Anadolubank Anonim Şirketi
And Its Subsidiaries

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

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Independent Auditor's Report

To the General Assembly of Anadolubank Anonim Şirketi,

Qualified Opinion

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

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

Basis for Qualified Opinion

The accompanying consolidated financial statements as at 31 December 2019 include a general reserve of TL 50,000 thousands which was recognized as an expense in prior periods, which does not meet the recognition criteria of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". This general provision is provided by the Bank Management for the possible effects of the negative circumstances which may arise in the economy or market conditions. Recognition of this general reserve constitutes a departure from IFRS.

Has this general reserve not been recognized, retained earnings would be increased by TL 50,000 thousands and other liabilities and provisions would be decreased by TL 50,000 thousands as at 31 December 2019.

We conducted our audit in accordance with International Standards on Auditing ("ISA"s). 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 ("IESBA Code") together with the ethical requirements that are relevant to our audit of the 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 qualified opinion.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.,
a Turkish corporation and a member firm of the KPMG network of independent
member firms affiliated with KPMG International Cooperative, a Swiss entity.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Impairment of loans and receivables measured at amortised cost

The details of accounting policies and significant estimates and assumptions for impairment of loans and receivables measured at amortised cost are presented in "Significant accounting policies" Note 3.8 to the consolidated financial statements.

Key audit matter	How the matter is addressed in our audit
As of 31 December 2019, loans and receivables measured at amortised cost comprise 69% of the Group's total assets. The Group recognizes its loans and receivables in accordance with the IFRS 9 Financial Instruments. The Group applies the "expected credit loss model" in determining the impairment of financial assets in accordance with the IFRS 9. Significant assumptions and estimates used in the model are reviewed by the Group management annually. The significant assumptions and estimates used in the model by the Group management are as follows: ✓ Significant increase in credit risk; ✓ Incorporating the forward looking macroeconomic information in calculation of credit risk; and ✓ Design and implementation of expected credit loss model.	Our procedures for testing the impairment of loans and receivables measured at amortised cost included below: • We tested the design, implementation and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment process with the involvement of information risk management specialists. • We evaluated the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows and we tested the appropriateness of the loan agreements with the model by selecting samples. • We evaluated the adequacy of the subjective and objective criteria that is defined in the Group's impairment accounting policy compared to IFRS 9. • We evaluated the Group's business model and methodology and the evaluation of the calculations were carried out with the control testing and detailed analysis with by the involvement of specialist.

The determination of the impairment of loans and receivables measured at amortised cost depends on the (i) credit default status, (ii) the model based on the change in the credit risk at the first recognition date and (iii) the classification of the loans and receivables measured at amortised cost according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets. The Group calculates expected credit losses on both an individual and a collective basis. Individual provisions consider the estimated future performance of the business and the fair value of the collateral provided for credit transactions. The collective basis expected credit loss calculation is based on complex processes which are modelled by using current and past data sets and expectations. The completeness and accuracy of data sets in the model are also considered and the forward looking expectations are reflected by macroeconomic models. Impairment on loans and receivables measured at amortised cost was considered to be a key audit matter, due to the significance of the estimates, assumptions, the level of judgments and its complex structure as explained above.	• We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information and tested their classification. In this context, the current status of the loan customer has been evaluated by including prospective information and macroeconomic variables. • We evaluated the accuracy of the expected credit loss calculations by selecting sample for the loans which are assessed on individual basis and discussed the assumptions and estimates with the Group management. • We tested the accuracy and completeness of the data in the calculation models for the loans which are assessed on collective basis. The expected credit loss calculation was tested through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters for the selected sample portfolios were recalculated. • We assessed the macroeconomic models which are used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method. • We evaluated the qualitative and quantitative factors which are used in determining the significant increase in credit risk. • We evaluated the adequacy of the disclosures related to impairment provisions.

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

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

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

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

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 management.

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

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

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

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

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

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

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member firm of KPMG International Cooperative

Alper Güvenç
Partner

25 August 2020
Istanbul, Turkey

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

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

	Notes	**31 December 2019**	**31 December 2018**
ASSETS			
Cash and cash equivalents	*5*	161,892	167,778
Balances with central bank	*6*	424,093	590,161
Reserve deposits at central bank	*6*	565,377	701,940
Loans and advances to banks and other financial institutions	*5*	2,018,997	1,508,141
Receivables from reverse repurchase transactions	*5*	960,299	273,336
Financial assets at fair value through profit or loss	*7*	5,171	1,633
Derivative financial assets held for trading	*8*	87,902	23,950
Investment securities	*9*	1,297,224	1,318,129
Financial assets at fair value through other comprehensive income		*749,337*	*756,692*
Financial assets measured at amortised cost		*547,887*	*561,437*
Loans and receivables	*10, 11*	14,406,420	12,040,506
Property and equipment	*12*	317,592	202,080
Intangible assets	*13*	11,598	9,792
Deferred tax assets	*20*	38,897	53,837
Current tax assets	*20*	9,715	1,202
Other assets	*14*	519,306	607,211
Total assets		**20,824,483**	**17,499,696**
LIABILITIES			
Deposits from banks	*15*	220,598	144,362
Deposits from customers	*15*	15,511,126	12,726,125
Obligations under repurchase agreements	*15*	388,512	380,786
Interbank money market borrowings	*15*	142,972	337,551
Funds borrowed	*16*	686,350	722,936
Debt securities issued	*17*	226,921	-
Derivative financial liabilities held for trading	*8*	108,089	33,328
Current tax liabilities	*20*	14,322	35,552
Obligations from leasing transactions	*18*	79,698	-
Other liabilities and provisions	*19*	665,040	794,593
Total liabilities		**18,043,628**	**15,175,233**
EQUITY			
Share capital	*21*	602,619	602,619
Legal reserves	*21*	96,746	81,945
Other reserves	*21*	63,571	49,077
Translation reserve	*21*	386,795	329,005
Hedging reserve	*21*	(124,326)	(79,686)
Fair value reserve	*21*	(18,984)	(59,656)
Retained earnings		1,770,169	1,397,694
Total equity attributable to equity holders of the Bank		**2,776,590**	**2,320,998**
Non-controlling interests	***21***	**4,265**	**3,465**
Total equity		**2,780,855**	**2,324,463**
Total liabilities and equity		**20,824,483**	**17,499,696**

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	**2019**	**2018**
Continuing operations:			
Interest income:			
Interest on loans and receivables	*23*	2,443,763	2,372,196
Interest on marketable securities	*23*	67,427	71,971
Interest on loans and advances to banks and other financial institutions	*23*	61,985	48,882
Interest on other money market placements	*23*	93,286	11,446
Other interest income	*23*	33,586	20,459
Total interest income		**2,700,047**	**2,524,954**
Interest expenses:			
Interest on deposits	*23*	(1,619,271)	(1,542,630)
Interest on other money market deposits	*23*	(20,875)	(18,138)
Interest on funds borrowed	*23*	(52,847)	(69,046)
Interest on securities issued	*23*	(10,179)	-
Interest on finance lease expenses	*23*	(16,391)	-
Other interest expenses	*23*	(3,900)	(2,300)
Total interest expenses		**(1,723,463)**	**(1,632,114)**
Net interest income		**976,584**	**892,840**
Fee and commission income	*24*	256,886	224,875
Fee and commission expenses	*24*	(29,431)	(33,898)
Net fee and commission income		**27,455**	**190,977**
Trading income from marketable securities		5,399	1,488
Trading gains/(losses) from derivatives, net		(20,118)	75,426
Foreign exchange gain/(loss), net		31,913	(86,189)
Other income		30,958	47,642
Revenue		**1,252,191**	**1,122,184**
Salaries and employee benefits	*25*	(318,769)	(272,980)
Provision for possible loan losses, net of recoveries	*10*	(300,863)	(243,701)
Depreciation and amortisation		(37,718)	(13,937)
Taxes other than on income		(26,993)	(22,120)
Other expenses	*26*	(73,354)	(160,996)
Profit before tax		**494,494**	**408,450**
Income tax expense	*20*	(107,178)	(99,266)
Profit for the year		**387,316**	**309,184**
Profit for the year attributable to:			
Equity holders of the Bank		386,527	308,530
Non-controlling interests		789	654
Profit for the year		**387,316**	**309,184**
Basic earnings per share from continuing operations (full TL)		0.00646	0.00515

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	2019	2018
Profit for the year		**387,316**	**309,184**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Revaluation of property and equipment		18,319	(9,851)
Remeasurements of defined benefit liability	*19*	(2,491)	(10,086)
Equity investments at FVOCI – change in fair value		3,953	1,492
Related tax	*20*	*(2,203)*	*2,646*
Items that will be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		57,790	134,339
Gain / (loss) on hedges of net investments in foreign operations		(55,801)	(99,607)
Debt investments at FVOCI – change in fair value		48,699	(66,947)
Related tax	*20*	*50*	*35,424*
Other comprehensive income for the year, net of income taxes		**68,316**	**(12,590)**
Total comprehensive income for the year		**455,632**	**296,594**
Equity holders of the Bank		454,843	295,940
Non-controlling interests		789	654
Total comprehensive income for the year		**455,632**	**296,594**

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

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

		Attributable to equity holders of the Bank									
	Notes	**Share capital**	**Legal reserves**	**Other reserves**	**Translation reserve**	**Hedging reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balances at 1 January 2018	*21*	**602,619**	**72,757**	**66,010**	**194,666**	**-**	**(9,346)**	**1,238,484**	**2,165,190**	**2,811**	**2,168,001**
Adjustment on initial application of IFRS 9 (Net of tax)		-	-	-	-		-	(140,132)	(140,132)	-	(140,132)
Adjusted balance at 1 January 2018		**602,619**	**72,757**	**66,010**	**194,666**	**-**	**(9,346)**	**1,098,352**	**2,025,058**	**2,811**	**2,027,869**
Net profit for the year		-	-	-	-	-	-	**308,530**	**308,530**	**654**	**309,184**
Other comprehensive income		-	-	**(16,933)**	**134,339**	**(79,686)**	**(50,310)**	-	**(12,590)**	-	**(12,590)**
Remeasurements of defined benefit liability		-	-	(10,086)	-	-	-	-	(10,086)	-	(10,086)
Revaluation of property and equipment		-	-	(9,851)	-	-	-	-	(9,851)	-	(9,851)
Foreign operations – foreign translation differences		-	-	-	134,339	-	-	-	134,339	-	134,339
Gain on hedges of net investment in foreign operations		-	-	-	-	(99,607)	-	-	(99,607)	-	(99,607)
Equity investments at FVOCI – change in fair value		-	-	-	-	-	1,492	-	1,492	-	1,492
Debt investments at FVOCI – change in fair value		-	-	-	-	-	(66,947)	-	(66,947)	-	(66,947)
Tax on other comprehensive income		-	-	*3,004*	-	*19,921*	*15,145*	-	*38,070*	-	*38,070*
Total comprehensive income for the year		-	-	**(16,933)**	**134,339**	**(79,686)**	**(50,310)**	**308,530**	**295,940**	**654**	**296,594**
Transactions with owners, recorded directly in equity		-	**9,188**	-	-	-	-	**(9,188)**	-	-	-
Transfers to other reserves		-	9,188	-	-	-	-	(9,188)	-	-	-
Balances at 31 December 2018	*21*	**602,619**	**81,945**	**49,077**	**329,005**	**(79,686)**	**(59,656)**	**1,397,694**	**2,320,998**	**3,465**	**2,324,463**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

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

		Attributable to equity holders of the Bank									
	Notes	**Share capital**	**Legal reserves**	**Other reserves**	**Translation reserve**	**Hedging reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balances at 1 January 2019	*21*	**602,619**	**81,945**	**49,077**	**329,005**	**(79,686)**	**(59,656)**	**1,397,694**	**2,320,998**	**3,465**	**2,324,463**
Adjustment on initial application of IFRS 9 (Net of tax)		-	-	-	-	-	-	749	749	-	749
Adjusted balance at 1 January 2019		**602,619**	**81,945**	**49,077**	**329,005**	**(79,686)**	**(59,656)**	**1,398,443**	**2,321,747**	**3,465**	**2,325,212**
Net profit for the year		-	-	-	-	-	-	**386,527**	**386,527**	**789**	**387,316**
Other comprehensive income		-	-	**14,494**	**57,790**	**(44,640)**	**40,672**		**68,316**	-	**68,316**
Remeasurements of defined benefit liability		-	-	(2,491)	-	-	-	-	(2,491)	-	(2,491)
Revaluation of property and equipment		-	-	18,319	-	-	-	-	18,319	-	18,319
Foreign operations – foreign translation differences		-	-	-	57,790	-	-	-	57,790	-	57,790
Gain on hedges of net investment in foreign operations		-	-	-	-	(55,801)	-	-	(55,801)	-	(55,801)
Equity investments at FVOCI – change in fair value		-	-	-	-	-	3,953	-	3,953	-	3,953
Debt investments at FVOCI – change in fair value		-	-	-	-	-	48,699	-	48,699	-	48,699
Tax on other comprehensive income		-	-	*(1,334)*	-	*11,161*	*(11,980)*	-	*(2,153)*	-	*(2,153)*
Total comprehensive income for the year		-	-	**14,494**	**57,790**	**(44,640)**	**40,672**	**386,527**	**454,843**	**789**	**455,632**
Transactions with owners, recorded directly in equity		-	**14,801**	-	-	-	-	**(14,801)**	-	**11**	**11**
Transfers to other reserves		-	14,801	-	-	-	-	(14,801)	-	11	11
Balances at 31 December 2019	*21*	**602,619**	**96,746**	**63,571**	**386,795**	**(124,326)**	**(18,984)**	**1,770,169**	**2,776,590**	**4,265**	**2,780,855**

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	**2019**	**2018**
Cash flows from operating activities:			
Profit for the year		387,316	309,184
Adjustments for:			
Taxation	*20*	107,178	99,266
Provision for loan losses	*10*	300,863	243,701
Depreciation and amortisation	*12,13*	37,718	13,937
Provision for retirement pay liability	*19*	9,921	11,452
Unused vacation accruals	*19*	4,581	3,476
Derivative financial instruments		10,809	14,829
Net interest income		(976,584)	(892,840)
Other		(677,079)	(486,376)
		(795,277)	**(683,371)**
Changes in:			
Reserve deposits at the Central Bank		136,563	608,713
Financial assets at fair value through profit or loss		(3,177)	108,396
Loans and receivables		(1,897,290)	1,170,252
Funds borrowed (net)		(39,372)	(84,185)
Other assets		(77,530)	(161,262)
Deposits from other banks and customers		2,853,312	(511,630)
Other liabilities and provisions		(225,277)	(424,507)
Blocked loans and advances to banks and other financial institutions		7,041	12,385
Loans and advances to banks with original maturity of more than 3 months		(37,641)	345
		(78,648)	**35,136**
Interest received		2,578,892	2,293,301
Interest paid		(1,708,085)	(1,589,981)
Retirement benefits paid	*19*	(6,787)	(6,791)
Unused vacation liability paid	*19*	(2,119)	(1,585)
Income taxes paid		(115,621)	(43,291)
Net cash provided by operating activities		**667,632**	**686,789**
Cash flows from investing activities			
Acquisition of financial assets measured at amortised cost	*9*	(82,957)	(89,952)
Proceeds from sale of financial assets measured at amortised cost	*9*	127,369	57,198
Acquisition of property and equipment	*12*	(39,128)	(2,241)
Proceeds from sale of property and equipment	*12*	4,825	4,978
Acquisition of intangible assets	*13*	(5,788)	(6,425)
Acquisitions of financial assets at FVOCI	*9*	(117,805)	(49,103)
Proceeds from sale of financial assets at FVOCI	*9*	232,242	166,777
Other		-	558
Net cash used in investing activities		**118,758**	**81,790**
Cash flows from financing activities			
Proceeds from issue of debt securities		478,962	-
Repayment of debt securities		(253,718)	-
Leasing payments		(33,898)	-
Net cash provided by financing activities		**191,346**	**-**
Effect of exchange rate fluctuations on cash held		25,952	86,745
Net increase in cash and cash equivalents		1,003,688	855,324
Cash and cash equivalents at the beginning of the year	*5*	2,524,361	1,669,037
Cash and cash equivalents at the end of the year	*5*	**3,528,049**	**2,524,361**

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

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1. General information

Anadolubank Anonim Şirketi (the "Bank") started its operations on 25 September 1997 in Turkey under the Turkish Banking Law and the Turkish Commercial Code pursuant to the permit of the Turkish Undersecretariat of Treasury dated 25 August 1997 and numbered 39692. The Bank provides corporate, commercial and retail banking services through a network of 113 (31 December 2018: 112) domestic branches. The address of the headquarters and registered office of the Bank is Saray Mahallesi Toya Sokak No: 3 Ümraniye / Istanbul-Turkey.

The ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ. Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ was founded by Hamdi Başaran in 1956 with the name "Hamdi Başaran Topkapı Oxygen Plant" to implement modern industrial gas production.

The Bank has three subsidiaries, which are Anadolu Yatırım Menkul Kıymetler AŞ ("Anadolu Yatırım"), Anadolu Faktoring AŞ ("Anadolu Faktoring") and Anadolubank Nederland NV ("Anadolubank Nederland").

The Bank has 91.90% ownership in Anadolu Yatırım, a brokerage and investment company, located in Istanbul. Anadolu Yatırım was established on 21 September 1998 and is mainly involved in trading of and investing in securities, stocks, treasury bills and government bonds provided from capital markets; the management of mutual funds and performing intermediary services.

The Bank acquired 99.99% of Anadolu Faktoring from Habaş Petrol Ürünleri Sanayi ve Ticaret AŞ (which is a related party) on 27 October 2008. Anadolu Faktoring was established in Istanbul on 20 March 2007 by obtaining the factoring license which is required to operate in the factoring sector.

The Bank has 100.00% ownership in Anadolubank Nederland, located in Amsterdam –Netherlands. The Bank engages in banking operations in the Netherlands.

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

2. Basis of preparation

2.1. Statement of compliance

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

The Bank and its subsidiaries which are located in Turkey, maintain their books of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), Turkish Accounting Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority, the Turkish Commercial Code, and the Turkish Tax Legislation. The Bank's foreign subsidiary Anadolubank Nederland maintains its books of account and prepare its statutory financial statements in EUR in accordance with the regulations of the country in which it operates.

The consolidated financial statements of the Group as at and for the year ended 31 December 2019 are authorised for issue by the management on 25 August 2020. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

The amendments to IAS / IFRS effective from 1 January 2019 do not have any significant effect on the Group's accounting policies, financial position and performance except IFRS 16 - Leases ("IFRS 16"). The amendments to IAS and IFRS that were issued but not yet effective as of the date of finalization of the financial statements will have no material effect on the Group's accounting policies, financial position and performance.

2.2. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair values: derivative financial assets and liabilities held for trading purposes, financial assets at fair value through profit or loss ("FVTPL"), financial assets at fair value through other comprehensive income ("FVOCI"), loans and receivables at FVTPL, and real estates.

2.3. Functional currency and presentation currency

These consolidated financial statements are presented in TL, which is the Bank's functional currency. Except as indicated, the financial information presented in TL has been rounded to the nearest thousand.

2.4. Accounting in hyperinflationary countries

Financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 – *Financial Reporting in Hyperinflationary Economies* as at 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute ("TURKSTAT"). This, together with the sustained positive trend in quantitative factors, such as the stabilization in capital and money markets, decrease in interest rates and the appreciation of TL against the USD and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006.

2. Basis of preparation *(continued)*

2.5. Use of estimates and judgments

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

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

In particular, information about significant areas at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- Note 8 – Derivative financial assets and liabilities held for trading purpose
- Note 10 – Loans and receivables
- Note 19 – Other liabilities and provisions
- Note 20 – Income taxes
- Note 28 – Financial risk management

2.6. Changes in accounting policies

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

The new and amended standards which are effective for annual periods beginning on or after 1 January 2019

The Group has initially adopted IFRS 16 *Leases* from 1 January 2019. A number of other new standards are effective from 1 January 2019, but they do not have a material effect on the Group's financial statements.

IFRS 16 Leases

IFRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognizing finance leases in the balance sheet whereas not recognizing operational lease. Instead, it is set forth a single model similar to the accounting of finance leases (on balance sheet). For lessors, the accounting remains almost the same.

This standard is applied with modified retrospective approach recognizing the cumulative effect of initially applying the standard at the date of initial application. In this context, comparative information is not restated.

Group acting as a lessee

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

2. Basis of preparation *(continued)*

2.6. Changes in accounting policies *(continued)*

The new and amended standards which are effective for annual periods beginning on or after 1 January 2019 *(continued)*

IFRS 16 Leases *(continued)*

Group acting as a lessee *(continued)*

Right-of-use assets

Based on the Bank's assessment, lease branches and lease cars are recognized in compliance with IFRS 16 whereas other leases are considered out of IFRS 16 scope as a result of materiality assessment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability and a right-of-use asset are recognised at the date of initial application for leases previously classified as an operating lease applying IAS 17. That lease liability is measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate at the date of initial application. Besides, that right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The depreciation requirements in IAS 16 Property, Plant and Equipment are applied in depreciating real assets considered as right-of-use asset.

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

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'obligations from leasing transactions' in the statement of financial position.

The Group does not enter into lease contracts as a lessor.

Leasing activities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

2. Basis of preparation *(continued)*

2.6. Changes in accounting policies *(continued)*

The new and amended standards which are effective for annual periods beginning on or after 1 January 2019 *(continued)*

IFRS 16 Leases *(continued)*

Group acting as a lessee *(continued)*

Leasing activities (continued)

Lease payments included in the measurement of the lease liability comprise the following:

— fixed payments, including in-substance fixed payments;

— variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

— amounts expected to be payable under a residual value guarantee; and

— the exercise price under a purchase option that the Group is reasonably certain to exercise,

lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

Leases, in which the majority of risks and returns of the related asset belong to the lessor, are classified as operational lease. The rent payments for leases that meet the conditions of exemptions stated in IFRS 16, are recognized as expense in related periods' statement of profit or loss over the lease term in accordance with periodicity principle.

After the commencement date, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

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

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

2. Basis of preparation *(continued)*

2.6. Changes in accounting policies *(continued)*

The new and amended standards which are effective for annual periods beginning on or after 1 January 2019 *(continued)*

IFRS 16 Leases *(continued)*

Group acting as a lessee *(continued)*

Leasing activities (continued)

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

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

As of 1 January 2019, the classification and transition effects of IFRS 16 Leases are disclosed in Note 3.22.

IFRIC 23 –Uncertainty over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The application of IFRIC 23 does not have a significant impact on the consolidated financial statements of the Group.

2. Basis of preparation *(continued)*

2.6. Changes in accounting policies *(continued)*

Standards issued but not yet effective and not early adopted

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

IFRS 17 Insurance Contracts

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 4 has been amended by IASB to reduce the impact of the differing effective dates of the new insurance contracts standard and IFRS 9. These amendments to IFRS 4 provide two optional solutions for insurers to reduce concerns about implementations: i) when applying IFRS 9 by insurers to its financial assets, an insurer will be permitted to reclassify the difference between profit or loss and other comprehensive income and the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39; or ii) an optional temporary exemption from applying IFRS 9 for companies whose activities are predominantly connected with insurance before 1 January 2021. These companies will be permitted to continue to apply existing requirements for financial instruments in IAS 39.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 4.

2. Basis of preparation *(continued)*

2.6. Changes in accounting policies *(continued)*

Standards issued but not yet effective and not early adopted *(continued)*

The revised Conceptual Framework (Version 2018)

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

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018 the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amended "definition of material "was added to the important definition and it was stated that this expression could lead to similar results by not giving and giving misstating information.

In addition, with this amendment, the terminology used in its definition of material has been aligned with the terminology used in the Conceptual Framework for Financial Reporting (Version 2018). Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.

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

Amendments to IFRS 3 - Definition of a Business

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

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

2. Basis of preparation *(continued)*

2.6. Changes in accounting policies *(continued)*

Standards issued but not yet effective and not early adopted *(continued)*

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

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

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

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

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to Interest Rate Benchmark Reform.

3. Significant accounting policies

Except the changes disclosed in Note 2.6, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3.1. Basis of consolidation

(i) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Non-controlling interests

Non-controlling interests ("NCI") are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

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

3.2. Foreign currency

i) Foreign currency transactions

Transactions are recorded in TL, which represents the Group's functional currency except for Anadolubank Nederland of which they are recorded in Euro. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in the statement of profit or loss and other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The official TL exchange rates used by the Group for foreign currency translation are as follows:

	EUR / TL	**USD / TL**
31 December 2019	6.6621	5.9400
31 December 2018	6.0280	5.2609

3. Significant accounting policies *(continued)*

3.2. Foreign currency *(continued)*

ii) Foreign operations

The assets and liabilities of foreign subsidiaries are translated into presentation currency of the Group at the rate of exchange ruling at the reporting date. The statement of profit or loss of foreign subsidiaries is translated at the weighted average exchange rates after the acquisition date. On consolidation exchange differences arising from the translation of the net investment in foreign entity are included in equity as currency translation reserve.

Foreign currency differences, arising from foreign subsidiaries, are recognised in other comprehensive income ("OCI"), under the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss, as part of the profit or loss on disposal.

3.3 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest for financial assets at FVOCI calculated on an effective interest basis,

3.4. Fees and commission

Fees and commission income and expenses that are integral to the effective rate on a financial asset or liability are included in the measurement of the effective rate.

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

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

3.5. Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes, except for the unrealised gains of financial assets at FVOCI.

3.6. Dividends

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

3. Significant accounting policies *(continued)*

3.7. Income tax expense

While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%.

This rate is applied to tax base which is calculated by adding certain non-deductible expenses for tax purposes and deducting certain exemptions (like dividend income) and other deductions on accounting income. If there is no dividend distribution, no further tax charges are made.

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 other comprehensive income.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax losses can be utilised.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

3. Significant accounting policies *(continued)*

3.7. Income tax expense *(continued)*

Effective between 1 January 2017 and 4 December 2017, earnings generated through transfer of real estates, equity shares, founders' shares, redeemed shares and pre-emption rights owned by the companies being under legal proceedings due to their debts to the banks or liable to the Savings Deposit Insurance Fund or by their guarantors and mortgage providers and earnings generated by the banks through sale of such assets are exempt from corporate tax at the rate of 75%.

Effective between 1 January 2017 and 4 December 2017, 75% of earnings generated through sale of real estates, equity shares, founders' shares, redeemed shares and pre-emption rights held as asset at least for two years by the institutions are exempt from the corporate tax with the conditions that such earnings shall be held in a special reserve account under equity until the end of five years following the year of sale and shall be collected as cash until the end of the following two fiscal years.

On the other hand, based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061, effective from 5 December 2017, the aforementioned exemption rate is set as 50% for the earnings generated through sale of real estates and 75% for the earnings generated through sale of other items.

3.8. Financial assets and liabilities

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaced IAS 39 Financial Instruments "Recognition and Measurement".

Recognition

The Group initially recognises loans, factoring receivables and advances, deposits and funds borrowed on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

The impact of IFRS 9 on the classification and measurement of financial assets is set out below:

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

3. Significant accounting policies *(continued)*

3.8. Financial assets and liabilities *(continued)*

i. Classification and measurement of financial assets and financial liabilities *(continued)*

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

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

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

3. Significant accounting policies *(continued)*

3.8. Financial assets and liabilities *(continued)*

i. Classification and measurement of financial assets and financial liabilities *(continued)*

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial assets:

The Group classifies its financial assets into one of the following categories:

Financial assets measured at amortised cost

Financial assets at FVOCI; and

At fair value through profit or loss, and within this category as:

- Financial assets at FVTPL.

Financial liabilities:

The Group classifies its financial liabilities as measured at amortised cost.

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.

3. Significant accounting policies *(continued)*

3.8. Financial assets and liabilities *(continued)*

Derecognition (continued)

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset that is recognised to the extent of the Group's continuing involvement in the asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

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 recognised amounts and it 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.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Derivative financial instruments

The Group enters into transactions with derivative instruments including forwards, swaps, currency options and interest rate cap/floor agreements in the foreign exchange and 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") or IFRS 9, because IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting in accordance with IAS 39 as a policy choice, they are treated as derivatives held for trading.

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.

3. Significant accounting policies *(continued)*

3.8. Financial assets and liabilities *(continued)*

Derivative financial instruments (continued)

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.

Identification and measurement of impairment

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the reporting date. In order to determine allowance rate for portfolio basis, the Group uses historical allowance rates based on its own statistical data.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest rate, penalty or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the Bank.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

3. Significant accounting policies *(continued)*

3.8. Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and estimated recoverable amount. The carrying amount of the asset is reduced through use of an allowance account. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on financial assets at FVOCI are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. No impairment loss is recognised on equity investments.

When a subsequent event causes the amount of impairment loss on a debt security classified under financial assets at FVOCI to decrease, the impairment loss is reversed through profit or loss.

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary legal and regulatory procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts written off are included in profit or loss.

IFRS 9 replaces the "incurred loss" model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of cash and cash equivalents, loans and investment securities.

Under IFRS 9, loss allowances are measured on either of the following bases:

-12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

-lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

3. Significant accounting policies *(continued)*

3.8. Financial assets and liabilities *(continued)*

Expected credit loss calculation:

The Group considers macroeconomic adjusted forward looking PD, LGD and EAD components in the estimation of expected credit loss from a financial asset. Expected credit loss is calculated under three different scenarios with different macroeconomic expectations and final outcome is a weighted average of the calculations.

Expected credit loss is calculated through three stages as described below;

Stage 1: 12 month expected credit loss is calculated for financial assets in stage 1. 12 month expected credit loss represents the expected credit loss that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

Stage 2: There is a significant increase in credit risk for a financial asset in stage 2 since their origination and lifetime expected credit loss is calculated for stage 2.

Stage 3: Financial assets considered as impaired are in stage 3. Lifetime expected credit loss is calculated for stage 3.

Probability of default, exposure at default and loss given default models:

Internal Probability of Default ("PD") models consider financial standing and demographical, internal-external behavioral data of customers. The Bank adopts different PD models for customers with different characteristics. Loss Given Default ("LGD") models are segment level models and represent time value of money by calculating present value of all future cash flows by using the effective interest rate. The Bank uses future cash flows and behavioral data in estimating exposure at default ("EAD").

Transfer logic:

The Bank uses quantitative and qualitative methods in identifying significant increase in credit risk. As a quantitative analysis, the Bank measures the significant credit deterioration by comparing the risk of default at inception (initial rating) and the reporting date. The Bank uses watch-list, memzuc and customer days past due information as qualitative criteria and classifies loans in stage 2. The change in the loan payment plan (restructuring) due to financial difficulty or concession is also considered as stage 2.

Individual assessment

For financial assets above a threshold in stage 3, the Bank conducts individual assessments in calculation of expected credit loss. The Bank has proper documentation of the calculations and the methodology for individual assessment. Calculations are performed by discounting the expected cash flows for the individual financial instrument to its present value using the effective interest rate. Future cash flows are determined based on two scenarios: going concern and gone concern scenarios. The choice of these scenarios depends on whether the customer is still operating and has operating cash flows that may be used to repay the debt, or whether the customer is not operating anymore and has collateral that may be used to pay the debt.

3. Significant accounting policies *(continued)*

3.8. Financial assets and liabilities *(continued)*

Repurchase and resale transactions

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ("repos"), continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of securities sold subject to repos are reclassified in the consolidated financial statements as loaned securities when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a specified future date ("reverse repos") are not recognised in the statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

3.9. Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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

3.10. Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss – i.e. trading – category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met.

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as financial asset at fair value through profit or loss at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

3. Significant accounting policies *(continued)*

3.11. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Financial assets held for trading", designated as "Financial assets designated at fair value through other comprehensive income" or "Financial assets designated at fair value through profit or loss". After initial measurement, loans, receivables and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Certain loans are subsequently designated irrevocably as financial assets at FVTPL as permitted by IFRS 9. The Bank classifies certain loans at their origination dates, as financial assets at fair value through profit or loss in compliance with IFRS 9. Financial assets at fair value through profit or loss are initially recorded at cost and measured at fair value in subsequent periods. The amortisation is included in "Interest income" in profit or loss. The losses arising from impairment are recognised in profit or loss in "Net impairment loss on financial assets".

"Loans and receivables" captions in the statement of financial position include:

- loans and receivables measured at amortised cost: they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and receivables mandatorily measured at FVTPL or designated as at FVTPL: these are measured at fair value with face value changes recognised immediately in profit or loss; and
- finance lease receivables

3.12. Investment securities

Financial assets measured at amortised cost

Financial assets measured at amortised cost are financial assets with fixed maturities that the Group has the intent and ability to hold until maturity. Financial assets measured at amortised cost are initially recognised at cost. Financial assets measured at amortised cost are accounted for by using a discounting method based on internal rate of return applied on the net investment amounts after the deduction of provision for impairments. Interest earned on financial assets measured at amortised cost are recognised as interest income and reflected in the consolidated statement of profit or loss.

Financial assets at FVOCI

Financial assets at FVOCI are non-derivative investments that are not designated as another category of financial assets. If a quoted market price is not available, fair value of an instrument is estimated using the available market information and the appropriate valuation methodologies. All other financial assets at FVOCI are carried at fair value. Unrealised gains and losses are recognised directly in equity in the "Fair value reserves".

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on debt security investments at FVOCI are recognised in the consolidated statement of profit or loss.

3. Significant accounting policies *(continued)*

3.12. Investment securities *(continued)*

Financial assets at FVOCI (continued)

If a financial asset at FVOCI is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as at FVOCI are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired and the balance in other comprehensive income is recognised in profit or loss.

3.13. Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

As of 1 January 2017, changing the existing accounting policy, it has been decided to apply revaluation model for properties recorded under tangible and intangible assets instead of cost model in accordance with IAS 16 "Property, Plant and Equipment".

Accordingly, for all real estates registered in the ledger, a valuation study was performed by independent expertise firms authorized by Capital Markets Board ("CMB") and BRSA. Revaluations are performed in line with IFRS 13 "Fair Value Measurement Financial Reporting Standard". Valuation method used by expertise firms is the market approach. As a result of the revaluation of the buildings, as of 31 December 2019, the change in the fair value of property and equipment which is recognized under equity was increased to TL 88,623 (31 December 2018: The amount is TL 70,304) before tax.

3. Significant accounting policies *(continued)*

3.13. Property and equipment *(continued)*

Subsequent costs

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

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

	Years
Buildings and improvements	50
Machinery and equipment	5
Office equipment	5
Furniture, fixtures and vehicles	5
Leasehold improvements	4-10

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

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

3.14. Intangible assets

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful lives of software are three to five years.

Amortisation methods, useful lives and residual values are reserved at each reporting date and adjusted if appropriate.

3.15. Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale or held for distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held for sale, intangible assets and property and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

3. Significant accounting policies *(continued)*

3.16. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in statement of other comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

3.17. Deposits and funds borrowed

Deposits are the Bank's main source of debt funding. Deposits of the Bank comprised of the deposits from banks and customers.

Deposits and funds borrowed are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies *(continued)*

3.18 Hedge accounting

IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting in accordance with IAS 39 as a policy choice. Accordingly, the Group continues to apply hedge accounting in accordance with IAS 39 in this context.

Policy applicable for all hedging relationships

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

i. Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of a derivative or the foreign exchange gains and losses of a non-derivative is recognised in OCI and presented in the translation reserve within equity.

The effective portion of the change in fair value of the hedging instrument is computed with reference to the functional currency of the parent entity against whose functional currency the hedged risk is measured. Any ineffective portion of the changes in the fair value of the derivative or foreign exchange gains and losses on the non-derivative is recognised immediately in profit or loss. The amount recognised in OCI is fully or partially reclassified to profit or loss as a reclassification adjustment on disposal or partial disposal of the foreign operation, respectively.

3. Significant accounting policies *(continued)*

3.19. 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.

3.20. 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 has been revised effective from the annual period beginning after 1 January 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.

3. Significant accounting policies *(continued)*

3.21. 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's Management Committee (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. 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.

3.22. Classifications

As of 1 January 2019, the classification and transition effects of IFRS 16 Leases are presented in the table below.

	31 December 2018	IFRS 16 classification effect	IFRS 16 transition effect	1 January 2019
Property and equipment [(1),(2)]	202,080	144	85,083	287,307
Other assets [(2)]	607,211	(144)	-	607,067
Obligations from leasing transactions [(1),(3)]	-	-	85,083	85,083

(1) As of 1 January 2019, the Bank has recorded rent obligation and right of use amounting to TL 85,083 in its consolidated financial statements for leases previously classified as operational leases in accordance with IAS 17.

(2) As of 1 January 2019, in accordance with IFRS 16, the Bank has reclassified TL 144 of cash lease payments under Property and equipment as right of use.

(3) As of 1 January 2019, incremental borrowing rates applied to TL, EURO and USD lease liabilities reflected in the consolidated financial statements are 22.99%, 0.20% and 3.02%, respectively.

3.23. 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.

4. Operating segments

The Group has four reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the chief operating decision maker, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Corporate and commercial banking

Includes loans, deposits and other transactions and balances with corporate customers.

Retail banking

Includes loans, deposits and other transactions and balances with retail customers.

Agricultural banking

Agricultural banking serves its customers in a way to cover transactions such as loans, deposits and non-cash loans.

Treasury

Undertakes the Group's funding and centralised risk management activities through borrowings, and investing in liquid assets such as short-term placements and corporate and government debt securities.

Investment banking

Includes the Group's trading and corporate finance activities.

Subsidiaries

Includes the profits of the subsidiaries.

Information regarding the results of each reportable segment is included in the following page. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

4. Operating segments *(continued)*

Information about operating segments

Current Period	Corporate and commercial banking	Retail banking	Agricultural banking	Treasury&other	Subsidiaries	Total operations
Bank	472,118	91,576	64,884	463,222	-	1,091,800
Subsidiaries	-	-	-	-	180,509	180,509
Operating income (*)	**472,118**	**91,576**	**64,884**	**463,222**	**180,509**	**1,272,309**
Operating loss (**)	-	-	-	(777,815)	-	(777,815)
Profit before tax	**472,118**	**91,576**	**64,884**	**(314,593)**	**180,509**	**494,494**
Income tax expense	-	-	-	(107,178)	-	(107,178)
Profit for the year	**472,118**	**91,576**	**64,884**	**(421,771)**	**180,509**	**387,316**
Segment assets	10,376,867	78,295	583,444	5,927,522	3,858,355	20,824,483
Subsidiaries	-	-	-	-	-	-
Total assets	**10,376,867**	**78,295**	**583,444**	**5,927,522**	**3,858,355**	**20,824,483**
Segment liabilities	5,038,115	7,535,057	674,872	944,517	3,851,067	18,043,628
Equity	-	-	-	2,776,590	4,265	2,780,855
Total liabilities	**5,038,115**	**7,535,057**	**674,872**	**3,721,107**	**3,855,332**	**20,824,483**

(*) Operating income includes net interest income, net fee and commission income and other income items presented in the consolidated statement of profit or loss.

(**) Operating loss includes salaries and employee benefits, provision for possible loan losses - net of recoveries, depreciation and amortisation and other expense items presented in the consolidated statement of profit or loss.

4. Operating segments *(continued)*

Information about operating segments *(continued)*

Prior Period	Corporate and commercial banking	Retail banking	Agricultural banking	Treasury&other	Subsidiaries	Total operations
Bank	518,719	107,334	76,263	360,939	-	1,063,255
Subsidiaries	-	-	-	-	145,118	145,118
Operating income (*)	**518,719**	**107,334**	**76,263**	**360,939**	**145,118**	**1,208,373**
Operating loss (**)	-	-	-	(799,923)	-	(799,923)
Profit before tax	**518,719**	**107,334**	**76,263**	**(438,984)**	**145,118**	**408,450**
Income tax expense	-	-	-	(99,266)	-	(99,266)
Profit for the year	**518,719**	**107,334**	**76,263**	**(538,250)**	**145,118**	**309,184**
Segment assets	7,933,252	416,581	854,807	5,052,717	3,242,339	17,499,696
Subsidiaries	-	-	-	-	-	-
Total assets	**7,933,252**	**416,581**	**854,807**	**5,052,717**	**3,242,339**	**17,499,696**
Segment liabilities	3,831,433	6,700,170	695,090	709,677	3,238,863	15,175,233
Equity				2,320,998	3,465	2,324,463
Total liabilities	**3,831,433**	**6,700,170**	**695,090**	**3,030,675**	**3,242,328**	**17,499,696**

(*) Operating income includes net interest income, net fee and commission income and other income items presented in the consolidated statement of profit or loss.

(**) Operating loss includes salaries and employee benefits, provision for possible loan losses - net of recoveries, depreciation and amortisation and other expense items presented in the consolidated statement of profit or loss.

5. Cash and cash equivalents

	31 December 2019	31 December 2018
Cash and cash equivalents	161,892	167,778
Loans and advances to banks (with original maturity of less than 3 months)	2,018,997	1,508,141
Unrestricted balances with the central bank	424,093	590,161
Receivables from reverse repurchase transactions	960,299	273,336
IFRS 9 allowances	2,090	524
Total cash and cash equivalents in the consolidated statement of financial position	**3,567,371**	**2,539,940**
Blocked loans and advances to banks and other financial institutions	-	(7,041)
Loans and advances to banks (with original maturity of more than 3 months)	(37,641)	-
Interest accruals on cash and cash equivalents	(1,681)	(8,538)
Cash and cash equivalents in the consolidated statement of cash flows	**3,528,049**	**2,524,361**

As at 31 December 2019, there are no deposits with banks (31 December 2018: TL 7,041) which are blocked at financial institutions for the interest rate swaps and credit default swaps entered into by the Group.

6. Balances with central bank

a) Unrestricted balances with central bank

	31 December 2019	31 December 2018
Demand deposits-TL	84,966	273,078
Demand deposits-FC	339,127	317,083
Total	**424,093**	**590,161**

b) Reserve deposits with central bank

	31 December 2019	31 December 2018
Foreign currency reserve	565,377	701,940
Total	**565,377**	**701,940**

Reserve deposits are kept as blockage in Central Bank of Turkey (CBRT) for foreign currency liabilities. The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in TL and foreign currencies at the rates of 1.0% - 2.0% and 5.0% - 21.0%, respectively as per the Communiqué no.2005/1 "Reserve Deposits" of the CBRT (31 December 2018: 1.50% - 8.0% and 5.5% - 12.0% respectively). In communiqué, reserve ratio for Turkish Lira liabilities has been changed to between 1.5% and 8.0% according to the maturity of the liabilities and it has been taken into consideration as of the report date.

7. Financial assets at fair value through profit or loss

As at 31 December 2019 and 2018, financial assets at fair value through profit or loss comprised the following:

	31 December 2019		31 December 2018	
	Carrying value	**Effective interest rate (%)**	**Carrying value**	**Effective interest rate (%)**
Eurobonds issued by the Turkish Government	4,770	1.44-6.70	1,537	2.00 - 8.00
Government bonds in TL	9	2.81-10.67	96	5.40 - 21.96
Other	392	6.23-7.70	-	-
Total	**5,171**		**1,633**	

As at 31 December 2019, there are no financial assets at fair value through profit or loss given as collateral under repurchase agreements (31 December 2018: None).

As at 31 December 2019, there are no government securities kept at İstanbul Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Clearing and Custody Incorporation) and at Capital Markets Board of Turkey for legal requirements and as a guarantee for stock exchange and money market operations (31 December 2018: None).

8. Derivative financial assets / liabilities held for trading

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

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

8. Derivative financial assets / liabilities held for trading *(continued)*

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date and option pricing models. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

	31 December 2019								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	9,896	2,338	626,453	282,796	57,643	99,402	180,092	-	6,520
-Forward sale contract	-	-	612,597	282,631	57,254	97,574	169,857	-	5,281
Currency swap purchase	32,410	94,655	3,289,509	896,757	710,708	133,823	449,542	547,440	551,239
Currency swap sale	-	-	3,363,175	905,086	716,503	134,455	486,789	573,626	546,716
Interest swap purchase	34,544	43	1,018,611	-	-	-	185,000	464,361	369,250
Interest swap sale	-	-	1,017,841	-	-	-	185,854	462,737	369,250
Put option purchase	11,052	11,053	1,078,155	18,734	477,372	280,500	301,549	-	-
Put option sale	-	-	1,078,144	18,730	477,368	280,503	301,543	-	-
Total	**87,902**	**108,089**	**12,084,485**	**2,404,734**	**2,496,848**	**1,026,257**	**2,260,226**	**2,048,164**	**1,848,256**

	31 December 2018								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	2,784	496	401,416	375,384	10,194	2,590	13,248	-	-
Forward sale contract	-	-	398,844	375,356	9,304	7,767	6,417	-	-
Currency swap purchase	21,166	32,832	2,133,435	1,037,064	502,958	105,273	35,264	347,605	105,271
Currency swap sale	-	-	2,156,008	1,042,422	504,232	122,787	36,602	344,693	105,272
Interest swap purchase	-	-	590,474	-	-	-	-	289,344	301,130
Interest swap sale	-	-	590,474	-	-	-	-	428,597	161,877
Put option purchase	-	-	194,119	50,267	130,079	2,186	11,587	-	-
Put option sale	-	-	205,651	52,392	139,486	2,186	11,587	-	-
Total	**23,950**	**33,328**	**6,670,421**	**2,932,885**	**1,296,253**	**242,789**	**114,705**	**1,410,239**	**673,550**

9. Investment securities

Financial assets at fair value through other comprehensive income

	31 December 2019		31 December 2018	
	Amount	Effective interest rate (%)	Amount	Effective interest rate (%)
Eurobonds issued by the Turkish Government	591,404	4.54-6.44	532,165	6.00-8.00
Foreign currency denominated bonds	138,310	(0.82)-5.21	212,181	0.77-6.00
Equity instruments	19,623	-	12,346	-
Total	**749,337**		**756,692**	

The movement of financial assets at fair value through other comprehensive income is as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Balance at beginning of period	**756,692**	**1,236,588**
Foreign currency differences on monetary assets	65,946	130,303
Purchases during the period	117,805	49,103
Disposals through sales and redemptions	(232,242)	(166,777)
Changes in amortised cost	41,136	(34,753)
Reclassification from financial assets measured at amortised cost (IFRS 9 transition) [(*)]	-	(457,772)
Balance at the end of period	**749,337**	**756,692**

[(*)] Within the scope of IFRS 9 which is effective as of 1 January 2018, government bonds amounting to TL 467,293 was transferred from financial assets at fair value through other comprehensive income to financial assets measured at amortised cost and presented in the table together with the rediscount amounted to 9,521 TL on the amortized cost.

Carrying value of financial assets at FVOCI given as collateral under repurchase agreements and for other banking transactions under the normal course of the banking operations are as follows:

	31 December 2019	31 December 2018
Deposited at financial institutions for repurchase transactio	51,938	189,822
Collaterals	617,237	47,930
Other	80,162	518,940
Total	**749,337**	**756,692**

9. Investment securities *(continued)*

Financial assets measured at amortised cost

	31 December 2019		31 December 2018	
	Amount	Effective interest rate (%)	Amount	Effective interest rate (%)
Debt instruments:				
Foreign currency denominated bonds	374,878	1.03-8.28	328,138	1.03-7.44
TL denominated government bonds	173,009	11.58	233,299	18.40-22.61
Total	**547,887**		**561,437**	

The movement of financial assets measured at amortised cost is as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Balance at beginning of period	**561,437**	-
Reclassification from financial assets at fair value through other comprehensive income (IFRS 9 transition) (*)	-	467,293
Foreign currency differences on monetary assets	27,721	56,483
Purchases during the period	82,957	89,952
Disposals through sales and redemptions	(127,369)	(57,198)
Changes in amortised cost	1,861	7,512
Changes in allowance for impairment	1,280	(2,605)
Balance at the end of period	**547,887**	**561,437**

(*) Within the scope of IFRS 9 which is effective as of 1 January 2018, government bonds amounting to TL 467,293 was transferred from financial assets at fair value through other comprehensive income to financial assets measured at amortised cost and presented in the table together with the rediscount amounted to 9,521 TL on the amortized cost.

Carrying value of financial assets measured at amortised cost given as collateral under repurchase agreements and for other banking transactions under the normal course of the banking operations are as follows:

	31 December 2019	31 December 2018
Deposited at financial institutions for repurchase transactions	387,484	286,218
Collaterals	32,670	49,698
Other	127,733	225,521
Total	**547,887**	**561,437**

As at 31 December 2019, carrying value of financial assets measured at amortised cost collateralised against repurchase agreements is TL 387,484 (31 December 2018: TL 286,218).

10. Loans and receivables

	31 December 2019						
	Amount				Effective interest rate (%)		
	TL	**FC**	**FC indexed**	**Total**	**TL**	**FC**	**FC indexed**
Corporate loans	9,475,581	3,746,047	81,819	13,303,447	0.12-39.50	0.32-8.76	(0.46)-9.10
Consumer loans	112,097	88	1,333	113,518	1.92-24.00	4.80	4.80-8.28
Credit cards	57,285	139	-	57,424	19.2-24.00	-	-
Factoring receivables	453,433	-	-	453,433	16.54-52.47	-	-
Total performing loans	**10,098,396**	**3,746,274**	**83,152**	**13,927,822**			
Non-performing loans	-	-	-	1,383,738	-	-	-
Allowance for:							
Individually impaired loans	-	-	-	(783,030)	-	-	-
Collectively impaired loans	-	-	-	(122,110)	-	-	-
Loans and receivables, net	**-**	**-**	**-**	**14,406,420**	**-**	**-**	**-**

	31 December 2018						
	Amount				Effective interest rate (%)		
	TL	**FC**	**FC indexed**	**Total**	**TL**	**FC**	**FC indexed**
Corporate loans	8,075,465	2,927,356	234,725	11,237,546	5.04-60.00	0.50-7.50	3.60-12.00
Consumer loans	147,970	400	1,064	149,434	4.80-38.40	4.50	4.80-8.28
Credit cards	63,347	58	-	63,405	26.04-27.00	-	-
Factoring receivables	372,373	-	-	372,373	16.54-52.47	-	-
Total performing loans	**8,659,155**	**2,927,814**	**235,789**	**11,822,758**			
Non-performing loans	-	-	-	820,950	-	-	-
Allowance for:							
Individually impaired loans	-	-	-	(447,054)	-	-	-
Collectively impaired loans	-	-	-	(156,148)	-	-	-
Loans and receivables, net	**-**	**-**	**-**	**12,040,506**	**-**	**-**	

"Loans and receivables" captions in the statement of financial position include the following:

	31 December 2019	**31 December 2018**
Loans and receivables measured at amortised cost	14,789,187	12,203,232
Factoring receivables	453,433	372,373
Less: impairment loss allowance	905,140	603,202
Loans and receivables at FVTPL (*)	68,940	68,103
Total loans and receivables	**14,406,420**	**12,040,506**

(*) Includes the loan provided to a special purpose entity (Levent Yapılandırma Yönetimi A.Ş). This loan is accounted under loans measured at FVTPL based on IFRS 9. The fair value of this loan is determined by the independent valuation company based on the average of different methodologies (discounted cash flows, similar market multipliers, same sector transaction multipliers, market value and analyst reports). The corresponding loan is considered as Level 3 based on IFRS 13 "Fair Value Measurement" standard.

Valuation techniques considered in the valuation work and any possible changes in the basic assumptions may affect the carrying value of the related asset. For discounted cash flows method, significant unobservable inputs are EBITDA, growth rate and weighted average cost of capital. The estimated fair value of the asset would increase if growth rate and EBITDA are higher and decrease if the weighted average cost of capital is higher. Trading multiples and transaction multiples for the companies operating in the same sector are the other valuation techniques for pricing the assets. Transaction multiples for the companies operating in the same sector are based on similar transactions based on geographical features, industry, size, target market and other factors. Transaction multiples are derived by dividing the enterprise values of the companies to EBITDAs. The estimated fair value of the asset would increase if the multiples were higher and decrease if multiples were lower.

10. Loans and receivables *(continued)*

The specific allowance for possible loan losses is comprised of amounts for specifically identified as being impaired and non-performing loans and receivables plus a further amount considered adequate to cover the inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers.

Movements in the reserve for possible loan losses:

	1 January – 31 December 2019	1 January – 31 December 2018
Reserve at beginning of the period/year	**603,202**	**241,155**
Adjustment from adoption of IFRS 9	-	174,828
Adjusted balance at 1 January	**603,202**	**415,983**
Provision for possible loan losses, net of recoveries	300,863	243,701
Provision for possible loan losses	768,458	333,134
Recoveries	(467,595)	(89,433)
Provision, net of recoveries	**300,863**	**243,701**
Loans written-off during the period/year	(4)	(57,086)
Foreign currency differences on monetary assets	1,079	604
Reserve at end of the period/year	**905,140**	**603,202**

The movement of loss allowances per asset class for loans and receivables as of 31 December 2019 is as follows:

	31 December 2019			
Loans and receivables	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January 2019	59,700	96,448	447,054	603,202
Additions	181,795	154,837	431,826	768,458
Disposals	(162,408)	(142,606)	(162,581)	(467,595)
Debt sales	-	-	(4)	(4)
Write-offs	-	-	-	-
Transfer to stage 1	7,731	(7,731)	-	-
Transfer to stage 2	(29,033)	29,033	-	-
Transfer to stage 3	(258)	(66,477)	66,735	-
Effects of movements in exchange rates	458	621	-	1,079
Balances at the end of the period	**57,985**	**64,125**	**783,030**	**905,140**

10. Loans and receivables *(continued)*

The credit quality analysis of loans and receivables excluding factoring receivables, including related income accruals, is as follows as at 31 December 2019 and 2018:

		31 December 2019	
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	11,965,799	-	-
Stage 2: Watch list	-	1,236,479	-
Stage 3.1: Substandard	-	-	162,769
Stage 3.2: Doubtful	-	-	205,736
Stage 3.3: Loss	-	-	755,502
Total loans	11,965,799	1,236,479	1,124,007
Income accrual on loans	197,409	83,855	250,578
Loss allowance	(57,985)	(64,125)	(783,030)
Total carrying amount	**12,105,223**	**1,256,209**	**591,555**

		31 December 2018	
	Stage 1	**Stage 2**	**Stage 3**
Stage 1 : Low-fair risk	9,869,648	-	-
Stage 2 : Watch list	-	1,344,302	-
Stage 3.1: Substandard	-	-	252,660
Stage 3.2: Doubtful	-	-	203,197
Stage 3.3: Loss	-	-	267,885
Total loans	9,869,648	1,344,302	723,742
Income accrual on loans	141,782	94,653	97,208
Loss allowance	(59,700)	(96,448)	(447,054)
Total carrying amount	**9,951,730**	**1,342,507**	**373,896**

11. Factoring receivables

As at 31 December 2019 and 2018, short-term and long-term factoring receivables included in the loans and receivables are as follows:

	31 December 2019	**31 December 2018**
Short-term	452,816	372,373
Long-term	617	-
Total	**453,433**	**372,373**

12. Property and equipment

Movements of property and equipment as at and for the year ended 31 December 2019 and 2018 are as follows:

	Buildings	Motor vehicles	Right of use assets	Furniture, office equipment and leasehold improvements	Total
Cost					
Opening balance, 1 January 2018	195,803	5,824	-	117,306	318,933
Additions	-	-		2,241	2,241
Disposals	-	(1,543)	-	(41,191)	(42,734)
Effect of movements in exchange rates	-	-	-	248	248
Revaluation	3,420	-	-	-	3,420
Impairment	(14,805)	-	-	-	(14,805)
Closing balance, 31 December 2018	**184,418**	**4,281**	**-**	**78,604**	**267,303**
Opening balance, 1 January 2019	184,418	4,281	-	78,604	267,303
Additions	16,358	-	91,678	22,770	130,806
Disposals	-	(2,598)	-	(2,227)	(4,825)
Effect of movements in exchange rates	-	-	-	485	485
Revaluation	14,833	-	-	3,630	18,463
Impairment	-	-	-	-	-
Closing balance, 31 December 2019	**215,609**	**1,683**	**91,678**	**103,262**	**412,232**
Accumulated depreciation					
Opening balance, 1 January 2018	1,957	5,739	-	92,202	99,898
Additions	1,781	27	-	7,993	9,801
Disposals	-	(1,543)	-	(41,191)	(42,734)
Revaluation	(1,742)	-	-	-	(1,742)
Closing balance, 31 December 2018	**1,996**	**4,223**	**-**	**59,004**	**65,223**
Opening balance, 1 January 2019	1,996	4,223	-	59,004	65,223
Additions	-	-	21,008	14,277	35,285
Disposals	(215)	(2,573)	-	(1,299)	(4,087)
Revaluation	(1,781)	-	-	-	(1,781)
Closing balance, 31 December 2019	**-**	**1,650**	**21,008**	**71,982**	**94,640**
Net carrying value					
1 January 2018	193,846	85	-	25,104	219,035
31 December 2018	182,422	58	-	19,600	202,080
31 December 2019	215,609	33	70,670	31,280	317,592

As of 31 December 2019, if the buildings were accounted based on cost model instead of revaluation model, the net carrying value would be TL 124,040 (31 December 2018: TL 112,258).

13. Intangible assets

Movements of intangible assets as at and for the year ended 31 December 2019 and 2018 are as follows:

	Software	Other intangibles	Total
Cost			
Opening balance, 1 January 2018	25,962	1,356	27,318
Additions	6,425	-	6,425
Disposals	(14,347)	-	(14,347)
Closing balance, 31 December 2018	**18,040**	**1,356**	**19,396**
Opening balance, 1 January 2019	18,040	1,356	19,396
Additions	5,788	-	5,788
Disposals	(1,549)	-	(1,549)
Closing balance, 31 December 2019	**22,279**	**1,356**	**23,635**
Accumulated amortisation			
Opening balance, 1 January 2018	17,947	1,356	19,303
Additions	4,136	-	4,136
Disposals	(13,835)	-	(13,835)
Closing balance, 31 December 2018	**8,248**	**1,356**	**9,604**
Opening balance, 1 January 2019	8,248	1,356	9,604
Additions	2,433	-	2,433
Disposals	-	-	-
Closing balance, 31 December 2019	**10,681**	**1,356**	**12,037**
Net carrying value			
1 January 2018	8,015	-	8,015
31 December 2018	9,792	-	9,792
31 December 2019	11,598	-	11,598

14. Other assets

	31 December 2019	31 December 2018
Transfer cheques	218,197	359,312
Assets held for sale (*)	240,547	200,063
Collateral for leveraged operations (1)	29,604	22,915
Prepaid expenses	4,484	5,885
Credit card payments	3,474	1,372
Advances given	64	42
Other	22,936	17,622
Total	**519,306**	**607,211**

(1) Collateral for leveraged operations are composed of the collaterals given for transactions, which take place through Anadolu Yatırım Menkul Kıymetler AŞ.

(*) Within the context of the existing loan agreements, all creditors including the Bank have reached an agreement on restructuring the loans granted to Ojer Telekomünikasyon A.Ş. (OTAŞ) who is the main shareholder of Türk Telekomünikasyon A.Ş. (Türk Telekom) and it is contemplated that Türk Telekom's number of 192,500,000,000 A group shares owned by OTAŞ, representing 55% of its issued share capital corresponding to A group shares have been pledged as a guarantee for the existing facilities would be taken over by a special purpose entity which is incorporated or will be incorporated in the Turkish Republic, and owned by directly or indirectly by all creditors. As per the agreed structure, it is agreed on the corresponding agreements, completed all required corporate and administrative permissions and the transaction is concluded by a transfer of the aforementioned shares to the special purpose entity incorporated in the Turkish Republic, and owned by directly or indirectly by all creditors. In this context, the Bank owned 0.37% of the founded special purpose entity and the related investment TL 14,686 (TL 5,740, net) is considered within the scope of IFRS 5 "Assets Held for Sale and Discontinued Operations".

As per the decision made at the annual general assembly of the related special purpose entity (Levent Yapılandırma Yönetimi A.Ş), it was decided to increase the capital of the special purpose entity by TL 3,982,230 all of which will be covered by shareholders' receivables. As a result, the paid-in capital of the company increased to TL 3,982,280. After the increase, 0.37% share of the bank in the company capital did not change and the number of shares had become 1,468,584,763. The nominal value of the shares owned by the Bank is TL 14,686 (TL 5,740, net) and is classified as assets held for sale. The valuation differences are recorded as impairment in assets held for sale after capital increase.

Assets held for sale

An asset (or a disposal group) classified as asset held for sale is measured at lower of the carrying amount and fair value less costs to sell. An asset (or a disposal group) is regarded as asset held for sale only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively marketed at a price consistent with its fair value.

As at 31 December 2019, TL 240,547 (31 December 2018: TL 200,063) of the other assets is comprised of foreclosed real estates acquired by the Bank against its impaired receivables.

15. Deposits

Deposits from banks

	31 December 2019				31 December 2018			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Demand	5	52	-	-	3	287	-	-
Time	213,880	6,661	10.50-11.75	0.01	80,934	63,138	22.00-22.50	2.30
Total	**213,885**	**6,713**			**80,937**	**63,425**		

Deposits from customers

	31 December 2019				31 December 2018			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Saving:								
Demand	74,788	967,712	-	-	55,099	839,689	-	-
Time	5,049,795	3,761,328	11.20-22.50	0.15-3.30	5,459,399	4,268,665	6.00-31.00	0.10-8.00
	5,124,583	**4,729,040**			**5,514,498**	**5,108,354**		
Commercial and other deposits:								
Demand	305,216	579,119	-	-	210,277	259,862	-	-
Time	3,329,909	1,443,259	6.50-28.75	1.50	1,305,380	327,754	6.50-28.75	1.00-2.50
	3,635,125	**2,022,378**			**1,515,657**	**587,616**		
Total	**8,759,708**	**6,751,418**			**7,030,155**	**5,695,970**		

The Parent Bank decided on implementing its strategy to avoid any possible currency risks originating from its consolidated subsidiary, Anadolubank NV, as of 1 May 2018, to the extent that foreign exchange denominated net asset value of Anadolubank Nederland NV and Euro denominated term deposit accounts of Anadolubank as a protective measure against currency risks would be correlated consequently with protective measures against net investment risk. Any relevant changes on financial debts related to currency volatilities are being kept on the Parent Bank's books under equity as other accumulated comprehensive income and expenses that are to be booked as profit or loss.

15. Deposits *(continued)*

The amounts relating to items designated as hedging instruments at 31 December 2019 and 2018 were as follows.

			Carrying amount				
		Nominal amount	Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for 2019	Change in the value of the hedging instrument recognised in OCI
2018	Foreign currency denominated deposits	EUR 88 million	-	530,464	Deposits	(99,607)	(99,607)
2019	Foreign currency denominated deposits	EUR 88 million	-	586,265	Deposits	(55,801)	(55,801)

Other money market deposits

	31 December 2019				31 December 2018			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Obligations under repurchase agreements:								
Due to banks	5,809	465,653	-	(0.10)-2.90	-	337,550	-	0.25-3.80
Other	60,022	-	10.50-11.00	-	20,011	360,776	17.00	0.05-3.90
Total	**65,831**	**465,653**			**20,011**	**698,326**		

As at 31 December 2019, there are no carrying values of underlying financial assets at fair value through profit or loss collateralised against repurchase agreements (31 December 2018: None). Financial asset measured at amortised cost collateralised against repurchase agreements amounts to TL 387,484 (31 December 2018: TL 286,218) and carrying values of underlying financial assets at FVOCI collateralised against repurchase agreements amounts to TL 51,938 (31 December 2018: TL 189,822).

16. Funds borrowed

	31 December 2019				31 December 2018			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Short-term(*)	311,452	127,993	8.79-17.60	2.25-6.17	251,910	246,585	6.59-29.50	0.50-6.39
Medium/long term(*)	-	246,905	-	(0.40)-4.02	-	224,441	-	0.53-4.02
Total	**311,452**	**374,898**			**251,910**	**471,026**		

(*) Borrowings are presented considering their original maturities.

Repayment plans of funds borrowed are as follows:

	31 December 2019	31 December 2018
2019	-	527,919
2020	643,123	20,267
2021	43,227	174,750
Total	**686,350**	**722,936**

17. Debt securities issued

As of 31 December 2019, the Group has issued debt securities amounting to TL 226,921 (31 December 2018: None). Details of the debt securities issued are as follows:

	Latest maturity	Interest rate %	Carrying value
TL denominated bonds payable	2020	10.625-12.1833	226,921

18. Obligations from leasing transactions

As of 1 January 2019, IFRS 16 Leases standard is started to be applied, and the difference between lease transactions and operating transactions ended. Lease transactions have been started to be displayed by the tenants under the Liabilities from Leasing Transactions item.

As of 31 December 2019, the Group's liabilities arising from leasing transactions are as follows:

	Gross	Net
Less than 1 year	9,971	8,666
Between 1-4 years	42,145	30,707
More than 4 years	87,035	40,325
Total	**139,151**	**79,698**

19. Other liabilities and provisions

	31 December 2019	31 December 2018
Transfer orders	287,262	469,923
General reserve (*)	50,000	50,000
Collections from guarantee cheques	43,824	34,545
Reserve for employee severance indemnity and vacation	42,654	34,567
- Employee severance indemnity	*28,672*	*23,047*
- Vacation pay liability	*13,982*	*11,520*
Taxes other than on income	40,686	39,794
Collateral for leveraged operations	32,168	25,893
Assignment fee	25,598	40,828
Payables due from credit cards	25,560	19,124
Personnel bonuses	15,236	11,307
Provision for lawsuits	14,829	12,634
Other various provisions	11,228	6,950
Other	75,995	49,028
Total	**665,040**	**794,593**

(*) As of 31 December 2019, general reserves amounting to TL 50,000 are provided by the Bank considering the circumstances which may arise from any changes in economy or market conditions.

The movement of employee severance indemnity is as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Net liability at the beginning of the year	23,047	9,267
Payments during the period	(6,787)	(6,791)
Actuarial losses	2,491	10,086
Changes during the period	9,921	10,485
Total	**28,672**	**23,047**

IAS 19 requires that all actuarial gains and losses to be recognised immediately in other comprehensive income in accordance with the change in IAS 19.

The movement of vacation pay liability is as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Total provision at the beginning of the year	11,520	9,629
Paid during the year	(2,119)	(1,585)
Total expense recognised in the profit or loss	4,581	3,476
Total	**13,982**	**11,520**

20. Income taxes

Major components of income tax expense:

	2019	2018
Current income taxes:		
Current income tax charge	(94,391)	(55,998)
Deferred taxes:		
Relating to origination and reversal of temporary differences	(12,787)	(43,268)
Income tax expense	**(107,178)**	**(99,266)**

The current income tax charges and prepaid taxes are detailed below:

	31 December 2019	31 December 2018
Current income tax charge	94,391	55,998
Advance taxes	(80,069)	(20,446)
Current tax liability	**14,322**	**35,552**

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

As at 31 December 2019 and 2018, deferred tax assets and liabilities are attributable to the following items:

	31 December 2019		31 December 2018	
	Deferred tax Assets/ (Liabilities)		Deferred tax Assets/ (Liabilities)	
	Asset	Liability	Asset	Liability
Valuation difference of derivative financial instruments	-	(2,391)	671	(435)
Differences in the measurement of the debt securities	-	(2,686)	-	(7,867)
Personnel bonuses	3,420	-	2,562	-
Reserve for employee severance indemnity and vacation	8,623	-	4,932	-
Valuation of financial assets at FVOCI	5,447	-	17,408	-
Loan loss provisions	34,588	-	33,226	-
Revaluation of property and equipment	-	(8,862)	-	(7,036)
Other	12,186	(11,428)	10,376	-
Total deferred tax assets/(liabilities)	**64,264**	**(25,367)**	**69,175**	**(15,338)**
Offsetting	(25,367)	25,367	(15,338)	15,338
Deferred tax assets/(liabilities)	**38,897**	**-**	**53,837**	**-**

20. Income taxes *(continued)*

	1 January – 31 December 2019	1 January – 31 December 2018
Deferred tax asset / (liability) at 1 January	**53,837**	**22,969**
Deferred tax recognised in profit or loss	(12,787)	(43,268)
Deferred tax recognised in equity	(2,153)	31,869
IFRS 9 effect	-	42,267
Deferred tax asset / (liability) at 31 December	**38,897**	**53,837**

The Group has offset the deferred tax assets and deferred tax liabilities on an entity by entity basis based on the legally enforceable right to set off the recognised amounts such as offsetting current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	31 December 2019	31 December 2018
Deferred tax assets	38,897	53,837
Deferred tax liabilities	-	-
Total	**38,897**	**53,837**

A reconciliation of income tax expense applicable to profit from operating activities before income taxes at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 31 December 2019 and 2018 were as follows:

	2019	2018
Net profit from ordinary activities before income taxes and non-controlling interest	**494,494**	**408,450**
Taxes on income per statutory tax rate	98,899	82,466
Disallowable expenses	502	11,543(*)
Effect of income not subject to tax	7,777	5,257
Income tax expense	**107,178**	**99,266**

(*) For the year ended 31 December 2018, disallowable expenses includes TL 50,000 of general reserve provision (TL 11,000 of tax effect) provided in 2018.

For the year ended 31 December 2019, the effective tax rate is 21.7% (2018: 24,3%).

21. Capital and reserves

Share capital

	31 December 2019	31 December 2018
Number of common shares, TL 0.01 (in full TL), par value authorised, issued and outstanding 60,000 millions	600,000	600,000

As at 31 December 2019 and 2018, the authorised nominal share capital of the Bank amounted to TL 600,000.

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

	31 December 2019		31 December 2018	
	Amount	%	Amount	%
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	419,867	69.98	419,867	69.98
Mehmet Rüştü Başaran	163,895	27.32	163,895	27.32
Other shareholders	16,238	2.70	16,238	2.70
Nominal value	**600,000**	**100.00**	**600,000**	**100.00**
Restatement effect per IAS 29	2,619		2,619	
Total	**602,619**		**602,619**	

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation. As at 31 December 2019 and 2018, the amounts of translation reserve of the Bank are TL 386,795 and TL 329,005 respectively.

Fair value reserve

The fair value reserve comprises the effective portion of the cumulative net change in the fair value of financial assets at fair value through other comprehensive income/(net change in the fair value of FVOCI as at 31 December 2019) until the assets are derecognized or impaired. As at 31 December 2019 and 2018, the amounts of fair value reserve of the Bank are TL (18,984) and TL (59,656) respectively.

Hedging reserve

The Parent Bank decided on implementing its strategy to avoid any possible currency risks originating from its consolidated subsidiary, Anadolubank NV, as of 1 May 2018, to the extent that foreign exchange denominated net asset value of Anadolubank Nederland NV and Euro denominated term deposit accounts of Anadolubank as a protective measure against currency risks would be correlated consequently with protective measures against net investment risk. Any relevant changes on financial debts related to currency volatilities are being kept on the Parent Bank's books under equity as other accumulated comprehensive income and expenses that are to be booked as profit or loss.

21. Capital and reserves *(continued)*

Other reserves and legal reserves

Other reserves consist of the revaluation of property and equipment which is amounted to TL 79,761, actuarial difference which is amounted to TL 16,499 loss and others which are amounted to TL 309 (31 December 2018: Revaluation of property and equipment which is amounted to TL 63,275, actuarial difference which is amounted to TL 14,507 loss and others which are amounted to TL 60).

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code and amounted to TL 96,746 (31 December 2018: TL 81,945). The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

Non-controlling interests

As at 31 December 2019, non-controlling interests amount to TL 4,265 (31 December 2018: TL 3,465).

22. Related parties

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 financial and operating decisions. The Group is controlled by Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ which owns 69.98% (31 December 2018: 69.98%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these consolidated financial statements, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families. In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms.

The following significant balances exist and transactions have been entered into with related parties:

Outstanding balances

	31 December 2019	31 December 2018
Cash loans	180,628	84,109
Non-cash loans	165,154	89,600
Deposits taken	385,123	238,911

Transactions

	2019	2018
Interest income	10,509	6,623
Interest expense	12,136	7,522
Other operating income	-	-

Directors' remuneration

For the year ended 31 December 2019, the key management and the members of the Board of Directors received remuneration and fees amounting to TL 30,091 (31 December 2018: TL 26,697).

23. Interest income / expenses

	2019	2018
Interest on loans and receivables	2,443,763	2,372,196
Interest on marketable securities	67,427	71,971
Financial assets at FVTPL	*371*	*6,401*
Financial assets at FVOCI	*33,755*	*33,433*
Financial assets measured at amortized cost	*33,301*	*32,137*
Interest on loans and advances to banks and other financial institutions	61,985	48,882
Interest on other money market placements	93,286	11,446
Other interest income	33,586	20,459
Total interest income	**2,700,047**	**2,524,954**

	2019	2018
Interest on deposits	1,619,271	1,542,630
Interest on other money market deposits	20,875	18,138
Interest on funds borrowed	52,847	69,046
Interest on securities issued	10,179	-
Interest on finance lease expenses	16,391	-
Other interest expenses	3,900	2,300
Total interest expenses	**1,723,463**	**1,632,114**

24. Fee and commission income / expenses

	2019	2018
From non-cash loans	51,769	42,831
Other	205,117	182,044
From cash loans	*129,737*	*121,277*
From individual loan application	*16,473*	*10,220*
Other	*58,907*	*50,547*
Fee and commission income	**256,886**	**224,875**

	2019	2018
Credit card exchange commissions	7,563	4,792
Credit card commissions	6,452	3,034
EFT commissions	4,435	3,720
Foreign correspondents' commissions	2,452	675
Credit bureau commissions	1,887	2,336
Istanbul stock exchange commissions	1,771	1,844
ATM commissions	1,155	1,085
Securities commissions	577	11,828
Other	3,139	4,584
Fee and commission expenses	**29,431**	**33,898**

25. Salaries and employee benefits

	2019	2018
Staff costs:		
Wages and salaries	241,995	187,987
Cost of defined contribution plan (employer’s share of social security premiums)	31,848	29,453
Other fringe benefits	26,519	29,438
Provision for employee termination benefits and unused vacation accruals	18,407	26,102
Total	**318,769**	**272,980**

The average number of employees during the years is:

	2019	2018
The Bank	1,662	1,644
Subsidiaries	168	168
Total	**1,830**	**1,812**

26. Other expenses

	2019	2018
Saving Deposit Insurance Fund Premium	12,976	8,697
Communication expenses	9,984	8,808
Maintenance expenses	7,765	8,512
Energy costs	7,058	9,249
Chartered accountants	5,020	3,384
Expertise expenses	4,839	5,447
Transportation expenses	4,677	3,699
Cleaning service expenses	4,228	3,344
BRSA participation fee	3,022	1,868
Advertising expenses	2,820	4,506
Operating lease charges	2,751	29,272
Office supplies	1,620	1,419
General reserve provision (*)	-	50,000
Other	6,594	22,791
Total	**73,354**	**160,996**

(*) In 2018, general reserves amounting to TL 50,000 were provided by the Bank considering the circumstances which may arise from any changes in economy or market conditions.

27. Commitments and contingencies

In the ordinary course of business activities, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the consolidated financial statements. Commitments and contingent liabilities comprise the following:

	31 December 2019	31 December 2018
Letters of guarantee	2,897,881	2,923,356
Letters of credit	548,572	457,186
Acceptance credits	1,678	11,811
Other guarantees	717,125	314,912
Total non-cash loans	**4,165,256**	**3,707,265**
Credit card limit commitments	90,370	117,331
Other commitments	1,315,697	447,142
Total	**5,571,323**	**4,271,738**

Litigations

In the normal course of its operations, the Group faces with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

As at 31 December 2019, there are 220 cases against the Group which have a probability to result against the Group with respect to information received from Law Departments of the Group. The total amount of these cases is TL 2,500 and provision amount for these cases is TL 14,829.

28. Financial risk management

(a) Introduction and overview

This note presents information about the Group's exposure to each of the below risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the audit committee. Consequently, the Risk Management Department, which carries out the risk management activities and works independently from executive activities, report directly to the Board of Directors.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The risks are measured with the internationally accepted methodologies in compliance with local and international regulations, the Bank's structure, policy and procedures. They are effectively managed and assessed in a continuously growing manner. At the same time, studies for compliance with the international banking applications, such as Basel III, are carried out.

Audit Committee: The Audit Committee consists of two members of the Board of Directors who do not have any executive functions. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

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

28. Financial risk management *(continued)*

(b) Credit risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth covering the counterparty risks arising from not only from future or option contracts but also credit risks originating from the transactions in Banking Law.

Exposure to credit risk

	Loans and receivables to customers		**Other assets**	
	2019	**2018**	**2019**	**2018**
Impaired	1,379,031	817,736	4,707	3,214
Individual allowance for impairment	(778,323)	(443,840)	(4,707)	(3,214)
Carrying amount	**600,708**	**373,896**	**-**	**-**
Past due but not impaired	68,555	197,160	-	-
Carrying amount	**68,555**	**197,160**	**-**	**-**
Neither past due nor impaired	13,172,243	11,120,538	-	-
Loans with renegotiated terms	687,024	505,060	-	-
Carrying amount	**13,859,267**	**11,625,598**	**-**	**-**
Collective allowance for impairment	(122,110)	(156,148)	-	-
Total carrying amount	**14,406,420**	**12,040,506**	**-**	**-**

Impaired loans and receivables

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

28. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Group determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and the completion of the legal procedure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

The Bank has written off the non-performing loans from the loan portfolio as of 31 December 2019 and subtracted which is amounted to TL 3,974.

Collateral policy

The Group holds collateral against loans and receivables to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2019 or 2018.

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

Cash loans	**31 December 2019**	**31 December 2018**
Secured loans:		
Secured by cash collateral	341,361	279,831
Secured by mortgages	*2,017,123*	*2,773,318*
Secured by government institutions or government securities	*138,335*	*581,824*
Guarantees issued by financial institutions	*6,662*	*29,608*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	*3,868,193*	*3,845,671*
Unsecured loans	7,033,775	3,940,133
Total performing loans and receivables	**13,405,449**	**11,450,385**

28. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Collateral policy *(continued)*

Non-cash loans	**31 December 2019**	**31 December 2018**
Secured loans:		
Secured by mortgages	*195,476*	*166,555*
Secured by cash collateral	*116,122*	*122,022*
Guarantees issued by financial institutions	*17,804*	*2,915*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	*275,010*	*295,392*
Unsecured loans	3,560,844	3,120,381
Total non-cash loans	**4,165,256**	**3,707,265**

An estimate of the fair value of collaterals held against non-performing loans and receivables is as follows:

	31 December 2019	**31 December 2018**
Mortgages	654,475	444,466
Pledge on automobile	8,315	6,076
Total	**662,790**	**450,542**

Sectorial and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans is shown below:

	31 December 2019	**31 December 2018**
Service sector	543,281	280,635
Construction	358,365	244,853
Agriculture and stockbreeding	201,211	129,704
Textile	54,330	30,600
Consumer loans	17,831	18,414
Food	49,003	4,514
Metal and metal products	34,878	9,884
Durable consumption	36,881	17,523
Others	87,958	84,823
Total non-performing loans and receivables	**1,383,738**	**820,950**

	31 December 2019	**31 December 2018**
Turkey	1,377,216	820,950
Netherlands	6,522	-
Total non-performing loans and receivables	**1,383,738**	**820,950**

28. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Sectorial break down of cash and non-cash loans

	31 December 2019				31 December 2018			
	Cash	Cash (%)	Non cash	Non-cash (%)	Cash	Cash (%)	Non-cash	Non-cash (%)
Agriculture	**991,233**	**6.89**	**18,958**	**0.46**	**1,041,995**	**8.65**	**27,556**	**0.74**
Farming and stockbreeding	*918,870*	*6.38*	*13,641*	*0.33*	*1,015,234*	*8.43*	*13,873*	*0.37*
Forestry	*16,634*	*0.12*	*4,761*	*0.12*	*6,087*	*0.05*	*7,017*	*0.19*
Fishing	*55,729*	*0.39*	*556*	*0.01*	*20,674*	*0.17*	*6,666*	*0.18*
Industry	**4,205,224**	**29.18**	**1,489,032**	**35.75**	**3,259,685**	**27.06**	**844,422**	**22.78**
Mining and quarrying	*137,284*	*0.95*	*2,765*	*0.07*	*99,655*	*0.83*	*6,735*	*0.18*
Manufacturing	*3,643,761*	*25.29*	*1,443,076*	*34.64*	*2,959,100*	*24.56*	*786,627*	*21.22*
Electricity, gas, water	*424,179*	*2.94*	*43,191*	*1.04*	*200,930*	*1.67*	*51,060*	*1.38*
Construction	**1,918,280**	**13.32**	**1,058,787**	**25.42**	**1,928,394**	**16.01**	**1,013,415**	**27.34**
Services	**7,020,819**	**48.74**	**1,589,242**	**38.15**	**5,630,950**	**46.74**	**1,794,042**	**48.39**
Wholesale and retail trade	*2,901,152*	*20.14*	*738,705*	*17.73*	*2,775,006*	*23.04*	*618,831*	*16.69*
Hotel and restaurant services	*114,738*	*0.80*	*32,309*	*0.77*	*106,548*	*0.88*	*32,573*	*0.88*
Transportation and communication	*602,495*	*4.18*	*95,375*	*2.29*	*611,745*	*5.08*	*96,249*	*2.60*
Financial institution	*2,526,905*	*17.54*	*543,289*	*13.04*	*1,428,825*	*11.86*	*901,275*	*24.31*
Real estate and rent services	*54,077*	*0.38*	*6,665*	*0.16*	*115,286*	*0.96*	*2,405*	*0.06*
Professional services	*290,800*	*2.02*	*75,769*	*1.82*	*107,282*	*0.89*	*34,778*	*0.94*
Educational services	*17,912*	*0.12*	*37,701*	*0.91*	*207,425*	*1.72*	*48,255*	*1.30*
Health and social services	*512,740*	*3.56*	*59,429*	*1.43*	*278,833*	*2.31*	*59,676*	*1.61*
Consumer loans	**113,430**	**0.79**	**-**	**-**	**15,323**	**0.13**	**-**	**-**
Credit card	**57,424**	**0.40**	**-**	**-**	**63,405**	**0.53**	**-**	**-**
Others	**100,010**	**0.68**	**9,237**	**0.22**	**100,754**	**0.88**	**27,830**	**0.75**
Total	**14,406,420**	**100.00**	**4,165,256**	**100.00**	**12,040,506**	**100.00**	**3,707,265**	**100.00**

28. Financial risk management *(continued)*

(c) Liquidity risk

In order to avoid the liquidity risk, the Group diversifies funding resources as customer deposits and foreign borrowings, considers the maturity mismatch between assets and liabilities and maintains liquid assets to guarantee sufficient liquidity during market fluctuations.

While the Group short term liquidity need is met mainly with deposits, its long term liquidity is provided through foreign funding sources such as syndication and securitization transactions. There are no significant idle liquidity resources.

Liquidity coverage ratio

The Bank makes use of liquidity stress tests in the internal measurement of liquidity risk. In liquidity gap analysis and liquidity stress scenarios, the Bank's compensation level of net cash outflows which are more likely to happen in short term are presented. Measurements regarding liquidity risk are performed by Risk Management Department and measurement results are reported regularly to performer units responsible of management of the related risk and top management and the Board of Directors.

Liquidity risk may occur as a result of funding long-term assets with short-term resources. Utmost care is taken to maintain the consistency between the maturities of assets and liabilities; strategies are used to acquire funds over longer terms. In order to avoid adversely affecting the Bank's liquidity risk profile on the funding side of concentrations that may occur, deposit and non-deposit debt concentration limits are used in an active way.

Liquidity risk exposure of the bank, depending on the basic strategy of the Bank is consistent with the resulting risk appetite with risk capacity determined within the limits anticipated by the legislation is a key priority.

The Bank, against a reduction in the huge levels may occur in liquidity sources it is essential to have adequate levels free liquid assets that can be sold in any case or pledged. The level of liquidity buffer consisting of liquid assets in question, expressed in liquidity risk limits are determined by the Board of Directors and is set in accordance with the Bank's liquidity risk tolerance. The Bank's Asset Liability Committee (ALCO) is responsible for determination of the required funding sources and maturities, revising the liquidity situation to determine the appropriate level of liquidity, within the limits approved by the Board of Directors.

28. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Liquidity coverage ratio *(continued)*

Current Period		Total Unweighted Value (average) (*)		Total Weighted Value (average) (*)	
		TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUIDITY ASSETS					
1	High Quality Liquidity Assets			3,196,367	2,082,976
CASH OUTFLOWS					
2	Retail and Small Business Customers' Deposits	10,341,856	4,989,603	931,631	490,254
3	Stable Deposits	2,051,083	174,109	102,554	8,705
4	Less Stable Deposits	8,290,773	4,815,494	829,077	481,549
5	Unsecured Fundings besides retail and small business customers' deposits	5,410,142	1,624,896	2,881,604	811,647
6	Operational Deposits	-	-	-	-
7	Non-Operational Deposits	4,736,661	1,451,919	2,211,873	638,670
8	Other unsecured fundings	673,481	172,977	669,731	172,977
9	Secured Fundings			73,359	73,359
10	Other Cash Outflows	18,182	239,006	18,182	239,006
11	Derivatives cash outflows and collateral outflows	18,182	239,006	18,182	239,006
12	Obligation related to structured financial products	-	-	-	-
13	Commitments related to debts to financial markets and other off-balance sheet obligations	-	-	-	-
14	Other revocable off-balance sheet commitments and contractual obligations	59,856	59,856	2,993	2,993
15	Other irrevocable or conditionally revocable off-balance sheet obligations	4,129,360	1,785,988	401,540	245,665
16	**TOTAL CASH OUTFLOWS**			**4,309,309**	**1,862,924**
CASH INFLOWS					
17	Secured Lending	794,935	-	-	-
18	Unsecured Lending	2,620,599	1,153,073	2,104,932	1,037,015
19	Other Cash Inflows	25,996	466,708	25,996	466,708
20	**TOTAL CASH INFLOWS**	**3,441,530**	**1,619,781**	**2,130,928**	**1,503,723**
				Total Adjusted Value	
21	**TOTAL HQLA STOCK**			**3,196,367**	**2,082,976**
22	**TOTAL NET CASH OUTFLOW**			**2,178,381**	**499,509**
23	**LIQUIDITY COVERAGE RATIO (%)**			**146.73**	**417.00**

(*) It is the average calculated for the last three months of the consolidated liquidity coverage, calculated by taking a monthly simple arithmetic mean.

28. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Liquidity coverage ratio *(continued)*

	Prior Period	Total Unweighted Value (average) (*)		Total Weighted Value (average) (*)	
		TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUIDITY ASSETS					
1	High Quality Liquidity Assets			2,911,110	2,367,761
CASH OUTFLOWS					
2	Retail and Small Business Customers' Deposits	10,654,664	4,761,955	909,536	391,753
3	Stable Deposits	3,118,590	1,688,856	155,929	84,443
4	Less Stable Deposits	7,536,074	3,073,099	753,607	307,310
5	Unsecured fundings besides retail and small business customers' deposits	3,706,898	1,845,041	2,118,831	1,000,513
6	Operational Deposits	-	-	-	-
7	Non-Operational Deposits	3,191,563	1,675,088	1,612,762	830,560
8	Other unsecured fundings	515,335	169,953	506,069	169,953
9	Secured Fundings			37,466	37,466
10	Other Cash Outflows	102,429	146,929	102,430	146,929
11	Derivatives cash outflows and collateral outflows	102,429	146,929	102,430	146,929
12	Obligation related to structured financial products	-	-	-	-
13	Commitments related to debts to financial markets and other off-balance sheet obligations	-	-	-	-
14	Other revocable off-balance sheet commitments and contractual obligations	96,389	96,389	4,819	4,819
15	Other irrevocable or conditionally revocable off-balance sheet obligations	3,832,914	1,263,333	382,299	212,239
16	**TOTAL CASH OUTFLOWS**			**3,555,381**	**1,793,719**
CASH INFLOWS					
17	Secured Lending	70,481	-	-	-
18	Unsecured Lending	2,453,516	1,496,173	1,947,775	1,381,674
19	Other Cash Inflows	36,455	143,613	36,455	143,614
20	**TOTAL CASH INFLOWS**	**2,560,452**	**1,639,786**	**1,984,230**	**1,525,288**
				Total Adjusted Value	
21	**TOTAL HQLA STOCK**			**2,911,110**	**2,367,761**
22	**TOTAL NET CASH OUTFLOW**			**1,571,151**	**462,486**
23	**LIQUIDITY COVERAGE RATIO (%)**			**185.29**	**511.96**

(*) It is the average calculated for the last three months of the consolidated liquidity coverage, calculated by taking a monthly simple arithmetic mean.

	Current period		Prior period	
	TL+FC	FC	TL+FC	FC
Lowest	**111.08**	**290.58**	**128.67**	**344.96**
related month	29 November 2019	29 November 2019	29 October 2018	31 December 2018
Highest	**200.69**	**522.86**	**241.98**	**711.86**
related month	22 October 2019	16 October 2019	2 October 2018	1 October 2018

28. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Liquidity coverage ratio *(continued)*

Liquidity coverage ratio aims to ensure banks maintain adequate levels of high quality liquid assets against net cash outflows. High quality liquid assets are mainly cash and cash equivalents, reserve requirements maintained at CBRT and marketable securities that are not subject to repurchase agreements or not given as collateral. 48% of the Bank's high quality assets are cash & cash equivalents and reserve requirements maintained at CBRT; 47% are marketable securities and %5 are cash. Besides, time deposits, derivatives, loans up to 1 month and non-cash loans are balance sheet accounts that are significant on the ratio. 78% of cash outflows are unsecured funding, 2% are secured funding and 20% are off-balance items.

Residual contractual maturities of monetary liabilities

31 December 2019	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	220,598	221,128	57	221,071	-	-	-	-
Deposits from customers	15,511,126	15,649,943	1,926,835	8,543,850	3,898,810	832,340	412,973	35,135
Debt securities issued	226,921	231,500	-	-	231,500	-	-	-
Obligations under repurchase agreements	388,512	388,963	-	88,434	91,335	174,594	34,600	-
Interbank money market borrowings	142,972	143,353	-	155	65,410	77,788	-	-
Funds borrowed	686,350	690,298	-	255,275	44,661	346,557	43,805	-
Total	**17,176,479**	**17,325,185**	**1,926,892**	**9,108,785**	**4,331,716**	**1,431,279**	**491,378**	**35,135**

31 December 2018	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	144,362	145,538	290	63,612	81,636	-	-	-
Deposits from customers	12,726,125	13,609,973	1,272,053	5,859,666	5,098,015	875,078	466,891	38,270
Obligations under repurchase agreements	380,786	382,431	-	84,859	152,287	113,937	31,348	-
Interbank money market borrowings	337,551	337,943	-	91,652	103,278	143,013	-	-
Funds borrowed	722,936	730,048	-	346,025	41,169	145,707	197,147	-
Total	**14,311,760**	**15,205,933**	**1,272,343**	**6,445,814**	**5,476,385**	**1,277,735**	**695,386**	**38,270**

The previous table shows the undiscounted cash flows on the Group's monetary liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis.

28. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The table below analyses contractual maturities of derivative transactions:

	31 December 2019								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	9,896	2,338	626,453	340,331	143,740	78,580	63,802	-	-
Forward sale contract	-	-	612,597	338,610	137,221	76,317	60,449	-	-
Currency swap purchase	32,410	94,655	3,289,509	1,701,213	937,780	64,176	215,351	370,989	-
Currency swap sale	-	-	3,363,175	1,722,956	969,971	64,838	223,583	381,827	-
Interest swap purchase	34,544	43	1,018,611	33,311	453,058	99,932	-	275,268	157,042
Interest swap sale	-	-	1,017,841	33,311	452,338	99,932	-	275,218	157,042
Put option purchase	11,052	11,053	1,078,155	393,506	388,193	112,965	183,491	-	-
Put option sale	-	-	1,078,144	393,500	388,193	112,966	183,485	-	-
Total	**87,902**	**108,089**	**12,084,485**	**4,956,738**	**3,870,494**	**709,706**	**930,161**	**1,303,302**	**314,084**

	31 December 2018								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	2,784	496	401,416	388,969	8,322	2,697	1,428	-	-
Forward sale contract	-	-	398,844	386,828	8,125	3,299	592	-	-
Currency swap purchase	21,166	32,832	2,133,435	1,292,258	326,587	32,552	221,981	260,057	-
Currency swap sale	-	-	2,156,008	1,297,913	328,638	33,947	232,110	263,400	-
Interest swap purchase	-	-	590,474	-	-	-	60,280	389,415	140,779
Interest swap sale	-	-	590,474	-	-	-	60,280	389,415	140,779
Put option purchase	-	-	194,119	174,021	16,864	3,234	-	-	-
Put option sale	-	-	205,651	185,444	16,973	3,234	-	-	-
Total	**23,950**	**33,328**	**6,670,421**	**3,725,433**	**705,509**	**78,963**	**576,671**	**1,302,287**	**281,558**

28. Financial risk management *(continued)*

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Exposure to market risk – trading portfolios

The market risk arising from trading portfolio is monitored, measured and reported using Standardised Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standardised Approach are reported to BRSA.

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1 day holding period. The VaR model used is based mainly on Monte Carlo simulation. Taking account of market data from the previous 252 days, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios and stress tests for market price movements. The VaR model used is based on and Monte Carlo simulation with using with Nelson Siegel method for yield curve and GARCH method for volatility. The VaR analysis of the Bank are not reported outside and used only by the top management.

The consolidated value at market risk as of 31 December 2019 calculated as per the statutory consolidated financial statements prepared for the BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012 based on the Basel II requirements effective from 1 July 2012 is as follows:

		RWA
1	Indirect (Cash) Products	
2	Interest Rate Risk (general and specific)	952,838
3	Stock risk (general and specific)	23,925
4	Currency risk	72,687
	Commodity risk	-
5	Options	
6	Simplified Approach	-
7	Delta-Plus Method	2,625
8	Scenario Approach	-
9	Securitization	-
	Total	**1,052,075**

28. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position is as follows:

31 December 2019	Less than one month	1-3 months	3-12 months	1 -5 years	Over 5 years	Non-interest	Carrying amount
Cash and balances with the Central Bank	2	198,824	-	-	-	952,536	**1,151,362**
Loans and advances to banks and other financial institutions	1,894,560	-	-	-	-	124,437	**2,018,997**
Receivables from reverse repurchase transactions	910,189	12,385	28,663	9,062	-	-	**960,299**
Financial assets at FVTPL	-	1	15	2,520	2,635	-	**5,171**
Financial assets at FVOCI	-	-	-	278,754	450,960	19,623	**749,337**
Loans and receivables	2,647,181	3,054,745	6,507,423	1,577,237	27,189	592,645	**14,406,420**
Financial assets measured at amortised cost	-	-	13,855	495,384	38,648	-	**547,887**
Other assets	113,239	77	3,453	320	302	867,619	**985,010**
Total assets	**5,565,171**	**3,266,032**	**6,553,409**	**2,363,277**	**519,734**	**2,556,860**	**20,824,483**
Deposits from banks	56,677	163,864	-	-	-	57	**220,598**
Deposits from customers	1,304,502	10,694,455	1,191,855	587,913	32,917	1,699,484	**15,511,126**
Obligations under repurchase agreements and interbank money market borrowings	147,865	96,826	252,194	34,599	-	-	**531,484**
Debt securities issued			226,921		-	-	**226,921**
Funds borrowed	255,006	45,087	342,664	43,593	-	-	**686,350**
Other liabilities, provisions and equity	77,652	3,130	8,011	36,473	37,212	3,485,526	**3,648,004**
Total liabilities	**1,841,702**	**11,003,362**	**2,021,645**	**702,578**	**70,129**	**5,185,067**	**20,824,483**
Net	**3,723,469**	**(7,737,330)**	**4,531,764**	**1,660,699**	**449,605**	**(2,628,207)**	**-**

31 December 2018	Less than one month	1-3 months	3-12 months	1 -5 years	Over 5 years	Non-interest	Carrying amount
Cash and balances with the Central Bank	2	273,029	-	-	-	1,186,848	**1,459,879**
Loans and advances to banks and other financial institutions	1,317,041	28,697	-	-	-	162,403	**1,508,141**
Receivables from reverse repurchase transactions	200,137	6,300	23,196	25,492	-	18,211	**273,336**
Financial assets at FVTPL	-	-	115	1,038	480	-	**1,633**
Financial assets at FVOCI	-	-	58,834	257,753	427,861	12,244	**756,692**
Loans and receivables	3,923,064	2,548,092	4,418,647	766,735	15,710	368,258	**12,040,506**
Financial assets measured at amortised cost	23,874	16,089	127,367	340,223	53,884	-	**561,437**
Other assets	30,524	-	2,561	-	232	864,755	**898,072**
Total assets	**5,494,642**	**2,872,207**	**4,630,720**	**1,391,241**	**498,167**	**2,612,719**	**17,499,696**
Deposits from banks	63,155	80,917	-	-	-	290	**144,362**
Deposits from customers	8,100,233	2,896,431	684,671	416,072	32,431	596,287	**12,726,125**
Obligations under repurchase agreements and interbank money market borrowings	278,341	294,263	113,194	31,303	-	1,236	**718,337**
Funds borrowed	343,867	40,951	143,102	195,016	-	-	**722,936**
Other liabilities, provisions and equity	8,055	526	-	712	439	3,178,204	**3,187,936**
Total liabilities	**8,793,651**	**3,313,088**	**940,967**	**643,103**	**32,870**	**3,776,017**	**17,499,696**
Net	**(3,299,009)**	**(440,881)**	**3,689,753**	**748,138**	**465,297**	**(1,163,298)**	**-**

28. Financial risk management *(continued)*

(d) Market risk *(continued)*

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

31 December 2019	Euro %	USD %	JPY %	TL %
Cash and balances with Central Bank	-	-	-	10.00
Loans and advances to banks and other financial institutions	(0.30)	1.51	-	11.20
Financial assets at FVTPL	1.69	6.02	-	9.40
Money market placements	-	-	-	8.50
Financial assets at FVOCI	1.01	5.48	-	-
Loans and receivables to customers	0.45	9.55	4.80	15.98
Financial assets measured at amortised cost	1.00	5.33	-	11.58
Deposits from banks	0.01	-	-	11.28
Deposits from customers	0.49	2.12	-	11.55
Debt securities issued	-	-	-	11.53
Obligations under repurchase agreements	0.02	2.56	-	10.00
Funds borrowed	0.35	3.09	-	11.96

31 December 2018	Euro %	USD %	JPY %	TL %
Cash and balances with Central Bank	-	2.00	-	13.00
Loans and advances to banks and other financial institutions	0.13	1.88	-	-
Financial assets at FVTPL	3.73	6.98	-	21.33
Money market placements	0.43	3.79	-	21.32
Financial assets at FVOCI	1.04	6.32	-	-
Loans and receivables to customers	1.97	2.81	2.23	27.73
Financial assets measured at amortised cost	3.24	4.45	-	19.52
Deposits from banks	-	2.17	-	21.81
Deposits from customers	1.99	4.51	-	22.91
Obligations under repurchase agreements	0.21	3.45	-	20.00
Funds borrowed	0.69	4.48	-	23.64

28. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate sensitivity of the trading and non-trading portfolios

Interest rate risk in the banking book is evaluated considering the repricing risk, yield curve risk, basis risk and optionality, measured in compliance with the international standards and managed by risk mitigation through limits and hedging.

The interest rate sensitivity of assets, liabilities and off balance-sheet items are evaluated at the weekly Asset-Liability Committee meetings considering also the market developments.

The measurement process of interest rate risk resulting from banking book is established and managed by the Bank on a bank-only basis to include the interest rate positions defined as banking book and to consider the relevant repricing and maturity data.

Duration gaps, gaps by maturity buckets and sensitivity analysis are used in monitoring of repricing risk resulting from maturity mismatch. The duration gap and sensitivity analysis are carried out every two weeks period.

In the duration gap analysis, the present values of interest-rate-sensitive asset and liability items are calculated using yield curves developed from market interest rates. In case of instruments with no maturities assigned, the maturity is determined as per interest rate fixing periods and customer behaviours. Such results are supported by sensitivity and scenario analysis applied periodically for possible instabilities in the markets.

The interest rate risk resulted from banking book is measured legally as per the "Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method" published in the Official Gazette no. 28034 dated 23 August 2011, and the legal limit as per this measurement is monitored and reported monthly. The capital level is maintained considering the interest rate risk resulted from the banking book.

The interest rate risk on the interest-rate-sensitive financial instruments of the trading portfolio is evaluated as part of the market risk.

As of 31 December 2019, the economic value differences resulted from interest rate instabilities calculated on a bank-only basis for the banking book according to the relevant legislation as per the standard shock method are as follows;

Type of currency	Shocks applied (+/- basis points)	Gains/losses	Gains/equity-Losses/equity
TL	(+) 500 bps	(125,680)	(4.3)%
TL	(-) 400 bps	111,779	3.82%
USD	(+) 200 bps	967	0.03%
USD	(-) 200 bps	(996)	(0.03)%
EUR	(+) 200 bps	(9,464)	(0.32)%
EUR	(-) 200 bps	(1,777)	(0.06)%
Total (of negative shocks)		**109,006**	**3.73%**
Total (of positive shocks)		**(134,177)**	**(4.59)%**

28. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk

Currency risk arises when an entity's equity is under threat as a result of exchange rate fluctuations. Naturally, a bank doing business in multiple currencies would be exposed to currency risk unless these risks are properly hedged. Any sizeable transaction that would be causing currency risk is immediately hedged with a banking counterpart, or else smaller transactions are gathered until they form a sizeable amount for hedging.

Foreign exchange gains and losses arising from foreign currency transactions are recorded at transaction dates. At the end of the periods, foreign currency assets and liabilities evaluated with the Bank's spot purchase rates and the differences are recorded as foreign exchange gain or loss in profit or loss except for foreign exchange gain/loss arising from the conversion of the net investments in subsidiaries in foreign countries into TL.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limit on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to foreign currency exchange rate risk at 31 December 2019 and 2018, on the basis of the Group's assets and liabilities at carrying amounts, categorised by currency, is shown in the following table.

28. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk *(continued)*

As at 31 December 2019	**USD**	**Euro**	**Other currencies**	**Total**
Assets:				
Cash and balances with the Central Bank	588,006	309,567	105,011	1,002,584
Loans and advances to banks and other financial institutions	557,315	662,090	43,434	1,262,839
Receivables from reverse repo transactions	315,404	157,982	-	473,386
Financial assets at FVOCI	632,795	108,723	-	741,518
Financial assets at FVTPL	2,946	2,216	-	5,162
Financial assets measured at amortised cost	155,380	219,498	-	374,878
Loans and receivables	1,483,789	2,299,020	29,586	3,812,395
Property and equipment	173	3,788	-	3,961
Other assets	19,521	4,987	508	25,016
Total assets	**3,755,329**	**3,767,871**	**178,539**	**7,701,739**
Liabilities:				
Deposits from other banks	3	6,704	6	6,713
Deposits from customers	3,754,225	2,903,221	93,972	6,751,418
Other money market deposits	291,553	174,100	-	465,653
Funds borrowed	96,206	278,692	-	374,898
Obligations from leasing transactions	344	3,634	-	3,978
Other liabilities and provisions	58,928	15,973	94	74,995
Total liabilities	**4,201,259**	**3,382,324**	**94,072**	**7,677,655**
Net position on the consolidated statement of financial position	**(445,930)**	**385,547**	**84,467**	**24,084**
Off-balance sheet position:				
Net notional amount of derivatives	524,714	(351,897)	(84,561)	88,256
Net position	**78,784**	**33,650**	**(94)**	**112,340**

28. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk *(continued)*

As at 31 December 2018	USD	Euro	Other currencies	Total
Assets:				
Cash and balances with the Central Bank	684,937	208,718	236,643	1,130,298
Loans and advances to banks and other financial institutions	523,802	935,672	19,866	1,479,340
Receivables from reverse repo transactions	11,628	61,571	-	73,199
Financial assets at FVOCI	642,690	109,047	-	751,737
Financial assets at FVTPL	550	987	-	1,537
Financial assets measured at amortised cost	127,504	203,208	-	330,712
Loans and receivables	1,437,752	1,672,311	32,947	3,143,010
Other assets	12,079	4,096	1,177	17,352
Total assets	**3,440,942**	**3,195,610**	**290,633**	**6,927,185**
Liabilities:				
Deposits from other banks	63,384	36	5	63,425
Deposits from customers	3,341,291	2,305,771	48,908	5,695,970
Other money market deposits	284,166	397,607	16,553	698,326
Funds borrowed	119,888	351,138	-	471,026
Other liabilities and provisions	19,580	9,802	49	29,431
Total liabilities	**3,828,309**	**3,064,354**	**65,515**	**6,958,178**
Net position on the consolidated statement of financial position	**(387,367)**	**131,256**	**225,118**	**(30,993)**
Off-balance sheet position:				
Net notional amount of derivatives	333,744	(113,289)	(226,111)	(5,656)
Net position	**(53,623)**	**17,967**	**(993)**	**(36,649)**

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies.

28. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to currency risk sensitivity analysis

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

	31 December 2019		31 December 2018	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
USD	10,215	7,878	2,135	(5,362)
EUR	3,479	3,365	1,996	1,797
Other currencies	(9)	(9)	(99)	(99)
Total, net	**13,685**	**11,234**	**4,032**	**(3,664)**

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

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, during financial crisis, judgment is necessary requirement to interpret market data to determine the estimated fair value.

Management has estimated that the fair value of certain financial assets and liabilities are not materially different than their recorded values except for those of loans and advances to customers and investment securities. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, deposits from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair values and carrying amounts of loans and receivables and financial assets measured at amortised cost as follows:

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables	14,406,420	13,921,634	12,040,506	11,965,692
Financial assets measured at amortised cost - investment securities	547,887	560,981	561,437	536,282

Fair values of financial assets measured at amortised cost are determined as Level 1 and fair values of loans and receivables are determined as Level 2.

Fair values of financial assets measured at amortised cost are derived from market prices or in case of absence of such prices they are derived from prices of other marketable securities, whose interest rate, maturity date and other conditions are similar to securities held.

Fair values of long-term fixed interest rate loans are calculated by discounting cash flows with current market interest rates. For the loans with floating interest rate and short term loans with fixed interest rate, carrying value also represents fair value.

28. Financial risk management *(continued)*

(d) Market risk *(continued)*

Fair value information *(continued)*

IFRS 7 – Financial Instruments requires the classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not.

Classification of fair value measurement

Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Bank. This distinction brings about a fair value measurement classification generally as follows:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Classification requires using observable market data if possible.

	31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss:				
Financial assets at fair value:				
Debt instruments	5,171	-	-	5,171
Loans at fair value through profit or loss	-	-	68,940	68,940
Equity securities	-	-	-	-
Derivative financial assets held for trading	-	87,902	-	87,902
Financial assets at FVOCI				
Debt instruments issued by Turkish government	591,404	-	-	591,404
Equity securities	-	11,804	7,819	19,623
Other	138,310	-	-	138,310
Total financial assets	**734,885**	**99,706**	**76,759**	**911,350**
Financial liabilities at fair value through profit or loss:				
Derivative financial liabilities held for trading	-	108,089	-	108,089
Total financial liabilities	**-**	**108,089**	**-**	**108,089**

28. Financial risk management *(continued)*

(d) Market risk *(continued)*

Classification of fair value measurement *(continued)*

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss:				
Financial assets at fair value:				
Debt instruments	1,633	-	-	1,633
Loans at fair value through profit or loss	-	-	68,103	68,103
Equity securities	-	-	-	-
Derivative financial assets held for trading	-	23,950	-	23,950
Financial assets at FVOCI				
Debt instruments issued by Turkish government	532,165	-	-	532,165
Equity securities	-	7,289	5,057	12,346
Other	212,181	-	-	212,181
Total financial assets	**745,979**	**31,239**	**73,160**	**850,378**
Financial liabilities at fair value through profit or loss:				
Derivative financial liabilities held for trading	-	33,328	-	33,328
Total financial liabilities	**-**	**33,328**	**-**	**33,328**

Apart from financial assets and financial liabilities, as of 31 December 2019, the Group carries the real estates at fair value under property and equipment. Level 3 inputs are used to determine fair value of property and equipment.

As of 31 December 2019, the revaluation model effect, net of deferred tax, for real estates under property and equipment amounting to TL 79,761 was accounted under shareholders' equity (2018: TL 63,275).

28. Financial risk management *(continued)*

(d) Market risk *(continued)*

Level 3 fair value measurements

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	Loans at fair value through profit or loss	Equity securities at FVOCI	Total
Balance at 1 January 2019	68,103	5,057	73,160
Revaluation	837	2,762	3,599
Balance at 31 December 2019	**68,940**	**7,819**	**76,759**

	Loans at fair value through profit or loss	Equity securities at FVOCI	Total
Balance at 1 January 2018	-	5,057	5,057
Transfers into Level 3(*)	68,103	-	68,103
Balance at 31 December 2018	**68,103**	**5,057**	**73,160**

(*) Loans and receivables include the loan granted to the special purpose entity amounting to TL 68,940 (31 December 2018: TL 68,103). The fair value of this loan is determined by the independent valuation company by considering different methodologies (discounted cash flows, peer market multipliers, similar transaction multipliers in the same sector etc.). Valuation techniques considered in the valuation work and any possible changes in the basic assumptions may affect the carrying value of the related asset. Accordingly, the loan is classified as Level 3.

28. Financial risk management (*continued)*

(e) Operational risk

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

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

The data and amount of operational losses, the Bank exposed to during its activities is collected and analysed regularly by Risk Management Department and reported to Board of Directors, Auditing Committee and senior management.

The Group calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2007, using gross profit of the last three years 2016, 2017 and 2018. Value at operational risk is amounting to TL 1,735,583 (31 December 2018: TL 1,303,008).

(f) Capital management – regulatory capital

The BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations are directly supervised by their local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks. The Bank and its affiliates' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of the fair value reserve relating to unrealised gain/(loss) on assets classified as financial assets at fair value through other comprehensive income.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year. There have been no material changes in the Bank's management of capital during the period.

28. Financial risk management *(continued)*

(f) Capital management – regulatory capital *(continued)*

The capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the "Regulation")", "Regulation on Credit Risk Mitigation Techniques" and "Regulation on Calculation of Risk Weighted Amounts for Securitisations" published in the Official Gazette no.29511 dated 23 October 2015 and the "Regulation on Equities of Banks" published in the Official Gazette no.28756 dated 5 September 2013. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as "trading book" and "banking book" according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and provisions. In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the "Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables". The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

In the calculation of the value at credit risk for the derivative financial instruments and the credit derivatives classified in banking book, the receivables from counterparties are multiplied by the rates stated in the Appendix-2 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the article 5 of the Regulation, the "counterparty credit risk" is calculated for repurchase transactions, securities and commodities borrowing agreements.

28. Financial risk management *(continued)*

(f) Capital management – regulatory capital *(continued)*

The Bank's and its subsidiaries' regulatory capital positions on a consolidated basis as of 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Tier 1 capital	2,839,664	2,410,638
Tier 2 capital	94,818	118,567
Deductions from capital	(309)	(701)
Total regulatory capital	**2,934,173**	**2,528,504**
Risk-weighted assets	16,596,524	13,375,353
Value at market risk	1,052,075	1,018,275
Operational risk	1,735,583	1,303,008
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	15.14%	16.11%
Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	14.65%	15.36%

29. Events after the reporting period

A new type of coronavirus (COVID-19), which spread to many countries in the first quarter of 2020 and was classified as a global pandemic by the World Health Organization, caused disruptions in economic and commercial activities. The effects of the pandemic, which affect the economic conditions both locally and globally, on the consolidated financial statements of the Group are closely monitored by the Group management. Countries including Turkey have taken financial measures in order to limit the adverse effects of the pandemic on the economy.

The effects of the pandemic on the Bank's asset quality and financial results are closely monitored and evaluated. The Parent Bank also postpones principal and interest payments and / or provides additional financial support, if required by credit customers due to the COVID-19 outbreak.

BRSA has decided that, days past due (DPD) criteria, which is 30 days for loan classification to stage 2 shall be extended up to 90 for loans monitored under stage 1, and 90 days for classification to stage 3 (non-performing loans) shall be extended up to 180 for loans monitored under stage 1 and stage 2, effective from 17 March 2020 until 31 December 2020. The Group takes into consideration the aforementioned regulations of the BRSA since the decisions were published.

In accordance with the BRSA Decision No. 8948 dated 17 March 2020, which is effective from 17 March 2020 until 31 December 2020, the Bank recognizes lifetime expected credit losses for loans having between 90 and 180 days past due, and monitored under stage 2, by considering their probability of default (PD) as 100%. Pursuant to the decision of the BRSA dated 27 March 2020 and numbered 8970, it has been decided to apply the 30 days past due for classifying the loans under stage 2 as 90 days until 31 December 2020 and to continue to provide expected credit losses within the scope of IFRS 9.

29. Events after the reporting period *(continued)*

With the BRSA Board Decisions dated 18 April 2020 and 30 April 2020, in accordance with Articles 93 and 43 of the Banking Law, all deposit and participation banks became subject to compliance with an Asset Ratio ("AR") requirement, which is effective from 1 May 2020. After a review of bank activities since the announcement of AR, the BRSA has amended the formula to enhance its effectiveness. Banks whose total TL deposits and FC deposits (except for bank deposits) below TL 25 billion (full TL) as of 31 March 2020 have to ensure compliance with the AR Regulation by 31 December 2020. The Bank is exempt from reporting the AR until the end of 2020.

The dividend amount, which is projected to be distributed and that exceeds 25% of the net profit for the year ended 2019 of capital companies, will have to be postponed until 30 September 2020 pursuant to the temporary article 13 added to the Turkish Commercial Code ("TCC") numbered 6102 with the Law No. 7244 on Reducing the Economic and Social Effects of the New Coronavirus (COVID-19) Epidemic and on Amendments to Certain Laws published in the Official Gazette dated 17 April 2020 and numbered 31102.

With the decision taken at the General Assembly meeting concerning the year ended 2019 held on 6 May 2020, the Bank's net profit for the year ended 31 December 2019 amounting to TL 386,527 was transferred to retained earnings in accordance with the aforementioned regulation of the TCC.

Between 31 December 2019 and 25 August 2020, which is the issue date of the consolidated financial statements, Turkish Lira has been substantially depreciated against main foreign currencies. It has been depreciated by 24% against US Dollar and by 30% against Euro.