TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

Consolidated Financial Statements
As at and for the Year Ended 31 December 2019
With Independent Auditor's Report Thereon

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Independent Auditor's Report

To the General Assembly of Turkish Bank Anonim Şirketi

Opinion

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

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans and advances to customers measured at amortised cost

Refer to "Significant accounting policies" Note 2.8 to the consolidated financial statements relating to the impairment of loans and advances to customers measured at amortised cost.

Key audit matter	*How the matter was addressed in our audit*
As at 31 December 2019, loans and advances to customers measured at amortised cost comprise 68% of the Group's total assets. The Group recognizes its loans and advances to customers measured at amortised cost in accordance with the IFRS 9 Financial Instruments. The Group applies the "expected credit loss model" in determining the impairment of financial assets in accordance with IFRS 9. Significant assumptions and estimates used in the model is reviewed by the Group management annually. The significant assumptions and estimates used in the model by the Group's management are as follows: significant increase in credit risk, incorporating the forward looking macroeconomic information in calculation of credit risk, design and implementation of expected credit loss model. The determination of the impairment of loans measured at amortised cost depends on the credit default status, the model based on the change in the credit risk at the first recognition date and the classification of the loans and advances to customers measured at amortised cost according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets. The Group calculates expected credit losses on both an individual and a collective basis. Individual provisions consider the estimated future performance of the business and the market value of the collateral provided for credit transactions.	The audit procedures to test the impairment of loans and advances to customers measured at amortised cost are as below: We tested the design, implementation and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment process with the involvement of our information risk management specialists. We evaluated the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows and we tested the appropriateness of the loan agreements with the model by selecting samples. We evaluated the adequacy of the subjective and objective criteria that is defined in the Group's impairment accounting policy compared with IFRS 9. We evaluated the Group's business model and methodology and the evaluation of the calculations were carried out with the control testing and detailed analysis by the involvement of specialists. We performed loan reviews for selected loan samples which includes detailed examination of loan files and related information and tested their classification. In this context, current status of the loan customer has been evaluated by including prospective information and macroeconomic expectations. We tested the accuracy and completeness of the data in the calculation models for the loans which are assessed on collective basis. We tested the expected credit loss calculation through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters recalculated.

The collective basis expected credit loss calculation is based on processes which are modelled by using current and past data sets and expectations and the forward looking expectations are reflected by macroeconomic models. Impairment on loans and advances to customers measured at amortised cost is determined as a key audit matter, due to the significance of the estimates, assumptions, the level of judgements and its complex structure as explained above.	We assessed the macroeconomic models which are used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method. We evaluated qualitative factors which are used in determining the significant increase in credit risk. Additionally, we also evaluated the adequacy of notes to the consolidated financial statement related to impairment provisions.

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

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

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

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

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 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.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Funda Aslanoğlu
Partner

7 July 2020
İstanbul, Turkey

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TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2019

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

	Notes	Audited 31 December 2019	Audited 31 December 2018
Assets			
Cash and balances with the Central Bank of Turkey	5	60,755	101,939
Loans and advances to banks	6	88,288	139,367
Money market placements	7	73,237	178,739
Financial assets measured at fair value through profit or loss	8	2,261	451
Derivative financial instruments	10	9,140	1,147
Investment securities measured at fair value through other comprehensive income	9	49,496	15,264
Loans and advances to customers	11	1,053,662	981,223
Property and equipment	12	40,153	17,989
Intangible assets	13	5,017	5,244
Deferred tax assets	19	1,457	1,560
Other assets	14	157,482	226,445
TOTAL ASSETS		**1,540,948**	**1,669,368**
Liabilities			
Deposits	15	1,016,475	1,217,538
Obligations under repurchase agreements and money market funding	16	90,593	133,924
Funds borrowed	17	122,176	26,427
Derivative financial liabilities	10	10,061	2,297
Debt securities issued	18	24,337	30,034
Current tax liability	19	3,676	755
Employee benefits and other provisions	20	6,535	6,210
Other liabilities	21	50,282	39,159
TOTAL LIABILITIES		**1,324,135**	**1,456,344**
EQUITY			
Share capital	22	175,000	175,000
Adjustment to share capital	22	6,868	6,868
Legal reserves		6,111	5,686
Items that will not be reclassified to profit or loss		2,122	(128)
Items that are or may be reclassified subsequently to profit or loss		(57)	(185)
Retained earnings		26,769	25,783
Total equity attributable to holders of the Bank		**216,813**	**213,024**
Non-controlling interests		**-**	**-**
TOTAL EQUITY		**216,813**	**213,024**
TOTAL LIABILITIES AND EQUITY		**1,540,948**	**1,669,368**

The accompanying notes form an integral part of these consolidated financial statements.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	Audited 31 December 2019	Audited 31 December 2018
Interest income	23	144,705	182,268
Interest expense	23	(84,699)	(100,583)
Net interest income		**60,006**	**81,685**
Fee and commission income	24	21,831	17,738
Fee and commission expense	24	(4,565)	(4,346)
Net fee and commission income		**17,266**	**13,392**
Foreign exchange losses, net	25	1,286	(34,110)
Trading gains, net	25	1,843	26,473
Gains from investment securities, net	25	4,779	1,180
Other operating income	26	5,915	10,683
Operating income, net		**91,095**	**99,303**
Impairment losses on loans and credit related commitments, net		(9,866)	(14,443)
Other operating expenses	27	(79,979)	(75,466)
Profit before income tax		**1,250**	**9,394**
Income tax income/(expense)	19	(799)	(1,381)
Deferred tax income/(expense)	19	535	(1,153)
Profit for the year		**986**	**6,860**
Profit Attributable to:			
Equity holders of the Bank		986	6,860
Non-controlling interest		-	-
Earnings per share:			
Basic and diluted earnings per share (expressed in full TL)	2.25	0.0056	0.0392

The accompanying notes form an integral part of these consolidated financial statements.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	Audited 31 December 2019	Audited 31 December 2018
Profit for the year:		**986**	**6,860**
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (FVOCI debt instruments)			
Debt investments at FVOCI – net change in fair value		3,307	(133)
Debt investments at FVOCI – reclassified to profit or losses			-
Movement in fair value reserve (FVOCI)		164	
Net change in fair value of financial assets measured at fair value through other comprehensive income (FVOCI)			-
Financial assets measured at FVOCI transferred to profit or loss			-
Related tax		764	(37)
Items that will not be reclassified to profit or loss			
Actuarial loss related to employee benefits	20	(422)	107
Related tax		93	(24)
Other comprehensive income, net of income tax		**2,378**	**(87)**
Total comprehensive income		**3,364**	**6,773**
Total comprehensive income attributable to			
Equity holders of the Bank		3,364	6,773
Non-controlling interests		-	-
Total comprehensive income		**3,364**	**6,773**

The accompanying notes form an integral part of these consolidated financial statements.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

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

				Items that will not be reclassified to profit or loss		Items that are or may be reclassified subsequently to profit or loss					
Audited	**Notes**	**Share Capital**	**Adjustment to share capital**	**Other**	**Actuarial gain/(loss)**	**Fair value reserves**	**Legal reserves**	**Retained earnings**	**Total equity attributable to equity holders of the Bank**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2018		**175,000**	**6,868**	**-**	**(1,433)**	**1,207**	**5,167**	**16,815**	**203,624**	**-**	**203,624**
Effect of change in IFRS 9 accounting policy:	3	**-**	**-**	**1,222**	**-**	**(1,222)**	**-**	**2,627**	**2,627**	**-**	**2,627**
Restated balances at 1 January 2018		**175,000**	**6,868**	**1,222**	**(1,433)**	**(15)**	**5,167**	**19,442**	**206,251**	**-**	**206,251**
Profit for the year		-	-	-		-	-	6,860	6,860	-	6,860
Other comprehensive income		-	-	-	83	(170)	-	-	(87)	-	(87)
Total comprehensive income		**-**	**-**	**-**	**83**	**(170)**	**-**	**6,860**	**6,773**	**-**	**6,773**
Contributions by and distributions to owners											
Transfers to reserves		-	-	-	-	-	519	(519)	-	-	-
Balance at 31 December 2018	**22**	**175,000**	**6,868**	**1,222**	**(1,350)**	**(185)**	**5,686**	**25,783**	**213,024**	**-**	**213,024**
Balance at 1 January 2019		**175,000**	**6,868**	**1,222**	**(1,350)**	**(185)**	**5,686**	**25,783**	**213,024**	**-**	**213,024**
Impact of correction of errors (*)		-	-	2,579	-	-	-	-	-	-	**2,579**
Restated balance at 1 January 2019		**175,000**	**6,868**	**3,801**	**(1,350)**	**(185)**	**5,686**	**25,783**	**213,024**	**-**	**215,603**
Profit for the year		-	-	-	-	-	-	986	986	-	986
Other comprehensive income		-	-	-	(329)	128	-	-	(201)	-	(201)
Total comprehensive income		**-**	**-**	**-**	**(329)**	**128**	**-**	**986**	**785**	**-**	**785**
Contributions by and distributions to owners											
Transfers to reserves		-	-	-	-	-	425	-	425	-	425
Balance at 31 December 2019	**22**	**175,000**	**6,868**	**3,801**	**(1,679)**	**(57)**	**6,111**	**26,769**	**214,234**	**-**	**216,813**

(*) Includes an increase in the amount of TL 2.579 arising from the valuation of the shares held by the Bank.

The accompanying notes form an integral part of these consolidated financial statements.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	Audited 31 December 2019	Audited 31 December 2018
Cash flows from operating activities			
Profit for the year		**986**	**6,860**
Adjustments for:			
Depreciation and amortization expense	12,13	17,827	4,004
Impairment losses on loans and credit related commitments		9,866	14,443
Income tax expense	19	264	2,534
Provision for employee benefits		651	(61)
Net interest income		67,833	101,538
Net fee and commission income		21,586	18,269
Collections from written off loans		6,977	2,626
Payments to personnel and service suppliers		(52,449)	(63,733)
Taxes paid		(264)	(78)
		73,277	**86,402**
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		15,986	(886)
Loans and advances to banks and customers		367,398	150,131
Other assets		62,038	203,603
Deposits from banks and customers		(94,695)	(218,808)
Other borrowed funds		29,776	(65,535)
Other liabilities		(152,150)	(8,139)
Net cash from operating activities		**301,630**	**146,768**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	12,13	(38,766)	(9,685)
Proceeds from sales of property and equipment		-	-
Acquisition of financial assets measured at fair value through other comprehensive income	9	44,673	(9,814)
Proceeds from sales of financial assets measured at fair value through other comprehensive income	9	(4,678)	3,190
Proceeds from sales of investment securities	9	(7,942)	-
Proceeds from sale of subsidiaries		(475,610)	9,197
Net cash used in investing activities		**(482,499)**	**(7,112)**
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities issued		(6,500)	(23,816)
Repayment of funds borrowed and debt securities issued		(30,232)	(7,109)
Net cash used in financing activities		**(36,732)**	**(30,925)**
Net (decrease)/increase in cash and cash equivalents		**(217,601)**	**108,731**
Cash and cash equivalents at the beginning of the year	5	**420,045**	**212,064**
Effect of exchange rate fluctuations on cash and cash equivalents		19,836	99,250
Cash and cash equivalents at the end of the year	**5**	**222,280**	**420,045**

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Turkish Bank A.Ş. ("the Bank") was incorporated in Turkey on 14 September 1991 and commenced operations on 25 December 1991. The registered office address of the Bank is as follows: Vali Konağı Cad. 1, 34371 Nişantaşı - Istanbul, Turkey. The Bank has 10 branches (2018: 11). The Bank and its subsidiaries in total have 229 employees as of 2019 (2018: 230).

Pursuant to the permission of Competition Board dated 8 November 2008 and numbered 07-85/1045-405 and the permission of Banking Regulation and Supervision Agency dated 28 December 2008 and numbered 17591, National Bank of Kuwait acquired 31.43% of shares of the Bank amounting to TL 22,000 from Özyol Holding A.Ş. The Board of Directors approved the acquisition on 10 January 2008 and the share transfer was registered on 29 January 2008.

Upon the resolution carried at the extraordinary general meeting of the shareholders held on 29 January 2008, the Bank's paid-in capital (TL 70,000) was raised to TL 80,000 by a cash increase of TL 10,000. Increase in paid-in capital was registered in the Trade Registry Gazette No: 6995 on 8 February 2008. The entire increase amount was paid in by the new shareholder National Bank of Kuwait as of the date of the extraordinary general meeting. The share of National Bank of Kuwait in the Bank's paid in capital increased to 40% after the capital increase. The shares issued during the capital increase are premium shares. National Bank of Kuwait paid TL 47,448 (USD 40,000) in respect of nominal shares of TL 10,000 and the difference of TL 37,448 was accounted as premium in excess of par.

At the extraordinary general meeting of the Bank held on 25 May 2012, the following decisions have been made by the majority of votes:

- The Bank's paid in capital amounting to TL 80,000 will be increased to TL 175,000 and TL 70,000 of the increased amount will be covered by internal resources, including TL 37,448 of Share Premiums, TL 19,032 of Inflation Difference, TL 13,520 of Extraordinary Reserves and the remaining amount, which equals to TL 25,000, will be covered in cash; and
- TL 25,000 of cash of which is the committed part of the capital increase will include TL 7,500 of payment in June 2014 and April 2013 (amounting to TL 15,000) and TL 10,000 of payment in April 2014 with reserving the Bank's General Assembly's earlier payment call right.

Procedures both related to TL 70,000 of the increased capital amount which will be covered by internal resources and the first TL 7,500 of capital increase portion were completed upon the Banking Regulation and Supervision Agency's letters of approval issued as at 28 May 2012 and 10 August 2012, respectively and related accounting was recognized in the financial statements accordingly.

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

1. GENERAL INFORMATION (cont'd)

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

	31 December 2019		31 December 2018	
	Amount	**%**	**Amount**	**%**
Özyol Holding A.Ş.	103,118	58.92	103,118	58.92
National Bank of Kuwait	60,000	34.29	60,000	34.29
Mehmet Tanju Özyol	9,861	5.63	9,861	5.63
Others	2,021	1.16	2,021	1.16
Total	**175,000**	**100**	**175,000**	**100**

The Group Information

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

The operations of the Group consist of banking, securities brokerage.

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

	Place of Incorporation	Effective Shareholding and Voting Rights %	
		2019	**2018**
Turkish Yatırım A.Ş.	Turkey	99.99	99.99
Turkish Bilgi İşlem Hizmetleri A.Ş.(*)	Turkey	99.99	99.99

(*) Turkish Bilgi İşlem Hizmetleri A.Ş. was founded as of 22 October 2015 with the permission of Banking Regulation and Supervision Agency. Since the company has immaterial asset and income size as of the 31 December 2018, Turkish Bilgi İşlem Hizmetleri A.Ş. is not taken into consolidation scope.

Turkish Yatırım Menkul Değerler A.Ş.

Turkish Yatırım Menkul Değerler A.Ş. was established on 31 December 1996 to deal with capital market activities according to the related regulations and the Capital Market Law. The head office of the Company is domiciled in Esentepe Mahallesi Ali Kaya Sokak No: 1A/52 Polat Plaza A Blok Kat: 4 Şişli - İstanbul - Turkey.

Turkish Bilgi İşlem Hizmetleri A.Ş.

Turkish Faktoring Hizmetleri A.Ş. was established on 9 May 2007 to provide both domestic and export factoring services to industrial and commercial enterprises.

Pursuant to the application of Turkish Faktoring A.Ş. and the permission of Banking Regulation and Supervision Agency dated 23 July 2015 and numbered 6379, the Company's official authorization cancelled. As of 22 October 2015, the Company name became Tukish Bilgi İşlem Hizmetleri A.Ş. The Company provides export and import services of computers and other hardware and the establishments of data processing centres.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance:

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

The Bank and its subsidiary which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Turkish Commercial Code and Tax Legislation.

The consolidated financial statements as at 31 December 2019 of the Group are authorised for issue by the Bank's management on 7 July 2020. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2.2 The new standards, amendments and interpretations:

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation, except for the following:

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

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

IFRS 16 Leases

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

After the commencement date, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability, 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.

After the commencement date, the lease liability is remeasured to reflect changes to the lease payments. The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset.

The lease liability is remeasured by discounting the revised lease payments using a revised discount rate, if either there is a change in the lease term or there is a change in the assessment of an option to purchase the underlying asset. However, if there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments or if there is a change in the amounts expected to be payable under a residual value guarantee, an unchanged discount rate is used.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the lease liability is remeasured by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the alternative borrowing interest rate at the effective date of the modification. The carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. Any gain or loss

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 The new standards, amendments and interpretations: (cont'd)

relating to the partial or full termination of the lease is recognised in profit or loss. A corresponding adjustment to the right-of-use asset is made for all other lease modifications.

Financial lease as lessee

Tangible assets acquired through financial leasing are recognized as assets and the related liabilities as lease payables in assets and liabilities, respectively. In the determination of the related asset and liability amounts, the lower of the fair value of the leased assets and the present value of leasing payments is considered. Financial costs on leasing agreements are distributed throughout the lease periods at fixed interest rates. Interest expenses and foreign exchange losses related with financial leasing are recognized in income statement.

In cases where leased assets are impaired or the expected future benefits of the assets are less than their book values, the book values of such leased assets are reduced to their net realizable values. Depreciation for assets acquired through financial leases is calculated consistently with the same principle as for the tangible assets.

Leases, in which the majority of risks and returns of the related asset belong to the lessor, are classified as operational lease. In operating leases, the rent payments are recognized as expense in income statement in equal amounts over the lease term.

2.3 Inflation accounting:

The financial statements of the Bank and its subsidiaries for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29. Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the consolidated financial statements since 1 January 2006. Amounts expressed in the measuring unit current at 31 December 2005 were treated as the basis for the carrying amounts after 1 January 2006.

2.4 Use of estimates and judgements:

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at end for the year ended 31 December 2017 except than estimations used for expected credit loss calculation in accordance with IFRS 9 explained in Note 2.7.

2.5 Basis of Consolidation:

The consolidated financial statements are presented in Turkish Lira ("TL"), which is the Bank's functional currency.

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). The Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.5 Basis of Consolidation:(cont'd)

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

2.6 Income and Expense Recognition:

Interest is recorded according to the effective interest rate method (rate equal to the rate in calculation of present value of future cash flows of financial assets or liabilities) defined in the IFRS 9 Financial instruments standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. In applying the effective interest method, an entity identifies fees that are an integral part of the effective interest rate of a financial instrument. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, such fees are accounted as revenue or expense when the instrument is initially recognised in the financial statements.

When applying the effective interest method, it is amortised any fees, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate over the expected life of the financial instrument.

In case an interest was accrued on a security before its acquisition, the collected interest is divided into two parts as interest before and after the acquisition and only the interest income of the period after the acquisition is recorded as interest income in the financial statements.

If the expectations for the cash flows in the financial asset are revised for reasons other than the credit risk, the amendment is reflected in the carrying amount of the asset and in the related statement of profit or loss and other comprehensive income line and is amortised over the estimated life of the financial asset.

If the financial asset is impaired and classified as a non-performing receivable, the effective interest rate is applied to the amortised cost of the asset for subsequent reporting periods. Such interest income calculation is performed on an individual contract basis for all financial assets subject to impairment calculation. The effective interest rate is used for the calculation of loss given default parameter in the expected credit loss models and therefore the calculated expected credit losses, includes this calculated interest amount. Accordingly a reclassification is performed between the accounts of "expected credit losses" expense and "interest income from loans" for such calculated interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), the system calculates interest income at subsequent reporting periods by applying the effective interest rate to the gross amount.

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income are recognised as the related services are provided. Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.6 Income and Expense Recognition:(cont'd)

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Net trading income/(expense) includes gains and losses arising from sale of financial assets measured at fair value through profit or loss (FVPL) and through other comprehensive income (FVOCI) in addition to changes in fair value of financial assets measured at FVPL and derivatives.

2.7 Functional and Presentation Currency and Foreign Currency Transactions:

Functional and presentation currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira ("TL"), which is the functional currency of the Bank and its subsidiaries, and the presentation currency for the consolidated financial statements.

Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

As at 31 December 2019 and 31 December 2018 foreign currency assets and liabilities of the Group are mainly in USD and Euro. As of 31 December 2019 and 31 December 2018 exchange rates of USD and Euro are as follows:

	2019	**2018**
1 USD	5.9402	5.2609
1 Euro	6.6506	6.0280

Average rates for the last thirty dates are as follows:

	2019	**2018**
1 USD	5.8404	5.3045
1 Euro	6.4853	6.0376

2.8 Financial assets:

Recognition

It shall be recognised a financial asset or a financial liability in the statement of financial position when, and only when, an entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted at the settlement date.

When a financial asset or liability is initially recognized, it is accounted for taking into account its fair value, or in the case of a financial asset or liability reflected at fair value, the transaction cost which can be directly related to acquisition of the relevant financial asset or commitment of the financial liability.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets:(cont'd)

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Offsetting

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

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

Classification and measurement of financial instruments

The classification of financial instruments at the time of initial recognition depends on both the business model for managing the financial assets and contractual cash flow characteristics of the financial asset.

In accordance with IFRS 9, a financial asset is classified on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

In accordance with IFRS 9, the business model is determined at a level that demonstrates how the financial asset groups are managed together to achieve a specific management objective.
As at 1 January 2018, all financial assets are classified based on the business model for managing the financial assets. Accordingly, financial assets are classified in three main categories as listed below:

- Financial assets at fair value through profit or loss ("FVPL")
- Financial assets at fair value through other comprehensive income ("FVOCI")
- Financial assets measured at amortised cost

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss" are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short term fluctuations in prices or are financial assets included in a portfolio aiming to short term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses are recorded under net trading income/(expense) in the statement of profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets (cont'd):

Financial assets measured at fair value through other comprehensive income

Financial investments are classified as measured at FVOCI if both of the following conditions are met.

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

- the 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 fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets measured at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets measured at fair value through other comprehensive income and dividend income from equity securities are recorded to statement of profit or loss. "Unrealized gains and losses" arising from the difference between the amortised cost and the fair value of financial assets measured at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the "Items that are or may be reclassified subsequently to profit or loss" under shareholders' equity.

Equity securities, which are classified as financial assets measured at fair value through other comprehensive income, are carried at fair value.

At initial recognition, it can be made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such election is made on an instrument by instrument basis. Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the cumulative gain or loss shall be recycled to prior period's profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. IFRS 9 impairment requirements are not applicable for equity instruments.

Financial assets measured at amortised cost

Starting from 1 January 2018, financial assets are classified as measured at amortised cost if both of the following conditions are met.

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

- the 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.

Subsequent to the initial recognition, debt securities are measured at amortised cost by using the effective interest rate method. And, Loans are financial assets with fixed or determinable payments and not quoted in an active market. Loans and receivables are recognised at cost and also measured at amortised cost by using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets (cont'd):

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

Loans

Loans are non-derivative financial assets that have fixed or determinable payments terms and are not quoted in an active market. Stated loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortised cost using the "Effective Interest Rate (internal rate of return) Method".

The Group measures its loans and advances to banks and customers at amortised cost.

Impairment of financial assets

Financial and non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

Expected credit losses

As of 31 December 2019, the Group recognizes provisions for impairment in accordance with IFRS 9 requirements. The expected credit losses are estimated to be unbiased, weighted according to probabilities, and include information that can be supported about past events, current conditions and future economic conditions. Risk parameters used in IFRS 9 calculations are included in the future macroeconomic information. These financial assets are divided into three categories depending on the gradual. The Group calculates expected credit losses based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Probability of Default (PD): PD refers to the likelihood that a loan will default within a specified time horizon, which is usually set at 12 months, given certain characteristics. The Group uses two different probability of default rates while calculating expected credit losses as per the IFRS 9.

- 12-month PD: as the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months) following the balance sheet date.

- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

Exposure at Default (EAD): For cash loans, it corresponds to the amount of loan granted as of the reporting date. For non-cash loans and commitments, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor which adjust the potential increase of the exposure between the current date and the default date.

***Stage 1*:** For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets (cont'd):

Impairment of financial assets (cont'd)

Stage 2: Includes financial assets which have a significant increase in credit risk since initial recognition but an unbiased evidence does not occur. Lifetime expected credit losses are recognized for these financial instruments.

Stage 3: Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized.

Forward-looking macroeconomic information

The Bank incorporates forward-looking macroeconomic information when assessing the significant increase in credit risk and expected credit loss calculation.

Significant increase in credit risk

In the event of a significant increase in credit risk, the financial asset is transferred to Stage 2.

Qualitative factors taken into determining the significant increase in the credit risk of a financial asset as follows;

- loans with a delay days of more than 30 days as of reporting date
- loans with unfavorable developments in the ability to pay or cash flow even if there is no deferment
- loans classified to close monitoring by the Bank's management discretion
- loans given to companies whose financial data has deteriorated significantly
- loans with a significant decrease in collateral value

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full;
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

2.9 Cash and cash equivalents:

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd):

2.10 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. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

The Group does not have financial liabilities at FVTPL as of 31 December 2019 and 31 December 2018.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest-bearing deposits and borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Equity instruments

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

Off balance sheet commitments and contingencies

The Group deals with off-balance sheet risk in the normal course of business such as letters of guarantee, letters of credit, prefinancing loans, etc. The Group's exposure to credit losses arising from these instruments is represented by the contractual amount of those instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.11 Fair value considerations:

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms-length transaction. Fair value is best evidenced by a market price, being the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market, if one exists.

Various financial instruments are accounted for at fair value. Other financial instruments are accounted for at amortised cost but disclosure is required of fair value for comparison purposes, wherever practicable.

Due to economic conditions and volatility or low trading volumes in markets, the Group may be unable, in certain cases, to find a market price in an actively traded market. In such cases, other measures of fair value are considered. These include comparison with similar financial instruments that do have active markets and calculation of present values on an amortised cost basis. Where no reliable estimate of fair value is available, amortised cost is used as the carrying value. As there are a wide range of valuation techniques, it may be inappropriate to compare the Group's fair value information to independent markets or to other financial institutions' fair value information.

For certain financial assets and liabilities carried at cost, the fair values are assumed not to differ significantly from cost, due to the short-term nature of the items involved or because interest rates applicable to such items are variable at such short notice that interest income or expense on such items would never differ significantly from market rates.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

Central Bank accounts and balances with banks: The carrying amount is a reasonable estimate of fair value.
Securities investments: Fair value is estimated using quoted market prices wherever applicable. For those where no market price is available, the carrying amounts in the books are estimated to be their fair values.

Loans and advances to customers: The major portion of the loans is short-term and has interest rates that are subject to fluctuation at short notice in accordance with prevailing interest rates in the market. Management believes that the risk factors embedded in the entry value of interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair valuation of loans.

Deposits: Estimated fair value of demand deposits, saving deposits and interbank deposits is the amount payable on demand at the reporting date.

Borrowings: Borrowings have interest rates that are fixed on an entry value basis but may be subject to fluctuation in accordance with prevailing interest rates in the market. Interest-bearing borrowings and overdrafts are recorded at the proceeds received. Interests on borrowings are accounted for on an accrual basis and are added to the carrying amount of instruments to the extent they are not settled in the period in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.12 Derivative financial instruments:

Derivative financial instruments

The Group enters into transactions with derivative instruments including forwards and currency swaps in the capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however, since they do not qualify for hedge accounting under the specific provisions of International Accounting Standard 39 – Financial instruments: Recognition and measurement ("IAS 39"), they are treated as derivatives held for trading. IFRS 9 also includes new hedge accounting rules aiming alignment with risk management activities. IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting provisions of IAS 39 as a policy choice. Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognised in profit or loss.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group's derivative transactions are mainly in the form of forwards and currency swaps.

The Group does not have any derivatives held for risk management purposes.

2.13 Investments under resale or repurchase transactions:

Purchases or sales of investments under agreements of resale or repurchase are short term and entirely involve debt (primarily government) securities. Sales of investments under agreements of repurchase ("Repos") are retained in the balance sheet and corresponding counterparty commitment is included separately under liabilities. The income and expenses on repo transactions are separately recognized as interest income accrued in accordance with its classification as financial assets at fair value through profit or loss, financial assets measured at amortised cost or financial assets measured at fair value through other comprehensive income, and interest expense is accounted for on an accrual basis over the period of the transactions.

Purchases of securities under agreements of resale ("reverse repos") are separately disclosed under assets as "funds lent under securities resale agreements" and interest income on such transactions is accounted for on an accrual basis over the period of transactions.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.14 Lease transactions:

Accounting policies applied after 1 January 2019

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied partial retrospective approach to IFRS 16, resulting in a right to use and an equal amount of the lease obligation, Group has applied all the practical expedient in the first transition. The details of the changes in accounting policies are disclosed below

a) Definition of a lease

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

b) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities on the balance sheet.

The carrying amounts of right-of-use assets are as below;

	Property and equipment
Balance at 1 January 2019	28,455
Balance at 31 December 2019	16,867

i. Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment loss.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. As at 1 January 2019, the weighted average of the alternative borrowing interest rates applied to TL lease liabilities is 21.30%.

The lease liability is subsequently increased by the interest cost and decreased by lease payments. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.14 Lease transactions: (cont'd)

ii. Transition

Previously, the Group classified leases as operating leases under IAS 17. At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

– their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17;

– Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

– Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

– Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

2.15 Property and equipment:

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.15 Property and equipment (cont'd):

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Premises and equipment are depreciated on a straight-line basis using the following main rates which write off the assets over their expected useful lives:

Buildings	2%
Vehicles	20%
Machinery and equipment	20%
Furniture and fixtures	20%
Other	20%

Leasehold improvements are depreciated based on the shorter of the rental period or useful life of the assets.

2.16 Intangible assets:

Intangible assets of the Group consist of computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

2.17 Impairment of non-financial assets:

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.18 Borrowing costs:

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

2.19 Provisions:

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.20 Severance indemnity provision:

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses.

2.21 Taxation and deferred income taxes:

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

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

In Turkey, the corporate tax rate is 20% since 1 January 2006. With the Law, No. 7061 Amendment of Certain Taxes and Laws and Other Acts promulgated in the Official Gazette dated 5 December 2017, tax rate will applied as 22% for three years between 2018 and 2020. In addition, Council of Ministers is authorised to reduce the rate from 22% to 20%.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.21 Taxation and deferred income taxes (cont'd):

Deferred tax (cont'd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Corporate Tax Law has been amended with Article 91 of the Law, No. 7061 effective upon promulgation in the Official Gazette, No. 30261, dated 5 December 2017; and the corporate tax levied on the corporate income has been increased from 20% to 22% to be applied for the income belonging to 2018, 2019 and 2020. The Group calculates deferred tax at the relevant rates considering the periods in which deferred tax assets and liabilities will be fulfilled. However, because of the corporate tax rate is 20% and applicable to post 2020, 20% tax rate is used for temporary differences expected / expected to be closed after 2020.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

2.22 Business and geographical segments:

Business Segments

For key decision makers' review purposes, the Group is currently organized into the operating divisions of banking and securities brokerage. These divisions are the basis on which the Group reports its primary segment information.

Geographical Segments

The Group's operations are mainly located in Turkey.

2.23 Customer assets:

Customer assets, except for deposits accepted and other cash proceeds obtained, held under custody, in fiduciary, agency or intermediary capacity are not recognized in the accompanying consolidated financial statements as customers have ownership of such assets.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.24 Earnings per share:

Earnings per share disclosed in the consolidated statement of profit or loss are determined by dividing net income by the weighted average number of shares outstanding during the period concerned.

	2019	2018
Profit attributable to equity holders of the Bank	986	6,860
Weighted average number of ordinary shares in issue (thousand)	175,000	175,000
Basic earnings and diluted per thousand share (expressed in full TL)	**0.0056**	**0.0392**

The Bank does not have any diluted shares.

2.25 New standards and interpretations not yet adopted:

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

IFRS 17 Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2023 but companies can apply it earlier.

The revised Conceptual Framework (Version 2018)

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.25. New standards and interpretations not yet adopted (cont'd):

Amendments to IAS 1 and IAS 8 - Definition of Material

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

Amendments to IFRS 3 - Definition of a Business

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

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

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

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

IASB considered the pre-replacement issues to be more urgent and decided to address the following hedge accounting requirements as a priority in the first phase of the project:

(a) The highly probable requirement;
(b) Prospective assessments;
(c) IAS 39 retrospective assessment; and
(d) Separately identifiable risk components.

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

3. SEGMENT REPORTING

Business segments

2019	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Net interest income	28,568	18,851	4,609	7,978	60,006
Net fee and commission income	3,208	3,748	9,688	622	17,266
Foreign exchange gains / (losses), net	-	-	294	992	1,286
Trading gains and losses, net	-	-	238	1,605	1,843
Gains / losses from investment securities, net	-	-	3,738	1,041	4,779
Other operating income	2,505	815	253	2,342	5,915
Impairment losses on loans and advances, net	-	-	-	(9,866)	(9,866)
Other operating expenses	(804)	(475)	(16,046)	(62,654)	(79,979)
Profit / (Loss) before income tax	**33,477**	**22,939**	**2,774**	**(57,940)**	**1,250**
Income tax expense	**-**	**-**	**(648)**	**384**	**(264)**
Net profit / (Loss)	**33,477**	**22,939**	**2,126**	**(57,556)**	**986**

Balance Sheet	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Total assets	346,279	629,465	-	565,204	1,540,948
Liabilities	714,732	183,287	-	426,116	1,324,135
Equity	-	-	-	216,813	216,813
Total liabilities and equity	**714,732**	**183,287**	**-**	**642,929**	**1,540,948**

2018	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Net interest income	35,965	25,268	5,630	14,822	81,685
Net fee and commission income	3,888	4,399	9,323	(4,218)	13,392
Foreign exchange gains / (losses), net	-	-	37	(34,147)	(34,110)
Trading gains and losses, net	-	-	266	26,207	26,473
Gains / losses from investment securities, net	-	-	1,094	86	1,180
Other operating income	1,724	684	545	7,730	10,683
Impairment losses on loans and advances, net	-	-	-	(14,443)	(14,443)
Other operating expenses	(12,489)	(5,442)	(14,173)	(43,362)	(75,466)
Profit / (Loss) before income tax	**29,088**	**24,909**	**2,722**	**(47,325)**	**9,394**
Income tax expense	-	-	(635)	(1,899)	(2,534)
Net profit / (Loss)	**29,088**	**24,909**	**2,087**	**(49,224)**	**6,860**

Balance Sheet	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Total assets	**422,958**	**507,062**	**-**	**739,348**	**1,669,368**
Liabilities	1,059,509	149,364	129,629	117,842	1,456,344
Equity	-	-	-	213,024	213,024
Total liabilities and equity	**1,059,509**	**149,364**	**129,629**	**330,866**	**1,669,368**

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

4. CASH AND CASH EQUIVALENTS

	2019	**2018**
Cash on hand	15,298	22,755
Demand deposit with the Central Bank of Turkey	45,457	79,184
Total	**60,755**	**101,939**

a) Balances with the Central Bank

	2019	**2018**
Demand deposits – Turkish Lira	10,946	6,673
Demand deposits – Foreign Currency	34,511	72,511
Total	**45,457**	**79,184**

b) Reserve deposits at the Central Bank

	2019	**2018**
Reserves – Foreign Currency (Note 14)	122,405	188,953
Total	**122,405**	**188,953**

Reserve deposits at the Central Bank represent the minimum cash reserve maintained with the Central Bank of Turkey (the Central Bank), as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the Central Bank. At 31 December 2019, reserve deposit ratios for Turkish Lira and foreign currency deposits are 1%-7% and 5%-21% (31 December 2018: 1.5%-8% and 4%-20%).

Restricted reserve deposits are not available for the daily business of the Group. As of 31 December 2019, there is no interest payment for TL and USD reserve deposits (31 December 2018: 13.00% for TL reserves and 2.00% for USD reserves)

Cash and cash equivalents at the end of the period:

	2019	**2018**
Cash	**84,475**	**198,542**
Cash in TL / Foreign currency	15,298	22,755
CBRT	45,457	79,184
Loans and advances to banks	23,720	96,603
Cash equivalents	**137,805**	**221,503**
Interbank money market	73,237	178,739
Loans and advances to banks (Up to 3 month)	64,568	42,764
Total cash and cash equivalents	**222,280**	**420,045**

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

5. LOANS AND ADVANCES TO BANKS

	2019	2018
Domestic Banks		
Demand deposits – Turkish Lira	5,193	748
Demand deposits – Foreign currency	25,484	28,399
Time deposits – Turkish Lira	4,000	12
Time deposits – Foreign currency	-	98,531
Total	**34,677**	**127,690**
Foreign Banks		
Demand deposits – Foreign currency	53,787	11,685
Total	**53,787**	**11,685**
Expected credit losses	**(176)**	**(8)**
Grand Total	**88,288**	**139,367**

The time deposits in Turkish Lira above mature within one month and earn interest at rates ranging from 8.00% to 13.75% (31 December 2018: from 17.00% to 24.00%) per annum. The time deposits in foreign currency above mature within one month and earn interest at rates ranging from 0.01% to 4.00% (31 December 2018: from 0.01% to 2.50%) per annum.

The credit quality analysis of loans and advances to banks as of 31 December 2019 is as follows:

	31 December 2019		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	88,464	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Expected Credit Losses (ECL)	(176)	-	-
Total carrying amount	**88,288**	**-**	**-**

The movement of ECL per asset class for loans and advances to banks as of 31 December 2019 as follows:

	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2019	**(8)**	**-**	**-**	**(8)**
Provision for the period	(171)	-	-	(171)
Recoveries and reversals	3	-	-	3
Write-offs	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Balances at the end of the period	**(176)**	**-**	**-**	**(176)**

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

6. LOANS AND ADVANCES TO BANKS (cont'd)

The credit quality analysis of loans and advances to banks as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	139,375	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Expected Credit Losses (ECL)	(8)	-	-
Total carrying amount	**139,367**	**-**	**-**

The movement of ECL per asset class for loans and advances to banks as of 31 December 2018 as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balances at 31 December 2017	**-**	**-**	**-**	**-**
Impact of adopting IFRS 9 at 1 January 2018	(19)	-	-	(19)
Balances at 1 January 2018	**(19)**	**-**	**-**	**(19)**
Provision for the period	3	-	-	3
Recoveries and reversals	14	-	-	14
Write-offs	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Balances at the end of the period	**(8)**	**-**	**-**	**(8)**

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

7. MONEY MARKET PLACEMENTS

	2019	2018
Interbank placements	73,427	178,857
Funds lent under reverse repurchase agreements	-	-
Expected credit losses	(190)	(118)
Total	**73,237**	**178,739**

The credit quality analysis of money market placements as of 31 December 2019 is as follows:

	31 December 2019		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	73,427	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Expected Credit Losses (ECL)	(190)	-	-
Total carrying amount	**73,237**	**-**	**-**

The movement of ECL per asset class for money market placements as of 31 December 2019 as follows:

	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2019	**(118)**	**-**	**-**	**(118)**
Provision for the period	(78)	-	-	(78)
Recoveries and reversals	6	-	-	6
Write-offs	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Balances at the end of the period	**(190)**	**-**	**-**	**(190)**

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

7. MONEY MARKET PLACEMENTS (cont'd)

The credit quality analysis of money market placements as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	178,857	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Expected Credit Losses	(118)	-	-
Total carrying amount	**178,739**	**-**	**-**

The movement of ECL per asset class for money market placements as of 31 December 2018 as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balances at 31 December 2017	**-**	**-**	**-**	**-**
Impact of adopting IFRS 9 at 1 January 2018	(125)	-	-	(125)
Balances at 1 January 2018	**(125)**	**-**	**-**	**(125)**
Provision for the period	(3)	-	-	(3)
Recoveries and reversals	10	-	-	10
Write-offs	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Balances at the end of the period	**(118)**	**-**	**-**	**(118)**

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

8. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
Financial assets at fair value through profit or loss	2,261	451
	2,261	**451**

Financial assets at fair value through profit or loss

	2019	2018
Government bonds	2,261	451
Total	**2,261**	**451**

9 INVESTMENT SECURITIES

	2019	2018
Investment securities measured at FVOCI – debt investments	45,845	11,813
Investment securities measured at FVOCI – equity investments	3,651	3,451
Total	**49,496**	**15,264**

Investment securities measured at FVOCI – debt investments

	2019	2018
Government bonds and treasury bills	45,845	11,813
Debt investment measured at FVOCI	**45,845**	**11,813**

As of 31 December 2019, the government bonds and treasury bills with fair value of TL 45,845 (31 December 2018: TL 11,813). The funds collected from those repo transactions were TL 25,196 (31 December 2018: TL 8,559) and they are included in obligations under repurchase agreements.

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

9 INVESTMENT SECURITIES (cont'd)

The blocked securities kept by the Central Bank and IMKB (Istanbul Stock Exchange) Takas ve Saklama Bankası A.Ş. for the purposes of trading guarantee on interbank, bond, repurchase and reverse repurchase markets and custody services as of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019		31 December 2018	
	Nominal Value	Carrying Value	Nominal Value	Carrying Value
Government bonds and treasury bills	46,238	45,845	12,100	11,813

Investment securities measured at FVOCI – equity investments

31 December 2019	Carrying Value	Ownership %
Share in Visa inc.	2,134	0.0
Borsa İstanbul	1,517	0.4
Equity investment measured at FVOCI	**3,651**	

31 December 2018	Carrying Value	Ownership %
Share in Visa inc.	1,934	0.0
Borsa İstanbul	1,517	0.4
Equity investments	**3,451**	

The movement in financial assets measured at fair value through other comprehensive income may be summarized as follows:

	31 December 2019	31 December 2018
Balance as at 1 January	**15,264**	**10,380**
Additions	44,673	9,814
Disposals (sales and redemption)	(7,942)	(3,190)
Net changes in fair value	12,765	(1,740)
Balance as at 31 December	**49,496**	**15,264**

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

10. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments depend on movements in price in one or more underlying instruments, reference rates or indices.

Derivative financial instruments of the Group mainly include forwards, cross currency swaps and interest rate swaps.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Derivative financial assets measured at FVTPL	**2019**		**2018**	
	TL	**FC**	**TL**	**FC**
Forward transactions	85	8,571	13	734
Swap transactions	411	73	235	163
Options	-	-	-	2
Total	**496**	**8,644**	**248**	**899**

Derivative financial liabilities measured at FVTPL	**2019**		**2018**	
	TL	**FC**	**TL**	**FC**
Forward transactions	85	-	23	-
Swap transactions	356	9,620	191	2,078
Options	-	-	-	5
Total	**441**	**9,620**	**214**	**2,083**

The fair values and nominal amounts of derivative instruments with their contractual maturities are set out in the following table:

	2019							
	Fair value assets	**Fair value liabilities**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Notional amount in TL equivalent**
Forward exchange contracts	**8,613**	**358**	**36,888**	**544**	**-**	**-**	**-**	**37,432**
Purchases	-	-	*28,184*	*281*	-	-	-	*28,465*
Sales	-	-	*8,704*	*263*	-	-	-	*8,967*
Currency swap	**527**	**9,703**	**310,984**	**-**	**-**	**-**	**-**	**310,984**
Purchases	-	-	*155,087*	-	-	-	-	*155,087*
Sales	-	-	*155,897*	-	-	-	-	*155,897*
Options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Purchases	-	-	-	-	-	-	-	-
Sale	-	-	-	-	-	-	-	-
Total	**9,140**	**10,061**	**347,872**	**544**	**-**	**-**	**-**	**348,416**

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

10. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

	2018							
	Fair value assets	**Fair value liabilities**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Notional amount in TL equivalent**
Forward exchange contracts	**747**	**23**	**2,378**	**544**	**-**	**-**	**-**	**2,922**
Purchases	-	-	*2,280*	*281*	-	-	-	*2,561*
Sales	-	-	*98*	*263*	-	-	-	*361*
Currency swap	**398**	**2,269**	**414,077**	**-**	**-**	**-**	**-**	**414,077**
Purchases	-	-	*167,690*	-	-	-	-	*167,690*
Sales	-	-	*246,387*	-	-	-	-	*246,387*
Interest rate swap	**2**	**5**	**56,581**	**-**	**-**	**-**	**-**	**56,581**
Purchases	-	-	*56,581*	-	-	-	-	*56,581*
Sale	-	-	-	-	-	-	-	-
Total	**1,147**	**2,297**	**473,036**	**544**	**-**	**-**	**-**	**473,580**

11. LOANS AND ADVANCES TO CUSTOMERS

	2019	**2018**
Corporate loans	155,464	292,742
Small and medium enterprise loans	392,225	559,546
Consumer loans	7,540	10,740
Credit card receivables	1,612	1,302
Other	541,885	152,733
Subtotal	**1,098,726**	**1,017,063**
Stage 1 expected credit losses	(756)	(941)
Stage 2 expected credit losses	(1,526)	(1,458)
Stage 3 expected credit losses	(42,782)	(33,441)
Total	**1,053,662**	**981,223**

Average interest rates applied to loans and advances to customers are as follows:

31 December 2019	**EUR %**	**USD %**	**TRY %**
Loans and advances to customers	5.31	7.44	13.41

31 December 2018	**EUR %**	**USD %**	**TRY %**
Loans and advances to customers	5.69	8.05	25.77

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

11. LOANS AND ADVANCES TO CUSTOMERS (cont'd)

31 December 2019	Corporate	SME	Consumer	Other	Total
Neither past due not impaired	133,138	353,509	5,311	501,713	993,671
Past due not impaired	18,545	27,813	62	29,129	75,549
Individually impaired	3,781	10,903	3,779	11,043	29,506
Total gross	**155,464**	**392,225**	**9,152**	**541,885**	**1,098,726**
12 month ECL (stage 1)	62	628	35	31	756
Lifetime ECL significant increase in credit risk (stage 2)	28	1,416	42	40	1,526
Lifetime ECL impaired credits (stage 3)	2,257	38,609	21	1,895	42,782
Total expected credit loss	**2,347**	**40,653**	**98**	**1,966**	**45,064**
Total loans (net)	**153,117**	**351,572**	**9,054**	**539,919**	**1,053,662**

31 December 2018	Corporate	SME	Consumer	Other	Total
Neither past due not impaired	268,366	495,361	6,221	140,946	910,894
Past due not impaired	-	53,283	5,762	8,270	67,315
Individually impaired	24,376	10,902	59	3,517	38,854
Total gross	**292,742**	**559,546**	**12,042**	**152,733**	**1,017,063**
12 month ECL (stage 1)	841	51	20	29	941
Lifetime ECL significant increase in credit risk (stage 2)	-	32	30	1,396	1,458
Lifetime ECL impaired credits (stage 3)	24,275	7,903	511	752	33,441
Total expected credit loss	**25,116**	**7,986**	**561**	**2,177**	**35,840**
Total loans (net)	**267,626**	**551,560**	**11,481**	**150,556**	**981,223**

The credit quality analysis of loans and advances to customers as of 31 December 2018 is as follows:

	31 December 2019		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	1,023,177	75,549	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	
Expected Credit Losses	(756)	(1,526)	(42,782)
Total carrying amount	**1,022,421**	**74,023**	**(42,782)**

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

11. LOANS AND ADVANCES TO CUSTOMERS (cont'd)

	31 December 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	910,894	67,315	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	38,854
Expected Credit Losses	(941)	(1,458)	(33,441)
Total carrying amount	**909,953**	**65,857**	**5,413**

Movement in expected credit losses for loans are as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2019	**(941)**	**(1,458)**	**(33,441)**	**(35,840)**
Provision for the period	(701)	(2,473)	(10,951)	(14,125)
Recoveries and reversals	(823)	(875)	(1,610)	3,308
Write-offs	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	63	-	-	63
Transfer to stage 3	-	1,530	-	1,530
Balances at the end of the period	**(756)**	**(1,526)**	**(42,782)**	**(45,064)**

The total value of collaterals that the Group held for impaired loans as at 31 December 2019 was TL 38,693 (31 December 2018: TL 5,481). The total value of collaterals that the Group held for loans that are not impaired as at 31 December 2019 was TL 500,517 (31 December 2018: TL 812,499).

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balances at 31 December 2017	**(4,260)**	**(650)**	**(20,965)**	**(25,875)**
Impact of adopting IFRS 9 at 1 January 2018	2,781	(1,275)	1,182	2,688
Balances at 1 January 2018	**(1,479)**	**(1,925)**	**(19,783)**	**(23,187)**
Provision for the period	75	903	18,377	19,355
Recoveries and reversals	33	-	4,719	4,752
Write-offs	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	506	-	-	506
Transfer to stage 3	74	1,370	-	1,444
Balances at the end of the period	**(941)**	**(1,458)**	**(33,441)**	**(35,840)**

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

12. PROPERTY AND EQUIPMENT

	Buildings	Vehicles	Other fixed assets	Right of use assets	Leasehold improvements	Total
Acquisition cost						
Opening balance, 1 January 2019	13,785	-	23,167	-	1,970	38,922
Additions	2,080	40	7,858	28,455	-	38,433
Disposals	270	40	442	-	15	767
Closing balance, 31 December 2019	**15,595**	**-**	**30,583**	**28,455**	**1,955**	**76,588**
Accumulated depreciation						
Opening balance, 1 January 2019	7,734	-	11,266	-	1,933	20,933
Charge for the year	598	-	3,791	11,588	-	15,977
Disposals	14	-	461	-	-	475
Closing balance, 31 December 2019	**8,318**	**-**	**14,596**	**11,588**	**1,933**	**36,435**
Net carrying amount as of 31 December 2019	**7,277**	**-**	**15,987**	**16,867**	**22**	**40,153**
Net carrying amount as of 1 January 2019	**6,051**	**-**	**11,901**	**-**	**37**	**17,989**

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

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

12. PROPERTY AND EQUIPMENT (cont'd)

	Buildings	Vehicles	Other fixed assets	Leasehold improvements	Total
Acquisition cost					
Opening balance, 1 January 2018	15,697	-	15,983	1,970	33,650
Additions	316	-	7,550	-	7,866
Disposals	(2,228)	-	(366)	-	(2,594)
Closing balance, 31 December 2018	**13,785**	**-**	**23,167**	**1,970**	**38,922**
Accumulated depreciation					
Opening balance, 1 January 2018	7,464	-	10,004	1,942	19,410
Charge for the year	270	-	1,673	4	1,947
Disposals	-	-	(411)	(13)	(424)
Closing balance, 31 December 2018	**7,734**	**-**	**11,266**	**1,933**	**20,933**
Net carrying amount as of 31 December 2018	**6,051**	**-**	**11,901**	**37**	**17,989**
Net carrying amount as of 1 January 2018	**8,233**	**-**	**5,979**	**28**	**14,240**

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

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

13. INTANGIBLE ASSETS

	Software	Total
Acquisition cost		
Opening balance, 1 January 2019	16,307	16,307
Additions	1,624	1,624
Disposals	2	2
Closing balance, 31 December 2019	**17,933**	**17,933**
Accumulated amortization		
Opening balance, 1 January 2019	11,063	11,063
Charge for the year	1,850	1,850
Disposals	3	3
Closing balance, 31 December 2019	**12,916**	**12,916**
Net carrying amount as of, 31 December 2019	**5,017**	**5,017**
Net carrying amount as of 1 January 2019	**5,244**	**5,244**

	Software	Total
Acquisition cost		
Opening balance, 1 January 2018	13,189	13,189
Additions	3,118	3,118
Disposals	-	-
Closing balance, 31 December 2018	**16,307**	**16,307**
Accumulated amortization		
Opening balance, 1 January 2018	9,006	9,006
Charge for the year	2,057	2,057
Disposals	-	-
Closing balance, 31 December 2018	**11,063**	**11,063**
Net carrying amount as of, 31 December 2018	**5,244**	**5,244**
Net carrying amount as of 1 January 2018	**4,183**	**4,183**

Estimated useful lives for intangible assets vary between three to fifteen years.

As at 31 December 2019, the Group has no internally generated intangible assets. (2018: None).

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

14. OTHER ASSETS

	2019	**2018**
Restricted amounts held with Central Bank (Note 5)	122,405	188,953
Clearance account	19,880	23,327
Cash advances given	519	3,580
Expected credit losses (ECL)	(74)	(212)
Other	14,752	10,797
Total	**157,482**	**226,445**

The credit quality analysis of other assets as of 31 December 2019 is as follows:

	31 December 2019		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	157,556	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Expected Credit Losses	(74)	-	-
Total carrying amount	**157,482**	**-**	**-**

The movement of ECL per asset class for other assets as of 31 December 2019 is as follows:

	31 December 2019		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 1 January 2019	**(212)**	**-**	**-**
Provision for the period	138	-	-
Recoveries and reversals	-	-	-
Write-offs	-	-	-
Transfer to stage 1	-	-	-
Transfer to stage 2	-	-	-
Transfer to stage 3	-	-	-
Balances at the end of the period	**(74)**	**-**	**-**

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

14. OTHER ASSETS (cont'd)

The credit quality analysis of other assets as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	226,657	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Expected Credit Losses	(212)	-	-
Total carrying amount	**226,445**	**-**	**-**

The movement of ECL per asset class for other assets as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 31 December 2017	**(179)**	**-**	**-**
Impact of adopting IFRS 9 at 1 January 2018	(19)	-	-
Balances at 1 January 2018	**(198)**	**-**	**-**
Provision for the period	**(14)**	**-**	**-**
Recoveries and reversals	**-**	**-**	**-**
Write-offs	**-**	**-**	**-**
Transfer to stage 1	-	-	-
Transfer to stage 2	-	-	-
Transfer to stage 3	-	-	-
Balances at the end of the period	**(212)**	**-**	**-**

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

15. DEPOSITS

31 December 2019	Time	Demand	Total
TL Deposit	**372,576**	**47,550**	**420,126**
Savings deposits	178,244	39,240	217,484
Commercial deposits	22,736	7,818	30,554
Deposit from banks	171,596	492	172,088
Foreign banks	*46,982*	*332*	*47,314*
Domestic banks	*124,614*	*160*	*124,774*
FC deposits	**516,596**	**79,753**	**596,349**
Savings deposits	402,632	24,872	427,504
Commercial deposits	14,772	53,392	68,164
Deposit from banks	99,192	1,489	100,681
Foreign banks	*99,192*	*1,485*	*100,677*
Domestic banks	-	*4*	*4*
	889,172	**127,303**	**1,016,475**
Total	**889,172**	**127,303**	**1,016,475**

Average interest rate for the customer deposits is 15.55% per annum for Turkish Lira deposits. For foreign currency deposits the average interest rate is 2.42% for USD deposits and 0.87% for Euro deposits (31 December 2018: 22.29% for Turkish Lira deposits, 3.82% for USD deposits and 2.33% for Euro deposits).

31 December 2018	Time	Demand	Total
TL Deposit	**360,105**	**28,748**	**388,853**
Savings deposits	326,272	18,759	345,031
Commercial deposits	17,881	9,737	27,618
Deposit from banks	15,952	252	16,204
Foreign banks	*11,948*	*132*	*12,080*
Domestic banks	*4,004*	*120*	*4,124*
FC deposits	**740,186**	**88,499**	**828,685**
Savings deposits	493,079	37,628	530,707
Commercial deposits	154,280	49,354	203,634
Deposit from banks	92,827	1,517	94,344
Foreign banks	*92,827*	*1,514*	*94,341*
Domestic banks	-	*3*	*3*
Total	**1,100,291**	**117,247**	**1,217,538**

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

16. OBLIGATIONS UNDER REPURCHASE AGREEMENTS AND MONEY MARKET FUNDING

	2019	2018
Money market borrowings	65,397	116,792
Obligations under reverse repurchase agreements	25,196	17,132
Total	**90,593**	**133,924**

17. FUNDS BORROWED

	2019	2018
Borrowings from banks located abroad:		
Unsecured foreign banks – TL short-term	13,964	11,928
Unsecured foreign banks – FC short-term	95,445	6,459
Total	**109,409**	**18,387**
Borrowings from domestic banks:		
Unsecured borrowings from local banks – TL short term	12,767	1,851
Unsecured borrowings from local banks – FC short term	-	6,189
Total	**12,767**	**8,040**
Grand Total	**122,176**	**26,427**

The interest rates for TL borrowings are between 10.50% and 15.19% (31 December 2018: 18.92% and 23.00%) while interest rates for foreign currency borrowings are between 0.01% and 4.91% (31 December 2018: 0.01% and 6.22%)

18. DEBT SECURITIES ISSUED

	Simple Interest Rate %	Compound Interest Rate %	Maturity Date	2019	2018
TL 12 million discounted bond	11.00	11.52	7 February 2020	11,868	-
TL 12.5 million discounted bon	11.50	12.08	10 January 2020	12,469	-
TL 21 million discounted bond	23.30	25.51	1 March 2019	-	20,243
TL 10 million discounted bond	25.50	28.23	1 February 2019	-	9,791
Total				**24,337**	**30,034**

19. TAXATION

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective rate of tax on 31 December 2019 is 21 % for the Group. (2018: 26 %)

While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the "Amendment on Certain Tax Laws and Other Laws" no. 7061, published in Official Gazette on 5 December 2017. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%. The corporate tax rate returns are given to depending on tax office until the night of 25th day in the fourth month which is following the close of the accounting period. The tax legislation provides for a temporary tax of 22% (2018: 22%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. Tax carry back is not allowed.

In Turkey, 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.

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

19. TAXATION (cont'd)

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 is 10% starting from 24 April 2003. This rate was changed to 15% commencing from 23 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes. Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, the investments without investment incentive certificates do not qualify for tax allowance.

In the accompanying consolidated financial statements corporate tax and deferred tax asset/liability are comprised of the following:

Statement of Financial Position: Corporate tax

	2019	**2018**
Corporate tax liability	3,940	1,381
Prepaid tax	(264)	(626)
Current Tax Liability	**3,676**	**755**

Income Statement

	2019	**2018**
Current income tax charge	(799)	(1,381)
Deferred tax income/(expense)	535	(1,153)
Tax expense	**(264)**	**(2,534)**

Reconciliation of income tax expense as follows:

	%	**31 December 2019**	**%**	**31 December 2018**
Profit before tax		**1,250**		**9,394**
Taxes on income per statutory tax rate	(22.00)	(275)	(22.00)	(2,067)
Disallowable expenses	3.12	39	(2.85)	(268)
Other	(2.20)	(28)	(2.12)	(199)
Tax expense	**(21.08)**	**(264)**	**(26.97)**	**(2,534)**

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

19. TAXATION (cont'd)

Deferred Income Tax

Deferred taxes are attributable to the following items:

	Deferred tax assets		**Deferred tax liabilities**		**Net assets / (liabilities)**	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Expected credit losses / Loan loss provision	292	579	-	-	292	579
Employee benefits	1,412	1,252	-	-	1,412	1,252
Carry forward tax losses	660	-	-	-	660	-
Property and equipment	-	-	(1,200)	(742)	(1,200)	(742)
Valuation differences on investment securities	462	471	(169)	-	293	471
Subtotal	**2,826**	**2,302**	**(1,369)**	**(742)**	**1,457**	**1,560**
Net off	**-**	**-**	**-**	**-**	**-**	**-**
Total	**2,826**	**2,302**	**(1,369)**	**(742)**	**1,457**	**1,560**

The movement of net deferred tax assets can be presented as follows:

	31 December 2019	**31 December 2018**
Deferred tax assets, net at 1 January	**1,560**	**2,689**
Deferred tax recognized in the profit or loss	535	(1,153)
Deferred tax recognized in other comprehensive income	(638)	24
Deferred tax assets, net at 31 December	**1,457**	**1,560**

20. EMPLOYEE BENEFITS AND OTHER PROVISIONS

	31 December 2019	**31 December 2018**
Provisions for the court cases	2,578	2,431
Provision for severance indemnity	2,844	2,193
Vacation pay liability	461	392
Other short term employee benefits	89	450
Other	563	744
Total provisions	**6,535**	**6,210**

Provision for severance indemnity

Under Turkish Labour Law, The Company is required to pay employment termination benefits to each employee who has qualified. Also, employees are required to be paid their severance indemnity provisions who retired by gaining right to receive severance indemnity provisions according to current 506 numbered Social Insurance Law's 6 March 1981 dated. 2422 numbered. 25 August 1999 dated and 4447 numbered with 60th article that has been changed. Some transition provisions related to the pre-retirement service term was excluded from the law since the related law was changed as of 23 May 2002.

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

20. EMPLOYEE BENEFITS AND OTHER PROVISIONS (cont'd)

Provision for severance indemnity (cont'd)

The amount payable consists of one month's salary limited to a maximum of full TL 6,380 (31 December 2018: full TL 5,434) for each period of service at 31 December 2019.

The liability of employee termination benefits is not funded as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. IAS 19 (Employee Benefits) requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase accordingly with inflation. Therefore, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of 31 December 2017, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 6.00% discount rate of 10.5% and real discount rate of approximately 4.25% (31 December 2018: an annual inflation rate of 6.00% discount rate of 10.5% and real discount rate of approximately 4.25%). Anticipated turnover rate is also included in the calculation.

The movement for the provision for the severance indemnity:

	2019	**2018**
Balance as at 1 January	**2,193**	**2,254**
Service cost	362	360
Interest cost	255	359
Actuarial (gain)/losses (*)	422	(107)
Payments / discharge	(388)	(673)
Balance as at 31 December	**2,844**	**2,193**

(*) Actuarial gains/losses are recognized in other comprehensive income.

21. OTHER LIABILITIES

	2019	**2018**
Clearance account	27,126	24,528
Payables to card holders	3,263	4,063
Unearned income	1,217	1,371
Cash guarantees received	561	177
Other	18,115	9,020
Total	**50,282**	**39,159**

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

22. EQUITY

Share capital:

	2019		2018	
Shareholders	**%**		**%**	
Özyol Holding A.Ş.	58.92	103,118	58.92	103,118
National Bank of Kuwait	34.29	60,000	34.29	60,000
Mehmet Tanju Özyol	5.63	9,861	5.63	9,861
Others	1.16	2,021	1.16	2,021
Nominal Value	**100.00**	**175,000**	**100.00**	**175,000**
Effect of inflation		6,868		6,868
Total		**181,868**		**181,868**

The Bank's paid in capital consists of 17,500,000,000 shares having a unit nominal value of 0.01 (in full TL) (31 December 2018: TL 0.01; 17,5000,000,000 shares). There are no preferred stock as at 31 December 2019 (31 December 2018: None).

Legal reserves:

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions.

23. NET INTEREST INCOME

	2019	2018
Interest income from		
Loans and advances to customers	111,432	158,181
Financial assets measured at fair value through profit or loss	18,395	3,918
Loans and advances to banks	8,101	14,943
Money market transactions	3,279	2,137
Other interest income	3,498	3,089
Total interest income	**144,705**	**182,268**
Interest expense from		
Deposit from customers and banks	(70,424)	(88,209)
Issued debt securities	(5,297)	(4,088)
Other borrowed funds	(2,401)	(452)
Obligations under repurchase agreements and money market funding	(166)	(7,820)
Other interest expenses	(6,411)	(14)
Total interest expenses	**(84,699)**	**(100,583)**
Net interest income	**60,006**	**81,685**

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

24. NET FEE AND COMMISSION INCOME

	2019	2018
Fee and commission income on:		
Brokerage and custody income	13,926	11,129
General banking income	4,037	4,813
Electronic cards	1,295	1,295
Corporate finance	419	479
Other fees and commissions	2,154	22
Total fee and commission income	**21,831**	**17,738**
Fee and commission expense on:		
General banking expense	(1,627)	(1,940)
Electronic cards	(2,393)	(1,351)
Other	(545)	(509)
Total fee and commission expense	**(4,565)**	**(4,346)**
Net fee and commission income	**17,266**	**13,392**

25. NET TRADING INCOME

	2019	2018
Gains	**2,420,641**	**3,907,107**
Investment securities	4,792	1,180
Derivatives	58,378	105,648
Foreign exchange	2,357,471	3,800,279
Losses (-)	**2,412,733**	**3,913,564**
Investment securities	13	-
Derivatives	56,535	79,175
Foreign exchange	2,356,185	3,834,389
Total gains and losses, net		
Gains from investment securities, net	4,779	1,180
Trading (gain) / losses, net	1,843	26,473
Foreign exchange gains and losses, net	1,286	(34,110)
Total	**7,908**	**(6,457)**

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

26. OTHER OPERATING INCOME

	2019	2018
Expense provisions	2,506	2,228
Reversal of provision previously recognized	1,460	2,612
Income from the sale of assets	386	4,516
Communication expense provision	197	574
Other	1,366	753
Total	**5,915**	**10,683**

27. OTHER OPERATING EXPENSES

	2019	2018
Wages and salaries	36,449	34,582
Depreciation and amortization	17,835	4,004
Rent expenses	7,527	15,113
Professional fees and consultancy	4,214	4,008
Taxes other than income	3,365	2,744
Communication expenses	2,155	3,782
Saving deposit insurance fund premium	1,209	1,769
Marketing and sales expenses	400	230
Repair and maintenance expenses	276	1,459
Retirement benefit costs	86	267
Other	6,463	7,508
Total	**79,979**	**75,466**

28. COMMITMENTS AND CONTINGENCIES

In the normal course of banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these consolidated financial statements, including letters of guarantee. The management does not expect any material losses as a result of these transactions. The following is a summary of significant commitments and contingent liabilities:

	2019	2018
Letters of guarantee	500,481	513,029
Foreign currency	*55,968*	*105,087*
TL	*444,513*	*407,942*
Letters of credit	36	2,398
Derivative financial instruments *(Note 10)*	348,416	473,580
Other commitments	68,978	71,341
Total	**917,911**	**1,060,348**

The Bank has extended TL 101 of non-cash loans to related parties (31 December 2018: TL 165).

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

28. COMMITMENTS AND CONTINGENCIES (cont'd)

The Group provides custody service on behalf and account of its customers. The value of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 2,578,580 TL at 31 December 2019 (31 December 2018: TL 143,254).

29. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The main shareholders of the Group are Özyol Holding and National Bank of Kuwait. For the purpose of these consolidated financial statements, associates, shareholders, Özyol Group companies, and National Bank of Kuwait Group entities 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.

In the course of conducting its business, the Group conducted various business transactions with related parties. These transactions primarily include loans, deposits and borrowing transactions. The significant outstanding balances and transactions with related parties at year-ends and related expense and income for the years are as follows:

	2019	**2018**
Statement of financial position:		
Deposits	**13,725**	**16,829**
Senior Management	7,263	9,641
Ownership	5,168	5,108
Sigortech Sigorta Aracılık Hiz. A.Ş.	140	777
Türk Bankası LTD.	698	725
Allied Turkish Bank IBU LTD.	436	448
Türk Sigorta LTD.	20	130
Other funds borrowed	**109,328**	**18,379**
Allied Turkish Bank IBU LTD.	96,338	13,818
Turk Bankası LTD	10,290	1,961
Turkish Bank (UK) LTD.	2,700	2,600

	2019	**2018**
Income Statement:		
Interest expense	**1,224**	**1,000**
Türk Bankası LTD.	679	621
Turkish Bank (UK) LTD.	545	379
Fee and commission income	**133**	**15**
Türk Bankası LTD.	133	15

The remuneration of members of Board of Directors and other members of key management; comprising mainly of salaries and other short-term benefits for the current period is TL 2,007 (31 December 2018: TL 1,719).

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

30. FINANCIAL RISK MANAGEMENT

The Group has a Risk Management Group and is functionally independent of risk creating divisions. The Risk Management Group is responsible for identifying and analysing the exposed risks, carrying risk policies and strategies, setting limits in activities to control these risks and finally measuring these risks. The Executive Committee is the party that submits risk strategies and policies to the Board of Directors.

The Value-at-Risk measurement is used in line with local requirements of the capital adequacy calculation.

Risks emerging in the Group's business and activities are defined as credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk, but all are considered as a whole for management purposes.

Capital management

When managing the capital the Group aims to comply with the capital requirements set by the regulators of the banking market where the Parent Bank operates; to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for the shareholders and to maintain a strong capital base to support the development of its business.

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 banks operate 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 Group's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS guidelines) minus deductions (which comprises participations to financial institutions, special and preliminary and pre-paid expenses, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk and market risk, in accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%.

The Group's regulatory capital position on a consolidated basis is as follows:

	2019	**2018**
Tier I capital	209,351	201,593
Tier II capital	2,546	2,631
Deductions	-	-
Total regulatory capital	**211,897**	**204,224**
Amount subject to credit risk	-	197
Amount subject to market risk	111	196
Amount subject to operational risk	11,904	10,389
Capital adequacy ratio (%)	**20.11**	**18.40**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Capital management (cont'd)

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss for the Group by failing to discharge an obligation. Credit exposure arise principally in lending activities that lead to loans and advances and investment activities that bring debt securities into the Group's asset portfolio. There is also credit risk in off balance sheet financial instruments, such as loan commitments.

The Group determines the credit limits and restricts extension of loans and advances exceeding predetermined credit limits. The credit limits are determined for individual customers, companies, group of companies and risk groups separately for each type of product by taking into account the borrowers' financial structure, some qualitative criteria and the quality of the guarantees.

Counterparty limits are monitored on a consolidated basis. In accordance with the Group's credit policy, the ratings of the borrowers, credit limits and collateralization process are collectively considered and credit risks are monitored. The credit risks and limits relate to treasury activities, the limits of the correspondent banks that are determined by their ratings and the control of the accepted risk level in relation to equity are monitored daily.

Group policy requires a review of the level of impairment allowance at least on a quarterly basis. Impairment allowances on individually assessed accounts are determined by evaluation of the exposure on a case by case basis. This will normally include a review of the collateral held and the assessment of actual and anticipated receipts. In addition a portfolio based assessment is also made for homogeneous groups of credit.

The Group uses its own internal rating system, which takes into account various financial and non-financial indicators for the evaluation of corporate and also guarantees. This system helps make decisions of allocating credit limits and accepted guarantees. The cash loans rated according to the possibility of being in default are classified from the highest grade to the lowest as below:

Basic Loan Quality Categories	**2019**	**2018**
	% In Total Loans	**% In Total Loans**
High grade	22.51	18.03
Standard grade	62.74	67.88
Sub-standard grade	4.82	6.79
Impaired	9.93	7.30
Total	**100.00**	**100.00**

Category "high" shows that the debtor has a strong financial structure, "standard" shows the debtor's financial structure is good enough while "sub-standard" category shows that debtor's financial structure is under risk in the short and medium term.

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

Credit risk exposure

	Notes	31 December 2019	Stage 1	Stage 2	Stage 3
Financial assets at fair value through profit or loss		-			
Debt and other instruments		-			
Equity and other non-fixed income instruments		-			
Loans and advances		-			
Non-trading financial assets mandatorily at fair value through profit or loss	**8**	**2,261**			
Loans and advances	8	*2,261*			
Debt and other instruments		-			
Equity and other non-fixed income instruments		-			
Equity investments measured at FVOCI		-			
Financial assets at fair value through other comprehensive income		**49,496**	**49,496**	**-**	**-**
Debt and other instruments	9	*49,496*	*49,496*	-	-
Equity and other non-fixed income instruments					
Financial assets at amortised cost		**1,232,471**	**1,127,416**	**75,549**	**29,506**
Balances with central banks excluding reserve deposits	5	45,457	45,457	-	-
Loans and advances to banks	6	88,288	88,288	-	-
Loans and advances to customers	11	1,098,726	993,671	75,549	29,506
Debt and other instruments		-	-	-	
Total financial assets risk		**1,284,228S**			
Total loan commitments and financial Guarantees		500,517			
Total		**500,517**			

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

Credit risk exposure

	Notes	**31 December 2018**			
Financial assets at fair value through profit or loss		-			
Debt and other instruments		-			
Equity and other non-fixed income instruments		-			
Loans and advances		-			
Non-trading financial assets mandatorily at fair value through profit or loss	**8**	**451**			
Loans and advances	8	*451*			
Debt and other instruments		-			
Equity and other non-fixed income instruments		-			
Equity investments measured at FVOCI		**-**			
			Stage 1	**Stage 2**	**Stage 3**
Financial assets at fair value through other comprehensive income		**15,264**	**15,264**	**-**	**-**
Debt and other instruments	9	*15,264*	*15,264*	-	-
Equity and other non-fixed income instruments					
Financial assets at amortised cost		**1,235,622**	**1,129,453**	**67,315**	**38,854**
Balances with central banks excluding reserve deposits	5	79,184	79,184	-	-
Loans and advances to banks	6	139,375	139,375	-	-
Loans and advances to customers	11	1,017,063	910,894	67,315	38,854
Debt and other instruments		-	-	-	
Total financial assets risk		**1,251,337**			
Total loan commitments and financial Guarantees		515,427			
Total		**515,427**			

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

Sectorial concentration of the Group's cash loans are as follows:

	31 December 2019	
Sector		**(%)**
Financial institutions	546,700	55.15
Construction	151,315	15.26
Manufacturing industry	53,016	5.35
Wholesale and Retail Trade	43,961	4.43
Transportation and communication	31,602	3.19
Mining and quarrying	20,270	2.04
Hotel, Tourism, Food and Beverage Services	17,566	1.77
Agriculture	1,093	0.11
Other	125,753	12.69
Performing loans	**991,276**	**100.00**

Non-performing loans		
Total loans and advances to customer	107,450	
Expected credit losses - Stage 1	(756)	
Expected credit losses - Stage 2	(1,526)	
Expected credit losses - Stage 3	(42,782)	
Net loans and advances to customers	**1,053,662**	

	31 December 2018	
Sector		**(%)**
Financial institutions	243,005	25.72
Construction	124,883	13.22
Wholesale and Retail Trade	87,456	9.26
Manufacturing industry	84,052	8.90
Transportation and communication	61,967	6.56
Hotel, Tourism, Food and Beverage Services	60,682	6.42
Mining and quarrying	13,246	1.40
Agriculture	3,345	0.35
Other	266,049	28.17
Performing loans	**944,685**	**100.00**

Non-performing loans		
Total loans and advances to customer	72,378	
Expected credit losses - Stage 1	(941)	
Expected credit losses - Stage 2	(1,458)	
Expected credit losses - Stage 3	(33,441)	
Net loans and advances to customers	**981,223**	

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

Sectorial concentration of the Group's non-cash loans and commitments are as follows:

	2019		2018	
Sector		**(%)**		**(%)**
Financial institutions	430,414	85.99	387,949	75.27
Manufacturing industry	65,366	13.06	103,692	20.12
Hotel, Tourism, Food and Beverage Services	-	-	20,662	4.01
Wholesale and Retail Trade	-	-	113	0.02
Construction	-	-	-	-
Agriculture	-	-	-	-
Other	4,737	0.95	3,011	0.58
Total	**500,517**	**100.00**	**515,427**	**100.00**

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

2019	**Neither past due nor impaired**	**Past due or individually impaired**	**Total**
Loans			
Corporate loans	133,138	22326	155,464
Small business lending	364,412	27,813	392,225
Consumer loans	2,111	62	2,173
Other	474,671	29,129	503,800
Total	**974,332**	**79,330**	**1,053,662**

2018	**Neither past due nor impaired**	**Past due or individually impaired**	**Total**
Loans			
Corporate loans	267,525	101	267,626
Small business lending	495,310	56,250	551,560
Consumer loans	6,201	5,280	11,481
Other	140,917	9,639	150,556
Total	**909,953**	**71,270**	**981,223**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

Fair value of collaterals for the impaired loans are as follows:

	2019	2018
Real-estate mortgage	9,555	1,802
Other	53,043	924
Total	**62,598**	**2,726**

Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements when due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. Liquidity risk occurs when there is insufficient amount of cash inflows to fulfil the cash outflows completely on time.

The Bank's Foreign Currency (FC) and total (TL+FC) liquidity coverage ratio (LCR) averages for the last three months, the highest value and the lowest value occurred in this period are given below:

	2019		2018	
	TL+FC (%)	FC (%)	TL+FC (%)	TL+FC (%)
The lowest value	199.38	226.28	284.33	306.96
Applicable week	25.10.2019	29.11.2019	30.11.2018	23.11.2018
The highest value	289.57	343.86	331.82	401.86
Applicable week	01.11.2019	01.11.2019	02.11.2018	02.11.2018

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

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

31 December 2019	Demand	Up to 1 Month	1 to 3 Month	3 to 12 Month	1 to 5 Year	Over 5 Year	Unallocated	Total
ASSETS								
Cash and balances with the Central Bank of Turkey	60,755	-	-	-	-	-	-	60,755
Loans and advances to banks	23,720	14,982	-	49,586	-	-	-	88,288
Money market placements	-	72,802	435	-	-	-	-	73,237
Financial assets measured at fair value through profit or loss	-	-	-	2,261	-	-	-	2,261
Derivative financial assets	-	8,785	355	-	-	-	-	9,140
Loans and advances to customers	-	57,485	659,766	68,107	158,108	47,401	62,795	1,053,662
Investment securities	19,003	25,603	1,027	3,863	-	-	-	49,496
Property and equipment (net)	-	-	-	-	-	-	40,153	40,153
Intangible assets (net)	-	-	-	-	-	-	5,017	5,017
Deferred tax asset (net)	-	-	-	-	-	-	1,457	1,457
Other assets	-	-		-			157,482	157,482
Total Assets	**103,478**	**179,657**	**661,583**	**123,817**	**158,108**	**47,401**	**266,904**	**1,540,948**
LIABILITIES								
Deposits	127,303	738,512	141,383	9,277	-	-	-	1,016,475
Obligations under repurchase agreements and money market funding	-	83,856	435	-	-	-	6,302	90,593
Funds borrowed	-	83,329	675	38,172	-	-	-	122,176
Derivative financial liabilities	-	1,040	343	-	-	-	8,678	10,061
Debt securities issued	-	12,469	11,868	-	-	-	-	24,337
Corporate tax liability	-	-	-	-	-	-	3,676	3,676
Other liabilities	-	-	-	-	-	-	273,630	273,630
Total liabilities	**127,303**	**919,206**	**154,704**	**47,449**	**-**	**-**	**292,286**	**1,540,948**
Net liquidity (gap)/surplus	**(23,825)**	**(739,549)**	**506,879**	**76,368**	**158,108**	**47,401**	**(25,382)**	**-**
As at 31 December 2018								
Total assets	202,002	458,032	176,571	230,840	284,688	29,432	287,803	1,669,368
Total liabilities	117,247	987,905	230,471	68,521	6	-	265,218	1,669,368
Net liquidity (gap)/surplus	**84,755**	**(529,873)**	**(53,900)**	**162,319**	**284,682**	**29,432**	**22,585**	**-**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

Analysis of financial liabilities by the remaining contractual maturities:

31 December 2019	On Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Adjustments	Total
Obligations under repurchase agreements and money market funding	5,588	72,147	435	-	-	-	12,423	90,593
Deposits from banks	1,981	248,184	22,949	-	-	-	(345)	272,769
Deposit from customers	125,321	491,543	118,753	9,494	-	-	(1,405)	743,706
Other borrowed funds	-	83,351	677	38,921	-	-	(773)	122,176
Issued debt securities	-	12,000	12,500	-	-	-	(163)	24,337
Total	**132,890**	**907,225**	**155,314**	**48,415**	**-**	**-**	**9,737**	**1,253,581**

31 December 2018	On Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Adjustments	Total
Obligations under repurchase agreements and money market funding	6,189	100,486	15,622	3,530	-	-	8,097	133,924
Deposits from banks	1,769	80,520	28,504	-	-	-	(245)	110,548
Deposit from customers	115,477	781,036	158,234	58,230	7	-	(5,994)	1,106,990
Other borrowed funds	-	265,397	-	-	-	-	(238,970)	26,427
Issued debt securities	-	21,000	10,000	-	-	-	(966)	30,034
Total	**123,435**	**1,248,439**	**212,360**	**61,760**	**7**	**-**	**(238,078)**	**1,407,923**

Analysis of contractual expiry by maturity of the Group's derivative financial instruments:

31 December 2019	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Total
Options purchase	-	-	-	-	-	-
Options sale	-	-	-	-	-	-
Currency swap purchase	155,087	-	-	-	-	155,087
Currency swap sale	155,897	-	-	-	-	155,897
Forward exchange rate contracts purchase	28,184	281	-	-	-	28,465
Forward exchange rate contracts sale	8,704	263	-	-	-	8,967
Total	**347,872**	**544**	**-**	**-**	**-**	**348,416**

31 December 2018	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Total
Options purchase	56,581	-	-	-	-	56,581
Options sale	-	-	-	-	-	-
Currency swap purchase	167,690	-	-	-	-	167,690
Currency swap sale	246,387	-	-	-	-	246,387
Forward exchange rate contracts purchase	2,280	281	-	-	-	2,561
Forward exchange rate contracts sale	98	263	-	-	-	361
Total	**473,036**	**544**	**-**	**-**	**-**	**473,580**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Market risk

Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The Group considers currency risk and interest rate risk as the most important constituents of market risk. These are different levels of cut-loss and cut-profit policies to control the risks that may come from the fluctuations in the market.

Other than treasury bill positions, the Group places and borrows funds on a very short term basis, mostly on overnight, keeping the market risk of these transactions at minimum level. Thus, the Group acts quickly to any unexpected fluctuation in the market.

Interest rate risk

The Group is exposed to interest rate risk either through market value fluctuations of balance sheet items, i.e. price risk, or the impact of rate changes on interest-sensitive assets and liabilities. In Turkey, the interest rates are highly volatile and this may result in significant changes in the prices of financial instruments such as government bonds and treasury bills. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

In case of any transactions that are exposed to interest rate risk, cut-loss policies are in place to control this risk. Interest rate risk is controlled and analysed by duration analysis. Furthermore, various simulation techniques are employed in order to analyse the effects of market volatilities on the Group's balance sheet.

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the end of the reporting period to the repricing date.

31 December 2019	Up to 1 Month	1 to 3 Month	3 to 12 Month	Over 1 Year	Non-interest bearing	Total
ASSETS						
Cash and balances with the Central Bank of Turkey	-	59,152	-	-	1,603	60,755
Balances with banks	14,982	-	49,586	-	23,720	88,288
Interbank money market placements	72,802	435	-	-	-	73,237
Financial assets at fair value through profit or loss (net)	-	-	2,261	-	-	2,261
Derivative financial asset	8,785	355	-	-	-	9,140
Loans and advances to customer	730,461	60,020	49,018	151,755	62,408	1,053,662
Investment securities (net)	11401	1027	18065	-	19003	49,496
Property and equipment (net)	-	-	-	-	40,153	40,153
Intangible assets (net)	-	-	-	-	5,017	5,017
Deferred tax asset (net)	-	-	-	-	1,457	1,457
Other assets	-	32,159	-	-	125,323	157,482
Total Assets	**838,431**	**153,148**	**118,930**	**151,755**	**278,684**	**1,540,948**
LIABILITIES						
Deposits	738,512	141,383	9,277	-	127,303	1,016,475
Obligations under repurchase agreements and money market funding	83,856	435	-	-	6,302	90,593
Other borrowed funds	83,329	675	38,172	-	-	122,176
Derivative financial liabilities	1,040	343	-	-	8678	10,061
Issued debt Securıtıes	12,469	11,868	-	-	-	24,337
Other liabilities	-	-	-	-	277,306	277,306
Total liabilities	**919,206**	**154,704**	**47,449**	**-**	**419,589**	**1,540,948**
Net interest sensitivity gap	**(80,775)**	**(1,556)**	**71,481**	**151,755**	**(140,905)**	**-**
As at 31 December 2018						
Total assets	833,251	177,894	141,269	105,635	411,319	1,669,368
Total liabilities	987,905	230,471	68,521	6	382,465	1,669,368
Net interest sensitivity gap	**(154,654)**	**(52,577)**	**72,748**	**105,629**	**28,854**	**-**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate risk (cont'd)

As at 31 December 2019 and 31 December 2018, summary of average interest rates for different assets and liabilities are as follows:

	31 December 2019			31 December 2018		
	EURO %	**USD %**	**TL %**	**EURO %**	**USD %**	**TL %**
Assets						
Cash and balances with the Central Bank of Turkey	-	-	0.12	-	-	0.09
Loans and advances to banks	-	-	1.90	0.10	4.36	24.21
Financial assets measured at fair value through other comprehensive income	-	-	18.98	-	-	19.24
Available for sale Assets	-	-	-	-	-	-
Loans and advances to customer	6.22	8.05	17.32	5.69	8.05	25.77
Liabilities						
Deposits from banks	0.47	0.20	14.71	1.62	0.20	21.78
Deposits from customers	0.87	2.42	15.55	2.33	3.82	22.29
Other Borrowed funds	1.58	2.16	15.49	0.95	3.96	22.81

Interest Rate Sensitivity:

The Group ensures that the risk remains within the predefined limits although the Group is exposed to structural interest rate risk on the statement of financial position due to the nature of its existing activities.

The Bank applies interest sensitivity scenarios with the changes in the interest rate and interest margins, to calculate the impact on the income statement and the shareholder's equity.

		31 December 2019		31 December 2018	
Type of currency	**Shocks Applied (+ / - basis point)**	**Gains/ Losses**	**Gains/ Equity-Losses/ Equity**	**Gains/ Losses**	**Gains/ Equity-Losses/ Equity**
TL	(+) 500	(2,620)	(1.3%)	(1,375)	(0.68%)
TL	(-) 400	2,307	1.1%	1,256	0.62%
USD	(+) 200	(3,964)	(2.0%)	(2,721)	(1.35%)
USD	(-) 200	4,435	2.2%	2,927	1.45%
EUR	(+) 200	(4,830)	(2.4%)	(170)	(0.08%)
EUR	(-) 200	5,509	2.7%	180	0.09%
Total (for negative shocks)		**12,251**	**6.0%**	**4,363**	**2.16%**
Total (for positive shocks)		**(11,414)**	**(5.7%)**	**(4,266)**	**(2.11%)**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Currency risk

Foreign currency denominated assets and liabilities together with purchase and sale commitments give rise to foreign exchange exposure. Long and short exposures are hedged on a portfolio basis with derivative financial instruments that include primarily forward foreign exchange contracts and currency swaps. Currency risk is also controlled through keeping a short position within local requirements.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The tables below summarize the Group's exposures to foreign currency exchange rate risk at 31 December 2019 and 31 December 2018. Included in the table are the Group's assets and liabilities and equity at carrying amounts, categorized by currency.

Foreign currency position of the Group is as follows:

31 December 2019	EURO	USD	Other Foreign Currencies	Total
ASSETS				
Cash and balances with the Central Bank of Turkey	92,576	68,101	8,768	169,445
Loans and advances to banks	43,853	18,530	16,888	79,271
Financial assets measured at fair value through other comprehensive income	5,440	12,046	-	17,486
Loans and advances to customer	225,841	193,253	465	419,559
Other assets	357	1,890	1	2,248
Total	**368,067**	**293,820**	**26,122**	**688,009**
LIABILITIES				
Deposits	214,602	308,278	73,469	596,349
Other borrowed funds	103,394	2,662	-	106,056
Other liabilities	3,601	1,846	1,303	6,750
Total	**321,597**	**312,786**	**74,772**	**709,155**
Net balance sheet position	**46,470**	**(18,966)**	**(48,650)**	**(21,146)**
Off-balance sheet position				
Net notional amount of derivatives	**(42,622)**	**33,956**	**33,140**	**24,474**
As at 31 December 2018				
Total assets	342,976	476,269	30,198	849,443
Total liabilities	264,750	492,676	89,919	847,345
Net balance sheet position	**78,226**	**(16,407)**	**(59,721)**	**2,098**
Off-balance sheet position				
Net notional amount of derivatives	**(79,611)**	**102,138**	**(28,050)**	**(5,523)**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Currency risk (cont'd)

Foreign Currency Sensitivity:

The Group is mainly exposed to EUR and USD currencies.

The following table details the Group's sensitivity to a 10% increase and decrease in the TL against USD and EUR. 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. A positive number indicates an increase USD and EUR in profit or loss and other equity where the TL strengthens against USD, EUR and GBP.

	Change in currency rate in %		Effect on profit or loss		Effect on equity (*)	
			31 December 2019	31 December 2018	31 December 2019	31 December 2018
USD	10	Increase	1,499	8,573	-	-
USD	10	Decrease	(1,499)	(8,573)	-	-
EUR	10	Increase	385	(139)	-	-
EUR	10	Decrease	(385)	139	-	-

(*) P/L impact not included.

The Group's sensitivity to foreign currency rates has not changed much during the current period. The positions taken in line with market expectations can increase the foreign currency sensitivity from period to period.

Operational risk

The most comprehensive meaning of operational risk is considered to be any risk which is not classified as market and credit risk. In managing operational risk, increasing the skills of the staff, improving job technology and job definitions, establishing the necessary internal controls and various insurances are employed as the main methods. The internal control and audit mechanism contributes greatly to the management of operational risk.

For the regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base the Group calculates the amount subject to operational risk with the basic indicator method in accordance with the Section 4 of the " Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No, 28337 dated 28 June 2012, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Group for the years ended 2013, 2014 and 2015, as of 31 December 2016. The total amount subject to operational risk is calculated as TL 148,804 (31 December 2018: TL 129,862) and the amount of the related capital requirement is TL 11,904 (31 December 2018: TL 10,389).

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Fair Values of Financial Instruments

As at 31 December 2019 and 31 December 2018, fair values of financial assets and liabilities are as follows:

	Carrying value	Fair value
	31 December 2019	**31 December 2019**
Financial Assets		
Financial assets at fair value through profit or loss	11,401	11,401
- Financial assets measured at fair value through profit or loss	2,261	2,261
- Derivative financial assets	9,140	9,140
Financial assets measured at fair value through other comprehensive income	49,496	49,496
Loans and advances to customers	1,053,662	1,050,883
Total	**1,125,960**	**1,123,181**
Financial Liabilities		
Deposits from banks	272,769	270,856
Deposit from customers	743,706	740,987
Other borrowed funds	122,176	117,382
Derivative financial liabilities	10,061	6,629
Issued debt securities	24,337	20,739
Total	**1,173,049**	**1,156,593**

	Carrying value	Fair Value
	31 December 2018	**31 December 2018**
Financial Assets		
Financial assets at fair value through profit or loss	1,598	1,598
- Trading securities	451	451
- Derivative financial instruments	1,147	1,147
Financial assets measured at FVOCI	15,264	15,264
Loans and advances to customers	981,223	953,765
Total	**998,085**	**970,627**
Financial Liabilities		
Deposits from banks	110,548	108,202
Deposit from customers	1,106,990	1,103,754
Other borrowed funds	26,427	20,942
Derivative financial instruments	2,297	1,563
Issued debt securities	30,034	5,642
Total	**1,276,296**	**1,240,103**

The fair value of financial assets measured at fair value through other comprehensive income is based on market prices. Where market prices are not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Fair Values of Financial Instruments (cont'd)

The fair value of deposits with no stated maturity, floating rate placements and overnight deposits is their carrying amount. The estimated fair value of bank deposits and customer deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortised cost are considered to approximate their respective carrying values due to their short-term nature.

Fair value hierarchy

The fair value hierarchy consists of three levels, depending upon whether fair values are determined based on quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have significant impact on the fair value of the instrument (Level 3):

The Group measures fair values using the following hierarchy of method:

- **Level 1:** This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market. These are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets and where the instrument observed in the market is representative of that being priced in the Bank's portfolio.

- **Level 2:** This category includes inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique uses inputs based on unobservable data, which could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant, unobservable adjustments or assumptions are required to reflect differences between instruments. Unobservable in this context means that there is little or no current market data available from which the price at which an arm's length transaction would be likely to occur can be derived.

	Level 1		**Level 2**		**Level 3**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Financial Assets						
Financial assets at fair value through profit or loss	-	-	570	451	-	-
Financial assets measured at fair value through other comprehensive income	42,539	13,747	-	-	1,517	
Derivative financial assets	-	-	5,440	1,147	-	-
Total	**42,539**	**13,747**	**6,010**	**1,598**	**1,517**	**-**
Financial Liabilities						
Derivative financial liabilities	-	-	1,383	2,297	-	-
Total	**-**	**-**	**1,383**	**2,297**	**-**	**-**

No securities were transferred from Level 1 to Level 2 of the fair value hierarchy in 2019.

31. EVENTS AFTER THE REPORTING PERIOD

The Covid-19 outbreak that is declared by the World Health Organisation to be pandemic on 11 March 2020 spread across the globe and our country and preventive actions that have been taken into place to respond the outbreak and causes disruptions to business activities in all countries and affect the economic conditions adversely both locally and globally.

The Covid-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of issuance of these consolidated financial statements, its effects are subject to significant levels of uncertainty. Since the economic effect of this outbreak is uncertain at the date of issuance of these consolidated financial statements, the financial effects on the operations cannot be reasonably estimated.

In accordance with the BRSA Decision No. 9000 dated 18 April 2020, In order to minimize the negative impact of the process caused by the COVID-19 outbreak on our economy, markets, production and employment, and to ensure the most efficient use of the resources available to banks, In accordance with the 93th article of the Banking Law No. 5411 and the second paragraph of the article 43; Starting from May 1, 2020, AR is calculated on a weekly basis by calculating the Active Ratio (AR) as of the end of each month, the monthly average for that month does not fall below 100% for deposit banks and 80% for participation banks, In accordance with the paragraph (a) of the first paragraph of Article 148 of the Law, the amount of excessive excess that constitutes a contradiction, for banks with an AR of less than 100% and participation banks with less than 80% by the end of the month, it has been reported that it is decided to calculate the amount of change in the share that will bring the ratio to 100% and 80%, respectively.

In accordance with the BRSA decision dated 29 May 2020 and numbered 9003, the Banking Regulation and Supervision Board Decision dated 9 April 2020 and the monthly average of the monthly average for that month as of May 1, 2020 is 100% for deposit banks. According to the data reported to the Banking Regulation and Supervision Agency for the calculation of the Asset Ratio (AR), which has been decided not to fall below 80, as of 31 March 2020, the amount of Turkish Lira Deposits and Foreign Currency Deposits excluding banks deposits is 31 December 2020. It was decided to allow time to comply with this regulation. Within this scope, it is included in Turkish Bank A.Ş.

Financing bonds issued to qualified investors in Turkish Lira, with a maturity of 52 days and a nominal value of TL 12,500,000 (full TL) ,in the nominal issue ceiling of TL 170,000,000 (full TL) , redeemed on 10 January 2020.

On 14 January 2010, in the nominal issue ceiling of TL 170,000,000 (full TL), financing bonds were issued to qualified investors in Turkish Lira, with a maturity of 59 days and a nominal value of TL 16,000,000 (full TL).

On 11 February 2020, in the nominal issue ceiling of TL 170,000,000 (full TL), financing bonds were issued to qualified investors in Turkish Lira, with a maturity of 59 days and a nominal value of TL 11,000,000 (full TL).