.905.877
Investment securities				
-Amortized cost investment securities	72.461.381	56.321.597	72.049.712	50.365.149
Finance lease receivables	2.783.577	2.980.520	2.783.577	2.980.520
	<b>418.822.665</b>	<b>355.715.587</b>	<b>415.928.168</b>	<b>342.037.015</b>
<b>Financial liabilities</b>				
Deposits from banks	27.704.929	31.018.394	27.926.452	31.239.917
Deposits from customers	272.932.126	219.530.941	274.414.626	221.013.441
Obligations under repurchase agreements	51.975.174	7.571.439	51.975.174	7.571.439
Loans and advances from banks	17.376.874	18.148.601	14.520.662	15.621.467
Interbank money market borrowings	1.364.167	30.646.830	1.586.006	30.813.408
Debt securities issued	19.294.132	16.334.300	18.906.759	20.664.444
	<b>390.647.402</b>	<b>323.250.505</b>	<b>389.329.679</b>	<b>326.924.116</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

*(Currency - In thousands of Turkish Lira ("TRY"))*

**5. Financial risk management (continued)**

**Fair value of financial instruments (continued)**

Fair values of financial assets such as financial assets at fair value through profit or loss, FVTOCI investment securities and amortized cost investment securities that are traded in active markets are based on quoted market prices or dealer price quotations. The Bank management has estimated that the fair value of certain financial assets and liabilities recorded at amortised cost are not materially different than their recorded values except for those of loans and advances, investment securities, deposits from customers, loans and advances from banks and debt securities issued. These financial assets and liabilities include due from banks, cash on hand, balances with Central Bank, reserve deposits at Central Bank, finance lease receivables, deposits from banks, obligations under repurchase agreements and interbank money market borrowings. The Bank management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

For the financial assets and liabilities such as loans and advances, loans and advances from banks, finance lease receivables, deposits and derivative financial instruments; valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates used in estimating discount rates and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

**Classification of fair value measurement**

The classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value are disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Group. This distinction brings about a fair value measurement classification generally as follows:

- Level 1: Assets and liabilities are classified as level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.
- Level 2: Assets and liabilities classified as level 2 have been valued using models whose inputs are observable either directly or indirectly. Valuations based on observable inputs include assets and liabilities such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.
- Level 3: Assets and liabilities are classified as level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined via reference to observable inputs, historical observations or using other analytical techniques.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency - In thousands of Turkish Lira ("TRY"))

**5. Financial risk management (continued)**

**Classification of fair value measurement (continued)**

Classification requires using observable market data if possible.

<b>31 December 2019</b>	<b>Carrying amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value through profit/loss:</b>					
Financial assets at fair value through profit or loss <sup>(1)</sup>	1.182.800	30.808	1.151.992	-	1.182.800
<i>Debt securities</i>	30.808	30.808	-	-	30.808
<i>Derivative financial assets</i>	1.151.992	-	1.151.992	-	1.151.992
<i>Share certificates</i>	-	-	-	-	-
<i>Other securities</i>	-	-	-	-	-
FVTOCI financial assets <sup>(2)</sup>	15.138.164	15.138.164	-	-	15.138.164
<i>Debt securities</i>	15.138.164	15.138.164	-	-	15.138.164
<i>Other securities</i>	-	-	-	-	-
<b>Total financial assets</b>	<b>16.320.964</b>	<b>15.168.972</b>	<b>1.151.992</b>	<b>--</b>	<b>16.320.964</b>
<b>Financial liabilities at fair value through profit/loss:</b>					
Derivative financial liabilities	353.718	-	353.718	-	353.718
<b>Total financial liabilities</b>	<b>353.718</b>	<b>-</b>	<b>353.718</b>	<b>-</b>	<b>353.718</b>

(1) As of 31 December 2019, marketable securities amounting to TRY 170.874 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

(2) As of 31 December 2019, share certificates amounting to TRY 161.151 in FVTOCI financial assets are not included in the above table, which are measured at cost.

<b>31 December 2018</b>	<b>Carrying amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value through profit/loss:</b>					
Financial assets at fair value through profit or loss <sup>(1)</sup>	1.160.431	98.350	1.062.081	-	1.160.431
<i>Debt securities</i>	62.557	62.557	-	-	62.557
<i>Derivative financial assets</i>	1.062.081	-	1.062.081	-	1.062.081
<i>Share certificates</i>	1.199	1.199	-	-	1.199
<i>Other securities</i>	34.594	34.594	-	-	34.594
Available-for-sale financial assets <sup>(2)</sup>	4.754.158	4.754.158	-	-	4.754.158
<i>Debt securities</i>	4.754.158	4.754.158	-	-	4.754.158
<i>Other securities</i>	-	-	-	-	-
<b>Total financial assets</b>	<b>5.914.589</b>	<b>4.852.508</b>	<b>1.062.081</b>	<b>-</b>	<b>5.914.589</b>
<b>Financial liabilities at fair value through profit/loss:</b>					
Derivative financial liabilities	410.339	-	410.339	-	410.339
<b>Total financial liabilities</b>	<b>410.339</b>	<b>-</b>	<b>410.339</b>	<b>-</b>	<b>410.339</b>

(1) As of 31 December 2018, marketable securities amounting to TRY 66.205 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

(2) As of 31 December 2018, share certificates amounting to TRY 116.758 in FVTOCI financial assets are not included in the above table, which are measured at cost.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency - In thousands of Turkish Lira ("TRY"))

**6. Financial instruments**

*Carrying amounts and fair values*

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount			Fair value			
	Loans and receivables	Investments, including derivatives	Total	Level 1 <sup>(1)(2)</sup>	Level 2	Level 3	Total
<b>Financial assets</b>							
<b>31 December 2019</b>							
Due from banks (including central banks)	35.699.115	-	35.699.115	-	-	-	-
Financial assets at fair value through profit or loss:							
-Trading securities	-	201.682	201.682	30.808	-	-	30.808
-Derivative financial instruments	-	1.151.992	1.151.992	-	1.151.992	-	1.151.992
Loans and receivables	306.800.841	-	306.800.841	-	-	-	-
Investment securities:							
- Debt and other instruments at FVTOCI	-	15.299.315	15.299.315	15.138.164	-	-	15.138.164
- Debt and other instruments at amortised cost	-	72.461.381	72.461.381	-	-	-	-
Insurance premium receivables	13.892	-	13.892	-	-	-	-
<b>Total financial assets</b>	<b>342.513.848</b>	<b>89.114.370</b>	<b>431.628.218</b>				
<b>31 December 2018</b>							
Due from banks (including central banks)	36.193.581	-	36.193.581	-	-	-	-
Financial assets at fair value through profit or loss:							
-Trading securities	-	164.555	164.555	98.350	-	-	98.350
-Derivative financial instruments	-	1.062.081	1.062.081	-	1.062.081	-	1.062.081
Loans and advances	258.608.521	-	258.608.521	-	-	-	-
Investment securities:							
- Debt and other instruments at FVTOCI	-	4.870.916	4.870.916	4.754.158	-	-	4.754.158
- Debt and other instruments at amortised cost	-	56.321.597	56.321.597	-	-	-	-
Insurance premium receivables	1.302.817	-	1.302.817	-	-	-	-
<b>Total financial assets</b>	<b>296.104.919</b>	<b>62.419.149</b>	<b>358.524.068</b>				

(1) As of 31 December 2019, marketable securities amounting to TRY 16.557 (31 December 2018: TRY 66.205) that are measured at cost, are not included in financial assets at fair value through profit or loss.

(2) As of 31 December 2019 share certificates amounting to TRY 161.151 (31 December 2018: TRY 116.758) in debt and other instruments at FVTOCI are not included in the above table, which are measured at cost.



**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency - In thousands of Turkish Lira (“TRY”))

**6. Financial instruments (continued)**

*Carrying amounts and fair values (continued)*

	Carrying amount			Fair value			Total
	Loans and borrowings	Derivatives	Total	Level 1	Level 2	Level 3	
<b>Financial liabilities</b>							
<b>31 December 2019</b>							
Deposits from banks	27.704.929	-	27.704.929	-	-	-	-
Deposits from customers	272.932.126	-	272.932.126	-	-	-	-
Obligations under repurchase agreements	51.975.174	-	51.975.174	-	-	-	-
Loans and advances from banks	17.376.874	-	17.376.874	-	-	-	-
Interbank money market borrowings	1.364.167	-	1.364.167	-	-	-	-
Derivative financial instruments	-	353.718	353.718	-	353.718	-	353.718
Debt securities issued	19.294.132	-	19.294.132	-	-	-	-
<b>Total financial liabilities</b>	<b>390.647.402</b>	<b>353.718</b>	<b>391.001.120</b>				
<b>31 December 2018</b>							
Deposits from banks	31.018.394	-	31.018.394	-	-	-	-
Deposits from customers	219.530.941	-	219.530.941	-	-	-	-
Obligations under repurchase agreements	7.571.439	-	7.571.439	-	-	-	-
Loans and advances from banks	18.148.601	-	18.148.601	-	-	-	-
Interbank money market borrowings	30.646.830	-	30.646.830	-	-	-	-
Derivative financial instruments	-	410.339	410.339	-	410.339	-	410.339
Debt securities issued	16.334.300	-	16.334.300	-	-	-	-
<b>Total financial liabilities</b>	<b>323.250.505</b>	<b>410.339</b>	<b>323.660.844</b>				

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency - In thousands of Turkish Lira (“TRY”))

**7. Operating segments**

The Group has five reportable segments, corporate, commercial, entrepreneur, treasury/investment and other which are the Group’s strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group’s management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis.

<b>31 December 2019</b>	<b>Corporate / Commercial</b>	<b>Integrated</b>	<b>Treasury / Investment <sup>(2)</sup></b>	<b>Other <sup>(1)</sup></b>	<b>Group</b>
Interest income	12.397.599	24.910.172	9.698.902	662.062	47.668.735
Interest expenses	(7.172.263)	(14.622.240)	(13.847.507)	(358.004)	(36.000.014)
<b>Net interest income</b>	<b>5.225.336</b>	<b>10.287.932</b>	<b>(4.148.605)</b>	<b>304.058</b>	<b>11.668.721</b>
Net fee and commission income	1.080.148	1.383.476	465.462	(212.604)	2.716.482
Net trading income from securities	-	(34)	294.961	-	294.927
Net trading income from derivative transactions	-	32.317	(1.505.458)	(1)	(1.473.142)
Foreign exchange gains/ (losses), net	12.519	521.873	(2.607.983)	24.052	(2.049.539)
Net impairment losses on loans and advances	(1.382.505)	(1.239.868)	(323.901)	(48.351)	(2.994.625)
Income from insurance operations	-	-	-	264	264
Cost of insurance operations	-	-	-	(26.352)	(26.352)
Dividend income	-	-	4.468	133	4.601
Other operating income & share of profit of equity-accounted investees	963.896	4.211	7.165	15.782	991.054
Other operating expenses	(128.265)	(2.141.604)	(3.584.290)	(854.664)	(6.708.823)
<b>Profit before income tax</b>	<b>5.771.129</b>	<b>8.848.303</b>	<b>(11.398.181)</b>	<b>(797.683)</b>	<b>2.423.568</b>
Income tax charge	-	-	(278.849)	(33.181)	(312.030)
<b>Profit for the period</b>	<b>5.771.129</b>	<b>8.848.303</b>	<b>(11.677.030)</b>	<b>(830.864)</b>	<b>2.111.538</b>

<sup>(1)</sup> Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ and Halk Finansal Kiralama AŞ, Halk Faktoring AŞ, Halk Varlık AŞ and Bileşim AŞ transactions are shown in other column.

<sup>(2)</sup> Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halkbank Bank AD, Beograd and Halk Banka AD, Skopje transactions are shown in “treasury/investment” column.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**7. Operating segments (continued)**

<b>31 December 2018</b>	<b>Corporate / Commercial</b>	<b>Integrated</b>	<b>Treasury / Investment <sup>(2)</sup></b>	<b>Other <sup>(1)</sup></b>	<b>Group</b>
Interest income	8.986.726	20.166.245	7.788.094	605.343	37.546.408
Interest expense	(3.413.331)	(15.455.276)	(9.430.905)	(370.094)	(28.669.606)
<b>Net interest income</b>	<b>5.573.395</b>	<b>4.710.969</b>	<b>(1.642.811)</b>	<b>235.249</b>	<b>8.876.802</b>
Net fee and commission income	692.490	979.116	431.595	(168.160)	1.935.041
Net trading income from securities	-	34	33.047	-	33.081
Net trading loss from derivative transactions	-	1.039	1.974.619	3.503	1.979.161
Foreign exchange gain/ (losses), net	15.028	1.023.418	(2.847.859)	11.961	(1.797.452)
Net impairment losses on loans and advances	(989.550)	(1.042.652)	(828.825)	(217.977)	(3.079.004)
Income from insurance operations	-	-	-	-	-
Cost of insurance operations	-	-	-	-	-
Dividend income	-	-	12.796	322	13.118
Other operating income & share of profit of equity-accounted investees	69.853	87.604	138.566	382.758	678.781
Other operating expenses	(98.867)	(1.733.811)	(2.982.679)	(1.045.064)	(5.860.421)
<b>Profit before income tax</b>	<b>5.262.349</b>	<b>4.025.717</b>	<b>(5.711.551)</b>	<b>(797.408)</b>	<b>2.779.107</b>
Income tax charge	-	-	(218.543)	(32.178)	(250.721)
<b>Profit for the period</b>	<b>5.262.349</b>	<b>4.025.717</b>	<b>(5.930.094)</b>	<b>(829.586)</b>	<b>2.528.386</b>

<sup>(1)</sup> Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ and Halk Faktoring AŞ and Bileşim AŞ transactions are shown in other column.

<sup>(2)</sup> Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Banka AD, Beograd and Halk Banka AD, Skopje transactions are shown in “treasury/investment” column.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**7. Operating segments** (continued)

The segment assets and liabilities as at 31 December 2019 are as follows:

<b>Assets and liabilities</b>	<b>Corporate / Commercial</b>	<b>Integrated</b>	<b>Treasury / Investment <sup>(1)</sup></b>	<b>Other</b>	<b>Group</b>
Segment assets	116.840.830	188.130.525	155.572.396	7.526.959	468.070.710
Investment in equity-accounted investees	-	-	499.882	-	499.882
<b>Total assets</b>	<b>116.840.830</b>	<b>188.130.525</b>	<b>156.072.278</b>	<b>7.526.959</b>	<b>468.570.592</b>
Segment liabilities	108.158.785	195.814.886	123.245.530	9.192.091	436.411.292
<b>Total liabilities</b>	<b>108.158.785</b>	<b>195.814.886</b>	<b>123.245.530</b>	<b>9.192.091</b>	<b>436.411.292</b>

<sup>(1)</sup> Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under “Treasury / Investment” column.

The segment assets and liabilities as at 31 December 2018 are as follows:

<b>Assets and liabilities</b>	<b>Corporate / Commercial</b>	<b>Integrated</b>	<b>Treasury / Investment <sup>(1)</sup></b>	<b>Other</b>	<b>Group</b>
Segment assets	94.987.471	163.716.225	123.759.014	6.217.909	388.680.619
Investment in equity-accounted investees	-	-	449.370	-	449.370
<b>Total assets</b>	<b>94.987.471</b>	<b>163.716.225</b>	<b>124.208.384</b>	<b>6.217.909</b>	<b>389.129.989</b>
Segment liabilities	87.969.907	158.425.226	105.155.669	8.054.378	359.605.180
<b>Total liabilities</b>	<b>87.969.907</b>	<b>158.425.226</b>	<b>105.155.669</b>	<b>8.054.378</b>	<b>359.605.180</b>

<sup>(1)</sup> Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under “Treasury / Investment” column.

***Geographical segments***

The Group’s geographical segments are based on the location of Group’s assets. The Group’s activities are conducted predominantly in Turkey and Turkey is the home country of the Bank. The areas of operation include all the primary business segments.

Total assets and total liabilities are based on the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment revenue from customers outside of Turkey does not exceed 10% of total entity revenue.

The Group’s acquisition of properties and equipment, intangible assets and investment properties as of 31 December 2019 is mainly occurred in Turkey.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**8. Cash on hand**

At 31 December 2019 and 31 December 2018, cash on hand comprised the following:

	31 December 2019	31 December 2018
Cash on hand		
- Turkish Lira	1.370.370	1.259.794
- Foreign currency	2.423.857	3.262.099
Precious metals (gold)	67.096	69.975
Other liquid assets	5	20
<b>Total cash on hand</b>	<b>3.861.328</b>	<b>4.591.888</b>

**9. Balances with Central Bank**

	31 December 2019	31 December 2018
<b>Unrestricted balances with Central Bank</b>		
Demand deposits – Turkish Lira	1.045.003	2.466.909
Demand deposits – Foreign currency	15.657.409	11.607.296
	<b>16.702.412</b>	<b>14.074.205</b>
<b>Reserve deposits</b>		
Reserve deposits – Turkish Lira	53.061	252.281
Reserve deposits – Foreign currency	14.693.009	16.657.240
	<b>14.746.070</b>	<b>16.909.521</b>
<b>Total balances with Central Bank</b>	<b>31.448.482</b>	<b>30.983.726</b>

The banks operating in Turkey keep reserve deposits for Turkish currency liabilities in TRY, USD and/or standard gold at the rates between 1% and 7% according to their maturities (31 December 2018: between 1,5% and 8% according to their maturities), foreign currency liabilities in USD, EUR and/or standard gold at the rates between 5% and 21% according to their maturities (31 December 2018: between 4% and 20% according to their maturities), as per the “Reserve Deposits Communiqué” of the Central Bank of the Republic of Turkey.

Starting from 4 September 2019, the interest related to the reserve requirements for banks held at TRY is paid as 1000 basis points for banks whose credit growth rate is at qualified reference interval, and 0 basis points for banks whose credit growth rate is out of the reference interval.

With the change dated 23 January 2015, it has been decided to apply a charge on daily account balances and two days notice account denominated in Euro, and collected on a monthly basis, on reserve requirements held by banks commencing on 1 February 2015. As of 27 July 2015 commission ratios have been announced on the CBRT website as zero percent.

With the change on 2 May 2015 made by the CBRT, interest payments have been started for USD denominated reserve requirements, reserve options and free reserves held at CBRT. The interest rate is set on daily basis within the frame of global and local financial market conditions. The applicable yearly interest rate is 0 percent (announced on 19 September 2019).

With the decision No.1005 dated 14 August 2018 of the TRNC, reserve requirement ratio is between 0,4% and 0,7% for TRY liabilities and for foreign currency liabilities. With the decision No.1072 dated 27 December 2019 of the Central Bank of the TRNC, reserve requirement ratio will be applied between 4,25% to 7,25% for the Turkish currency and foreign currency liabilities as of 31 December 2019.

With the Board of Directors decision No. 126/11 dated 2011 of the Central Bank of Macedonia, reserve requirement ratio is 8% for MKD currency liabilities, 15% for foreign currency liabilities and 50% for foreign indexed liabilities.

According to the Official Gazette of Serbia No. 76/2018 of the Central Bank of Serbia, banks maintain reserve requirement of 5% for short term liabilities with maturities less than two years and 0% for long term liabilities with maturities more than two years, 20% for short term foreign currency liabilities with maturities less than two years and 13% for long term foreign liabilities with maturities more than two years and 100% for foreign currency index liabilities.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**10. Due from banks**

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Domestic banks</b>		
Demand deposits – Turkish Lira	50.532	1.030
Demand deposits – Foreign currency	27.849	7.072
Time deposits – Turkish Lira	251.906	4.011
Time deposits – Foreign currency	1.089.278	2.635.743
	<b>1.419.565</b>	<b>2.647.856</b>
<b>Foreign banks</b>		
Demand deposits – Turkish Lira	74.777	1.855.818
Demand deposits – Foreign currency	2.337.872	313.229
Time deposits – Turkish Lira	130.326	200.134
Time deposits – Foreign currency	200.955	127.500
	<b>2.743.930</b>	<b>2.496.681</b>
<b>Money market placements</b>	<b>87.138</b>	<b>65.318</b>
<b>Total due from banks</b>	<b>4.250.633</b>	<b>5.209.855</b>

For cash flow purposes, bank balances and money market placements having original maturity of less than 3 months were classified as cash and cash equivalents. These balances are amounting to TRY 4.219.338 as at 31 December 2019 (31 December 2018: TRY 5.194.119).

**11. Loans and receivables**

As at 31 December 2019 and 31 December 2018, all the loans and advances to customers are at amortized cost.

	<b>31 December 2019</b>	<b>31 December 2018</b>
Performing loans	302.106.604	258.352.897
Non-performing loans	16.725.577	9.282.998
<b>Gross amount</b>	<b>318.832.181</b>	<b>267.635.895</b>
ECL on cash loans - Stage 3	(9.426.305)	(6.782.554)
ECL on cash loans - Stage 1 & 2	(2.605.035)	(2.244.820)
<b>Carrying amount</b>	<b>306.800.841</b>	<b>258.608.521</b>

**The movement of loss allowances**

	<b>1 January- 31 December 2019</b>	<b>1 January- 31 December 2018</b>
<b>Balance on 1 January</b>	<b>(9.027.374)</b>	<b>(6.757.378)</b>
Net impairment loss/reversals for the period:		
- Net charge for the period	(4.616.783)	(2.731.351)
- Prior years recoveries and reversals including NPL sales	1.612.817	461.355
<b>Balance at end of the period</b>	<b>(12.031.340)</b>	<b>(9.027.374)</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**11. Loans and receivables (continued)**

	31 December 2019	31 December 2018
<b>Short term loans</b>		
Guaranteed export loans	5.355.807	4.407.654
Other guaranteed loans	31.868.350	33.979.271
Other non-guaranteed loans	10.832.986	10.501.676
Loans provided to financial sector	942.443	585.282
Loans provided to foreign institutions	175.970	308.273
Non-guaranteed export loans	638.475	835.210
Finance lease receivables	1.468.500	924.391
Factoring receivables	2.092.295	1.402.148
Interest accruals	1.099.377	779.179
	<b>54.474.203</b>	<b>53.723.084</b>
<b>Medium and long term loans</b>		
Guaranteed other investment and operating loans	166.783.982	138.197.798
Other non-guaranteed loans	70.325.802	59.065.670
Loans given to foreign institutions	1.996.319	1.742.197
Loans given to financial sector	2.815.112	414.333
Finance lease receivables	1.155.519	1.888.054
Interest accruals	4.555.667	3.321.761
	<b>247.632.401</b>	<b>204.629.813</b>
<b>Total performing loans and advances</b>	<b>302.106.604</b>	<b>258.352.897</b>

The credit quality analysis of cash loans and advances to customers, including related income accruals, is as follows as of 31 December 2019 and 2018:

	2019			2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage3
Stage 1: Low-fair risk	271.267.618	-	-	237.752.624	-	-
Stage 2: Watch list	-	25.321.379	-	-	16.567.704	-
Stage 3.1: Substandard	-	-	2.599.741	-	-	1.695.197
Stage 3.2: Doubtful	-	-	3.608.203	-	-	1.072.890
Stage 3.3: Loss	-	-	8.530.154	-	-	6.143.110
Total loans	271.267.618	25.321.379	14.738.098	237.752.624	16.567.704	8.911.197
Income accrual on loans	4.430.281	1.225.763	1.987.478	3.394.932	738.383	371.801
Expected credit losses	1.356.108	1.248.927	9.426.305	1.037.945	1.206.875	6.782.554
<b>Total carrying amount</b>	<b>274.341.791</b>	<b>25.298.215</b>	<b>7.299.272</b>	<b>240.109.611</b>	<b>16.099.212</b>	<b>2.500.444</b>

\* Advances for leasing receivables are included in the table above.

The credit quality analysis of non-cash loans is as follows as of 31 December 2019 and 2018:

	2019			2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage3
Stage 1: Low-fair risk	86.975.556	-	-	81.457.794	-	-
Stage 2: Watch list	-	2.634.393	-	-	1.553.829	-
Stage 3.1: Substandard	-	-	410.128	-	-	161.166
Stage 3.2: Doubtful	-	-	307.868	-	-	52.387
Stage 3.3: Loss	-	-	377.100	-	-	220.302
Total loans	86.975.556	2.634.393	1.095.096	81.457.794	1.553.829	433.855
Income accrual on loans	-	-	-	-	-	-
Expected credit losses	148.066	25.703	114.712	147.775	50.383	169.431
<b>Total carrying amount</b>	<b>86.827.490</b>	<b>2.608.690</b>	<b>980.384</b>	<b>81.310.019</b>	<b>1.503.446</b>	<b>264.424</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**11. Loans and receivables** (continued)

**Finance Lease Receivables**

Maturity structure of investments on financial lease:

	31 December 2019		31 December 2018	
	Gross	Net	Gross	Net
Less than 1 year	1.289.704	1.053.283	1.285.510	1.020.557
Between 1-4 years	1.610.128	1.380.799	1.931.674	1.487.866
More than 4 years	415.070	349.495	648.917	472.097
<b>Total</b>	<b>3.314.902</b>	<b>2.783.577</b>	<b>3.866.101</b>	<b>2.980.520</b>

Information on gross investments of financial lease:

	31 December 2019	31 December 2018
Gross financial lease investment	3.314.902	3.866.101
Unearned revenues from financial lease	(531.325)	(885.581)
<b>Net finance lease receivable</b>	<b>2.783.577</b>	<b>2.980.520</b>

Information on receivables from non-performing loans of financial lease:

	31 December 2019	31 December 2018
Non-performing financial lease receivables	574.324	574.404
ECL/Specific provisions	(429.209)	(406.329)
<b>Total</b>	<b>145.115</b>	<b>168.075</b>

The movement in the allowance for impairment on finance lease receivables for the year ended 31 December 2019 and 31 December 2018 are as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Balance on 1 January	(406.329)	(226.693)
Net impairment loss for the year:	(22.880)	(179.636)
- Charge for the year	(31.114)	(183.322)
- Recoveries and reversals	8.234	3.686
<b>Total</b>	<b>(429.209)</b>	<b>(406.329)</b>

Explanations on write-off policy:

As per the provisions of IFRS 9 Financial Instruments Standard, banks are allowed to derecognize the unexpected portion of the loans under follow-up.

With respect to this, no follow-up loan was derecognised yet in the current period on the grounds that there was no reasonable expectation of the Bank.



**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**12. Securities portfolio**

***Debt and other instruments at FVTOCI***

At 31 December 2019 and 31 December 2018, debt and other instruments at FVTOCI portfolio comprised the following:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Treasury bills and government bonds	15.139.662	4.758.819
Equity shares	159.653	112.097
<i>Share certificates not quoted on a stock exchange</i>	<i>176.953</i>	<i>134.182</i>
<i>Allowance for impairment on equity shares</i>	<i>(17.300)</i>	<i>(22.085)</i>
<b>Total</b>	<b>15.299.315</b>	<b>4.870.916</b>

Debt and other instruments at FVTOCI include securities given as collateral amounting to TRY 1.999.958 (31 December 2018: TRY 732.828). As of 31 December 2019, debt and other instruments at FVTOCI include securities pledged under repurchase agreements amounting to TRY 810.717 (31 December 2018: TRY 438.039).

***Debt and other instruments at amortised cost***

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Debt securities:</b>		
Quoted on a stock exchange	72.208.355	56.134.932
Not quoted	262.767	196.413
ECL on amortised cost portfolio	(9.741)	(9.748)
<b>Total</b>	<b>72.461.381</b>	<b>56.321.597</b>

Debt and other instruments at amortised cost comprise the following items:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Government bonds	72.420.609	56.269.708
Other securities	50.513	61.637
ECL on amortised cost portfolio	(9.741)	(9.748)
<b>Total</b>	<b>72.461.381</b>	<b>56.321.597</b>

Debt and other instruments at amortised cost include securities pledged under repurchase agreements and given as collateral amounting to TRY 40.561.033 and TRY 12.894.838 (31 December 2018: TRY 10.408.278 and TRY 39.711.729) respectively.

The movements of debt and other instruments at amortised cost in the period ended 31 December 2019 and 31 December 2018 are as follows:

	<b>1 January- 31 December 2019</b>	<b>1 January- 31 December 2018</b>
Beginning balance	56.321.597	21.987.099
Foreign currency differences	1.484.018	2.031.757
Purchases during the period <sup>(1)</sup>	22.126.905	39.018.124
Disposals through sales and redemptions <sup>(2)</sup>	(7.461.398)	(6.705.635)
ECL on amortised cost portfolio	(9.741)	(9.748)
<b>Balance at the end of the period / year</b>	<b>72.461.381</b>	<b>56.321.597</b>

<sup>(1)</sup> Interest income accrual differences between 31 December 2019 amounting to TRY 9.632.018 and 31 December 2018 amounting to TRY 7.474.620 have been included in purchases during the period row.

<sup>(2)</sup> Halk Sigorta AŞ and Halk Hayat ve Emeklilik AŞ measured at amortised cost, classified by the Bank in the subsidiaries in the prior period and in non-current assets held for sale in the current period, are shown under “Disposals through sales and redemptions” line in the financial assets.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**13. Insurance receivables and insurance contract liabilities**

*Insurance receivables*

At 31 December 2019 and 31 December 2018, insurance receivables comprised the following:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Receivables from reinsurance and insurance companies	794	956.864
Receivables from agencies, brokers and intermediaries	19.960	352.831
Cash deposited to insurance and reinsurance companies	-	50.409
<b>Total insurance receivables</b>	<b>20.754</b>	<b>1.360.104</b>
Allowance for non-performing insurance receivables	(6.862)	(57.287)
<b>Insurance receivables, net</b>	<b>13.892</b>	<b>1.302.817</b>

The details of guarantees for the Group’s insurance receivables are presented below:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Mortgage notes	-	9.257
Letters of guarantees	-	7.697
Treasury bills and government bonds	-	1.702
Other guarantees	-	252
<b>Total</b>	<b>-</b>	<b>18.908</b>

The movement in the allowance for impairment in respect of insurance receivables for the year ended 31 December 2019 and 31 December 2018 are as follows:

	<b>1 January – 31 December 2019</b>	<b>1 January – 31 December 2018</b>
Balance at 1 January	57.287	37.841
Impairment loss recognised	1.140	19.456
Transfers to non-current liabilities held for sale	(51.565)	-
Collections during the period	-	(10)
<b>Balance at 31 December</b>	<b>6.862</b>	<b>57.287</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**13. Insurance receivables and insurance contract liabilities** (continued)

**Insurance contract liabilities**

Insurance technical reserves as of 31 December 2019 and 31 December 2018 are detailed in the tables below:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Life mathematical reserve	-	352.187
Unearned premiums reserve	26.900	1.123.858
Claims provision	26.752	1.810.278
Unexpired risk reserve	-	17.019
Other technical reserves	-	22.470
<b>Total technical reserve</b>	<b>53.652</b>	<b>3.325.812</b>
Other insurance liabilities	1.465	-
<b>Total insurance contract liabilities</b>	<b>55.117</b>	<b>3.325.812</b>

**14. Equity accounted investees**

Carrying amount of equity accounted investees is summarized below:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Demir-Halk Bank NV	478.730	431.547
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	16.725	15.754
Türk P ve I Sigorta AŞ	4.427	2.069
<b>Equity accounted investees</b>	<b>499.882</b>	<b>449.370</b>

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group is as follows:

	<b>Ownership</b>	<b>Total assets</b>	<b>Equity</b>	<b>Profit / (loss) for the year</b>
<b>2019</b>				
Demir-Halk Bank NV	30,00%	10.266.337	1.589.934	101.743
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31,47%	53.950	53.147	3.088
Türk P ve I Sigorta AŞ	16,67%	80.919	26.555	12.255
<b>2018</b>				
Demir-Halk Bank NV	30,00%	9.681.102	1.438.489	84.803
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31,47%	50.811	50.059	1.659
Türk P ve I Sigorta AŞ	16,67%	41.554	12.414	3.891

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**15. Property and equipment**

	Land and buildings	Lease hold improvements	Tangible assets obtained for non-performing loans	Other movable tangible assets	Total
<b>Cost</b>					
Balance at 1 January 2018	2.803.447	152.981	716.681	1.011.364	4.684.473
Additions	133.410	45.999	674.609	239.581	1.093.599
Disposals	(11.929)	(290)	(181.237)	(105.730)	(299.186)
Revaluation surplus	230.173	-	-	-	230.173
Transfers	-	-	4.753	2.574	7.327
<b>Balance at 31 December 2018</b>	<b>3.155.101</b>	<b>198.690</b>	<b>1.214.806</b>	<b>1.147.789</b>	<b>5.716.386</b>
Balance at 1 January 2019	3.155.101	198.690	1.214.806	1.147.789	5.716.386
Additions	139.382	52.596	4.039.812	1.333.483	5.565.273
Disposals	(15.020)	(458)	(388.870)	(262.102)	(666.450)
Revaluation surplus	232.398	-	-	-	232.398
Transfers	(30.421)	(2.282)	-	(41.894)	(74.597)
<b>Balance at 31 December 2019</b>	<b>3.481.440</b>	<b>248.546</b>	<b>4.865.748</b>	<b>2.177.276</b>	<b>10.773.010</b>
<b>Depreciation and impairment losses</b>					
Balance at 1 January 2018	(169.711)	(89.266)	(21.420)	(648.180)	(928.577)
Depreciation for the year	(18.088)	(29.362)	(8.141)	(135.931)	(191.522)
Disposals	781	1.676	5.259	52.331	60.047
Revaluation surplus	(12.463)	-	-	-	(12.463)
Transfers	-	-	-	-	-
<b>Balance at 31 December 2018</b>	<b>(199.481)</b>	<b>(116.952)</b>	<b>(24.302)</b>	<b>(731.780)</b>	<b>(1.072.515)</b>
Balance at 1 January 2019	(199.481)	(116.952)	(24.302)	(731.780)	(1.072.515)
Depreciation for the year	(16.822)	(36.532)	(12.880)	(376.204)	(442.438)
Disposals	2.913	2.695	9.461	67.316	82.385
Revaluation surplus	(32.911)	-	-	-	(32.911)
Transfers	638	(1.871)	-	21.682	20.449
<b>Balance at 31 December 2019</b>	<b>(245.663)</b>	<b>(152.660)</b>	<b>(27.721)</b>	<b>(1.018.986)</b>	<b>(1.445.030)</b>
<b>Provision for impairment at 1 January 2018</b>	-	-	<b>(9.617)</b>	-	<b>(9.617)</b>
Additions	-	-	-	-	-
Disposals	-	-	2.253	-	2.253
Transfers	-	-	-	-	-
<b>Total provision for impairment at 31 December 2018</b>	-	-	<b>(7.364)</b>	-	<b>(7.364)</b>
<b>Provision for impairment at 1 January 2019</b>	-	-	<b>(7.364)</b>	-	<b>(7.364)</b>
Additions	-	-	-	-	-
Disposals	-	-	2.399	-	2.399
Transfers	-	-	-	-	-
<b>Total provision for impairment at 31 December 2019</b>	-	-	<b>(4.965)</b>	-	<b>(4.965)</b>
<b>Carrying amounts</b>					
<b>At 1 January 2018</b>	<b>2.633.736</b>	<b>63.715</b>	<b>685.644</b>	<b>363.184</b>	<b>3.746.279</b>
<b>At 31 December 2018</b>	<b>2.955.620</b>	<b>81.738</b>	<b>1.183.140</b>	<b>416.009</b>	<b>4.636.507</b>
<b>At 31 December 2019</b>	<b>3.235.777</b>	<b>95.886</b>	<b>4.833.062</b>	<b>1.158.290</b>	<b>9.323.015</b>

The fair values of land and buildings were determined from market-based evidence by appraisals which are undertaken by qualified external appraisers. The Group renews the revaluations every year and recognizes impairment loss when the recoverable amounts of such assets become less than their carrying amounts. The fair value of the lands and buildings which are held for use are determined with equivalence value and that measurement is classified as Level 2.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**16. Intangible assets**

	Intangible assets	Total
<b>Cost</b>		
Balance at 1 January 2018	297.358	297.358
Additions	72.480	72.480
Disposals	(1.396)	(1.396)
<b>Balance at 31 December 2018</b>	<b>368.442</b>	<b>368.442</b>
Balance at 1 January 2019	368.442	368.442
Additions	94.609	94.609
Disposals	(518)	(518)
Transfers	(30.093)	(30.093)
<b>Balance at 31 December 2019</b>	<b>432.440</b>	<b>432.440</b>
<b>Amortisation</b>		
Balance at 1 January 2018	(152.192)	(152.192)
Amortisation for the year	(57.830)	(57.830)
Disposals	27.369	27.369
<b>Balance at 31 December 2018</b>	<b>(182.653)</b>	<b>(182.653)</b>
Opening balance, 1 January 2019	(182.653)	(182.653)
Amortisation for the year	(66.556)	(66.556)
Disposals	9	9
Transfers	25.277	25.277
<b>Balance at 31 December 2019</b>	<b>(223.923)</b>	<b>(223.923)</b>
<b>Carrying amounts</b>		
At 1 January 2018	<b>145.166</b>	<b>145.166</b>
At 31 December 2018	<b>185.789</b>	<b>185.789</b>
At 31 December 2019	<b>208.517</b>	<b>208.517</b>

**17. Non-current assets held for sale**

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The non-current assets held for sale of the Group as of 31 December 2019 is TRY 1.076.161 (31 December 2018: TRY 9.336).

	31 December 2019	31 December 2018
Total assets classified as held for sale	1.076.418	9.336
Trade and other payables, and total for liabilities associated with assets classified as held for sale	3.184.317	2.030
Net assets / (liabilities) of disposal group	(2.107.899)	7.306
<b>Net</b>	<b>(2.107.899)</b>	<b>7.306</b>

**18. Discontinued operations**

Within the scope of the planned structural reforms as per the framework of the New Economic Program, the negotiations has started with Türkiye Varlık Fonu Yönetimi A.Ş. ("TVF") for the transfer of 89,18% of the shares of Halk Sigorta A.Ş and all shares of Halk Hayat ve Emeklilik A.Ş. owned by the Bank to the TVF establishing a new company to acquire these shares. Based on this decision of combining the insurance and life and pension companies under the control of public banks under a single umbrella, the Bank has classified Halk Sigorta and Halk Hayat ve Emeklilik A.Ş. as Non-Current Assets for Held for Sale and Discontinued Operations in the current period. Please also see Note 40.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**18. Discontinued operations** (continued)

The profit for the year from the held for sale operations is analyzed as follows:

	<b>1 January – 31 December 2019</b>	<b>1 January – 31 December 2018</b>
Profit of held for sale operations for the year	193.535	169.465
	<b>193.535</b>	<b>169.465</b>

The results of the held for sale operations for the period from 1 January 2019 to 31 December 2019 are as follow:

	<b>1 January – 31 December 2019</b>	<b>1 January – 31 December 2018</b>
Interest Income	22.589	77.033
Interest Expense (-)	(2.535)	-
Fee and commission income	122.907	113.241
Fee and commission expense (-)	(149.624)	(127.546)
Other income / expense (-)	371.817	227.291
Profit before tax	365.154	290.019
Income tax expense	(171.619)	(120.554)
<b>Profit for the year</b>	<b>193.535</b>	<b>169.465</b>

**19. Investment properties**

	<b>1 January – 31 December 2019</b>	<b>1 January – 31 December 2018</b>
Balance at 1 January	973.401	910.378
Acquisitions	86.070	74.894
Transfer	51.300	-
Disposals	-	(6.036)
Depreciation	(6.308)	(5.835)
<b>Balance at 31 December</b>	<b>1.104.463</b>	<b>973.401</b>

The Group’s investment property appraisal reports are prepared by independent professional valuation specialists authorized by the Capital Markets Board of Turkey and renews the revaluations every year. TRY 30.250 of rent income is generated from investment properties in the current year (31 December 2018: TRY 26.177). The fair values of investment properties are determined by market comparable value method and are reclassified as Level 2.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**20. Other assets**

At 31 December 2019 and 31 December 2018, other assets comprised the following:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Prepaid expenses	1.109.236	1.245.339
Receivables from credit card payments	404.040	239.964
Cash guarantees given	9.877	438.017
Clearing house account	745.359	1.103.059
Advances given for lease transactions	140.896	100.747
Receivables from asset sale on credit terms	32.409	42.466
Guarantees given for derivative financial instruments	165.145	303.684
Receivables from financial sector activities	1.282.656	940.027
Other assets	823.851	868.018
<b>Total other assets</b>	<b>4.713.469</b>	<b>5.281.321</b>

**21. Deposits**

At 31 December 2019 and 31 December 2018, deposits from banks comprised the following:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Demand deposits	6.066.738	20.673.730
Time deposits	21.638.191	10.344.664
<b>Deposits from banks</b>	<b>27.704.929</b>	<b>31.018.394</b>

As at 31 December 2019, deposits from banks include TRY accounts amounting to TRY 13.854.589 (31 December 2018: TRY 15.975.810) and foreign currency accounts amounting to TRY 13.850.340 (31 December 2018: TRY 15.042.584) in total.

At 31 December 2019 and 31 December 2018, deposits from customers comprised the following:

	<b>31 December 2019</b>		<b>31 December 2018</b>	
	<b>Demand</b>	<b>Time</b>	<b>Demand</b>	<b>Time</b>
Saving deposits	9.219.729	58.914.249	6.742.223	54.737.809
Foreign currency deposits	26.892.843	96.846.858	17.029.676	80.998.709
Commercial deposits	8.213.189	45.711.726	4.990.202	31.821.556
Public institutions and other deposits	3.955.952	23.177.580	3.656.282	19.554.484
<b>Deposits from customers</b>	<b>48.281.713</b>	<b>224.650.413</b>	<b>32.418.383</b>	<b>187.112.558</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**22. Obligations under repurchase agreements**

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. The securities sold under repurchase agreements and corresponding obligations are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Obligations under repurchase agreements	51.975.174	7.571.439
<b>Total</b>	<b>51.975.174</b>	<b>7.571.439</b>

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 December 2019, the maturities of the obligations varied from one day to 1 year (31 December 2018: one day to 1 year).

**23. Loans and advances from banks**

At 31 December 2019 and 31 December 2018, loans and advances from banks comprised the following:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Borrowings	14.167.870	15.274.480
Funds	3.209.004	2.874.121
<b>Total</b>	<b>17.376.874</b>	<b>18.148.601</b>

At 31 December 2019 and 31 December 2018, borrowings comprised the following:

	<b>31 December 2019</b>		<b>31 December 2018</b>	
	<b>Short term</b>	<b>Long term</b>	<b>Short term</b>	<b>Long term</b>
Loans and advances from domestic banks and institutions	2.636.491	4.817.899	1.287.019	2.873.726
Loans and advances from foreign banks and institutions	452.708	9.469.776	2.666.516	11.321.340
<b>Borrowings</b>	<b>3.089.199</b>	<b>14.287.675</b>	<b>3.953.535</b>	<b>14.195.066</b>

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as of 31 December 2019 (31 December 2018: None).

Funds borrowed include funds obtained that are granted as loans as specified in the agreements signed between the Bank and the ministries or the institutions that the funds belong to.

As at 31 December 2019 and 31 December 2018, interest rates and maturities of bank borrowings are as follows:

<b>Fixed rates</b>			
<b>31 December 2019</b>	<b>Amount</b>	<b>Interest rate</b>	<b>Maturity</b>
USD borrowings	4.392.018	2,24% - 6,50%	January 2020 - March 2043
EUR borrowings	8.350.631	0% - 3,75%	January 2020 - September 2038
TRY borrowings	1.410.975	8,79% - 17,60%	January 2020 - December 2020
Other borrowings	14.246	3,10% - 4,05%	January 2020 - May 2020
<b>Total</b>	<b>14.167.870</b>		

  

<b>Fixed rates</b>			
<b>31 December 2018</b>	<b>Amount</b>	<b>Interest rate</b>	<b>Maturity</b>
USD borrowings	5.253.406	1,25% - 6,40%	January 2019 - March 2043
EUR borrowings	8.714.381	0% - 3,50%	January 2019 - September 2038
TRY borrowings	1.286.624	6,84% - 13,82%	January 2019 - December 2019
Other borrowings	20.069	0% - 1,78%	January 2019 - May 2019
<b>Total</b>	<b>15.274.480</b>		



**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**24. Interbank money market borrowings**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Payables to stock exchange money market	1.329.379	30.628.065
On behalf of customers	34.788	18.765
<b>Total</b>	<b>1.364.167</b>	<b>30.646.830</b>

Payables to stock exchange money markets have a maturity of 31 days (31 December 2018: 31 days) 11,37% of interest rates (31 December 2018: 23,33%).

**25. Taxation**

The Bank and its subsidiaries located in Turkey are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 22% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 31 December 2019 (31 December 2018: 22%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group’s results for the year.

The corporate tax rate which has been applied at the rate of 22% in accordance with the Article 32 – paragraph 1 of the Corporate Tax Law No: 5520, was set as 22% for the tax bases of the years 2018, 2019, and 2020 (applicable as of the beginning of the accounting periods in the related year for institutions designated a special accounting period) as per the provisional article 10 incorporated by the Article 91 of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down up to 20%.

The Law numbered 7061 on Amendment of Certain Taxes and Laws and Other Acts was published on the Official Gazette dated December 5, 2017 and numbered 30261. Article 5 entitled "Exceptions" of the Corporate Tax Law has been amended in Article 89 of the Law. In accordance with (a) clause in the first paragraph of the Article, the exemption of 75% applied to gains from the sales of lands and buildings held by the entities for two full years has been reduced to rate of 50%. This regulation has been effective from 5 December 2017.

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2019 is 22% (31 December 2018: 22%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

***Income withholding tax***

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from 24 April 2003. This rate was changed to 15% in accordance with Article 15 of the Law No: 5520 commencing 23 July 2006.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no.27130 dated 3 February 2009, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**25. Taxation (continued)**

***Investment incentives***

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

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

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

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

***Transfer pricing***

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

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

***Tax applications for foreign branches and foreign operations***

The principal tax rates (%) of the tax authorities in each country as of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
TRNC	10%	10%
Bahrain	-	-
Serbia	15%	15%
Republic of Macedonia	10%	10%

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

	31 December 2019	31 December 2018
Income tax liability	482.280	219.426
Income tax paid in advance	(58.354)	(172.670)
<b>Income tax payables</b>	<b>423.926</b>	<b>46.756</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**25. Taxation** (continued)

**Deferred taxes**

Taxes on income for the year also comprise deferred taxes. Deferred income tax is provided, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability and asset are recognised when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Currently enacted or substantively enacted tax rates are used to determine deferred taxes on income. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

Tax rate used in the calculation of deferred tax assets and liabilities was 22% over temporary timing differences expected to be reversed in 2018, 2019 and 2020, and 20% over temporary timing differences expected to be reversed in 2021 and the following years (31 December 2018: 22% - 20%).

Individual consolidated subsidiaries offset deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority. Subsidiaries that have deferred tax assets position are not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

As of 31 December 2019, net deferred tax represents TRY 266.259 net deferred tax liability (31 December 2018: TRY 351.831), consisting of deferred tax assets and deferred liabilities amounting to TRY 51.201 and TRY 317.460, respectively. (31 December 2018: TRY 103.929 and TRY 455.760, respectively). Deferred tax assets and liabilities are attributable to the following:

<b>Deferred tax asset / (liability)</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Valuation differences on financial assets and liabilities	(735.286)	(1.632.153)
Provisions	879.633	839.231
Portfolio and specific provision for impairment on loans and advances	-	5.503
Other	(410.606)	435.588
<b>Deferred tax liability, net</b>	<b>(266.259)</b>	<b>(351.831)</b>

Movement of net deferred tax can be presented as follows:

	<b>1 January – 31 December 2019</b>	<b>1 January – 31 December 2018</b>
Deferred tax, net at 1 January	(351.831)	(108.765)
Tax transferred to discontinued income/loss	(6.723)	-
IFRS 9 & IFRS 15 transition effect	-	51.472
Deferred income tax recognised in other comprehensive income	(77.955)	(105.597)
Deferred tax recognised in the profit or loss	170.250	(188.941)
<b>Deferred tax, net</b>	<b>(266.259)</b>	<b>(351.831)</b>

An analysis of the Group’s income tax expense for the year ended 31 December 2019 and 31 December 2018 are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b><u>Current tax charge</u></b>		
Current period	(482.280)	(76.785)
<b><u>Deferred tax charge / (benefit)</u></b>		
Origination and reversal of temporary differences	170.250	(174.636)
<b>Total income tax charge</b>	<b>(312.030)</b>	<b>(250.721)</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**25. Taxation** (continued)

*Deferred taxes* (continued)

**Reconciliation of effective tax rate**

The reported taxation charge for the year ended 31 December 2019 and 31 December 2018 are different than the amounts computed by applying statutory tax rate to profit before tax as shown in the following reconciliation:

	31 December 2019		31 December 2018	
	Amount	%	Amount	%
<b>Profit before income tax</b>	<b>2.423.568</b>		<b>2.779.107</b>	
Income tax using the Bank’s domestic tax rate	533.185	22%	611.404	22%
Tax exempt income	(29.841)		(72.613)	
Exception for foreign branches	(257.598)		(329.208)	
Non-deductible expenses	66.284		41.138	
<b>Income tax charge</b>	<b>312.030</b>		<b>250.721</b>	

**26. Other liabilities and provisions**

	31 December 2019	31 December 2018
<b>Other liabilities</b>		
Cooperative deposit blockages	3.041.210	2.236.227
Credit card members restricted account	2.416.839	1.933.729
Unearned revenue	1.372.115	1.195.043
Cheques clearance account	1.634.942	2.508.964
Taxes and dues payable	901.724	693.385
Banking transactions	189.588	271.877
Payment orders	107.966	122.241
Import transfer orders	43	2.215
Other liabilities	1.120.065	631.813
<b>Total</b>	<b>10.784.492</b>	<b>9.595.494</b>
<b>Provisions</b>		
Employee termination benefits	739.735	550.381
General Reserve	-	451.000
Unused vacation accruals	137.031	108.271
Provision on non-cash loans	173.769	195.172
Provision on lawsuits	78.634	129.210
Provisions for credit card bonuses	14.291	18.149
Other	568.414	509.752
<b>Total</b>	<b>1.711.874</b>	<b>1.961.935</b>

**Employee termination benefits**

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days’ pay (limited to a maximum of full TRY 6.379,86 and full TRY 5.434,42 at 31 December 2019 and 31 December 2018 respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements the Group reflected a liability calculated using the Actuarial Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date. The annual ceiling has been increased to full TRY 6.730,15 effective 1 January 2020.

The principal actuarial assumptions used in the calculation of the total liability at the reporting date are as follows:

	31 December 2019	31 December 2018
Discount rate for pension plan liabilities	12,10%	16,30%
Expected rates of salary increase	8,40%	12,20%
Inflation	8,20%	12,00%

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**26. Other liabilities and provisions (continued)**

**Employee termination benefits (continued)**

Movements in the present value of the defined benefit obligation were as follows:

	<b>1 January – 31 December 2019</b>	<b>1 January – 31 December 2018</b>
Defined benefit obligation at 1 January	550.381	497.405
Current service cost	69.428	52.222
Interest cost	82.423	57.289
Actuarial losses/(gains)	83.488	(24.320)
Previous year service cost charged for the period	1.618	760
Payment/ limitation of benefits/ loss (gain) because of discharge	4.961	3.288
Benefits paid	(52.564)	(36.263)
<b>Defined benefit obligation at 31 December</b>	<b>739.735</b>	<b>550.381</b>

Amounts recognized in profit and loss in respect of defined benefit plan are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Current service cost	69.428	52.222
Interest cost	82.423	57.289
Previous Charge for the last financial period	1.618	760
Payment/ limitation of benefits/ loss (gain) because of discharge	4.961	3.288
	<b>158.430</b>	<b>113.559</b>

**Post-employment benefits (pension)**

Based on the results of the actuarial reports prepared as of 31 December 2019, it was determined that there is no technical deficit for Türkiye Halk Bankası AŞ Emekli Sandığı and T.C. Ziraat Bankası ve Türkiye Halk Bankası Çalışanları Emekli Sandığı Vakfı.

The above mentioned actuarial review, which was made in accordance with the principles of the related law, measures the present value of the liability as of 31 December 2019, in other words; it measures the amount to be paid to the Social Security Foundation by the Bank. Actuarial assumptions used in the calculation are given below.

<b>Assumptions</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Discount Rate	9,8%	9,8%
Mortality Rate	CSO 1980 woman/man	CSO 1980 woman/man

Some of the Bank’s personnel are the members of T. Halk Bankası Çalışanları Emekli Sandığı Vakfı, (“Fund”) which was established by 20th provisional article of Social Security Law numbered 506. As of 31 December 2019, the number of personnel who benefit from the Fund is TRY 36.625 (31 December 2018: TRY 36.012).

Below table shows the present values of premiums and salary payments as of 31 December 2019, by taking into account the health expenses within the Social Security Foundation limits.

<b>Transferable pension and medical benefits:</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Net present value of total liabilities other than health	(3.113.389)	(2.561.914)
Net present value of long term insurance line premiums	3.321.573	2.944.078
<b>Net present value of total liabilities other than health</b>	<b>208.184</b>	<b>382.164</b>
Net present value of health liabilities	(659.388)	(538.003)
Net present value of health premiums	2.075.379	1.839.474
<b>Net present value of health liabilities</b>	<b>1.415.991</b>	<b>1.301.471</b>
<b>Pension fund assets</b>	<b>3.304.716</b>	<b>2.469.532</b>
General administration expenses (1%)	(37.728)	(30.999)
<b>Amount of actuarial and technical (deficit) / surplus</b>	<b>4.891.163</b>	<b>4.122.168</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**26. Other liabilities and provisions (continued)**

**Post-employment benefits (pension) (continued)**

Plan assets are comprised as follows:

<b>Total assets</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Banks	1.890.018	1.386.529
Marketable securities	1.136.573	908.197
Property and equipment	104.141	112.560
Other	173.984	62.246
<b>Total</b>	<b>3.304.716</b>	<b>2.469.532</b>

On the other hand, after the transfer, the currently paid health benefits will be revised within the framework of the Social Security Foundation legislation and related regulations.

The sensitivity analysis of defined benefit obligation of excess liabilities and retirement indemnities are as follows:

**Change in assumptions (%)**

<b>Assumptions</b>	<b>Pension benefits</b>	<b>Death benefits</b>	<b>Medical benefits</b>	<b>Total</b>
Discount rate+1	<(0,0%)	(19,0%)	(18,3%)	(18,3%)
Discount rate -1	0,0%	25,9%	24,8%	24,8%
Inflation rate +1	0,0%	26,2%	31,0%	31,0%
Inflation rate -1	<(0,0%)	(19,3%)	(21,9%)	(21,9%)

Based on the results of the actuarial report prepared as of 31 December 2019, no technical deficit has been reported for Türkiye Halk Bankası AŞ Emekli Sandığı Vakfı and T.C. Ziraat Bankası ve T. Halk Bankası Çalışanları Emekli Sandığı Vakfı.

**27. Derivative financial instruments**

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The table below shows the fair values of derivative financial instruments. The notional amount is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	<b>31 December 2019</b>			<b>31 December 2018</b>		
	<b>Fair value assets</b>	<b>Fair value liabilities</b>	<b>Notional amount in Turkish Lira equivalent</b>	<b>Fair value assets</b>	<b>Fair value liabilities</b>	<b>Notional amount in Turkish Lira equivalent</b>
Currency swap contracts	800.599	135.312	33.611.349	152.578	76.749	15.858.965
Other swap contracts	294.742	188.258	27.707.502	704.806	225.413	17.392.884
Other	56.651	30.148	14.323.438	204.697	108.177	17.183.495
<b>Total</b>	<b>1.151.992</b>	<b>353.718</b>	<b>75.642.289</b>	<b>1.062.081</b>	<b>410.339</b>	<b>50.435.344</b>

The majority of outstanding transactions in derivative financial instruments were with the banks and other financial institutions.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**28. Debt securities issued and subordinated liabilities**

	31 December 2019	31 December 2018
Debt securities issued at amortized cost	19.294.132	16.334.300
<b>Total of debt securities issued</b>	<b>19.294.132</b>	<b>16.334.300</b>

Debt securities issued comprise of the following:

Debt securities issued	31 December 2019		
	Maturity	Interest rate %	Amount
Debt securities of TRY	January 2020 – September 2028	10,25% - 25,06%	8.781.602
Debt securities of USD	February 2020 - July 2021	4,06% - 5,05%	10.512.530
			<b>19.294.132</b>
Debt securities issued	31 December 2018		
	Maturity	Interest rate %	Amount
Debt securities of TRY	January 2019 - March 2019	4,23% - 27,00%	4.309.461
Debt securities of USD	June 2019 - July 2021	3,91% - 5,06%	12.024.839
			<b>16.334.300</b>

	31 December 2019	31 December 2018
Subordinated liabilities at amortized cost	12.184.846	6.182.084
<b>Total of subordinated liabilities</b>	<b>12.184.846</b>	<b>6.182.084</b>

Issuance of subordinated liabilities was completed on 20 October 2017 amounting to TRY 1 million with a call option on 20 October 2022 (At the end of the fifth year, the Bank has an early redemption option.) and due 20 October 2027 with a coupon rate Government Debt Security for 5 years+350 basis points.

Issuance of subordinated liabilities was completed on 3 July 2018 amounting to TRY 1,950 million and due 20 June 2028 with a coupon rate of 14,10%

Issuance of subordinated liabilities was completed on 26 September 2018 amounting to TRY 2,980 million and due 13 September 2028 with a rate of 12,79%.

**29. Collaterals of borrowed securities and borrowed securities**

Collaterals of borrowed securities are recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. Borrowed securities are recognized as liabilities. Collaterals of borrowed securities and borrowed securities are recognized in the statement of financial position as the related risks and rewards of such securities are retained.

	31 December 2019	31 December 2018
Collaterals of borrowed securities	16.104.081	14.374.380
<b>Total of collaterals of borrowed securities</b>	<b>16.104.081</b>	<b>14.374.380</b>

	31 December 2019	31 December 2018
Borrowed securities	16.104.081	14.374.380
<b>Total of borrowed securities</b>	<b>16.104.081</b>	<b>14.374.380</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**30. Share capital**

As at 31 December 2019, the authorized nominal share capital of the Bank amounts to TRY 1.250.000 (31 December 2018: TRY 1.250.000). The Bank’s paid-in capital is divided into 1.250.000.000 shares, each with a nominal value of full TRY 1. There are no the rights, preferences and restrictions attached to the classes of shares including restrictions on the distribution of dividends and the repayment of capital. Türkiye Halk Bankası A.Ş. has repurchased shares amounting to TRY 262.384 shares within the scope of the Board of Directors’ decision dated 29 August 2018. There are no options for the sale of shares and shares allocated to be issued under the respective treasury share contracts.

	31 December 2019	31 December 2018
Paid-in capital	1.250.000	1.250.000
Inflation restatement effect	1.328.184	1.328.184
<b>Shared capital issued</b>	<b>2.578.184</b>	<b>2.578.184</b>

**31. Reserves and dividends paid and proposed**

**Fair value reserve**

The fair value reserve includes the cumulative net change in the fair value of debt and other instruments at amortised cost investments, excluding impairment losses, until the investment is derecognised.

**Other reserves**

Other reserves consist of legal reserves kept within the Group and translation reserves.

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity’s share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Bank’s share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. The legal reserves as at 31 December 2019 is TRY 2.493.927 (31 December 2018: TRY 2.021.448).

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The translation reserve as at 31 December 2019 is TRY (4.392) (31 December 2018: TRY (54.085)).

As of 1 April 2015, the Group adopted the revaluation method for buildings in tangible assets in accordance with International Accounting Standard No: 16 “Property, Plant and Equipment” (IAS 16). Expertise values determined by independent appraisal companies are reflected to the financial statements. Revaluation differences are recorded in “Revaluation differences of property and equipment” under the shareholders’ equity. The revaluation differences of property and equipment accounted within the current period is TRY 202.005 (31 December 2018: TRY 205.949).

**Dividends paid and proposed**

As of the reporting date, the Group did not pay dividend out of 2018 profit in 2019 (31 December 2018: TRY 188.795).

**32. Earnings per share**

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

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

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

	31 December 2019	31 December 2018
Net profit attributable to ordinary shareholders for basic earnings per share	2.279.808	2.673.406
Weighted average number of ordinary shares for basic earnings per share	1.250.000.000	1.250.000.000
<b>Basic earnings per share (for full TRY per share)</b>	<b>1,8238</b>	<b>2,1387</b>

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



**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**33. Related parties**

A party is related to an entity if: the party controls, is controlled by, or is under common control with the entity (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the entity that gives it significant influence over the entity or has joint control over the entity. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group’s Board of Directors and their families and also post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

The immediate parent and ultimate controlling party respectively of the Group is Turkish Prime Ministry Privatization Administration (incorporated in Turkey). Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

**Transactions with key management personnel**

Key management personnel comprise of the Group’s directors and key management executive officers.

As of 31 December 2019 and 31 December 2018, the Group’s directors and executive officers have no outstanding personnel loans from the Bank.

In addition to their salaries, the Group also provides non-cash benefits to directors.

Total compensation provided to key management personnel is:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Salaries and short-term benefits	32.930	31.076

The Bank has agreements or protocols with several of its shareholders, consolidated subsidiaries and affiliates of the shareholders. The Bank’s management believes that all such agreements or protocols are on terms that are at least as advantageous to the Bank as would be available in transactions with third parties and the transactions are consummated at their fair values. None of these balances is secured.

**Other related party transactions**

<b>Current period</b>	<b>Cash loans receivable</b>	<b>Non-cash loans receivable</b>	<b>Deposits</b>	<b>Interest income</b>	<b>Interest expense</b>	<b>Commission Income</b>
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	789	23.245	-	4.385	4
Kredi Kayıt Bürosu A.Ş.	-	-	10.070	-	888	-
Bankalararası Kart Merkezi A.Ş.	-	-	28.054	-	4.166	-
<b>Total</b>	<b>-</b>	<b>789</b>	<b>61.369</b>	<b>-</b>	<b>9.439</b>	<b>4</b>

<b>Prior period</b>	<b>Cash loans receivable</b>	<b>Non-cash loans receivable</b>	<b>Deposits</b>	<b>Interest income</b>	<b>Interest expense</b>	<b>Commission Income</b>
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	724	21.582	-	3.823	6
Kredi Kayıt Bürosu A.Ş.	-	-	10.267	-	3.078	-
Bankalararası Kart Merkezi A.Ş.	-	-	14.485	-	2.092	-
<b>Total</b>	<b>-</b>	<b>724</b>	<b>46.334</b>	<b>-</b>	<b>8.993</b>	<b>6</b>

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**34. Other operating income**

	1 January – 31 December 2019	1 January – 31 December 2018
Reversal from prior years' provision	519.620	227.242
Gain on sale of property and equipment	115.115	122.896
Rent income	83.232	63.122
Other	239.549	238.901
<b>Total</b>	<b>957.516</b>	<b>652.161</b>

**35. Other operating expenses**

	1 January – 31 December 2019	1 January – 31 December 2018
Staff costs:		
<i>Personnel expenses</i>	3.061.825	2.633.602
<i>Retirement pay provision</i>	105.866	77.464
Administrative expenses	890.659	939.464
Saving deposit insurance fund contributions	373.071	106.782
Depreciation and amortization charges	515.302	255.187
Taxes, duties, charges and premium expenses	318.133	266.170
Provision expenses for lawsuits	3.335	3.733
Other	1.304.247	756.395
<b>Total</b>	<b>6.572.438</b>	<b>5.038.796</b>

**36. Fee and commission income and expenses**

	1 January – 31 December 2019	1 January – 31 December 2018
<b>Fee and commission income</b>		
Banking	3.776.013	2.669.848
Brokerage	75.036	64.339
<b>Total</b>	<b>3.851.049</b>	<b>2.734.187</b>
<b>Fee and commission expenses</b>		
Banking	(1.129.927)	(792.865)
Brokerage	(4.640)	(6.281)
<b>Total</b>	<b>(1.134.567)</b>	<b>(799.146)</b>

**37. Additional cash flow information**

	31 December 2019	31 December 2018
Cash on hand	3.861.323	4.591.888
Due from banks		
(with original maturity of less than 3 months)	4.133.586	5.100.805
Money market placements	87.138	65.318
Blocked balances with banks <sup>(1)</sup>	(490.951)	(387.758)
Unrestricted balances with Central Bank	16.702.412	14.078.315
Other liquid assets	5	20
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>24.293.513</b>	<b>23.448.588</b>

<sup>(1)</sup> Blocked accounts for technical reserves of Halk Hayat ve Emeklilik AŞ amounting to TRY 291.474 (31 December 2018: TRY 188.281) and of Halk Sigorta AŞ amounting to TRY 199.477 (31 December 2018: TRY 199.477, which are given as collateral to under secretariat of Treasury of Republic of Turkey.

The reserve deposits with Central Bank are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Currency – In thousands of Turkish lira (“TRY”))

**38. Commitments and contingencies**

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
Letters of guarantee issued	77.346.488	71.397.815
Letters of credit	3.901.651	3.230.210
Acceptance credits	6.961.998	7.050.260
Other	2.807.693	1.991.690
<b>Total non-cash loans</b>	<b>91.017.830</b>	<b>83.669.975</b>
Credit card limit commitments	16.772.843	12.728.944
Other commitments	10.872.824	11.431.813
<b>Total</b>	<b>118.663.497</b>	<b>107.830.732</b>

**Fiduciary activities**

The Bank performs buying transactions on behalf of customers, and gives custody, administration and consultancy services.

The Group does not engage in fiduciary transactions.

**Litigation**

In the normal course of its operations, the Group can constantly be faced with legal disputes, claims and complaints, which in most cases stem from normal insurance operations. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

**39. Other matters**

An indictment was filed against the Bank on 15 October 2019 by the New York Southern District Attorney General of the United States Department of Justice, which repeated the allegations made in the case against the former executive of the Bank for violation of Iranian sanctions.

Initially, the Bank applied to the District Court on 4 November 2019, requesting a special appearance to discuss the issues of objection and denial of judicial jurisdiction, and rejection of the judge of the case. The District Court dismissed the request of the special appearance on 5 December 2019. The Bank appealed the District Court's decision to the Second Circuit Court of Appeals on 17 December 2019. The Second Circuit Court of Appeals dismissed the Bank's objection on 21 February 2020.

In the meeting held by the Bank's Board of Directors on 27 March 2020; it was decided to attend the hearing on 31 March 2020 in the District Court where the case will be discussed, to accept the notification of the case and to appoint William & Connolly law firm with a proxy to represent the Bank in the process.

At the hearing on 31 March 2020 held in the District Court; it has been decided to postpone the hearing to 9 June 2020 due to the global scale COVID-19 outbreak.

The Bank closely monitors the prosecution process through specialized US law firms.

The appeal process of the case which resulted in conviction for the defendant former executive of the Bank, who was released on 19 July 2019 and returned back to Turkey, is ongoing.

**TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

*(Currency – In thousands of Turkish lira (“TRY”))*

**40. Subsequent events**

As of 22 April 2020, a share transfer agreement was signed between TVF Finansal Yatırımlar A.Ş. ("TVF Financial Investments"), acting as the buyer, and the Bank, acting as the seller, for the purpose of the transfer of shares to TVF Financial Investments, representing the entire capital of Halk Hayat ve Emeklilik A.Ş. and shares representing 89,18% of the capital of Halk Sigorta A.Ş., and share transfers were completed as of the mentioned date.

On 20 May 2020, the Bank's total issued share capital has been increased to TRY 2.473.776.224 (in full TRY), comprised of shares of TRY 0,01 nominal value each, by restricting preemptive rights of all current shareholders. The entirety of the shares issued through the capital increase amounting to TRY 1.223.776.224 (in full TRY) are sold to the Bank's majority shareholder Türkiye Varlık Fonu by way of a private placement without a public offering and through a wholesale transaction on Borsa İstanbul.

In December 2019, a new type of coronavirus (COVID-19) which emerged in Wuhan city of China, caused fatal respiratory diseases all over the world and named as a global outbreak by the World Health Organization on 11 March 2020. Various measures have been taken all over the world in order to avoid the negative effects of the disease that has become a pandemic, and due to the measures taken, there have been a recession in economies.

In order to be protected from the effects of the pandemic, Banking Regulation and Supervision Agency (BRSA), Central Bank of the Republic of Turkey (CBRT), Capital Markets Board of Turkey (CMB) and The Banks Association of Turkey (TBA) have taken various decisions regarding the banking sector in Turkey. These measures, which closely concern the banking sector, are listed below in general.

1. With the order made by the BRSA on 17 March 2020 in Regulation on Provisions, the delinquency period for the classification of loans as non-performing has been extended from 90 days to 180 days until 31 December 2020 and Expected Credit Loss provisions for the loans classified as Second Group Loans Under Close Monitoring within the scope of TFRS 9 are decided to be continued according to the banks' own risk models.

2. With the order made by the CBRT on 17 March 2020, foreign currency reserve deposit ratios for the banks whose credit growth rate is at qualified reference interval have been decreased by 500 basis points.

3. With the decision made by the TBA on 19 March 2020, it has been recommended that loan demands of the affected firms should be swiftly evaluated and met, credit access and terms should be improved, credit channels should be maintained, and a certain flexibility should be introduced in terms of due dates, installments and assurances regarding the clients whose income-expenditure balance is affected by the pandemic outbreak.

4. With the decision made by the BRSA on 23 March 2020, banks are entitled to use the buying exchange rate used in preparation of financial statements as of 31 December 2019 when calculating the amount subject to credit risk for calculating the revalued amounts as per the Turkish Accounting Standards and related specific reserves, excluding the foreign currency assets measured at historical cost; and it has been decided that banks may calculate the equity amount to be used for CAR by disregarding the negative revaluation differences of the securities classified under Financial Assets Measured at Fair Value through Other Comprehensive Income portfolio before 23 March 2020 and disregard the provision for fair value decrease on securities for calculating the net foreign currency position.

5. With the decision of the BRSA dated 26 March 2020, it has been decided to exempt Banks from their obligations to meet the Liquidity Coverage Ratio.

6. With the amendments made by the BRSA on the Regulation on Provisions on 27 March 2020, transfer period to loans under close monitoring has been extended from 30 days to 90 days until 31 December 2020 and Expected Credit Loss provisions for the loans classified as First Group Loans of a Standard Nature within the scope of TFRS 9 are decided to be continued according to the banks' own risk models.

7. With the decision of the BRSA dated 16 April 2020, it has been decided to apply 0% risk weight for the FC nominated receivables from the Centralized Administration of Turkish Republic within the scope of CAR regulation.

The possible effects of the outbreak and the changes in above mentioned regulations on the Bank's financial statements are regularly monitored by the relevant Units and the Bank's Management.