TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

Consolidated Financial Statements
As at and for the Year Ended 31 December 2020
With Independent Auditors' Report Thereon

Güney Bağımsız Denetim ve SMMM A. Ş.
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INDEPENDENT AUDITORS' REPORT

To the General Assembly of Turkish Bank A.Ş.

Opinion

We have audited the consolidated financial statements of Turkish Bank A.Ş. ("the Bank"), and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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Key Audit Matter	How the Key Audit Matter is addressed in our audit
Financial impact of IFRS 9 "Financial Instruments" standard and recognition of impairment on financial assets and related important disclosures	
As disclosed in footnote 2.8 the Group measured expected credit losses for financial assets in accordance with IFRS 9 "Financial Instruments Standards" in its financial statements. The reasons for selecting impairment of financial assets as key audit matter are as follows; ▪ Financial assets within balance-sheet and off-balance-sheet subject to IFRS 9 expected credit losses measurement have significant balance in the financial statements ▪ The application of IFRS 9 is complex and comprehensive ▪ The classification of financial instruments based on the Group's business models and the characteristics of contractual cash flows in line with IFRS 9 and requirement of significant judgments to determine this business model and the characteristics of contractual cash flows ▪ Risks related to the policies established by the management with the compliance and requirements of the legislation and other applications for the calculation of expected credit losses ▪ The complexity and intensity of the control environment in the processes designed or reorganized for IFRS 9 ▪ Estimations and assumptions used in expected credit losses are significant and complex ▪ Complex and comprehensive disclosure requirements of IFRS 9.	Our audit procedures in addition to our current audit procedures: ▪ Evaluation of the compliance of the accounting policies adopted with regard to IFRS 9, the Group's past performance, and local and global practices ▪ Analysis and testing of processes, systems, and controls originated or re-designed in order to calculate expected credit losses by the Information Systems and Process Audit specialists ▪ Evaluating the impact of Covid-19 outbreak on staging of loans and macroeconomic parameters used in expected credit losses calculation together with forward-looking estimates and significant assumptions ▪ Evaluation of the key judgments, assumptions, methods used for calculation of expected credit loss determined by the management, and whether the data source is reasonable or not, and their compliance and standard requirements in light of industry and global practices ▪ Testing criteria used for determining the contractual cash flows including interest payments with regard to solely principal and principal balance of financial assets on a sample basis and evaluation of Group's business model ▪ Evaluation of significant increase in credit risk, definition of default, definition of restructuring, probability of default, loss given default, exposure at default and macro-economic variables, and related basic and significant estimates and assumptions determined for calculation process of expected credit loss and whether these assumptions determined by financial risk management are in line with the Group's historical performance, legislation, and reasonableness of the estimation process regarding future performance and investigation of credit risk portfolio on a sample basis ▪ Evaluation of the accuracy and completeness of attributes of the data used for the calculation process of expected credit losses ▪ Detailed testing of mathematical verification of expected credit losses' calculation on a sample basis ▪ Evaluating the judgments and estimates used for the individually assessed financial assets ▪ Evaluating the necessity and accuracy of the updates made or required updates after the modeling process ▪ Auditing of disclosures related to IFRS 9.

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Other Matter

The consolidated financial statements of the Group as at 31 December 2019 were audited by another audit firm, which expressed an unqualified opinion in their report issued on 7 July 2020.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Emre Çelik, SMMM
Partner

October 1, 2021
İstanbul, Turkey

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TURKISH BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2020

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

	Notes	Audited 31 December 2020	Audited 31 December 2019 (*)
Assets			
Cash and balances with the Central Bank of Turkey	5	104,098	60,755
Loans and advances to banks	6	274,936	88,288
Money market placements	7	85,206	23,042
Financial assets measured at fair value through profit or loss	8	9,702	2,261
Derivative financial instruments	10	1,154	9,140
Investment securities measured at fair value through other comprehensive income	9	20,150	49,496
Financial assets measured at fair value through other comprehensive income as pledge		*12,377*	*44,672*
Loans and advances to customers	11	975,785	1,053,662
Property and equipment and right of use assets	12	30,552	40,153
Intangible assets	13	6,368	5,017
Deferred tax assets	19	3,604	1,457
Other assets	14	126,630	157,482
TOTAL ASSETS		**1,638,185**	**1,490,753**
Liabilities			
Deposits	15	1,181,713	1,016,475
Obligations under repurchase agreements and money market funding	16	22,761	40,398
Funds borrowed	17	147,117	122,176
Derivative financial liabilities	10	3,094	10,061
Debt securities issued	18	19,275	24,337
Current tax liability	19	4,304	3,676
Employee benefits and other provisions	20	7,475	6,535
Other liabilities	21	36,839	50,282
TOTAL LIABILITIES		**1,422,578**	**1,273,940**
EQUITY			
Share capital	22	175,000	175,000
Adjustment to share Capital		6,868	6,868
Legal reserves		5,971	6,111
Items that will never be reclassified to profit or loss		(428)	2,122
Items that are or will be reclassified subsequently to profit or loss		(68)	(57)
Retained earnings		28,264	26,769
Total equity attributable to holders of the Bank		**215,607**	**216,813**
Non-controlling interests		**-**	**-**
TOTAL EQUITY		**215,607**	**216,813**
TOTAL LIABILITIES AND EQUITY		**1,638,185**	**1,490,753**

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 2020

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

	Notes	Audited 31 December 2020	Audited 31 December 2019
Interest income	23	84,080	144,705
Interest expense	23	(35,656)	(84,699)
Net interest income		**48,424**	**60,006**
Fee and commission income	24	28,348	21,831
Fee and commission expense	24	(4,830)	(4,565)
Net fee and commission income		**23,518**	**17,266**
Foreign exchange gains / (loss), net	25	7,878	1,286
Derivative trading income / (loss), net	25	(5,096)	1,843
Securities trading income / (loss), net	25	9,065	4,779
Other operating income	26	7,617	5,915
Net Operating income / (loss)		**91,406**	**91,095**
Net impairment losses on loans and credit related commitments		(11,940)	(9,866)
Other operating expenses	27	(79,573)	(79,979)
Profit before tax		**(107)**	**1,250**
Corporate tax income/(expense)	19	(1,660)	(799)
Deferred tax income/(expense)	19	2,151	535
Profit for the year		**384**	**986**
Profit Attributable to:			
Equity holders of the Bank		384	986
Non-controlling interest		-	-
Earnings per share:			
Basic and diluted earnings per share (expressed in full TL)	2.25	0.002	0.0056

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 AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Notes	Audited 31 December 2020	Audited 31 December 2019
Profit for the year:		**384**	**986**
Other comprehensive income:			
Items that are or will be reclassified subsequently to profit or loss			
Change in fair values of financial assets measured at fair value through other comprehensive income		(14)	164
Related tax		3	(36)
Items that will never be reclassified to profit or loss			
Changes in the re-measurements of defined benefit liability	20	36	(422)
Other		-	3,307
Related tax		(7)	(635)
Other comprehensive income, net of tax		**18**	**2,378**
Total comprehensive income, net of tax		**402**	**3,364**
Total comprehensive income attributable to			
Equity holders of the Bank		402	3,364
Non-controlling interests		-	-
Total comprehensive income, net of tax		**402**	**3,364**

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 2020

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

				Items that will never be reclassified to profit or loss		Items that are or will 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 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	-	2,579
Restated balances at 1 January 2019		**175,000**	**6,868**	**3,801**	**(1,350)**	**(185)**	**5,686**	**25,783**	**215,603**	**-**	**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**	**216,813**	**-**	**216,813**
Balance at 1 January 2020		**175,000**	**6,868**	**3,801**	**(1,679)**	**(57)**	**6,111**	**26,769**	**216,813**	**-**	**216,813**
Profit for the year		-	-	-	-	-	-	384	384	-	384
Other comprehensive income		-	-	-	29	(11)	-	-	18	-	18
Total comprehensive income		**-**	**-**	**-**	**29**	**(11)**	**-**	**384**	**402**	**-**	**402**
Contributions by and distributions to owners		-	-	-	-	-	-	-	-	-	-
Transfers to reserves		-	-	-	-	-	(140)	140	-	-	-
Other		**-**	**-**	**(2,579)**	**-**	**-**	**-**	**971**	**(1,608)**	**-**	**(1,608)**
Balance at 31 December 2020	**22**	**175,000**	**6,868**	**1,222**	**(1,650)**	**(68)**	**5,971**	**28,264**	**215,607**	**-**	**215,607**

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

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

	Notes	Audited 31 December 2020	Audited 31 December 2019 (*)
Cash flows from operating activities			
Profit for the year		**384**	**986**
Adjustments for:			
Depreciation and amortization expense	12,13	17,442	17,357
Impairment losses on loans and credit related commitments		11,940	9,866
Income tax expense	19	(491)	264
Provision for employee benefits		1,028	686
Net interest income		48,310	67,833
Net fee and commission income		28,182	21,517
Collections from written off loans		8,051	6,977
Dividend income		89	69
Payments to personnel and service suppliers		(32,302)	(52,449)
Other operating activities, net		(39,274)	(171,722)
		43,359	**(98,616)**
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		1,408	15,986
Loans and advances to banks and customers		63,962	-
Other assets		29,656	430,192
Deposits from banks and customers		165,196	(94,695)
Other borrowed funds		24,774	29,776
Other liabilities		(82,569)	(415,012)
Net cash (used in) / from operating activities		**245,786**	**(132,369)**
Taxes paid		**(4,803)**	**(264)**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	12,13	(7,787)	(40,065)
Proceeds from sales of property and equipment		1,979	21,397
Acquisition of financial assets measured at fair value through other comprehensive income	9	(18,633)	(4,678)
Proceeds from sales of financial assets measured at fair value through other comprehensive income	9	40,149	38,910
Other		-	(1,624)
Net cash (used in) investing activities		**15,708**	**13.940**
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities issued		22,050	(6,500)
Repayment of funds borrowed and debt securities issued		(28,062)	(30,232)
Lease payments		(15,660)	(107)
Other		961	(756)
Net cash used in financing activities		**(20,711)**	**(37,595)**
Net (decrease)/increase in cash and cash equivalents		**235,980**	**(156,288)**
Cash and cash equivalents at the beginning of the year	5	**172,275**	**308,727**
Effect of exchange rate changes		56,178	19,836
Cash and cash equivalents at the end of the year	**5**	**464,433**	**172,275**

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 8 branches (2019: 10). The Bank and its subsidiaries in total have 158 employees as of 2020 (2019: 188).

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 2020 and 2019, the composition of shareholders and their respective % of ownership are summarized as follows:

	31 December 2020		31 December 2019	
	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**	**100,00**	**175,000**	**100,00**

As of 31 December 2020 and 2019, the Parent Bank's paid-in capital is comprised of 17.500.000.000 shares whose historical nominal unit values are TL 0,1.

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 2020 and 31 December 2019 are as follows:

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

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 ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by Public Oversight Accounting and Auditing Standards Authority "POAASA" and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA") and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdictions. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of presentation in accordance with IFRS. The accompanying consolidated financial statements were authorized for issue by the Bank management on 1 October 2021.

2.2 The new standards, amendments and interpretations:

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2020 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 2021. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2021 are as follows:

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to provide temporary reliefs which address the financial reporting effects when an interbank offering rate (IBOR) is replaced with an alternative nearly risk-free rate (RFR, amending the followings:

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Under this practical expedient, if the interest rates applicable to financial instruments change as a result of the IBOR reform, the situation is not considered as a derecognition or contract modification; instead, this would be determined by recalculating the carrying amount of the financial instrument using the original effective interest rate to discount the revised contractual cash flows. The practical expedient is required for entities applying IFRS 4 Insurance Contracts that are using the exemption from IFRS 9 Financial Instruments (and, therefore, apply IAS 39 Financial Instruments: Classification and Measurement) and for IFRS 16 Leases, to lease modifications required by IBOR reform.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

i) The new standards, amendments and interpretations which are effective as at 1 January 2021 (cont'd)

Relief from discontinuing hedging relationships

- The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR.
- For the IAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero.
  The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued.
- As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform.

Separately identifiable risk components

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Additional disclosures

Amendments need additional IFRS 7 Financial Instruments disclosures such as; How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform, quantitative information about financial instruments that have yet to transition to RFRs and if IBOR reform has given rise to changes in the entity's risk management strategy, a description of these changes. The amendments are mandatory, with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

The amendments did not have a significant impact on the financial position or performance of the Group.

Amendments to IFRS 16 - Covid-19-Related Rent Concessions and Covid-19-Related Rent Concessions beyond 30 June 2021

In May 2020, the IASB amended IFRS 16 to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic (2020 amendment). The 2020 amendment does not apply to lessors. In March 2021, the Board amended IFRS 16 to extend the availability of the practical expedient by one year (2021 amendment). The practical expedient in the 2021 amendment applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

The amendments did not have a significant impact on the financial position or performance of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

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

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

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

Amendments to IFRS 3 – Reference to the Conceptual Framework

In May 2020, the IASB issued amendments to IFRS 3 Business combinations. The amendments are intended to replace to a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing requirements of IFRS 3. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments issued to IFRS 3 which are effective for periods beginning on or after 1 January 2022 and must be applied retrospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS standards (March 2018).

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Amendments to IAS 16 – Proceeds before intended use

In May 2020, the IASB issued amendments to IAS 16 Property, plant and equipment. The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and costs of producing those items, in profit or loss. The amendments issued to IAS 16 which are effective for periods beginning on or after 1 January 2022. Amendments must be applied prospectively only to items of PP&E made available for use on or after beginning of the earliest period presented when the entity first applies the amendment.

There is no transition relief for the first time adopters. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

ii) Standards issued but not yet effective and not early adopted (cont'd)

Amendments to IAS 37 – Onerous contracts – Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent assets. . The amendments issued to IAS 37 which are effective for periods beginning on or after 1 January 2022, to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making and also apply a "directly related cost approach". Amendments must be applied retrospectively to contracts for which an entity has not fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023; early application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

23 January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2023, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Amendments to IAS 8 - Definition of Accounting Estimates

In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of accounting estimates. The amendments issued to IAS 8 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the Board.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

ii) Standards issued but not yet effective and not early adopted (cont'd)

Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies

In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments issued to IAS 1 are effective for annual periods beginning on or after 1 January 2023. In the absence of a definition of the term 'significant' in IFRS, the Board decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in IFRS and is widely understood by the users of financial statements, according to the Board. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments issued to IAS 12 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense).

This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

ii) Standards issued but not yet effective and not early adopted (cont'd)

Annual Improvements – 2018–2020 Cycle

In May 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020 Cycle, amending the followings:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter: The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported by the parent. The amendment is also applied to an associate or joint venture.
- IFRS 9 Financial Instruments – Fees in the "10 per cent test" for derecognition of financial liabilities: The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either borrower or lender on the other's behalf.
- IAS 41 Agriculture – Taxation in fair value measurements: The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring fair value of assets within the scope of IAS 41.

Improvements are effective for annual reporting periods beginning on or after 1 January 2022.Earlier application is permitted for all.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

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. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.4 Use of estimates and judgements:

In preparing these consolidated financial statements, the Bank management has made judgements, estimates and assumptions that affect the application of the Group's 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 estimates are recognised prospectively.

The COVID-19 epidemic, which has recently emerged in China, has spread to various countries around the world, causing potentially fatal respiratory infections, affects both regional and global economic conditions negatively, as well as causing malfunctions in operations, especially in countries exposed to the epidemic. As a result of the spread of COVID-19 around the world, various measures have been taken in our country as well as in the world in order to prevent the transmission of the virus and it is still being taken. In addition to these measures, economic measures are also taken to minimize the economic impact of the virus outbreak on individuals and businesses in our country and worldwide.

While preparing the year end financial statements as of December 31, 2020, the Bank reflected the possible effects of the COVID-19 outbreak on the significant estimates and judgments used in the preparation of the financial statements. The estimates and assumptions used in the calculation of expected loan losses are explained in the statements on impairment of financial assets. Assessments regarding to possible effects of the COVID-19 outbreak through the measurement of expected credit losses as at December 31, 2020 financial statements are explained in the Note 2.8.

Assumptions and estimation uncertainties

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is set out below. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment as at December 31, 2020 is set out below in relation to the impairment of financial instruments and in the following notes:

- Determining fair values of financial instruments
- Recognition of deferred tax assets
- Loans, lease receivables and advances to customers (IFRS 9 Impairment)
- Recognition and measurement of provisions
- Measurement of defined benefit obligations: key actuarial assumptions

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. 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. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 2020 and 2019 foreign currency assets and liabilities of the Group are mainly in USD and Euro. As of 31 December 2020 and 2019 exchange rates of USD and Euro are as follows:

	2020	2019
1 USD	7.3405	5.9402
1 Euro	9.0079	6.6506

Average rates for the last thirty dates are as follows:

	2020	2019
1 USD	7.7329	5.8404
1 Euro	9.4004	6.4853

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets (cont'd)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets (cont'd)

Classification and measurement of financial instruments **(cont'd)**

Financial assets measured at fair value through other comprehensive income (cont'd)

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. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets (cont'd)

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 1 January 2018, 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. Three scenarios are used in forward-looking expectations: base, negative and extremely negative. Final provisions are calculated by weighting on the probabilities given to the scenarios. Within the scope of the expected loss provision impacts of COVID-19, the weight of the base scenario from 3 scenarios was decreased and the weight of the negative and excessively negative scenario was increased. In addition to changes in macroeconomic adjustments, the Group assessed its individual assessment in the calculation of expected credit losses and updated the estimated cash flows by moving cash inflows forward. Expected credit losses will be reviewed in the upcoming reporting periods by considering the impact of the pandemic, portfolio and future expectations.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets (cont'd)

Expected credit losses (cont'd)

***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.

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 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 2020 and 2019.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.14 Leases:

Assets acquired under finance lease agreements are capitalised at the inception of the lease at the "lower of the fair value of the leased asset or the present value of the amount of cash consideration given for the leased asset". Leased assets are included in the property and equipment and depreciation is charged on a straight-line basis over the useful life of these assets. If there is any diminution in value of the leased asset, a "Provision for value decrease" is recognised. Liabilities arising from the leasing transactions are included in "Financial Lease Payables" on the balance sheet. Interest and foreign exchange expenses regarding lease transactions are charged to the income statement. The Group can engage in financial lease transactions as the lessor. The Group records the gross amount of minimum lease receivables comprising of principal and interest amounts as "financial lease receivables" under lease receivables account. The difference between the aggregate of lease receivables and the cost of the related leased assets, corresponding to interest, is recorded under "unearned income" item. The interest income is recognised in the income statement on an accrual basis. Effective from 1 January 2019, The Group adopted IFRS 16 Leases and started to present most leases on-balance sheet except its short term leases and its low value assets.

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. Amortisation methods, useful lives and residual values are reassessed at the each financial periodended and adjusted if appropriate.

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:

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.20 Employee benefits:

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Group arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. Employment termination benefit is not a funded liability and there is no requirement to fund it. Employment termination benefit is calculated based on the estimation of the present value of the employee's probable future liability arising from the retirement. IAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the bank's obligation under defined employee plans. IAS 19 ("Employee Benefits") has been revised effective from the annual period beginning after January 1, 2013. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognised in other comprehensive income.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The Group does not have any internally set defined contribution plan.

2.21 Taxation and deferred income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in profit or loss and other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted on the balance sheet date, and any adjustment to tax payable in respect of prior years. The corporate tax rate in Turkey is 20%. However, in accordance with the provisional article 10 added to the Corporate Tax Law, the corporate tax rate of 20% corresponds to the corporate earnings of the corporation's taxation periods of 2018, 2019 and 2020 (accounting periods for the institutions for which special account turnover has been set) 22%.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Since the applicable tax rate has been changed 1, 2018, the tax rate of 22%, valid for 3 years, will be applied as 20% from January 1, 2021. December 31, 2020 deferred tax rate of 20% (December 31, 2019: 22% tax rate for temporary differences expected to occur / close in 2020 and 20% tax rate for corporate tax rate after 2020) was used for the calculation of deferred tax as of December 31, 2020.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.22 Segment reporting:

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Board of Directors include items directly attributable to that segment as well as those that can be allocated on a reasonable basis. The Group has restated previous term statement of cash flow, relating segment reporting in order to provide comparativeness to the statements of current term financial statements.

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.

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.

	2020	**2019**
Profit attributable to equity holders of the Bank	384	986
Weighted average number of ordinary shares in issue (thousand)	175,000	175,000
Basic earnings and diluted per thousand share (expressed in full TL)	**0.002**	**0.0056**

The Bank does not have any diluted shares.

2.25 Offsetting, derecognition and restructuring of financial instruments

Offsetting of financial instruments

Financial assets and liabilities are offset when the Bank has a legally enforceable right to set off, and when the Bank has the intention of collecting or paying the net amount of related assets and liabilities or when the Bank has the right to offset the assets and liabilities simultaneously. Otherwise, there is not any offsetting transaction about financial assets and liabilities.

Derecognition of financial instruments

Derecognition of financial assets due to change in contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.25 Offsetting, derecognition and restructuring of financial instruments (cont'd)

Derecognition of financial assets due to change in contractual terms (cont'd)

When the Bank assesses the characteristics of the new contractual terms of the financial asset, it evaluates the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognized a modification gain or loss in profit or loss.

Where all risks and rewards of ownership of the asset have not been transferred to another party and the Bank retains control of the asset, the Bank continues to recognize the remaining portion of the asset and liabilities arising from such asset. When the Bank retains substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognized in its entirety and the consideration received is recognized as a liability.

Derecognition of financial assets without any change in contractual terms

The asset is derecognized if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party. Except for equity instruments measured at fair value through other comprehensive income, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognized in profit/loss.

Derecognition of financial liabilities

It shall be removed a financial liability (or a part of a financial liability) from the statement of financial position when, and only when, it is extinguished when the obligation specified in the contract is discharged or cancelled or expires.

Reclassification of financial instruments

Based on IFRS 9, the Bank shall reclassify all affected financial assets at amortized cost to financial assets measured at fair value through other comprehensive income and fair value through profit or loss in the subsequent accounting when, and only when, it changes its business model for managing financial assets.

Restructuring and refinancing of financial instruments

The Parent Bank may change the original contractual terms of a loan (maturity, repayment structure, guarantees and sureties) which were previously signed, in case the loan cannot be repaid or if a potential payment difficulty is encountered based on the new financing power and structure of the borrower.

Restructuring is to change the financial terms of existing loans in order to facilitate the payment of debt. Refinancing is granting a new loan by the Parent Bank which will cover either the principal or the interest payment in whole or in part of one or a few existing loans due to the anticipated financial difficulty which the customer or group encounter currently or will encounter in the future. Changes in the original terms of a credit risk can be made in the current contract or through a new contract.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.25 Offsetting, derecognition and restructuring of financial instruments (cont'd)

Restructuring and refinancing of financial instruments (cont'd)

Resturected Loans can be classified in standart loans unless the firm has difficulty in payment. Companies which have been restructured and refinanced can be removed from the watchlist when the following conditions are met:

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

- At least 2 years should pass over the date of restructuring (or if it is later), the date of removal from non-performing loan category, at least 10% (or the ratio specified in the legislation) of the total principal amount at the time restructuring /refinancing shall be paid and no overdue amount (principal and interest) shall remain at the date of restructuring / refinancing.

In order for the restructured non-performing loans to be classified to the watchlist category, the following conditions must be met:

- Recovery in debt service.

- At least one year should pass over the date of restructuring

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

- Collection of all overdue amounts, disappearance of the reasons for classification as nonperforming receivable (based on the conditions mentioned above) and having no overdue more than 30 days as of the date of reclassification.

During the follow-up period of at least two years following the date of restructuring / refinancing, if there is a new restructuring / refinancing or a delay of more than 30 days, the transactions which were non-performing at the beginning of the follow-up period are classified as non-performing loans again.

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

2.26 Comparative information and restate of prior year's financial statemens

To allow the determination of financial status and performance trends, the Group's consolidated financial statements have been prepared in comparison with the previous period. The Group has prepared the consolidated statement of financial position as of 31 December 2020, the consolidated statement of financial position according to the use of 31 December 2019 and the 1 January – 31 December 2020 tables in comparison with the accounting period of 1 January – 31 December 2019.

Restatements of consolidated statement of financial position as of 31 December 2019:

	Previously Reported	**Restated**		
	31 December 2019	**31 December 2019**	**Effect of restatement**	**Note**
ASSETS				
Money market placements	73,237	23,042	(50,195)	A
TOTAL ASSETS	**73,237**	**23,042**	**(50,195)**	
LIABILITIES				
Obligations under repurchase agreements and money market funding	90,593	40,398	(50,195)	A
TOTAL LIABILITIES	**90,593**	**40,398**	**(50,195)**	

Note A: As of 31 December 2019, client money amounting to 50,195 TL in "Money market placements" and "Money market placements and Obligations under repurchase agreements and money market funding" accounts is derecognized from financial statements according to TFRS 9 Financial Assets.

In addition to above**,** the Group has restated the prior period cash flow statement in order to comply with the presentation of the current period consolidated financial statements.

2.27 Events after the reporting period:

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

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

4. SEGMENT REPORTING

Business segments

2020	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Net interest income	23,168	17,749	3,342	4,165	48,424
Net fee and commission income	1,610	6,263	15,288	357	23,518
Foreign exchange gains / (losses), net	-	-	44	7,834	7,878
Derivative trading income / (loss), net	-	-	260	(5,356)	(5,096)
Securities trading income / (loss), net	-	-	4,964	4,101	9,065
Other operating income	2,293	1,257	80	3,987	7,617
Net impairment losses on loans and credit related commitments	(4,944)	(6,840)	-	(156)	(11,940)
Other operating expenses	(14,625)	(3,478)	(17,300)	(44,170)	(79,573)
Profit / (Loss) before income tax	**7,502**	**14,951**	**6,678**	**(29,238)**	**(107)**
Tax income/(expense)	**-**	**-**	**-**	**491**	**491**
Net profit / (Loss)	**7,502**	**14,951**	**6,678**	**(28,747)**	**384**

Balance Sheet	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Total assets	**330,004**	**574,617**	**-**	**932,896**	**1,837,517**
Liabilities	805,216	97,201	-	719,493	1,621,910
Equity	-	-	-	215,607	215,607
Total liabilities and equity	**805,216**	**97,201**	**-**	**935,100**	**1,837,517**

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
Derivative trading income / (loss), net	-	-	238	1,605	1,843
Securities trading income / (loss), 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**
Tax income/(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**

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

5. CASH AND CASH EQUIVALENTS

	2020	2019
Cash on hand	25,727	15,298
Demand deposit with the Central Bank of Turkey	78,371	45,457
Total	**104,098**	**60,755**

a) Balances with the Central Bank

	2020	2019
Demand deposits – Turkish Lira	8,557	10,946
Demand deposits – Foreign Currency	69,814	34,511
Total	**78,371**	**45,457**

b) Reserve deposits at the Central Bank

	2020	2019
Reserves – Foreign Currency (Note 14)	93,796	122,405
Total	**93,796**	**122,405**

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 2020, reserve deposit ratios for Turkish Lira and foreign currency deposits are 1%-6% and 5%-21% (31 December 2019: 1%-7% and 5%-21%).

Cash and cash equivalents at the end of the period:

	2020	2019
Cash	**220,070**	**84,475**
Cash in TL / Foreign currency	25,727	15,298
CBRT	78,371	45,457
Loans and advances to banks	115,972	23,720
Cash equivalents	**244,363**	**87,800**
Interbank money market	85,311	23,232
Loans and advances to banks (Up to 3 month)	159,052	64,568
Total cash and cash equivalents	**464,433**	**172,275**

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

6. LOANS AND ADVANCES TO BANKS

	2020	2019
Domestic Banks		
Demand deposits – Turkish Lira	6,874	5,193
Demand deposits – Foreign currency	16,015	25,484
Time deposits – Turkish Lira	22,000	4,000
Time deposits – Foreign currency	115,771	-
Total	**160,660**	**34,677**
Foreign Banks		
Demand deposits – Foreign currency	114,521	53,787
Total	**114,521**	**53,787**
Expected credit losses	**(245)**	**(176)**
Grand Total	**274,936**	**88,288**

The credit quality analysis of loans and advances to banks as of 31 December 2020 is as follows:

	31 December 2020		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	275,181	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(245)	-	-
Total carrying amount	**274,936**	**-**	**-**

The movement of loss allowance per asset class for loans and advances to banks as of 31 December 2020 as follows:

	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2020	**(176)**	**-**	**-**	**(176)**
Provision for the period	(69)	-	-	(69)
Recoveries and reversals	-	-	-	-
Write-offs	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Balances at the end of the period	**(245)**			**(245)**

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 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	-	-	-
Loss allowance	(176)	-	-
Total carrying amount	**88,288**	**-**	**-**

The movement of loss allowance 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.

7. MONEY MARKET PLACEMENTS

	2020	2019
Interbank placements	85,311	23,232
Expected credit losses	(105)	(190)
Total	**85,206**	**23,042**

The credit quality analysis of money market placements as of 31 December 2020 is as follows:

	31 December 2020		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	85,311	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(105)	-	-
Total carrying amount	**85,206**	**-**	**-**

The movement of loss allowance per asset class for money market placements as of 31 December 2020 as follows:

	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2020	**(190)**	**-**	**-**	**(190)**
Provision for the period	-	-	-	-
Recoveries and reversals	85	-	-	85
Write-offs	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Balances at the end of the period	**(105)**	**-**	**-**	**(105)**

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 2019 is as follows:

	31 December 2019		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	23,232	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(190)	-	-
Total carrying amount	**23,042**	**-**	**-**

The movement of loss allowance 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.

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

	2020	2019
Financial assets at fair value through profit or loss	9,702	2,261
	9,702	**2,261**

Financial assets at fair value through profit or loss

	2020	2019
Equity investments	7,830	-
Private Sector Bonds	1,872	2,261
Total	**9,702**	**2,261**

9 INVESTMENT SECURITIES

	2020	2019
Investment securities measured at FVOCI – debt investments	18,633	45,845
Investment securities measured at FVOCI – equity investments	1,517	3,651
Total	**20,150**	**49,496**

Investment securities measured at FVOCI – debt investments

	2020	2019
Equity investments	1,517	6,957
Government bonds and treasury bills	18,582	28,966
Private sector bonds	51	13,573
Debt investment measured at FVOCI	**20,150**	**49,496**

The funds collected from those repo transactions were TL 3,267 (31 December 2019: TL 16,987) 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 2020 and 31 December 2019 are as follows:

	31 December 2020		**31 December 2019**	
	Nominal Value	**Carrying Value**	**Nominal Value**	**Carrying Value**
Government bonds and treasury bills	18,088	18,633	46,238	45,845

In the current year, addition to financial assets measured at fair value through other comprehensive income is amounting to TL 40,149 and disposals is amounting to TL 18,633.

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	**2020**		**2019**	
	TL	**FC**	**TL**	**FC**
Forward transactions	17	2	85	8,571
Swap transactions	309	596	411	73
Options	198	32	-	-
Total	**524**	**630**	**496**	**8,644**

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

	2020							
	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	**19**	**43**	**21,114**	**-**	**-**	**-**	**-**	**21,114**
Purchases	-	-	*10,536*	-	-	-	-	*10,536*
Sales	-	-	*10,578*	-	-	-	-	*10,578*
Currency swap	**905**	**2,868**	**261,897**	**30,879**	**-**	**-**	**-**	**292,776**
Purchases	-	-	*130,408*	*14,682*	-	-	-	*145,090*
Sales	-	-	*131,489*	*16,197*	-	-	-	*147,686*
Options	**230**	**183**	**13,116**	**-**	**-**	**-**	**-**	**13,116**
Purchases	-	-	*6,558*	-	-	-	-	*6,558*
Sale	-	-	*6,558*	-	-	-	-	*6,558*
Total	**1,154**	**3,094**	**296,127**	**30,879**	**-**	**-**	**-**	**327,006**

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

10. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

	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*
Interest rate swap	-	-	-	-	-	-	-	-
Purchases	-	-	-	-	-	-	-	-
Sale	-	-	-	-	-	-	-	-
Total	**9,140**	**10,061**	**347,872**	**544**	**-**	**-**	**-**	**348,416**

11. LOANS AND ADVANCES TO CUSTOMERS

	2020	**2019**
Corporate loans	628,450	155,464
Small and medium enterprise loans	392,696	392,225
Consumer loans	5,142	7,540
Credit card receivables	1,142	1,612
Other	5,230	541,885
Subtotal	**1,032,660**	**1,098,726**
Stage 1 expected credit losses	(1,001)	(756)
Stage 2 expected credit losses	(2,998)	(1,526)
Stage 3 expected credit losses	(52,876)	(42,782)
Total	**975,785**	**1,053,662**

As of 31 December 2020, loans under the scope of restructuring are amounting to TL 404. (31 December 2019: TL 253)

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

31 December 2020	**EUR %**	**USD %**	**TRY %**
Loans and advances to customers	5.99	6.39	18.31

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

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

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

31 December 2020	Corporate	SME	Consumer	Other	Total
Neither past due not impaired	559,454	289,943	2,163	6,372	857,932
Past due not impaired	31,650	15,625	2,420	-	49,695
Individually impaired	37,346	87,128	559	-	125,033
Total gross	**628,450**	**392,696**	**5,142**	**6,372**	**1,032,660**
12 months ECL (stage 1)	250	686	12	53	1,001
Lifetime ECL significant increase in credit risk (stage 2)	349	2,391	258	-	2,998
Lifetime ECL impaired credits (stage 3)	17,066	35,254	556	-	52,876
Total expected credit loss	**17,665**	**38,331**	**826**	**53**	**56,875**
Total loans (net)	**610,785**	**354,365**	**4,316**	**6,319**	**975,785**

31 December 2019	Corporate	SME	Consumer	Other	Total
Neither past due not impaired	630,396	353,509	5,311	4,455	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	**652,722**	**392,225**	**9,152**	**44,627**	**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)	**650,375**	**351,572**	**9,054**	**42,661**	**1,053,662**

The credit quality analysis of loans and advances to customers as of 31 December 2020 is as follows:

	31 December 2020		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	857,932	-	-
Stage 2: Watch list	-	49,697	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	125,033
Loss allowance	(1,001)	(2,998)	(52,876)
Total carrying amount	**856,931**	**46,699**	**72,157**

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

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

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

Movement in expected credit losses for loans are as follows:

	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2020	**(756)**	**(1,526)**	**(42,782)**	**(45,064)**
Provision for the period	(245)	(1,864)	(10,589)	(12,698)
Recoveries and reversals	-	-	495	495
Write-offs	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	392	-	392
Balances at the end of the period	**(1,001)**	**(2,998)**	**(52,876)**	**(56,875)**

The total value of collaterals that the Group held for impaired loans as at 31 December 2020 was TL 36,377 (31 December 2019: TL 38,693). The total value of collaterals that the Group held for loans that are not impaired as at 31 December 2020 was TL 217,912 (31 December 2019: TL 254,818).

	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2019	**(1,642)**	**(3,931)**	**(44,392)**	**(49,965)**
Provision for the period	(823)	(875)	(1,610)	(3,308)
Recoveries and reversals	-	-	-	-
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)**

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 2020	21,482	-	18,990	28,463	7,880	76,815
Additions	-	-	4,624	2,832	331	7,787
Disposals (-)	1,979	-	-	-	-	1,979
Closing balance, 31 December 2020	**19,503**	**-**	**23,614**	**31,295**	**8,211**	**82,623**
Accumulated depreciation						
Opening balance, 1 January 2020	8,326	-	12,797	11,588	3,951	36,662
Charge for the year	574	-	1,939	10,479	2,443	15,435
Disposals (-)	26	-	-	-	-	26
Closing balance, 31 December 2020	**8,874**	**-**	**14,736**	**22,067**	**6,394**	**52,071**
Net carrying amount as of 31 December 2020	**10,629**	**-**	**8,878**	**9,228**	**1,817**	**30,552**
Net carrying amount as of 1 January 2020	**13,156**	**-**	**6,193**	**16,875**	**3,929**	**40,153**

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	Right of use asset	Leasehold improvements	Total
Acquisition cost						
Opening balance, 1 January 2019	19,762	-	11,574	-	7,895	39,231
Additions	2,080	40	7,858	28,463	-	38,441
Disposals (-)	360	40	442	-	15	857
Closing balance, 31 December 2019	**21,482**	**-**	**18,990**	**28,463**	**7,880**	**76,815**
Accumulated depreciation						
Opening balance, 1 January 2019	7,742	-	9,467	-	3,943	21,152
Charge for the year	598	-	3,791	11,588	8	15,985
Disposals (-)	14	-	461	-	-	475
Closing balance, 31 December 2019	**8,326**	**-**	**12,797**	**11,588**	**3,951**	**36,662**
Net carrying amount as of 31 December 2019	**13,156**	**-**	**6,193**	**16,875**	**3,163**	**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.

13. INTANGIBLE ASSETS

	Software	**Total**
Acquisition cost		
Opening balance, 1 January 2020	17,933	17,933
Additions	3,384	3,384
Disposals	-	-
Closing balance, 31 December 2020	**21,317**	**21,317**
Accumulated amortization		
Opening balance, 1 January 2020	12,916	12,916
Charge for the year	2,033	2,033
Disposals	-	-
Closing balance, 31 December 2020	**14,949**	**14,949**
Net carrying amount as of, 31 December 2020	**6,368**	**6,368**
Net carrying amount as of 1 January 2020	**5,017**	**5,017**

	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**

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

As at 31 December 2020, the Group has no intangible asset that has been generated internally (2019: None).

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

14. OTHER ASSETS

	2020	**2019**
Restricted amounts held with Central Bank (Note 5)	93,796	122,405
Clearance account	12,037	19,880
Cash collaterals given	6,344	3,263
Cash advances given	201	387
Expected credit loss	(109)	(74)
Other	14,361	11,621
Total	**126,630**	**157,482**

The credit quality analysis of other assets as of 31 December 2020 is as follows:

	31 December 2020		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	126,739	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(109)	-	-
Total carrying amount	**126,630**	**-**	**-**

The movement of loss allowances per asset class for other assets as of 31 December 2020 is as follows:

	31 December 2020		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 1 January 2019	**(74)**	**-**	**-**
Provision for the period	(35)	-	-
Recoveries and reversals	-	-	-
Write-offs	-	-	-
Transfer to stage 1	-	-	-
Transfer to stage 2	-	-	-
Transfer to stage 3	-	-	-
Balances at the end of the period	**(109)**	**-**	**-**

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 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	-	-	-
Loss allowance	(74)	-	-
Total carrying amount	**157,482**	**-**	**-**

The movement of loss allowances 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.

15. DEPOSITS

31 December 2020	**Time**	**Demand**	**Total**
TL Deposit	**434,617**	**18,578**	**453,195**
Savings deposits	198,069	16,633	214,702
Commercial deposits	74,079	1,551	75,630
Deposit from banks	162,469	394	162,863
Foreign banks	*86,957*	*255*	*87,212*
Domestic banks	*75,512*	*139*	*75,651*
FC deposits	**590,709**	**137,809**	**728,518**
Savings deposits	331,590	64,426	396,016
Commercial deposits	125,515	70,936	196,451
Deposit from banks	133,604	2,447	136,051
Foreign banks	*133,604*	*2,442*	*136,046*
Domestic banks	-	*5*	*5*
Total	**1,025,326**	**156,387**	**1,181,713**

Average interest rate for the customer deposits is 15.93% per annum for Turkish Lira deposits. For foreign currency deposits the average interest rate is 1.51% for USD deposits and 0.94% for Euro deposits (31 December 2019: 9.96% for Turkish Lira deposits, 1.81% for USD deposits and 0.61% for Euro 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*
Total	**889,172**	**127,303**	**1,016,475**

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

16. OBLIGATIONS UNDER REPURCHASE AGREEMENTS AND MONEY MARKET FUNDING

	2020	**2019**
Money market borrowings	22,761	15,202
Obligations under reverse repurchase agreements	-	25,196
Total	**22,761**	**40,398**

17. FUNDS BORROWED

	2020	**2019**
Borrowings from banks located abroad:		
Unsecured foreign banks – TL short-term	-	13,964
Unsecured foreign banks – FC short-term	135,399	95,445
Total	**135,399**	**109,409**
Borrowings from domestic banks:		
Unsecured borrowings from local banks – TL short term	5,826	12,767
Unsecured borrowings from local banks – FC short term	5,892	-
Total	**11,718**	**12,767**
Grand Total	**147,117**	**122,176**

Average interest rate for the funds borrowed is 15.14% per annum for Turkish Lira funds borrowed. For foreign currency funds borrowed the average interest rate is 0.50% for USD borrowings and 1.28% for Euro borrowings (31 December 2019: 11.09% for Turkish Lira funds borrowed, 3.44% for USD borrowings and 1.06% for Euro borrowings).

18. DEBT SECURITIES ISSUED

	Simple Interest Rate %	**Compound Interest Rate %**	**Maturity Date**	**2020**
TL 11 million couponed bond	9.50	9.92	22 January 2021	7,505
TL 10 million discounted bond	16.60	17.75	19 February 2021	9,566
TL 2 million couponed bond	12.00	12.68	23 February 2021	2,204
Total				**19,275**

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

18. DEBT SECURITIES ISSUED (cont'd)

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

19. TAXATION

Corporate and Deferred Tax

The income tax charge is composed of the sum of current tax and deferred tax. The current tax liability is calculated over 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 and it further excludes items that are never taxable or deductible. 20% is used in the calculation of the corporation tax. In accordance with the Provisional Article 10 added to the Corporate Tax Act, 20% of the Corporate Tax will be applied as 22% for corporate earnings for the tax years 2018, 2019 and 2020.

Deferred tax is calculated over the tax rates that are valid for the period in which the assets are incurred or the liabilities are fulfilled or close to the date of enactment and recorded as income or expense in the income statement. However, deferred tax is recognized directly in equity if the tax asset relates directly to equity in the same or different period. The corporation tax which is taken over the corporation earnings by being changed in the Law No. 7061 of the Law No. 91 of the Law and the Law of the Corporation Tax which is published in the Official Gazette dated 5 December 2017 and numbered 30261 and is applied to the profits of the corporations for the taxation periods of 2018, 2019 and 2020 from 20% to 22%.

Since the applicable tax rate has been changed 1, 2018, the tax rate of 22%, valid for 3 years. December 31, 2020 deferred tax rate of 20% (December 31, 2019: 22% tax rate for temporary differences expected to occur / close in 2020 and 20% tax rate for corporate tax rate after 2020) was used for the calculation of deferred tax as of December 31, 2020.

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% (2019: 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

	2020	**2019**
Corporate tax liability	9,107	3,940
Prepaid tax	(4,803)	(264)
Current Tax Liability	**4,304**	**3,676**

Income Statement

	2020	**2019**
Current income tax charge	(1,660)	(799)
Deferred tax income/(expense)	2,151	535
Tax expense	**491**	**(264)**

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 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Expected credit losses	2,603	292	-	-	2,603	292
Employee benefits	1,491	1,412	-	-	1,491	1,412
Carry forward tax profit or losses (*)	573	660	-	-	573	660
Property and equipment	-	-	(762)	(1,200)	(762)	(1,200)
Court case provision	-	-	-	-	-	-
Valuation differences on investment securities	-	462	(301)	(169)	(301)	293
Subtotal	**4,667**	**2,826**	**(1,063)**	**(1,369)**	**3,604**	**1,457**
Net off	**-**	**-**	**-**	**-**	**-**	**-**
Total	**4,667**	**2,826**	**(1,063)**	**(1,369)**	**3,604**	**1,457**

(*) Includes tax asset amounts to TL 573 calculated from net financial losses (December 31, 2019: TL 660). Since the Parent Bank has projections on that it will acquire adequate taxable income to deduct these amounts in the coming periods, it has recognized TL 573 as deferred tax asset.

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

	31 December 2020	31 December 2019
Deferred tax assets, net at 1 January	**1,457**	**1,560**
Deferred tax recognized in the profit or loss	2,151	535
Deferred tax recognized in other comprehensive income	(4)	(638)
Deferred tax assets, net at 31 December	**3,604**	**1,457**

20. EMPLOYEE BENEFITS AND OTHER PROVISIONS

	31 December 2020	31 December 2019
Provisions for the court cases	3,024	2,578
Provision for severance indemnity	2,918	2,844
Vacation pay liability	688	461
Other short-term employee benefits	-	89
Other	845	563
Total provisions	**7,475**	**6,535**

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 7,117.17 (31 December 2019: full TL 6,379.86) for each period of service at 31 December 2020.

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 2020, 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 7.00% discount rate of 11.5% and real discount rate of approximately 4.21% (31 December 2019: an annual inflation rate of 9.50% discount rate of 14% and real discount rate of approximately 4.11%). Anticipated turnover rate is also included in the calculation.

The movement for the provision for the severance indemnity:

	2020	2019
Balance as at 1 January	**3,502**	**2,193**
Service cost	420	362
Interest cost	381	255
Actuarial gain/(losses)	(36)	422
Gain/(losses) due to payments / discharge	(1,349)	270
Balance as at 31 December	**2,918**	**3,502**

21. OTHER LIABILITIES

	2020	2019
Lease payables	12,524	23,211
Clearance account	12,037	27,126
Payables to card holders	8,186	3,263
Unearned income	124	1,217
Cash guarantees received	48	561
Other (*)	3,920	1,348
Total	**36,839**	**50,282**

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

22. EQUITY

Share capital:

	2020		2019	
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 Group's paid in capital consists of 17,500,000,000 shares having a unit nominal value of 0.01 (in full TL) (31 December 2019: TL 0.01; 17,5000,000,000 shares). There are no preferred stock as at 31 December 2020 (31 December 2019: 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

	2020	2019
Interest income from		
Loans and advances to customers	72,944	111,432
Financial assets measured at fair value through profit or loss	4,393	18,395
Loans and advances to banks	2,050	8,101
Money market transactions	3,732	3,279
Other interest income	961	3,498
Total interest income	**84,080**	**144,705**
Interest expense from		
Deposit from customers and banks	(23,789)	(70,424)
Issued debt securities	(2,854)	(5,297)
Other borrowed funds	(2,154)	(2,401)
Obligations under repurchase agreements and money market funding	(715)	(166)
Other interest expenses	(6,144)	(6,411)
Total interest expenses	**(35,656)**	**(84,699)**
Net interest income	**48,424**	**60,006**

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

24. NET FEE AND COMMISSION INCOME

	2020	2019
Fee and commission income on:		
Brokerage and custody income	17,226	13,926
General banking income	9,159	4,037
Electronic cards	354	1,295
Corporate finance	1,295	419
Other fees and commissions	314	2,154
Total fee and commission income	**28,348**	**21,831**
Fee and commission expense on:		
General banking expense	(894)	(1,627)
Electronic cards	(3,347)	(2,393)
Other	(589)	(545)
Total fee and commission expense	**(4,830)**	**(4,565)**
Net fee and commission income	**23,518**	**17,266**

25. NET TRADING INCOME

	2020	2019
Gains	**3,191,644**	**2,420,641**
Investment securities	9,369	4,792
Derivatives	24,751	58,378
Foreign exchange	3,157,524	2,357,471
Losses (-)	**3,179,797**	**2,412,733**
Investment securities	304	13
Derivatives	29,847	56,535
Foreign exchange	3,149,646	2,356,185
Total gains and losses, net		
Securities trading income / (loss), net	9,065	4,779
Derivative trading income / (loss), net	(5,096)	1,843
Foreign exchange gains / (loss), net	7,878	1,286
Total	**11,847**	**7,908**

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

26. OTHER OPERATING INCOME

	2020	2019
Equalization reserves	3,233	2,506
Income from the sale of assets	2,300	386
Reversal of provision previously recognized	495	2,919
Other	1,589	104
Total	**7,617**	**5,915**

27. OTHER OPERATING EXPENSES

	2020	2019
Wages and salaries	32,402	36,449
Depreciation and amortization	17,469	17,835
Professional fees	5,280	4,214
Taxes other than income	3,670	3,365
Communication expenses	2,347	2,155
Saving deposit insurance fund premium	1,182	1,209
Marketing and sales expenses	381	400
Repair and maintenance expenses	327	276
Retirement benefit costs	129	86
Rent expenses	-	7,527
Other (*)	16,386	6,463
Total	**79,573**	**79,979**

(*) Amount includes audit and consultancy fees amounting to TL 4,850 (31 December 2019: TL 3,784), and financial operating fees amounting to TL 2,279 (31 December: TL 1,985), BRSA participation fee amounting to TL 361 (31 December 2019: TL 318), IT expenses amounting to 1,983 (31 December: TL 1,606), litigation expenses amounting to TL 623 (31 December: TL 91) and other expenses amounting to TL 6,290 (31 December 2019: TL 1,321).

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:

	2020	2019
Letters of guarantee	509,444	500,481
Foreign currency	*50,102*	*55,968*
TL	*459,342*	*444,513*
Letters of credit	45	36
Derivative financial instruments *(Note 10)*	327,006	348,416
Other commitments	58,921	68,978
Total	**895,416**	**917,911**

The Bank has extended TL 297 of non-cash loans to related parties (31 December 2019: TL 297).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 1,852,922 TL at 31 December 2020 (31 December 2019: TL 2,578,580).

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

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:

	2020	**2019**
Statement of financial position:		
Deposits	**15,435**	**13,725**
Senior Management	4,167	7,263
Ownership	431	5,168
Sigortech Sigorta Aracılık Hiz. A.Ş.	181	140
Türk Bankası LTD.	661	698
Allied Turkish Bank IBU LTD.	707	436
Türk Sigorta LTD.	9,288	20
Other funds borrowed	**95,335**	**109,328**
Allied Turkish Bank IBU LTD.	85,541	96,338
Turk Bankası LTD	7,444	10,290
Turkish Bank (UK) LTD.	2,350	2,700

	2020	**2019**
Income Statement:		
Interest expense	**613**	**1,224**
Türk Bankası LTD.	370	679
Turkish Bank (UK) LTD.	243	545
Fee and commission income	**3,484**	**133**
Türk Bankası LTD.	3,423	133
Allied Turkish Bank IBU LTD.	39	-
Turkish Bank (UK) LTD.	22	-

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 1,743 (31 December 2019: TL 2,007).

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:

	2020	**2019**
Tier I capital	224,514	213,609
Tier II capital	4,644	2,546
Deductions	(15,403)	(4,258)
Total regulatory capital	**213,755**	**211,897**
Amount subject to credit risk	928,447	904,782
Amount subject to market risk	500	1,383
Amount subject to operational risk	169,009	148,804
Capital adequacy ratio (%)	**19.47**	**20.11**

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 has 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	**2020**	**2019**
	% In Total Loans	**% In Total Loans**
High grade	34.47	22.51
Standard grade	48.36	62.74
Sub-standard grade	7.01	4.82
Impaired	10.16	9.93
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 2020	Stage 1	Stage 2	Stage 3
Financial assets at fair value through profit or loss		**9,702**			
Debt and other instruments		*1,872*			
Equity and other non-fixed income instruments		*7,830*			
Loans and advances		-			
Non-trading financial assets mandatorily at fair value through profit or loss	**8**	-			
Loans and advances	8	-			
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		**20,150**	**20,150**	**-**	**-**
Debt and other instruments	9	*18,633*	*18,633*	-	-
Equity and other non-fixed income instruments		*1,517*	*1,517*	-	-
Financial assets at amortised cost		**1,032,660**	**857,932**	**49,697**	**125,033**
Loans and advances to customers	11	1,032,660	857,932	49,697	125,033
Debt and other instruments		-	-	-	-
Total financial assets risk		**1,052,810**	**1,052,810**	**49,697**	**125,033**

Total loan commitments and financial Guarantees		509,489
Total		**509,489**

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	-			
Debt and other instruments		*2,261*			
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	*42,539*	*42,539*	-	-
Equity and other non-fixed income instruments		*6,957*	6,957	-	-
Financial assets at amortised cost		**1,098,726**	**993,671**	**75,549**	**29,506**
Loans and advances to customers	11	1,098,726	993,671	75,549	29,506
Debt and other instruments		-	-	-	
Total financial assets risk		**1,148,228**	**1,148,222**	**75,549**	**29,506**
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)

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

	31 December 2020	
Sector		**(%)**
Financial institutions	449,684	49.54
Construction	132,637	14.61
Manufacturing industry	44,356	4.89
Wholesale and Retail Trade	38,179	4.21
Transportation and communication	27,708	3.05
Mining and quarrying	16,251	1.79
Hotel, Tourism, Food and Beverage Services	743	0.08
Other	198,069	21.83
Performing loans	**907,627**	**100.00**

Non-performing loans	
Total loans and advances to customer	125,033
Expected credit losses - Stage 1	(1,001)
Expected credit losses - Stage 2	(2,998)
Expected credit losses - Stage 3	(52,876)
Net loans and advances to customers	**975,785**

	31 December 2019	
Sector		**(%)**
Financial institutions	546,700	55.15
Construction	151,315	15.26
Wholesale and Retail Trade	53,016	5.35
Manufacturing industry	43,961	4.43
Transportation and communication	31,602	3.19
Hotel, Tourism, Food and Beverage Services	20,270	2.04
Mining and quarrying	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**

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:

	2020		2019	
Sector		**(%)**		**(%)**
Financial institutions	446,639	87.66	430,414	85.99
Manufacturing industry	-	-	-	-
Hotel, Tourism, Food and Beverage Services	57,758	11,34	65,366	13.06
Wholesale and Retail Trade	-	-	-	-
Construction	-	-	-	-
Agriculture	-	-	-	-
Other	5,092	1,00	4,737	0.95
Total	**509,489**	**100.00**	**500,517**	**100.00**

Credit quality per class of financial assets as of 31 December 2020 and 31 December 2019 are as follows:

2020	**Neither past due nor impaired**	**Past due or individually impaired**	**Total**
Loans (*)			
Corporate loans	559,204	51,581	610,785
Small business lending	289,257	65,108	354,365
Consumer loans	2,151	2,165	4,316
Other	6,319	-	6,319
Total	**856,931**	**118,854**	**975,785**

(*) Non performing loans and expected credit losses are included.

2019	**Neither past due nor impaired**	**Past due or individually impaired**	**Total**
Loans (*)			
Corporate loans	133,138	22,326	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**

(*) Non performing loans and expected credit losses are included.

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:

	2020	2019
Real-estate mortgage	9,136	9,555
Other	53,098	53,043
Total	**62,234**	**62,598**

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:

	2020		2019	
	TL+FC (%)	FC (%)	TL+FC (%)	TL+FC (%)
The lowest value	181.12	213.79	199.38	226.28
Applicable week	28.10.2020	28.10.2020	25.10.2019	29.11.2019
The highest value	488.30	607.27	289.57	343.86
Applicable week	02.10.2020	02.10.2020	01.11.2019	01.11.2019

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 2020	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	104,098	-	-	-	-	-	-	104,098
Loans and advances to banks	137,458	137,478	-	-	-	-	-	274,936
Money market placements	-	85,206	-	-	-	-	-	85,206
Financial assets measured at fair value through profit or loss	-	-	-	1,872	-	-	7,830	9,702
Derivative financial assets	-	1,154	-	-	-	-	-	1,154
Loans and advances to customer	-	62,342	519,358	109,916	213,298	-	70,871	975,785
Investment securities	-	5,641	13,570	939	-	-	-	20,150
Property and equipment (net)	-	-	-	-	-	-	30,552	30,552
Intangible assets (net)	-	-	-	-	-	-	6,368	6,368
Deferred tax asset (net)	-	-	-	-	-	-	3,604	3,604
Other assets	-	-		-			126,630	126,630
Total Assets	**241,556**	**291,821**	**532,928**	**112,727**	**213,298**	**-**	**245,855**	**1,638,185**
LIABILITIES								
Deposits	135,134	859,975	178,336	8,268	-	-	-	1,181,713
Obligations under repurchase agreements and money market funding	19,820	-	2,941	-	-	-	-	22,761
Funds borrowed	-	96,702	44,874	5,541	-	-	-	147,117
Derivative financial liabilities	-	1,846	1,029	-	-	-	219	3,094
Debt securities issued	-	7,472	-	-	11,803	-	-	19,275
Corporate tax liability	-	-	-	-	-	-	4,304	4,304
Other liabilities	-	1,846	1,029	-	-	-	257,046	259,921
Total liabilities	**154,954**	**967,841**	**228,209**	**13,809**	**11,803**	**-**	**261,569**	**1,638,185**
Net liquidity gap	**86,602**	**(676,020)**	**304,719**	**98,918**	**201,495**	**-**	**(15,714)**	**-**
As at 31 December 2019								
Total assets	225,883	129,462	663,742	123,817	158,108	47,401	142,340	1,490,753
Total liabilities	127,303	877,689	154,704	47,449	-	-	283,608	1,490,753
Net liquidity gap	**98,580**	**(748,227)**	**509,038**	**76,368**	**158,108**	**47,401**	**(141,268)**	**-**

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 2020	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	6,097	13,723	2,941	-	-	-	-	22,761
Deposits from banks	2,831	267,599	29,327	-	-	-	(843)	298,914
Deposit from customers	153,565	573,295	150,075	8,322	-	-	(2,458)	882,799
Other borrowed funds	-	96,713	45,040	5,615	-	-	(251)	147,117
Issued debt securities	-	7,452	12,000	-	-	-	(177)	19,275
Total	**162,493**	**958,782**	**239,383**	**13,937**	**-**	**-**	**(3,729)**	**1,370,866**

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	34,375	435	-	-	-	-	40,398
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**	**869,453**	**155,314**	**48,415**	**-**	**-**	**(2,686)**	**1,203,386**

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

31 December 2020	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Total
Options purchase	6,558	-	-	-	-	6,558
Options sale	6,558	-	-	-	-	6,558
Currency swap purchase	130,408	14,682	-	-	-	145,090
Currency swap sale	131,489	16,197	-	-	-	147,686
Forward exchange rate contracts purchase	10,536	-	-	-	-	10,536
Forward exchange rate contracts sale	10,578	-	-	-	-	10,578
Total	**296,127**	**30,879**	**-**	**-**	**-**	**327,006**

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**

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 2020	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	-	-	-	-	104,098	104,098
Balances with banks	137,593	-	-	-	137,343	274,936
Interbank money market placements	85,206	-	-	-	-	85,206
Financial assets at fair value through profit or loss (net)	-	-	1,872	-	7,830	9,702
Derivative financial asset	1,154	-	-	-	-	1,154
Loans and advances to customer	401,896	157,478	119,028	226,512	70,871	975,785
Investment securities (net)	-	17,643	990	-	1,517	20,150
Property and equipment (net)	-	-	-	-	30,552	30,552
Intangible assets (net)	-	-	-	-	6,368	6,368
Deferred tax asset (net)	-	-	-	-	3,604	3,604
Other assets	-	1,804	-	-	124,826	126,630
Total Assets	**625,849**	**176,925**	**121,890**	**226,512**	**487,009**	**1,638,185**
LIABILITIES						
Deposits	838,713	178,336	8,268	-	156,396	1,181,713
Obligations under repurchase agreements and money market funding	22,761	-	-	-	-	22,761
Other borrowed funds	96,702	44,874	5,541	-	-	147,117
Derivative financial liabilities	2,065	1,029	-	-	-	3,094
Issued debt securities	7,472	2,020	-	9,783	-	19,275
Other liabilities	-	-	-	-	264,225	264,225
Total liabilities	**967,713**	**226,259**	**13,809**	**9,783**	**420,621**	**1,638,185**
Net interest sensitivity gap	**(341,864)**	**(49,334)**	**108,081**	**216,729**	**66,388**	**-**
As at 31 December 2019						
Total assets	788,236	153,148	118,930	151,755	278,684	1,490,753
Total liabilities	869,011	154,704	47,449	-	419,589	1,490,753
Net interest sensitivity gap	**(80,775)**	**(1,556)**	**71,481**	**151,755**	**(140,905)**	**-**

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 2020			31 December 2019		
	EURO %	USD %	TL %	EURO %	USD %	TL %
Assets						
Cash and balances with the Central Bank of Turkey	-	-	12.00	-	-	-
Loans and advances to banks	0.03	0.18	-	0.01	-	-
Money market placements	-	-	17.15	-	-	10.60
Financial assets measured at fair value through other comprehensive income	-	-	11.63	-	-	15.62
Loans and advances to customer	5.99	6.39	18.31	5.31	7.44	13.41
Liabilities						
Deposits from banks	0.54	1.44	16.16	0.47	0.20	14.71
Deposits from customers	0.94	1.51	15.93	0.87	2.42	15.55
Obligations under repurchase agreements and money market funding	-	-	11.77	-	-	-
Other Borrowed funds	1.28	0.50	15.14	1.06	3.44	11.09

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 2020		31 December 2019	
Type of currency	**Shocks Applied (+ / - basis point)**	**Gains/ Losses**	**Gains/ Equity- Losses/ Equity**	**Gains/ Losses**	**Gains/ Equity- Losses/ Equity**
TL	(+) 500	(1,992)	(1.0%)	(2,620)	(1.3%)
TL	(-) 400	1,731	0.9%	2,307	1.1%
USD	(+) 200	(5,488)	(2.7%)	(3,964)	(2.0%)
USD	(-) 200	5,997	2.9%	4,435	2.2%
EUR	(+) 200	(7,025)	(3.5%)	(4,830)	(2.4%)
EUR	(-) 200	7,778	3.8%	5,509	2.7%
Total (for negative shocks)		**15,506**	**7.6%**	**12,251**	**6.0%**
Total (for positive shocks)		**(14,405)**	**(7.2%)**	**(11,414)**	**(5.7%)**

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 2020 and 31 December 2019. 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 2020	**EURO**	**USD**	**Other Foreign Currencies**	**Total**
ASSETS				
Cash and balances with the Central Bank of Turkey	95,034	78,303	14,478	187,815
Loans and advances to banks	121,374	61,371	63,562	246,307
Financial assets measured at fair value through other comprehensive income	7,830	-	-	7,830
Loans and advances to customer	191,020	184,773	20	375,813
Other assets	1,169	1,439	5	2,613
Total	**416,427**	**325,886**	**78,065**	**820,378**
LIABILITIES				
Deposits	247,744	350,673	130,105	728,522
Other borrowed funds	99,228	37,290	4,773	141,291
Other liabilities	1,374	2,111	1,752	5,237
Total	**348,346**	**390,074**	**136,630**	**875,050**
Net balance sheet position	**68,081**	**(63,558)**	**(58,565)**	**(54,042)**
Off-balance sheet position				
Net notional amount of derivatives	**(65,397)**	**69,785**	**56,416**	**60,804**
As at 31 December 2019				
Total assets	368,067	293,820	26,122	688,009
Total liabilities	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**

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 2020	31 December 2019	31 December 2020	31 December 2019
USD	10	Increase	623	1,499	-	-
USD	10	Decrease	(623)	(1,499)	-	-
EUR	10	Increase	268	385	-	-
EUR	10	Decrease	(268)	(385)	-	-

(*) 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 2017, 2018 and 2019, as of 31 December 2020. The total amount subject to operational risk is calculated as TL 169,009 (31 December 2019: TL 148,804).

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 2020 and 31 December 2019, fair values of financial assets and liabilities are as follows:

	Carrying value	Fair value
	31 December 2020	31 December 2020
Financial Assets (*)		
Financial assets at fair value through profit or loss	10,856	10,856
- Financial assets measured at fair value through profit or loss	9,702	9,702
- Derivative financial assets	1,154	1,154
Financial assets measured at fair value through other comprehensive income	20,150	20,150
Money market placements (***)	85,206	85,206
Loans and advances to customers (**)	930,820	930,046
Total	**1,057,888**	**1,057,114**
Financial Liabilities (*)		
Deposits from banks (***)	298,914	298,914
Deposit from customers (***)	882,799	882,799
Obligations under repurchase agreements and money market funding (***)	22,761	22,761
Other borrowed funds	147,117	147,020
Derivative financial liabilities	3,094	3,094
Issued debt securities	19,275	19,036
Total	**1,373,960**	**1,373,624**

(*) The recorded values in the table are expressed by adding the year-end rediscount amounts to the cost values.

(**) Net balance of non-performing loans are not included.

(***) Fair values of remaining financial assets and liabilities carried at cost, including money market placements, Obligations under repurchase agreements and money market funding, deposits from banks and deposit from customers are considered to approximate their respective carrying values due to their short-term nature.

	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
- Trading securities	2,261	2,261
- Derivative financial instruments	9,140	9,140
Financial assets measured at FVOCI	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 instruments	10,061	6,629
Issued debt securities	24,337	20,739
Total	**1,173,049**	**1,156,593**

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**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Financial Assets						
Financial assets at fair value through profit or loss	9,702	2,261	-	-	-	-
Financial assets measured at fair value through other comprehensive income	20,150	49,496	-	-	-	-
Derivative financial assets	-	-	1,154	9,140	-	-
Total	**29,852**	**51,757**	**1,154**	**9,140**	-	-
Financial Liabilities						
Derivative financial liabilities	-	-	3,094	10,061	-	-
Total	-	-	**3,094**	**10,061**	-	-

No securities were transferred from Level 1 to Level 2 of the fair value hierarchy in 2020.

31. EVENTS AFTER THE REPORTING PERIOD

In accordance with the law on the method of collection of public receivables and amendments in some laws, published in the Official Gazette No. 31462 dated April 22, 2021, the corporate tax rate for the corporate earnings of the 2021 taxation period is 25%, It has been decided to apply the corporate tax rate for the earnings as 23% for 2022.