Odea Bank Anonim Şirketi

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

6 May 2020

This report contains the “Independent Auditor’s Report” comprising 4 pages and; the “Financial statements and their explanatory notes” comprising 69 pages.

Odea Bank Anonim Şirketi

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INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Odea Bank Anonim Şirketi

Opinion

We have audited the financial statements of Odea Bank A.Ş. ("the Bank"), which comprise the statement of financial position as at 31 December 2019 and the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standard 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 opinion.

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Key Audit Matters

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

Impairment on loans and advances to customers

Refer to *"significant accounting policies"* Note 2(G) to the financial statements relating to impairment on loans and advances to customers.

Key audit matter	*How the matter is addressed in our audit*
As at 31 December 2019, loans and advances to customers comprise 52% of the Bank's total assets. The Bank recognizes its loans and advances to customers in accordance with the IFRS 9 "Financial Instruments". The Bank applies the "expected credit loss model" in determining the impairment of financial assets in accordance with IFRS 9. Significant assumptions and estimates used in the model is reviewed by the Bank management annually. The significant assumptions and estimates used in the model by the Bank's management are as follows: • significant increase in credit risk, • incorporating the forward looking macroeconomic information in calculation of credit risk, • design and implementation of expected credit loss model The determination of the impairment of loans and advances to customers depends on the credit default status, the model based on the change in the credit risk at the first recognition date and the classification of the loans and advances to customers 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 Bank calculates expected credit losses both on 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 incorporating the future expectations. Impairment on loans and advances to customers calculation is determined as a key audit matter, due to the significance of the estimates and the level of judgments and its complex structure as explained above.	Our procedures for testing the impairment on loans and advances to customers 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 adequacy of the subjective and objective criteria that is defined in the Bank's impairment accounting policy compared with IFRS 9. • We evaluated the Bank's business model and methodology and the evaluation of the calculations were carried out with the control testing and detailed analysis by the involvement of specialist. • 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, current status of the loan customer has been evaluated by including forward looking information and macroeconomic expectations. • We evaluated the adequacy of the expected credit loss calculations by selecting sample for the loans which are assessed on individual basis. • We tested the accuracy and completeness of the data in calculation of the data in the calculation models for the loans which are assessed on collective basis. We recalculated the expected credit loss calculation. 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 model which is used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method. • We evaluated the criteria which are used in determining the significant increase in credit risk. • Additionally, we also evaluated the adequacy of the disclosures in the financial statements related to impairment provisions.

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2018 were audited by another auditor who expressed a qualified opinion on those financial statements, due to the general provisions provided by the Bank on 10 April 2019.

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

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Bank's internal control.

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

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- 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 Bank'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 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 Bank to cease to continue as a going concern.

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

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 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

Funda Aslanoğlu
Partner

6 May 2020
Istanbul, Turkey

Odea Bank A.Ş.

Statement of financial position
as at 31 December 2019
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Notes	Audited 31 December 2019	Audited 31 December 2018
Assets			
Cash and balances with central banks	6	3.616.621	4.070.971
Due from banks	7	3.305.543	2.447.101
Money market placements	7	2.060.644	740.121
Financial assets at fair value through profit or loss	8	1.393.587	1.088.570
- Financial assets held for trading	8	*4.094*	*3.269*
- Derivative financial assets	8-9	*1.389.493*	*1.085.301*
Loans and advances to customers	10	17.069.115	18.556.247
Investment securities	11	3.459.010	2.986.100
- Financial assets at fair value through other comprehensive income	11	*406.901*	*201.767*
- Financial assets at fair value through other comprehensive income pledged as collateral	11	*740.409*	*103.131*
- Financial assets measured at amortized cost	11	*1.269.026*	*1.091.094*
- Financial assets measured at amortized cost pledged as collateral	11	*1.042.674*	*1.590.108*
Tangible assets	12	212.317	86.823
Intangible assets	13	74.813	62.942
Deferred tax assets	17	245.840	272.167
Non - current assets held for sale	14	590.474	238.525
Other assets	14	600.778	797.652
Total assets		**32.628.742**	**31.347.219**
Liabilities			
Deposits	15	22.097.373	21.561.048
Due to banks and money market balances	16	2.884.053	3.075.907
Debt securities issued	16	760.000	207.110
Subordinated liabilities	16	1.735.813	1.636.012
Derivative financial liabilities	9	1.260.911	1.192.620
Employee benefits	18	49.571	36.847
Taxes payable	20	42.265	48.582
Provisions	19	77.859	131.324
Other liabilities	21	421.316	237.947
Total liabilities		**29.329.161**	**28.127.397**
Equity			
Share capital	22	3.288.842	3.288.842
Other reserves	23	(6.759)	(86.905)
Retained earnings		(53.624)	735
Profit for the year		71.122	17.150
Total equity		**3.299.581**	**3.219.822**
Total liabilities and equity		**32.628.742**	**31.347.219**

The accompanying notes set out on pages 7 to 69 form an integral part of these financial statements.

Odea Bank A.Ş.

Statement of profit or loss
for the year ended 31 December 2019
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Notes	Audited 31 December 2019	Audited 31 December 2018
Interest income	24	3.002.904	3.501.179
Interest expense	24	(2.006.550)	(2.417.790)
Net interest income		**996.354**	**1.083.389**
Fee and commission income	25	131.898	153.516
Fee and commission expense	25	(24.937)	(34.610)
Net fee and commission income		**106.961**	**118.906**
Foreign exchange gains, net	26	(197.172)	(693.212)
Net trading and fair value income / (loss)	26	135.366	744.478
Gains from investment securities, net	26	28.379	(58.430)
Other operating income		27.621	53.918
Total operating income		**1.097.509**	**1.249.049**
Net impairment/recoveries on financial assets	28	(371.905)	(574.347)
Net operating income		**725.604**	**674.702**
Personnel expenses	27	(252.416)	(212.922)
Other operating expenses	27	(303.397)	(386.522)
Depreciation of tangible assets	27	(48.305)	(26.557)
Amortization of intangible assets	27	(31.408)	(32.071)
Total operating expenses	27	**(635.526)**	**(658.072)**
Operating profit for the year		**90.078**	**16.630**
Profit before income tax		**90.078**	**16.630**
Current tax income/(expense)	17	-	-
Deferred tax income/(expense)	17	(18.956)	520
Profit for the year		**71.122**	**17.150**
Earnings per share			
Basic and diluted per share		0,022	0,005

The accompanying notes set out on pages 7 to 69 form an integral part of these financial statements.

Odea Bank A.Ş.

Statement of other comprehensive income
for the year ended 31 December 2019
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Notes	Audited 31 December 2019	Audited 31 December 2018
Profit for the year		**71.122**	**17.150**
Other comprehensive income		**80.146**	**(88.703)**
Other comprehensive income that will not be reclassified to profit or loss		**(207)**	**198**
Gains/(losses) on remeasurements of defined benefit plans		(2.554)	(706)
Other components of other comprehensive income that will not be reclassified to profit or loss		2.288	960
Taxes relating to components of other comprehensive income that will not be reclassified to profit or loss		59	(56)
Other comprehensive income that will be reclassified to profit or loss		**80.353**	**(88.901)**
Valuation and/or reclassification profit or loss from financial assets at fair value through other comprehensive income		71.917	(25.696)
Income/(loss) related with cash flow hedges		31.100	(88.280)
Taxes relating to components of other comprehensive income that will be reclassified to profit or loss		(22.664)	25.075
Total comprehensive income for the year		**151.268**	**(71.553)**

Odea Bank A.Ş.

Statement of changes in equity
for the year ended 31 December 2019
(Amounts expressed in thousands of TL unless otherwise indicated.)

Audited	Notes	Share Capital (Note 22)	Retained Earnings and result of the year	Other reserves (Note 23)	Total equity
Balance at 1 January 2018		**3.288.842**	**629.450**	**(33.285)**	**3.885.007**
Change in accounting policy – IFRS 9		-	(629.340)	35.083	**(594.257)**
Total comprehensive income for the year		-	17.150	(88.703)	**(71.553)**
Other		-	625	-	**625**
Balance at 31 December 2018		**3.288.842**	**17.885**	**(86.905)**	**3.219.822**
Change in accounting policy – IFRS 16 (*)	**2.Y**	-	(61.462)	-	**(61.462)**
Correction of error in accordance with IAS 8 (**)		-	(10.047)	-	**(10.047)**
Total comprehensive income for the year		-	71.122	80.146	**151.268**
Balance at 31 December 2019		**3.288.842**	**17.498**	**(6.759)**	**3.299.581**

(*) In accordance with the option provided by the transition provisions of IFRS 16 "Leases", the Bank did not restate the prior period financial statements but the transition effect of the standard amounting to TL 61.462 as decrease has been recognized in the "Retained Earnings" in equity as of 1 January 2019.

(**) For credit card exposures subject to non-performing asset sale, the accruals related to relevant cards have not been derecognized from the statement of financial position and the impact of such error amounting to TL 10.047 is reflected to shareholders' equity as an adjustment as per IAS 8.

The accompanying notes set out on pages 7 to 69 form an integral part of these financial statements.

Statement of cash flows
for the year ended 31 December 2019
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Notes	Audited 31 December 2019	Audited 31 December 2018
Cash flows from operating activities			
Interest received		2.928.988	3.377.205
Interest paid		(1.862.780)	(2.339.602)
Fees and commissions received		46.573	25.934
Income from banking services		85.325	117.685
Trading income		28.379	(58.430)
Fees and commissions paid		(24.937)	(34.610)
Collections from previously written off loans		245.527	205.067
Cash payments related to employee benefits and similar items		(496.659)	(533.674)
Cash received from other operating activities		13	17
Cash paid for other operating activities		898.958	(254.265)
Income taxes paid		(143.054)	(315.211)
Cash flows from operating profits before changes in operating assets and liabilities		**1.706.333**	**190.116**
Changes in operating assets and liabilities			
Trading securities		(1.130)	(2.521)
Reserve deposits at Central Bank		(862.474)	(758.463)
Loans and advances		(288.404)	2.799.034
Other assets		(267.622)	(1.069.042)
Deposits from banks		147.645	559.568
Deposits from customers		(1.102.471)	(2.956.634)
Financial liabilities at fair value through profit or loss		1.615.115	(123.964)
Funds borrowed		(992.477)	(48.018)
Other liabilities		715.285	341.834
Net cash (used in) operating activities		**(1.036.533)**	**(1.258.206)**
Cash flows from investing activities			
Purchases of financial assets at fair value through other comprehensive income	11	(1.066.175)	(265.352)
Proceeds from sale and redemption of financial assets at fair value through other comprehensive income	11	458.444	922.463
Purchases of assets held for resale	14	(468.927)	(89.935)
Proceeds from assets held for resale	14	116.978	22.356
Purchases of tangible assets	12	(128.616)	(4.467)
Proceeds from the sale of tangible assets	12	3.122	5184
Purchase of intangible assets	13	(11.871)	(5.089)
Purchases of amortised cost securities	11	(381.387)	(1.409.714)
Proceeds from sale and redemption of amortised cost securities	11	764.630	1.379.616
Other		144.768	137.394
Net (used in) investing activities		**(569.034)**	**692.456**
Cash flows from financing activities			
Proceeds from funds borrowed		3.849.820	460.149
Repayments of funds borrowed	16	(3.293.000)	(244.179)
Payments for finance leases		5.073	-
Net cash from financing activities		**561.893**	**215.970**
Effects of foreign exchange rate changes on cash and cash equivalents		**459.324**	**849.370**
Net increase in cash and cash equivalents		**1.121.983**	**689.706**
Cash and cash equivalents at beginning of year		5.287.542	4.597.836
Cash and cash equivalents at end of year		**6.409.525**	**5.287.542**

The accompanying notes set out on pages 7 to 69 form an integral part of these financial statements.

Index for notes to the financial statements

1. General information

Odea Bank A.Ş. (a subsidiary of Bank Audi S.A.L.) was established as a deposit bank with USD 300 Million capital with the permission of BRSA numbered 4432 dated 27 October 2011, which was published in the Official Gazette on 28 October 2011, numbered 28098. Odea Bank A.Ş. started its operations in the "foreign banks founded in Turkey" group, by taking operating permission from BRSA numbered 4963 on 28 September 2012, which was published in Official Gazette dated 2 October 2012 numbered 28429.

The Ultimate parent of the Bank is Bank Audi S.A.L.

Pursuant to the approval of BRSA dated 8 December 2015, The Bank, on 1 March 2016, converted into TL the capital contribution which were obtained from its controlling shareholder Bank Audi S.A.L. amounting to total USD 300 million, and completed the necessary legal and administrative procedures with the relevant authorities and added its converted amount to TL 883.530 to the paid in capital on 31 March 2016. On 10 August 2016, in line with Article 473 and Article 474/2 of the Turkish Commercial Code, The Bank simultaneously reduced the paid in capital by TL 90.838 and increased to TL 3.288.842 where TL 224.451 have been subscribed by Bank Audi S.A.L.,TL 263.394 by European Bank for Reconstruction and Development, TL 209.252 by International Finance Corporation, TL 112.674 by IFC FIG Investment Company S.A.R.L, TL 131.697 by H.H. Sheikh Dheyab Binzayed Binsultan Al-Nahyan and TL 58.532 by Mr. Mohammad Hassan Zeidan.

The Bank is registered in Istanbul, Turkey at the following address: Levent 199, Büyükdere Caddesi No:199 Kat: 33-40 Levent Şişli/ İstanbul. As of 31 December 2019, the Bank is operating with 48 branches and 1.091 employees (31 December 2018: 45 domestic branches, 1.088 employees). The independent auditor's report dated 6 May 2020 is presented preceding the financial statements. The General Assembly and certain regulatory bodies have the power to amend the financial statements after issue.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, except for the accounting policy change explained in Section (E) and Note 2.

A. Basis of preparation and statement of compliance

The financial statements have been prepared on a historical cost basis; except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which have all been measured at fair value.

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") including the International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB").

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Public Oversight Accounting and Auditing Standards Authority, additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA") and other relevant rules promulgated by the Turkish Commercial Code and Tax Regulations.

The financial statements are presented in the national currency of the Republic of Turkey the Turkish Lira ("TL").

2. Summary of significant accounting policies (continued)

A. Basis of preparation and statement of compliance (continued)

In preparation of the financial statements of Bank, the same accounting policies are applied as compared to the most recent annual financial statements as of 31 December 2019 except for IAS 16. Other new IFRS/IAS amendments in effect do not have significant impact on the accounting policies, financial position and performance of the Bank.

Standards and interpretations issued but not yet effective

Standards issued but not yet effective and not early adopted

A number of new standards and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Bank has not early adopted are as follows.

The revised Conceptual Framework

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

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. IASB has issued amendments to IFRS 3 Business Combinations to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. With 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.

2. Summary of significant accounting policies (continued)

A. Basis of preparation and statement of compliance (continued)

Amendments to IFRS 3 - Definition of a Business (continued)

This is a simplified assessment that results in an asset acquisition of substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020; with earlier application permitted.

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

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

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

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

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

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 Bank is assessing the potential impact on its financial statements resulting from the application of the amendments to interest benchmark reform.

(Amounts expressed in thousands of TL unless otherwise indicated.)

2. Summary of significant accounting policies (continued)

B. Foreign currency translation

(a) Functional and presentation currency

The financial statements are presented in Turkish Lira (TL), which is the Bank’s functional and the presentation currency, and all values are rounded to the nearest thousands, except when otherwise indicated.

As of 31 December 2019, foreign exchange gains and losses arising from transactions that are completed, translated to TL by using historical foreign currency exchange rates. Balance of the foreign currency denominated monetary assets and liabilities are converted into TL by using foreign currency exchange rates of the Bank for the year end and the resulting exchange differences are recorded as foreign exchange gains and losses.

Foreign currency translation rates used by the Bank are as follows:

	31 December 2019	31 December 2018
USD	5,9476	5,2978
CHF	6,1624	5,3810
GBP	7,8595	6,7744
100 JPY	5,4792	4,8133
EURO	6,6824	6,0619

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

C. Related parties

Parties are considered related to the Bank if below conditions are met;

(a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

2. Summary of significant accounting policies (continued)

C. Related parties (continued)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
(vi) The entity is controlled or jointly controlled by a person identified in (a).
(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

For the purpose of these financial statements, shareholders, key management personnel and board members, in each case together with their families and companies controlled by/affiliated with them, associated companies and other companies within the Bank Audi Group, IFC and EBRD are considered and referred to as related parties. A number of banking transactions were entered into with related parties in the normal course of business.

D. Due from other banks

Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost.

E. Financial assets

Financial instruments comprise financial assets, financial liabilities and derivative instruments. Financial instruments affect liquidity, market, and credit risks on the Bank's statement of financial position in all respects.

Basically, financial assets create the majority of the commercial activities and operations of the Bank. These instruments expose, affect and diminish the liquidity, credit and interest risks in the financial statements.

All regular way purchases and sales of financial assets are recognized on the settlement date. The settlement date is the date that the asset is delivered to or by the Bank. Settlement date accounting requires (a) accounting of the asset when acquired by the institution and (b) disposing of the asset out of the statement of financial position on the date settled by the institution; and accounting of gain or loss on disposal. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The Bank categorizes its financial assets as "Fair Value Through Profit/Loss", "Fair Value Through Other Comprehensive Income" or "Measured at Amortized Cost". Such financial assets are recognized or derecognized according to IFRS 9 Financial Instruments Part 3 Issued for classification and measurement of the financial instruments.

The methods and assumptions used in the recognition and measurement of financial instruments are mentioned below.

2. Summary of significant accounting policies (continued)

E. Financial assets (continued)

Financial Assets at Fair Value Through Profit and Loss

“Financial assets at fair value through profit/loss” are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short-term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making.

Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the statement of profit or loss. Transaction costs related to such assets are recorded as expense at the time of occurrence.

Financial Assets at Fair Value Through Other Comprehensive Income

In addition to financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows which are solely payments of principal and interest are classified as fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to the statement of profit or loss. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the statement of profit or loss of the period until the receipt of consideration against that asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted for under the “other comprehensive income or expense items to be recycled to profit or loss” under shareholders’ equity.

Equity instruments, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

During initial recognition an entity can choose in an irrecovable way to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

Financial Assets Measured at Amortized Cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost.

Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is recognized through profit or loss.

2. Summary of significant accounting policies (continued)

E. Financial assets (continued)

Financial Assets Measured at Amortized Cost (continued)

"Fair value through other comprehensive income" and "measured at amortized cost" securities portfolio of the Bank includes Consumer Price Indexed (CPI) bonds. These securities are measured and accounted for using the effective interest rate method based on the real coupon rates adjusted with the difference between the reference inflation index at the date of issuance and the realized inflation rate which is officially announced.

Loans and Advances to Customers

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market.

Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method".

Foreign currency indexed loans are converted into TL from the foreign currency rate as of the opening date and followed in TL accounts. Repayments are measured with the foreign currency rate at the payment date, the foreign currency gains and losses are reflected to the statement of income.

Foreign exchange gains and losses on the foreign currency indexed loans are presented under foreign exchange gains and losses in the statement of profit or loss.

Derecognition of a financial asset

Before evaluating whether, and to what extent, derecognition is appropriate, the Bank determines whether those criteria should be applied to a part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in its entirety. Criteria is applied to a part of financial asset (or a part of a group of similar financial assets) if, and only if, the part being considered for derecognition meets one of the following three conditions.

(i) The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets).

(ii) The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets).

(iii) The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

A financial asset (or, a part of a financial asset or a part of group of financial assets, where appropriate) is derecognized when, and only when,

- the contractual rights to the cash flows from the financial asset expire; or
- the contractual rights to the cash flows from the financial asset are transferred; or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in the arrangement without material delay and:
- if the entity transfers substantially all the risks and rewards of ownership of the financial asset or,
- if the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, whether it has retained control of the financial asset.

2. Summary of significant accounting policies (continued)

E. Financial assets (continued)

Derecognition of a financial asset (continued)

If the Bank transfers the contractual rights to the cash flows from the financial asset, or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in the arrangement without material delay and if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset and it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset. In this case, the entity also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained.

The Bank has evaluated the non-performing loan portfolio of which contractual rights are transferred to the asset management companies, in the context of above statements and derecognizes the loans that are subject to agreements in which all risks and rewards are transferred to the buyer.

Assessment of business model

The entity's business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. During assessment of the business model for management of financial assets, it must be considered all relevant evidence that is available at the date of the assessment. Such relevant evidence includes below:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Assessment of the business model is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios.

The Bank's business models are divided into three categories. These categories are defined below:

- A business model whose objective is to hold assets in order to collect contractual cash flows: a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortised cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
- A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: the Bank may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Other business models: Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

2. Summary of significant accounting policies (continued)

F. Derivative financial instruments

The derivative transactions mainly consist of options, foreign currency swaps, interest rate swaps, and foreign currency forward contracts. Derivative instruments are initially recorded at their fair values and related transaction costs are recognized in statement of profit or loss at the date of occurrence. The changes in the fair values of derivatives which are not subject to hedge accounting are recorded on statement of financial position under "the portion of derivative financial assets measured at fair value through profit and loss" or "the portion of derivative financial liabilities measured at fair value through profit and loss", respectively depending on the fair values being positive or negative. Fair value changes for derivatives are recorded in the account of "Profit/losses from derivative financial transactions" within the statement of profit or loss.

Liabilities and receivables arising from the derivative instruments are followed in the off-balance sheet accounts at their contractual values.

Embedded derivatives shall be separated from the host and accounted for as a derivative according to IFRS 9 if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss. If an embedded derivative is separated, the host contract shall be accounted for in accordance with the appropriate Standards.

Derivative financial instruments held for hedging purpose

The Bank applied cash flow hedge accounting to mitigate interest rate changes on TL deposit through interest rate swaps.

The Bank utilizes derivative instruments effectively in the process of asset and liability management. TFRS 9 permits to defer application of TFRS 9 hedge accounting and continue to apply hedge accounting in accordance with TAS 39 as a policy choice. Accordingly, the Bank continues to apply hedge accounting in accordance with TAS 39 in this context.

Within the scope of cash flow hedge accounting, effective part of the fair value changes of the hedging instrument are accounted in equity under "Cash Flow Hedge Gain/Loss, Shares of Investments Valued by Equity Method in Other Comprehensive Income Classified Through Profit or Loss and Other Accumulated Amounts of Other Comprehensive Income Items Reclassified Through Other Profit or Loss" whereas ineffective part is accounted in the statement of profit or loss.

The Bank hedges its cash flow risk arising from Turkish Lira floating interest rate liabilities by using interest rate swaps. Within the scope of cash flow hedge accounting the fair values being positive or negative and effective portions in the equity under "Other Comprehensive Income Items to be recycled to profit and loss" and ineffective portions in the statement of profit or loss under "profit / loss from derivative financial transaction".

In the periods in which the cash flows (interest expenses) of the hedged item affects the statement of profit or loss, the profit/ loss of the hedging instrument is recycled to the statement of profit or loss from equity.

Effectiveness tests are performed at the beginning of the hedge accounting period and at each reporting period. The effectiveness tests are carried out using the ("Dollar off-set model") and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness.

The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective.

2. Summary of significant accounting policies (continued)

F. Derivative financial instruments (continued)

Derivative financial instruments held for hedging purpose (continued)

When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortized to statement of profit or loss under trading account income/loss caption over the maturity of the hedged item from that date of the hedge accounting is discontinued. While expiring, sale, discontinuing cash flow hedge accounting or when no longer effective the cumulative gains/losses recognised in shareholders' equity and presented under “accumulated other comprehensive income or expense to be reclassified to profit or loss” are continued to be kept in this account. When the cash flows of hedged item incur, the gain/losses accounted for under shareholders' equity are recognised in statement of profit or loss considering the original maturity.

A prospective test is performed at the beginning of the hedge accounting and both retrospective and prospective test are performed at each reporting period with Dollar off-set method. According to this method, hedge accounting continues when the result is within a range of 80-125% effectiveness. Depending on the calculated effectiveness ratio, hedging relationship is accounted in accordance with IAS 39 rules.

In case the hedging instrument is not continued due to the termination, realization, sale, termination of hedge accounting or ineffectiveness of the effectiveness test; hedge accounting is terminated. In such cases, the profit/loss accounted under shareholders' equity in cash flow hedge accounting continues to be accounted for under “Other comprehensive income items to be recycled to profit or loss” within equity until the realization of the cash flows of the hedged item. When the cash flows related to the hedging item are realized, the profit/loss accounted under equity is classified in the statement of profit or loss taking into account the original maturity of the hedging instrument.

Renewal of a hedging instrument or transfer to another hedging instrument if it is part of a hedging strategy does not remove the hedging relationship.

The Bank's derivative instruments consist of options, foreign currency and interest swaps and forward foreign currency buy/sell transactions. Derivative instruments are accounted for at their fair values as of the contract date and subsequently valued at fair value. Certain derivative instruments, although economical hedges, are accounted as trading transactions since they are not qualified to be a hedging instrument as per “Financial Instruments: Recognition and Measurement” (“IAS 39”). There are no embedded derivatives separated from the host contract or that are designated as hedging instruments as of end of reporting period.

Interest income and expenses on swap transactions are presented in interest income or expense.

2. Summary of significant accounting policies (continued)

G. Expected Credit Losses

As of 1 January 2018, a loss allowance for expected credit losses is provided by Bank for all financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, all financial assets which are not measured at fair value through profit or loss, commitments and financial guarantee contracts in accordance with IFRS 9 International Financial Reporting Standard and "Regulation on Procedures and Principles for Classification of Loans and Provisions to be Set Aside" published in the Official Gazette No. 29750 dated 22 June 2016. Equity instruments are not subject to impairment assessment as they are measured at fair value.

The Bank has started its credit calculation method with the expected credit loss models as of 1 January 2018. Expected credit losses include a probability-weighted amount that is determined by evaluating a range of possible outcomes; reasonable and supportable information that are current conditions and forecasts of future economic conditions and the time value of money. The financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1:

They are financial assets that do not have a significant increase in credit risk at initial recognition or since initial recognition. Loss allowance for impairment of credit risk for these assets is recorded in the amount of 12-month expected credit loss.

Stage 2:

In the case of a significant increase in credit risk since initial recognition the financial asset is transferred to Stage 2. Loss allowance for impairment of credit risk is determined on the basis of the instrument's lifetime expected credit losses.

Stage 3 (Default):

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. In the calculation of expected credit losses, probability of default is considered as 100%. In determining the impairment, the Bank considers the following criteria:

- Delinquency in interest and/or principal payments by more than 90 days or,
- Having the opinion that collection of principal and /or interest will be past due more than 90 days from its maturity or due date due to reasons such as having problems in the financing operating capital or creating additional liquidity due to unfavourable developments in macroeconomic conditions or in the sectors the debtor operates or, independent from all, due to adverse developments peculiar to the debtor

The collections made based on provision provided for loans in the current period are deducted from "Expected Credit Losses" account in statement of profit or loss, and the principal collections made in respect of loans that have been provision set aside in the previous periods or write-off exposures under off-balance sheet are recognized under "Other Operating Income" account.

Significant Increase in Credit Risk

The Bank performs qualitative and quantitative assessments for the determination of financial assets that will be classified as Stage 2 due to the significant increase in credit risk.

To make the quantitative assessment, the Bank compares the rating information of the financial asset at the reporting date with the rating information at the date of initial recognition. The change above the defined threshold is considered as significant increase in credit risk, meaning that the credit is classified under Stage 2 loans.

2. Summary of significant accounting policies (continued)

G. Expected Credit Losses (continued)

Within the scope of qualitative assessments, the financial asset has been taken into account as Stage 2, if any of the following criteria occurs:

- Delinquency in principal and/or interest payments, which is between 30 days and 90 days,
- Watchlist exposures,
- Forborne exposures,
- The other retail exposures which belong to an obligor who has a retail exposure that is classified as non-performing loans.

Measurement of Expected Credit Losses

ECL is estimated according to several macroeconomic scenarios and final ECL is an average of each scenario's ECL weighted by scenario probabilities. The parameters subject to the expected credit loss measurement are as follows:

Exposure at Default (EAD): The EAD represents the incurred amortized cost for cash obligations as of reporting date. It refers to the value calculated through credit conversion factors for non-cash loans and commitments.

Credit Conversion Factor (CCF): As of the reporting date, CCF corresponds to the rate used to convert non-cash loans and commitments to loan equivalents. Conversion rates are determined based on Circular 2016/1 published by local regulatory (BRSA) under the Basel 1 Framework.

Lost Given Default (LGD): It represents the economic loss incurred on the loan, if a loan defaults. It is represented as a percentage. The recovery rate summarizes all cash flows from the customer after default, including collections through cash, prior lien mortgages and vehicle pledges. In this context, different LGD values are calculated for the segments in the retail and non-retail portfolios using historical data.

Probability of Default (PD): PD represent the likelihood of default over a specified time period. Based on IFRS 9, the Bank uses two different PDs in order to calculate expected credit losses:

- 12-month PD: as the estimated probability of default occurring within the next 12 months following the reporting date.
- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

The Bank uses two separate internal rating systems for non-retail portfolio in the Corporate and SME segment. The both internal rating models include the borrower's financial information and the answers to the qualitative question set. PD's used in ECL calculation consider both current conditions and historical data. For retail portfolio, the cumulative multiplication of the 12-month averages of the roll rates for each delinquency buckets on the basis of products that are sharing common characteristics is considered as PD.

When expected credit losses are estimated, it is considered that three different macroeconomic scenarios as "Base", "Upside" and "Downside". Macroeconomic scenarios should be reviewed and updated if necessary at least on an annual basis or earlier in case of a major event necessitating a review. Each scenario has its own probability to occur. The expected credit loss amount corresponding to each scenario is discounted to the net present value by using the exposure's contractual rate of interest.

If the loan classified under Stage 1, expected credit losses is calculated by considering 12-month PDs. The Bank calculates expected 12-month credit loss on the basis of a 12-month anticipation of default following the reporting date. The marginal PDs calculated as the difference between the cumulative PDs in two consecutive periods multiplied by the total loss in default calculated on EAD amounts for each horizon. This calculation is performed for each of the three scenarios as described above, each scenario is discounted to the net present value by using the exposure's contractual rate of interest from related date and final ECL is derived from average of each scenario ECL weighted by scenario probabilities.

If the loan classified under Stage 2, expected credit losses is calculated by considering lifetime. The expected credit loss measurement, including the use of forward-looking macroeconomic scenarios is similar to that described above however the probability of default is estimate lifetime of the financial instrument.

2. Summary of significant accounting policies (continued)

G. Expected Credit Losses (continued)

For non-retail loans classified under Stage 3, ECL estimated based on individual assessment in accordance with internal policies and IFRS9. Expected credit loss calculation is performed by discounting the expected collections of the financial instrument to its net present value with a defined interest rate.

In addition, the Bank assesses a certain portion of Stage 2 non-retail loans individually in the calculation of the expected credit losses based on IFRS 9. The Bank makes such calculation by taking into account of expected cash flows.

For retail products sharing similar credit risk characteristics, a collective approach is used for ECL measurement. In making this calculation, the Bank takes into consideration the transition rates between the buckets in the thirty-day intervals past due of the financial assets sharing the similar credit risk characteristics as of the end of the month. The probability of loss for related bucket is calculated by multiplying the average of the 12-month transition rates corresponding to each bucket with the average of the 12-month transition rates of afterthought buckets. The outstanding balance per bucket is multiplied by the probability of loss, LGD and weighted average remaining maturity. Finally, expected credit loss is computed by applying the respective impact from the forward looking model which accounts 3 probability weighted scenarios considering the stage and the remaining maturity of the retail product.

Approaches to Determine Forward Looking Economic Scenario

As mentioned above, by using scenarios related to macroeconomic factors, the effect of future expectations is included in the calculation of ECL. The macro indicators that make up these macroeconomic forecasting models are Gross Domestic Product (GDP) and unemployment rate. That macroeconomic model contains more than one scenario that are considered along with their respective probability of occurrence and the weighted average of the results of these scenarios are taken into account in ECL calculations.

Behavioural Maturity Calculation Methodology

The loss allowance for expected credit losses is measured for loans in Stage 1 until the end of maturity for those with less than one year of maturity and one year for loans with a remaining maturity of more than one year. For loans in Stage 2, lifetime (up to maturity) expected credit losses is measured. This calculation is based on the remaining maturity information for each loan. While using this information for products with maturity information, behavioural maturity determined in accordance with internal policies is taken into consideration for products without maturity information such as off-balance sheet items and overdrafts. Expected credit losses are measured over these maturities according to the type of loan.

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

As of 1 January 2018, The Bank applied the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income in accordance with IFRS9 principles. However, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position.

When the related financial asset is de-recognised from the financial statement, the loss allowance for expected credit losses previously reflected to the other comprehensive income is recycled through profit or loss.

2. Summary of significant accounting policies (continued)

H. Repurchase and reverse repurchase agreements

Securities sold subject to linked repurchase agreements (“repos”) are not derecognized from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within funds obtained under repo agreements, reflecting the transaction’s economic substance as a loan to the Bank. The difference between the sale and repurchase price is treated as interest expense and amortized over the life of repo agreements using the effective interest method.

Securities purchased under agreements to resell (“reverse repos”) are recorded as money market placements. The difference between sale and repurchase price is treated as interest and accrued evenly over the life of repo agreements using the effective interest rate method.

I. Property and equipment

All property and equipment are carried at cost less accumulated depreciation and accumulated impairment if any. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life as follows:

Buildings	50 years
Safety box	50 years
ATM	10 years
Furniture and fixtures and motor vehicles	5 years
Office equipment	3-10 years

Gain or loss resulting from disposals of the property and equipment is reflected to the statement of profit or loss as the difference between the net proceeds and net book value.

Normal maintenance and repair cost of the properties are expensed.

There is no pledge, mortgage or any other lien on property and equipment.

J. Intangible assets

Other intangible assets are recognized for at their cost less accumulated amortization. Other intangible assets are amortized with straight-line method based on their economic lives.

As of the end of the reporting period, all software is purchased and there are no completed or continuing software development projects by the Bank internally.

K. Financial liabilities

Financial liabilities including deposits from banks, customer deposits and other borrowed funds are recognized initially at fair value plus, transaction costs that are directly attributable to the issue of the financial liability. Subsequently, financial liabilities are measured at amortized cost, using the effective interest rate, except for financial liabilities designated at fair value. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

2. Summary of significant accounting policies (continued)

L. Income taxes

(i) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Taxes other than on income are recognized in other operating expenses (Note 27).

(ii) Deferred income taxes

Deferred income tax is provided on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax liabilities and assets are recognized when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Bank.

Deferred income tax assets resulting from temporary differences, carry forward tax losses and unused tax credits are recognized to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilized (Note 17).

Deferred tax related to fair value remeasurement of financial assets at fair value through other comprehensive income, which are recognized in other comprehensive income, is also recognized in the other comprehensive income.

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 the deferred taxes relate to the same taxable entity and the same taxation authority.

M. Retirement benefit obligations

Defined Benefit Plans

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum termination indemnities over a 30-day salary to each employee who has completed over one year of service, whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Total benefit is calculated in accordance with IAS 19 “International Accounting Standard on Employee Benefits”.

Such benefit plans are unfunded since there is no funding requirement in Turkey. The cost of providing benefits to the employees for the services rendered by them under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method.

The Bank has no retirement fund or foundation that the employees are the member of.

Defined Contribution Plans

The Bank pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2. Summary of significant accounting policies (continued)

M. Retirement benefit obligations

Short-term Employee Benefits

In accordance with IAS 19 "International Accounting Standard on Employee Benefits"; the expected cost of accumulating paid absences are measured as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

N. Provisions, contingent assets and contingent liabilities

Provisions and contingent liabilities are accounted in accordance with the "Turkish Accounting Standard for Provisions, Contingent Liabilities and Contingent Assets" ("TAS 37"). Provisions are determined by using the Bank's best expectation of expenses in fulfilling the obligation and discounted to present value if material.

The contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Bank.

O. Interest income and expense

Interest income and expenses are recognized in the statement of profit or loss on an accrual basis using the effective interest rate method. Starting from 1 January 2018, Bank has started accruing interest income on non-performing loans. Net book value of the non-performing loans (Gross Book Value – Expected Credit Loss) are accrued through effective interest rate. Therefore, a reclassification is made between the accounts of "expected credit losses" expense and "interest income from loans" for such calculated interest amount.

P. Fee and commission income and expense

All fees and commission income/expenses are recognized as income at the time of realization and during the period where the service is provided. Loan related fees and commissions paid to or received from the other institutions are considered as an integral part of the effective interest rate of a financial instrument and accounted as accrual basis. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction.

R. Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Share premium

When shares are issued, the excess of contributions received over the nominal value of the shares issued is recorded as share premium in equity.

(iii) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the statement of financial position date are dealt with in the subsequent events note.

S. Acceptances

Acceptances are realized simultaneously with the payment dates of the customers and they are presented as probable commitments in off-balance sheet accounts.

2. Summary of significant accounting policies (continued)

T. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

U. Cash and cash equivalents

The cash and cash equivalents comprise balances with original maturities less than 90 days including cash and balances with the central banks excluding reserve requirements, reverse repo transactions and loans and advances to banks (Note 6).

V. Non- Current Assets Held for Sale and Discontinued Operations

Property and equipment held-for-sale consist of tangible assets that were acquired due to non-performing receivables and are accounted in the unconsolidated financial statements in accordance with the regulations of Non-current Assets Held for Sale and Discontinued Operations (IFRS 5)".

As of 31 December 2019, the Bank has assets held for sale amounting to TL 590.474 (31 December 2018: TL 238.525).

The Bank, in some portion of the foreclosed assets, provides repurchase right to the debtor. As of 31 December 2019, the right of repurchase value of assets of the Bank is TL 370.091 (31 December 2018: TL 109.922).

Y. Accounting Policy Change: Adoption IFRS 16 "Leases"

The Bank applied IFRS 16 "Leasing" standard, which replaced IAS 17 "Leasing", as of 1 January 2019, the date of first implementation.

Bank- lessee:

The Bank assesses whether the contract has the quality of a lease or whether the lease includes the transaction at the beginning of a contract. In case the contract is transferred for a certain period of time to control the use of the asset defined for a price, it is either leased or includes a lease. The Bank reflects the existence of a right of use and a lease liability to the financial statements at the effective date of the lease.

Right of use assets:

The right to use asset is first recognized by cost method and includes:

a) The initial measurement amount of the lease obligation,

b) The amount obtained by deducting all the rental incentives received from all lease payments made at or before the beginning of the lease;

c) All initial direct costs incurred by the Bank and

When Bank applying the cost method, the existence of the right to use:

a) Accumulated depreciation and accumulated impairment losses are deducted and

b) Measures the restatement of the lease obligation at the restated cost.

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.

(Amounts expressed in thousands of TL unless otherwise indicated.)

2. Summary of significant accounting policies (continued)

Y. Accounting Policy Change: Adoption IFRS 16 "Leases" (continued)

The Lease Obligations:

At the effective date of the lease, the Bank measures its leasing liability at the present value of the lease payments not paid at that time. Lease payments are discounted using the Bank's average borrowing interest rates.

The lease payments included in the measurement of the lease liability consist of the payments to be made for the right of use during the lease term of the underlying asset and the unpaid payments at the effective date of the lease.

After the effective date of the lease, the Bank measures the leasing liability as follows:

a) Increase the book value to reflect the interest on the lease obligation

b) Reduces the book value to reflect the lease payments made and

c) The book value is measured to reflect reassessments and restructuring or reflect to fixed lease payments as of revised nature.

The interest on the lease liability for each period in the lease period is the amount calculated by applying a fixed periodic interest rate to the remaining balance of the lease liability.

The impact of the transition on the equities were classified under "Retained Earnings" in expense equities amounting TL 76.696. Within this scope, deferred tax asset amounting TL 15.234 was reflected in the financial figures of 1 January 2019 and classified under "Retained Earnings" in equities. Reclassifications and remeasurements during the first time application of IFRS 16 Leases Standard dated 1 January 2019 are presented in the below table.

	31 December 2018	IFRS 16 Reclassification Effect	IFRS 16 Measurement Effect	1 January 2019
Tangible assets (Net)	86.823	38.788	114.952	240.563
Other assets (Net)	1.235.592	(38.788)	-	1.196.804
Deferred tax asset	272.167	-	15.234	287.401
Retained Earnings	735	-	(61.462)	(60.727)
Other Liabilities	-	-	(191.781)	(191.781)

Lease agreements for vehicles lease agreements with a duration of 12 months or less and ATMs which are determined as low value by the Bank have been evaluated within the scope of the exemption granted by the standard. Within this scope, TL 3.714 has been paid in the relevant period.

The right and obligation of the lessee to use assets classified as finance leases has been measured at the carrying amount of such assets before the transition period.

As of 1 January 2019, the weighted average of the incremental borrowing interest rates applied to TL and EUR lease liabilities presented in the statement of financial position of the Bank are 19,8% and 2% respectively.

	1 January 2019
Operational leasing commitments	304.964
- Contracts that are excluded from the scope of IFRS 16 (-)	3.916
Total leasing liability	301.048
Discount obligations (1 January 2019)	191.781

2. Summary of significant accounting policies (continued)

Z. Explanations on Prior Period Accounting Policies Not Valid For the Current Period

Tangible assets acquired through financial leasing are recognized as assets and the related liabilities as lease payables in assets and liabilities, respectively. Financial costs on leasing agreements are distributed throughout the lease periods at fixed interest rates. Interest expenses and foreign exchange losses related with financial leasing are accounted in statement of profit or loss. Depreciation for assets acquired through financial leases is calculated consistently with the same principle as for the tangible assets.

As of the balance sheet date, the Bank does not have authorization for any financial leasing transactions as lessor.

3. Significant accounting judgments, estimates and assumptions

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies (Note 2) and financial risk management (Note 5).

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and the significant judgments (apart from those involving estimations) with the most significant effect on amounts recognized in the financial statements are as follows:

Expected credit losses

The calculation of expected credit losses as disclosed in Note 2.G.

Fair value of derivatives

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values (Note 9).

Tax legislation

Turkish tax legislation is subject to varying interpretations as disclosed in Note 17.

Deferred income tax asset recognition

Deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The rates enacted, or substantively enacted, at the end of the reporting period are used to determine deferred income tax.

The principal temporary differences arise from the difference between the carrying value and tax base of property, plant and equipment, valuation difference on trading and investment securities, remeasurement of financial assets and liabilities at fair value, provision for loan losses and provision for employment termination benefits. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (Note 17).

Current tax and deferred tax related to items recognized directly in equity are also credited or charged directly to equity.

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 the deferred taxes relate to the same taxable entity and the same taxation authority.

4. Segment reporting

The Bank provides a full range of banking services and operates in Commercial and Retail business segments. These segments have been determined by considering customer types, size and needs and in accordance with the Bank's organizational structure where the profitability, on the basis of account, customer, customer relationship manager, branch segment and product is generated and followed.

Below are the detailed explanations on business segments:

Corporate and Commercial Banking:

Odeabank offers a wide range of corporate and commercial banking products to clients and benefits from the Group's regional strength and network of corporate banking operations, particularly in the MENA region. As at 31 December 2019, Odeabank had a corporate and commercial cash loan portfolio of TL 14 million and a deposit portfolio of TL 2.6 million.

SME Banking:

In 2019 SME Banking continued to carry out operations for the SMEs. As at year-ended 2019, outstanding cash loans amounted to TL 1.8 million.

Retail Banking:

Odeabank offers a full range of retail products and services, including conventional checking and savings accounts, fixed-term deposits, loans and housing loans, credit cards and bancassurance products. Odeabank's retail banking activities are offered through three principal divisions: wealth management, debt and credit cards and consumer loans. As at 31 December 2019, Odeabank's retail banking division operated from 48 branches and had more than 448,000 active customers. As at 31 December 2019, Odeabank had a retail deposit portfolio of TL 19.5 million.

Wealth Management

Odeabank's wealth management division invests customer's savings in fixed income instruments, such as deposits and bonds or Eurobonds, mutual funds, equities and alternative investment vehicles, such as derivative products.

Debit and Credit Cards

Odeabank takes into account the needs of its customers while developing its debit and credit card offering, whilst also enabling fast and convenient access to these products. Odeabank Private Card,which is designed for high-income customers in mind, and Bank'O Atlas credit card, which enables frequent travelers to accumulate miles with both flights and shopping, are part of Odeabank's debit and credit card portfolio.

Consumer Loans

As part of its consumer loan activities, Odeabank offers various consumer loan products, including low-interest, low-fee and no-fee general purpose loans, ready-cash fast loans, overdraft accounts for emergency use, mortgage products and housing loans and car loans. As at 31 December 2019, Odeabank had a retail loan portfolio of TL 778.111.

Treasury and Capital Markets:

Odeabank conducts treasury and capital markets activities through its balance sheet management unit (which is responsible for ensuring that the domestic and foreign currency liquidity levels of Odeabank are maintained in a sustainable and healthy way in compliance with applicable laws and regulations), markets unit (which trades in interbank markets in line with the profit goals and limits determined by Odeabank's Board of Directors), and treasury sales unit (which prices transactions, including spot foreign exchange, forward foreign exchange, arbitrage, forward arbitrage, foreign exchange/interest rate swaps, treasury bills, government bonds, Eurobonds and cross currency swaps, as well as designs and offers structured products).

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Segment reporting (continued)

31 December 2019

1- Segment information

	Commercial	Retail	Other and Unallocated	Total
Net interest income	**338.191**	**213.716**	**444.447**	**996.354**
Non-Interest income				
Commissions	115.710	45.580	(54.329)	**106.961**
FX Operations & Financial operations	15.622	37.033	(86.082)	**(33.427)**
Other operating income	850	64	26.707	**27.621**
Total operating income	**470.373**	**296.393**	**330.743**	**1.097.509**
Expected Credit Loss	(464.048)	(62.600)	154.743	**(371.905)**
Net operating income	**6.325**	**233.793**	**485.486**	**725.604**

2 - Financial Position Information

	Commercial	Retail	Other and Unallocated	Total
Total Assets	17.925.257	946.209	13.757.276	**32.628.742**
Total Liabilities	6.377.645	15.586.818	10.664.279	**32.628.742**

31 December 2018

1-Segment information

	Commercial	Retail	Other and Unallocated	Total
Net interest income	**568.495**	**219.193**	**295.701**	**1.083.389**
Non-Interest income				
Commissions	74.189	58.182	(13.465)	**118.906**
FX Operations & Financial operations	(3.986)	21.786	(24.964)	**(7.164)**
Other operating income	25.541	55	28.322	**53.918**
Total operating income	**664.239**	**299.216**	**285.594**	**1.249.049**
Loan loss provisions	(672.960)	(139.385)	237.998	**(574.347)**
Net operating income	**(8.721)**	**159.831**	**523.592**	**674.702**

2 - Financial Position Information

	Commercial	Retail	Other and Unallocated	Total
Total Assets	18.193.063	1.637.463	11.516.693	**31.347.219**
Total Liabilities	5.117.074	15.552.063	10.678.082	**31.347.219**

5. Financial risk management

The Bank's Risk Management Unit was established as an independent unit which reports to the Member of Audit Committee who is responsible for the Audit, Internal Control and Risk Management.

Risk management is committed to control processes in order to determine the limits and measurement of operational risks, including the risks comprising of credit, market, interest rate, concentration, counterparty, banking accounts and IT risks.

Risk Management regularly reports to Senior Management and the Audit Committee all the risks the Bank is exposed to and concentrations, and the Bank's own internal limits of the legal limits are monitored daily, weekly, monthly and quarterly. These reports consist of, market risk limits, liquidity and interest rate, credit risk analysis and capital adequacy analysis and daily value at risk (VAR) analysis. These reports are also presented to Asset-Liability Management Committee Audit committee on a monthly basis. Financial instruments in the Bank's portfolio are closely monitored and reported on a daily basis against volatility and market values of market risk instruments.

Monthly scenario analysis on economic capital, capital adequacy, liquidity and profitability scenarios and credit risk on Bank's loan portfolio including benchmark of similar banks are presented to the Audit Committee. Management follows the Bank's performance and the limits by using these detailed reports.

Risk Management Group calculates Basel II capital adequacy calculation, namely Credit Risk, Market Risk and Operational Risk, in accordance with "Regulation on Measurement and Assessment of Capital Adequacy of Bank's" published in the Official Gazette dated 28 June 2012 numbered 28337".

At the Bank, banking processes and policies were established by considering Regulation on the Internal Systems of Banks published in the Official Gazette No. 28337 dated 28 June 2012. Consequently, related procedures/policies are formed and then approved by the Board of Directors at August 2012.

In order to manage operational risks that the Bank is exposed to more effectively and to form an integrated risk management point of view, Operational Risk Policy and IT Continuity Plan was updated.

In order to define, measure, limit and report market risk the Bank is exposed to, Market Risk Policy is formed. When the Bank manages its treasury securities portfolio within the limits determined by the Board of Directors, Risk Management Group checks whether Treasury Department is within these risk limits.

Liquidity Risk is the risk that the Bank cannot fulfill its payment obligations fully and on time due to its insufficient cash inflow or due to inadequate available cash resulting from the mismatch between cash inflows and outflows. In order to define, measure, follow, report the liquidity risk the Bank is exposed to and take necessary actions for the results Liquidity Risk Policy format was prepared with an ongoing and forward-looking basis.

Concentration risk is the risk within credit risk that is exposed according to individual debtor and debtor groups, to debtor groups that indicate similar characteristics in terms of economic and regional sector qualities, on the basis of the assets subject to the collateral securities similar to the risk that is to be considered also within the scope of the market risk and operational risk. In order to define, measure, follow and manage the concentration risk the Bank is exposed to, Concentration Risk Policy is formed. Concentration limits are monitored in compliance with the credit, deposit and related policies.

5. Financial risk management (continued)

Counterparty credit risk refers to the default risk of the counterparty of the transaction before the last payment in the cash flow of this transaction of which brings an obligation to both sides. In order to define, measure, follow and manage the counterparty credit risk the Bank is exposed to Counterparty Credit Risk and Clearing Risk Policy is formed. Counterparty credit risk management is conducted by the Financial Institutions Department of the Bank by taking into account the counterparty's financial reports, general overview, rating, current and expected transaction volumes. The limits for counterparties are determined by the Board of Directors.

"Banking Book" includes all Assets and Liabilities (including credit) except trading securities portfolio. In order to define, measure, follow, report the interest rate risk related to banking book risk the Bank is exposed to and take necessary actions for the results, interest rate risk policy related to banking book is formed. Interest rate risk is managed by senior management in order to avoid losses from adverse interest rate movements.

Within internal capital management scope, the Bank has established a stress test based management by taking into account the estimated maximum loss amount that may occur in credit, operational, market and other risks as well as the changes in the market. Risk Management Procedure is formed in such a way that it includes all the definitions above.

Bank carries out risk mitigation processes and risk hedging for credit risk in accordance with credit risk policies. Risks related to market risk are measured and monitored in accordance with application procedures and policies. In this respect the limits are allocated by the Board of Directors. Limits are monitored, reported, in the event of any limit exceed it is reported to relevant committees and units through documentation by electronic mail. In addition, information about limits on use and loan segment concentration is presented to Audit Committee and the Board of Directors on quarterly.

A. Credit risk

Credit risk is the risk that the Bank is a party in a contract whereby the counterparty fails to meet its obligation and cause to incur a financial loss.

The credit allocation is performed on a debtor and a debtor group basis within the limits and updated on a defined frequency based on market developments. In the credit allocation process, many financial and non-financial criteria are taken into account within the framework of the internal rating procedures of the Bank. These criteria include geographical and sector concentrations. The sector concentrations for loans are monitored closely. In accordance with the Bank's loan policy, the rating of the companies, credit limits and guarantees are considered together, and credit risks incurred are monitored.

Risks and limits related to treasury activities and customer based commercial activities are monitored daily. Moreover, the limits of the correspondent banks that are determined by their ratings and the control of the maximum acceptable risk level in relation to the equity of the Bank are monitored daily. Risk limits are determined in connection with these daily transactions, and risk concentration is monitored systematically concerning off-balance sheet operations.

5. Financial risk management (continued)

A. Credit risk (continued)

Most of the statement of accounts for the loans has been tried to derive from audited financial statements. The unaudited documents result from the timing differences between the loan allocation and the audit dates of the financial statements of the companies and subsequently the audited financial statements are obtained from the companies when the companies are audited. Credit limits are determined according to the audited statement of accounts, and guarantee factors are developed in accordance with the decision of the credit committee considering the characteristics of the transactions and the financial structures of the companies.

For the forward transactions and other similar positions of the Bank, operational limits are set by the Board of Directors and the transactions take place within these limits.

The fulfillment of the benefits and acquirements related to forward transactions is normally realized at maturity. However, in order to minimize the risk, counter positions of existing risks are entered into in the market.

As of 31 December 2019, the proportion of the Bank's top 100 and 200 cash loan customers' in total cash loans is 69% and 77% respectively.

As of 31 December 2019, the proportion of the Bank's top 100 and 200 customers' non-cash loan balances in total non-cash loans is 85% and 96%.

5. Financial risk management (continued)

A. Credit risk (continued)

Bank‘s rating system:

Internal credit rating system is used by The Bank. As a basis for the rating classification; financial data of customers has been processed by the MRA - Moody’s Risk Analyst software and output rate is considered.

The risks that are subject to rating models can be allocated as follows.

Rating	Risk Grade	Description
(1) Excellent	1	Exceptional business credit, judged to be of the highest quality, with minimal credit risk. Superior asset quality and financial capacity; excellent and proven management; market leader.
(2) Strong	2+ 2 2-	Very good business credit with very good asset quality, consistently strong liquidity and debt capacity; highly regarded in the industry with strong market share.
(3) Good	3+ 3 3-	Good business credit considered upper-medium grade, subject to low credit risk; good asset quality, strong liquidity and debt capacity. Company is above average size and holds a good position in the industry.
(4) Satisfactory	4+ 4 4-	Acceptable business credit subject to moderate credit risk, considered medium grade and as such may possess certain higher than average risk characteristics. Company has demonstrated adequate to good performance.
(5) Adequate	5+ 5 5-	Average to low business credit subject to moderate credit risk, considered medium grade and as such may possess certain higher risk characteristics. Company has demonstrated adequate performance.
(6) Marginal	6+ 6 6-	Below average business credit subject to high credit risk. Company is likely a lower tier competitor in its industry. Acceptable but requiring close monitoring and support of strong risk mitigants.
(7) Vulnerable	7+ 7 7-	Weak business credit: Judged to be of poor standing and subject to very high credit risk. Constitutes undue and unwarranted credit risk. Currently in performing status not to the point of justifying a Substandard classification.
(8) Substandard	8	Substandard (Default): Unacceptable business credit with normal repayment in jeopardy.
(9) Doubtful	9	Doubtful (Default): Full repayment questionable. Serious problems to the point where partial loss of principal is likely.
(10) Loss	10	Loss (Default): Expected loss. Such an asset may have recovery but not to the point of avoiding loss classification.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

A. Credit risk (continued)

Below table shows the portion of the performing cash loans as per BRSA's scale that is equivalent to the MRA ratings:

31 December 2019

Debtors financial Position	Degree	Portion
Debtor has a solid financial position	1	0%
Debtor has a good financial position	2	43%
Debtor's financial position is at risk within short and medium term	3	35%
Debtor's financial position is at high risk within short term	4	0%
Debtor has been defaulted	5	14%
Debtor has not been rated	6	8%

31 December 2018

Debtors financial Position	Degree	Portion
Debtor has a solid financial position	1	2%
Debtor has a good financial position	2	50%
Debtor's financial position is at risk within short and medium term	3	40%
Debtor's financial position is at high risk within short term	4	0%
Debtor has been defaulted	5	0%
Debtor has not been rated	6	8%

Maximum exposure to credit risk

	2019	2018
Credit risk exposures relating to assets on-statement of financial position:		
Cash and balances with central banks	3.616.621	4.070.971
Due from banks	3.305.543	2.447.101
Money market placements	2.060.644	740.121
Loans and advances to customers	17.069.115	18.556.247
- Retail (net)	767.589	1.463.445
- Corporate and Commercial (net)	16.301.526	17.092.802
Financial assets at fair value through profit or loss	1.393.587	1.088.570
- Financial assets held for trading	4.094	3.269
- Derivative financial instruments	1.389.493	1.085.301
Investment securities	3.459.010	2.986.100
- Financial assets at fair value through other comprehensive income	1.147.310	304.898
- Financial assets measured at amortized cost	2.311.700	2.681.202
Other assets	600.778	797.652
Credit risk exposures relating to off-balance sheet items:		
Bank acceptance loans	395.765	651.057
Letters of credit	749.939	669.337
Letter of guarantee	1.774.951	1.795.569
Other guarantees	853.802	569.819
Commitments	4.193.776	8.465.346

The above table represents a worst case scenario of credit risk exposure in the absence of any collateral or credit enhancements.

The main types of collaterals obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, mortgages over real estate properties, cash, guarantee letters, securities, pledges or guarantees
- For retail lending, mortgages over residential properties or pledges on vehicles

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement when necessary.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

A. Credit risk (continued)

Collateral Distribution (*)

31 December 2019	Corporate and Commercial	SME	Retail	Total
Deposit	1.126.298	40.807	10.967	1.178.072
Mortgage	6.190.610	2.328.882	319.546	8.839.038
Assignment of claim	2.716.017	152.962	-	2.868.979
Cheque	249.086	44.245	-	293.331
Pledge of vehicle	21.683	66.077	5.876	93.636
Total	**10.303.694**	**2.632.973**	**336.389**	**13.273.056**

31 December 2018	Corporate and Commercial	SME	Retail	Total
Deposit	198.739	129.713	26.900	355.352
Mortgage	7.122.254	2.361.805	437.828	9.921.887
Assignment of claim	3.385.383	176.548	-	3.561.931
Cheque	228.444	84.496	-	312.940
Pledge of vehicle	85.259	79.229	19.262	183.750
Total	**11.020.079**	**2.831.791**	**483.990**	**14.335.860**

(*) Represents the amounts of the exposures covered by these collaterals.

The details of the loans and advances past due but not impaired which are classified under the performing loans are as follows;

Information on past due but not impaired loan and other receivables:

31 December 2019	Corporate and Commercial	SME	Retail	Total
Not past due and 30 days past due	10.479.152	1.352.257	665.700	**12.497.109**
30-60 days past due	1.102.891	63.446	62.794	**1.229.131**
Other	2.372.719	356.443	49.617	**2.778.779**
Total	**13.954.762**	**1.772.146**	**778.111**	**16.505.019**

31 December 2018	Corporate and Commercial	SME	Retail	Total
Not past due and 30 days past due	13.702.942	1.895.955	1.294.686	**16.893.583**
30-60 days past due	515.261	250.269	98.893	**864.423**
60-90 days past due	418.146	497.559	62.978	**978.683**
Total	**14.636.349**	**2.643.783**	**1.456.557**	**18.736.689**

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

A. Credit risk (continued)

Sectoral risk breakdown of financial instruments

The Bank uses BRSA definitions for the economic sectors in order to be able to make comparisons with the banking sector wide figures. These definitions are also in line with NACE (European Classification of Economic Activities) classifications which are used within the EU. Through the credit policy, the Board of Directors sets the sectoral limits on lending, and these limits can only be altered by a decision from the Board of Directors. Sectoral classification is defined in terms of the borrower's activity area, not based on collaterals.

31 December 2019

	Central Banks and Central Governments	Agriculture	Construction	Financial Institutions	Manufacturing	Wholesale and retail trade	Professional services	Individuals	Total
Cash and balances with central bank	3.616.621	-	-	-	-	-	-	-	**3.616.621**
Due from banks	-	-	-	3.305.543	-	-	-	-	**3.305.543**
Derivative financial assets	-	1.374	2.796	1.310.141	12.386	7.252	14.046	41.498	**1.389.493**
Financial assets at fair value through profit and loss	4.094	-	-	-	-	-	-	-	**4.094**
Financial assets at fair value through other comprehensive income	1.147.310	-	-	-	-	-	-	-	**1.147.310**
Financial assets measured at amortized cost	2.311.700	-	-	-	-	-	-	-	**2.311.700**
As of 31 December 2019	**7.079.725**	**1.374**	**2.796**	**4.615.684**	**12.386**	**7.252**	**14.046**	**41.498**	**11.774.761**

31 December 2018

	Central Banks and Central Governments	Agriculture	Construction	Financial Institutions	Manufacturing	Wholesale and retail trade	Professional services	Individuals	Total
Cash and balances with central bank	4.070.971	-	-	-	-	-	-	-	**4.070.971**
Due from banks	-	-	-	2.447.101	-	-	-	-	**2.447.101**
Derivative financial liabilities	-	25	10.753	954.221	57.903	21.352	41.047	-	**1.085.301**
Financial assets at fair value through profit and loss	3.269	-	-	-	-	-	-	-	**3.269**
Financial assets at fair value through other comprehensive income	304.898	-	-	-	-	-	-	-	**304.898**
Financial assets measured at amortized cost	2.681.202	-	-	-	-	-	-	-	**2.681.202**
As of 31 December 2018	**7.060.340**	**25**	**10.753**	**3.401.322**	**57.903**	**21.352**	**41.047**	**-**	**10.592.742**

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

A. Credit risk (continued)

The following tables provide a summary of the Bank's restructured loans;

31 December 2019

	Loans under restructuring	Not under the scope of restructuring	Total
Watchlist	910.716	4.033.715	4.944.431
Significant Increase in Credit Risk	17.705	595.221	612.926
Total	**928.421**	**4.628.936**	**5.557.357**

Sectoral risk breakdown of cash and non-cash loans of the Bank are as follows;

31 December 2019

	Cash Loans	Non-Cash Loans
Real Estate / Shopping Mall / Commercial Units	4.236.787	132.550
Electric & Gas & Water Resources	1.993.669	18.975
Tourism	1.613.416	94.183
Real Estate Dealing	1.481.029	27.780
Wholesale & Retail	1.305.454	626.036
Others in Manufacturing Industry	1.211.610	691.608
Finance	1.120.387	84.713
Social Service and Health Services	753.599	68.469
Other Personal Services	713.350	10.521
Metal Industry	613.611	497.789
EPC (*)	567.199	307.715
Textile	485.628	503.001
Transportation, Storage & Communication	237.515	133.505
Machinery and Equipment	205.427	38.492
Food and Beverage Industry	188.521	208.915
Mining Industry	154.835	28.512
Education	78.767	379
Farming, Forest and Hunting	64.175	263.356
Fishing	36.068	33.826
Other	8.068	4.132
Total	**17.069.115**	**3.774.457**

(*) Engineering, Procurement and Construction

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

A. Credit risk (continued)

31 December 2018

	Cash Loans	Non-Cash Loans
Real Estate / Shopping Mall / Commercial Units	4.560.800	-
Electric & Gas & Water Resources	2.375.225	-
Wholesale & Retail	1.823.106	1.461.244
Others in Manufacturing Industry	1.834.172	84.722
Real Estate Dealing	1.445.938	615.323
Tourism	1.882.487	290.704
EPC (*)	690.107	-
Textile	645.837	539.489
Other Personal Services	622.825	5.914
Transportation, Storage & Communication	558.175	52.912
Metal Industry	639.828	-
Food and Beverage Industry	420.319	229.725
Other	272.828	-
Farming, Forest and Hunting	163.902	45.849
Social Service and Health Services	124.962	226.043
Mining Industry	244.775	-
Machinery and Equipment	107.592	15.258
Education	62.659	118.599
Finance	20.152	-
Fishing	60.558	-
Total	**18.556.247**	**3.685.782**

(*) Engineering, Procurement and Construction

Geographical Information

The Bank's geographical information is based on the location of the Bank's assets. Substantially all of the Bank's activities are conducted in Turkey and Turkey is the home country of the Bank, which is also the main operating company. The Bank conduct substantially all of its business activities with local customers in Turkey.

B. Market risk

The Bank has defined market risk management operations and taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" which was published in the Official Gazette on 28 June 2012 numbered 28337 and "Regulation Regarding Banks' Shareholders' Equity".

The Board of Directors determines the limits for the basic risk that the Bank is exposed to. Those limits are revised periodically in line with the market forces and strategies of the Bank. Additionally, the Board of Directors has ensured that the risk management division and senior management has taken necessary precautions to describe, evaluate, control and manage risks faced by the Bank.

Interest rate and exchange rate risks, arising from the volatility in the financial markets are measured, and in the computation of capital adequacy, the amount subject to risk calculated by using the standard is taken into consideration.

The major measurement techniques used to measure and control market risk are outlined below.

(a) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Risk Management, also indicated in the market risk policy of the Bank, include: FX and interest rate stress testing, where stress movements are applied to the FX position and to the banking book. The results of the stress tests are reviewed by ALCO.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

B. Market risk (continued)

i) Currency risk

Currency risk indicates the probability of loss that the Banks is subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Bank are taken into consideration and value at risk is calculated by using the standard method.

The Board of Directors sets limits for the positions and stop losses which are followed up daily and weekly. Any possible changes in the foreign currency transactions in the Bank's positions are also monitored.

The table below summarizes the Bank's assets and liabilities at carrying amounts, categorized by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

31 December 2019

	Foreign currency			
	EUR	**USD**	**Other**	**Total**
Assets				
Cash and balances with central banks	1.628.993	1.457.159	340.765	3.426.917
Due from banks	73.721	2.667.480	5.648	2.746.849
Money market placements	-	-	-	-
Financial assets at fair value through profit and loss	-	2.631	-	2.631
Loans and advances to customers (***)	4.937.736	4.764.833	1.596	9.704.165
Investment securities				
- Financial assets at fair value through other comprehensive income	298.927	328.786	-	627.713
- Financial assets measured at amortized cost	490.141	1.225.857	5.087	1.721.085
Other assets	13.067	81.815	275	95.157
Total assets	**7.442.585**	**10.528.561**	**353.371**	**18.324.517**
Liabilities				
Deposits	6.292.051	7.283.768	411.702	13.987.521
Funds provided from other financial institutions (**)	1.147.583	3.445.179	1.594	4.594.356
Other liabilities	3.376	119.831	177	123.384
Total liabilities	**7.443.010**	**10.848.778**	**413.473**	**18.705.261**
Net balance sheet position (*)	**(425)**	**(320.217)**	**(60.102)**	**(380.744)**
Off-balance sheet derivative instruments net notional position	(21.302)	972.464	65.240	1.016.402
Net foreign currency position	**(21.727)**	**652.247**	**5.138**	**635.658**

(*) Mark to market on Derivative financial assets / liabilities have not been included in the net balance sheet position.
(**) Subordinated liabilities and Money market balances are included.
(***) Foreign currency indexed loans amounting to TL 286.300 are included in the loan portfolio. Expected loss provisions are not considered.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

B. Market risk (continued)

31 December 2018

	Foreign currency			
	EUR	**USD**	**Other**	**Total**
Assets				
Cash and balances with central banks	1.173.885	1.426.098	376.175	2.976.158
Due from banks	144.608	1.226.926	7.519	1.379.053
Money market placements	-	-	-	-
Financial assets at fair value through profit and loss	-	-	-	-
Loans and advances to customers (***)	5.410.104	5.108.006	1.365	10.519.475
Investment securities				
- Financial assets at fair value through other comprehensive income	142	4.659	-	4.801
- Financial assets measured at amortized cost	455.510	1.774.219	1.542	2.231.271
Other assets	82.587	91.455	22	174.064
Total assets	**7.266.836**	**9.631.363**	**386.623**	**17.284.822**
Liabilities				
Deposits	3.604.318	9.300.982	159.909	13.065.209
Funds provided from other financial institutions (**)	978.918	3.660.364	1.363	4.640.645
Other liabilities	56.740	112.354	133	169.227
Total liabilities	**4.639.976**	**13.073.700**	**161.405**	**17.875.081**
Net balance sheet position	**2.626.860**	**(3.442.337)**	**225.218**	**(590.259)**
Off-balance sheet derivative instruments net notional position	(2.280.410)	3.527.822	(235.158)	1.012.254
Net foreign currency position	**346.450**	**85.485**	**(9.940)**	**421.995**

(*) Mark to market on Derivative financial assets / liabilities have not been included in the net balance sheet position.
(**) Subordinated liabilities and Money market balances are included.
(***) Foreign currency indexed loans amounting to TL 573.010 are included in the loan portfolio. Expected loss provisions are not considered.

At 31 December 2019, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 5,9476= USD 1, and TL 6,6824= EUR 1.

For the purpose of calculating currency risks, foreign currency indexed loans and securities have been reported in this table in the relevant currency of indexation.

Currency risk sensitivity:

The table below represents the sensitivity of the Bank to 10% change of currency exchange rates (USD and EUR). 10% change is the assumption of parity change that may be faced in a possible fluctuation used in the Bank's stress test scenarios.

	Change in currency rate in %	Effect on profit or loss (*)		Effect on equity (*)	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
USD	10%	3.602	5.118	3.602	5.118
USD	(10)%	(3.602)	(5.118)	(3.602)	(5.118)
EUR	10%	(2.897)	389	(2.897)	389
EUR	(10)%	2.897	(389)	2.897	(389)

(*) Excluding tax effect.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

B. Market risk (continued)

ii) Interest rate risk

Interest rate risk shows the probability of loss related to the changes in interest rates depending on the Bank's position, and it is managed by the Asset-Liability Committee. The interest rate sensitivity of assets, liabilities and off-balance sheet items related to this risk are measured by using the standard method and included in the market risk for capital adequacy.

Risk Management Group performs duration, maturity and sensitivity analysis to protect the effect of interest rate volatility and reported to the Asset-Liability Committee.

Simulations on interest income are performed in connection with the forecasted economic indicators used in the budget of the Bank. The negative effects of the fluctuations in the market interest rates on the financial position and the cash flows are minimized by revising budgeted targets.

The Bank management follows the market interest rates daily and revises the interest rates of the Bank whenever necessary.

Since the Bank monitors maturity mismatches very closely a significant interest rate risk exposure is not expected.

The table below summarizes the Bank's exposure to interest rate risk at 31 December 2019. Included in the table are the Bank's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

31 December 2019	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	1.529.933	-	-	-	2.086.688	3.616.621
Due from banks	1.680.307	-	-	-	1.625.236	3.305.543
Financial assets at fair value through profit or loss	764	-	560	2.770	-	4.094
Money market placements	2.060.644	-	-	-	-	2.060.644
Financial assets at fair value through other comprehensive income	-	87.801	295.765	751.243	12.501	1.147.310
Loans and advances to customers	10.098.973	3.413.796	2.273.995	718.255	564.096	17.069.115
Financial assets measured at amortized cost	278.812	381.986	1.070.167	621.664	(40.929)	2.311.700
Other assets(*)	64.022	34.124	183.236	1.108.847	1.723.486	3.113.715
Total assets	**15.713.455**	**3.917.707**	**3.823.723**	**3.202.779**	**5.971.078**	**32.628.742**
Liabilities						
Bank deposits	51.237	-	-	-	-	51.237
Customer deposits	17.399.789	1.840.172	12.156	-	2.794.019	22.046.136
Debt securities issued	760.000	-	-	-	-	760.000
Subordinated Liabilities	-	-	-	1.735.813	-	1.735.813
Due to banks and money market balances	178.604	184.896	261.091	1.414.432	845.030	2.884.053
Other liabilities (**)	300	130	308	-	1.851.184	1.851.922
Total liabilities and equity	**18.389.930**	**2.025.198**	**273.555**	**3.150.245**	**5.490.233**	**29.329.161**
Net interest repricing gap	**(2.676.475)**	**1.892.509**	**3.550.168**	**52.534**	**480.845**	**3.299.581**
Off-balance sheet derivative instruments long position	16.424.646	3.944.478	5.847.170	12.329.416	-	38.545.710
Off-balance sheet derivative Instruments short position	(16.454.050)	(3.916.733)	(5.808.573)	(12.329.415)	-	(38.508.771)

(*) Other assets includes tangible assets, intangible assets, deferred tax, held for sale assets and other assets.
(**) Other liabilities includes derivative financial liabilities, employee benefits, taxes, provisions and other liabilities.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

B. Market risk (continued)

31 December 2018	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	1.617.779	-	-	-	2.453.192	4.070.971
Due from banks	1.057.886	-	-	-	1.389.215	2.447.101
Financial assets at fair value through profit or loss	-	2.461	555	253	-	3.269
Money market placements	740.121	-	-	-	-	740.121
Financial assets at fair value through other comprehensive income	-	-	36.464	259.296	9.138	304.898
Loans and advances to customers	10.911.658	3.858.235	3.057.006	856.392	(127.044)	18.556.247
Financial assets measured at amortized cost	703.003	311.287	1.169.710	518.342	(21.140)	2.681.202
Other assets (*)	479.671	388.580	52.491	164.558	1.458.110	2.543.410
Total assets	**15.510.118**	**4.560.563**	**4.316.226**	**1.798.841**	**5.161.471**	**31.347.219**
Liabilities						
Bank deposits	1.152.794	-	-	-	1.783	1.154.577
Customer deposits	18.340.093	778.714	2.227	-	1.285.437	20.406.471
Debt securities issued	207.110	-	-	-	-	207.110
Subordinated Liabilities	-	-	-	1.636.012	-	1.636.012
Due to banks and money market balances	100	925.908	756.975	1.324.299	68.625	3.075.907
Other liabilities (**)	147.642	180.133	511.961	299.484	3.727.922	4.867.142
Total liabilities and equity	**19.847.739**	**1.884.755**	**1.271.163**	**3.259.795**	**5.083.767**	**31.347.219**
Net interest repricing gap	**(4.337.621)**	**2.675.808**	**3.045.063**	**(1.460.954)**	**77.704**	**-**
Off-balance sheet derivative instruments long position	22.336.474	5.464.903	3.427.213	5.615.228	-	36.843.818
Off-balance sheet derivative Instruments short position	(21.252.803)	(5.543.736)	(3.821.517)	(6.221.054)	-	(36.839.110)

(*) Other assets includes tangible assets, intangible assets, deferred tax, held for sale assets and other assets.
(**) Other liabilities includes derivative financial liabilities, employee benefits, taxes, provisions and other liabilities.

The interest rate risk for all on-balance sheet and off-balance sheet items, which are interest sensitive, and for banking accounts has been calculated. In calculation of interest rate risk, the bank has no any assumptions for early repayment of loans and demand deposits. Interest rate risk arising from banking accounts is calculated and is reported to BRSA monthly.

Economic value differences resulted from interest rate instabilities calculated according to Regulation on Measurement and Evolution of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method.

Below table summarizes the economic value differences resulting from interest rate volatility calculated according to the Regulation on Measurement and Evolution of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method of BRSA.

31 December 2019:

Unit of Currency	Applicable Shock (+ / - base point)	Profit/ Loss	Profit / Regulatory Equity Capital – Loss / Regulatory Equity Capital
TL	500	(173.666)	-3,12%
	-400	161.369	2,90%
EUR	200	(68.976)	-1,24%
	-200	(8.236)	-0,15%
USD	200	(27.120)	-0,49%
	-200	34.622	0,63%
Total (For Positive Shock)	-	(269.762)	-4,85%
Total (For Negative Shock)	-	187.755	3,38%

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

B. Market risk (continued)

31 December 2018:

Unit of Currency	Applicable Shock (+ / - base point)	Profit/ Loss	Profit / Regulatory Equity Capital – Loss / Regulatory Equity Capital
TL	500	(13.450)	(0,24) %
	(400)	(16.621)	(0,30) %
EUR	200	(21.876)	(0,40) %
	(200)	(9.862)	(0,18) %
USD	200	4.005	0,07 %
	(200)	1.193	0,02 %
Total (For Positive Shock)		**(31.321)**	**(0,57) %**
Total (For Negative Shock)		**(25.290)**	**(0,46) %**

The tables below summarises weighted average interest rates for financial instruments by major currencies outstanding at 31 December 2019 and 31 December 2018 based on yearly contractual rates.

	31 December 2019		
	EUR (%)	**USD (%)**	**TL (%)**
Assets			
Cash and balances with central banks	-	-	-
Due from banks	-	1,63	11,11
Financial assets at fair value through profit and loss	-	6,68	15,00
Money market placements	-	-	11,40
Financial assets at fair value through other comprehensive income	4,00	5,66	6,00
Loans and advances to customers	5,22	8,53	14,28
Financial assets measured at amortized cost	1,88	6,48	17,81
Liabilities			
Bank deposits	1,34	4,81	12,41
Customer deposits	0,53	2,24	10,15
Due to banks and money market balances	-	2,64	10,50
Subordinated liabilities	-	7,63	-
Debt securities issued	-	-	13,48

	31 December 2018		
	EUR (%)	**USD (%)**	**TL (%)**
Assets			
Cash and balances with central banks	-	2,00	13,00
Due from banks	-	1,46	23,41
Financial assets at fair value through profit and loss	-	-	17,99
Money market placements	-	-	23,98
Financial assets at fair value through other comprehensive income	-	-	35,95
Loans and advances to customers	6,04	8,52	22,65
Financial assets measured at amortized cost	2,06	5,59	14,25
Liabilities			
Bank deposits	1,62	3,83	19,61
Customer deposits	2,42	4,73	22,44
Due to banks and money market balances	-	-	16,50
Subordinated liabilities	-	7,63	-
Debt securities issued	1,67	4,42	8,71

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

C. Liquidity risk

Liquidity risk occurs when there is insufficient cash or cash inflows to meet the cash outflows completely and timely.

Liquidity risk may also occur when the market penetration is not adequate, when the open positions cannot be closed quickly at suitable prices and sufficient amounts due to barriers and break-ups at the markets.

The Bank's policy is to establish an asset structure that can meet all kinds of liabilities by liquid sources at all times. In order to maintain this, the Board of Directors of the Bank continuously determines standards for the liquidity ratios and monitors them.

According to the general policies of the Bank, the maturity and interest rate structure of assets, and liabilities is always monitored. A positive difference is tried to be established between the yields of assets and liabilities on the statement of financial position and their costs. In this sense, various crisis scenarios which are prepared by Risk Management Group are presented to Senior Management and Audit Committee.

The calculation method used to measure the banks compliance with the liquidity limit is set by Banking Regulatory and Supervision Agency ("BRSA"). In November 2006, BRSA issued a new communique on the measurement of liquidity adequacy of the banks. The Group's liquidity ratios in 2019 and 2018 are as follows:

	Current Year-31.12.2019		Prior Year-31.12.2018	
	TL+FC	**FC**	**TL+FC**	**FC**
Lowest	289,24	295,28	144,62	96,83
Week	25.10.2019	08.11.2019	12.10.2018	26.10.2018
Highest	574,28	506,73	311,33	199,41
Week	06.12.2019	03.01.2020	16.11.2018	23.11.2018
Average		406,93	219,26	141,93

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

C. Liquidity risk (continued)

When the funding and liquidity sources are considered, the Bank covers majority of its liquidity need by diversified and steady base deposits and in addition to this source, it makes use of pre-financing and other institutional funding and borrowings syndication products to generate additional sources.

The following table presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, which include interest to be paid at maturity, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

31 December 2019

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits	2.794.019	17.451.026	1.840.172	12.156	-	**22.097.373**
Debt securities issued	-	760.000	-	-	-	**760.000**
Subordinated liabilities	-	-	-	-	1.735.813	**1.735.813**
Due to banks and money market balances	-	180.718	235.357	935.116	1.532.862	**2.884.053**
Total liabilities	**2.794.019**	**18.391.744**	**2.075.529**	**947.272**	**3.268.675**	**27.477.239**

(*) Undiscounted maturities of deposits represent the contractual maturities whereas such balances have demand nature due to their callable status until maturities.

31 December 2018

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits	1.287.220	19.492.887	778.714	2.227	-	**21.561.048**
Debt securities issued	-	207.110	-	-	-	**207.110**
Subordinated liabilities	-	-	-	-	1.636.012	**1.636.012**
Due to banks and money market balances	-	933.014	606.897	699.352	836.644	**3.075.907**
Total liabilities	**1.287.220**	**20.633.011**	**1.385.611**	**701.579**	**2.472.656**	**26.480.077**

(*) Undiscounted maturities of deposits represent the contractual maturities whereas such balances have demand nature due to their callable status until maturities.

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

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
As of 31 December 2019						
Gross settled						
Purchase of foreign exchange forward contracts	1.606.085	626.710	422.512	3.971	-	2.659.278
Sale of foreign exchange forward contracts	(1.609.670)	(626.709)	(423.767)	(5.814)	-	(2.665.960)
Purchase of currency swaps	8.895.951	2.328.782	1.818.821	1.616.548	-	14.660.102
Sale of currency swaps	(8.912.546)	(2.329.439)	(1.779.936)	(1.576.114)	-	(14.598.035)
Purchase of interest rate swap agreement	1.765.409	238.049	289.460	-	-	2.292.918
Sale of interest rate swap agreement	(1.767.730)	(244.297)	(299.337)	-	-	(2.311.364)
Purchase of foreign currency sell and buy options	100.000	863.660	1.413.631	4.022.301	12.329.416	18.729.008
Sale of foreign currency sell and buy options	(100.000)	(863.659)	(1.413.629)	(4.022.305)	(12.329.415)	(18.729.008)
Purchase of interest rate sell and buy options	-	-	-	204.404	-	204.404
Sale of interest rate sell and buy options	-	-	-	(204.404)	-	(204.404)
Total	**(22.501)**	**(6.903)**	**27.755**	**38.587**	**1**	**36.939**

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

C. Liquidity risk (continued)

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
As of 31 December 2018						
Gross settled						
Purchase of foreign exchange forward contracts	583.750	642.500	1.076.779	73	-	**2.303.102**
Sale of foreign exchange forward contracts	(544.294)	(612.700)	(1.037.125)	(97)	-	**(2.194.216)**
Purchase of currency swaps	5.734.238	1.604.334	1.136.338	1.991.977	-	**10.466.887**
Sale of currency swaps	(5.687.581)	(1.684.920)	(1.087.108)	(2.007.441)	-	**(10.467.050)**
Purchase of interest rate swap agreement	53.394	165.339	1.108.259	5.055.506	11.836.283	**18.218.781**
Sale of interest rate swap agreement	(53.395)	(165.339)	(1.108.258)	(5.055.505)	(11.836.284)	**(18.218.781)**
Purchase of foreign currency sell and buy options	1.953.248	1.492.036	2.016.038	15.796	-	**5.477.118**
Sale of foreign currency sell and buy options	(2.030.099)	(1.475.142)	(2.061.150)	(14.742)	-	**(5.581.133)**
Purchase of interest rate sell and buy options	-	132.444	-	245.486	-	**377.930**
Sale of interest rate sell and buy options	-	(132.444)	-	(245.486)	-	**(377.930)**
Total	**9.261**	**(33.892)**	**43.773**	**(14.433)**	**(1)**	**4.708**

D. Operational risk

Operational risk is defined as the risk of losses due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to negatively impact the earnings from violations or noncompliance with laws, rules, regulations, agreements, prescribed practices or ethical standards. Operational Risk Management department ("ORM") monitors the Bank's operational risk exposure in accordance to standards and policies, collects operational risk data in a web-based database, performs the risk indicators' identification, the scenario analysis assessment, Business Continuity Management and assures the quality of data gathered in accordance to Basel II standards, proposes insurance hedging on operational risks and prepares risk mitigation plans. ORM performs second level controls, manages and measures the Bank's operational risks.

For regulatory purposes and consideration in statutory capital adequacy ratio, the Bank calculates the amount subject to operational risk with the basic indicator method in accordance with Section 4 of the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No. 28337 dated 28 June 2012.

The value at operational risk is calculated according to the basic indicator approach of "Regulation regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette No. 28337 dated 28 June 2012.

	2 PY Amount	1 PY Amount	CY Amount	Total / Total number of years for which gross income is positive	Rate (%)	Total
Gross income	1.444.451	1.565.540	1.319.634	1.443.208	15	216.481
The amount subject to operational risk (Total*12,5)						2.706.013

E. Capital management

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank; BRSA requires the banks to maintain a prescribed ratio of minimum 8% with a guidance of 12% of total capital to total risk-weighted assets.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

E. Capital management (continued)

The Group's regulatory capital is analysed into two tiers:

Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of Tier 1 capital.

Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of financial assets measured at fair value through other comprehensive income and equity investments, subordinated loans received, free reserves set aside for contingencies and the fund for increase in the value of securities.

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. Operational risk capital requirement is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

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

	31 December 2019	31 December 2018
Capital Requirement for Credit Risk (Value at Credit Risk*0.08) (CRCR)	1.760.043	1.810.916
Capital requirement for market risk (II) (Value at Market Risk*0.08) (MRCR)	69.528	65.217
Capital requirement for operational risk (III) (ORCR)	216.481	193.761
Shareholders' Equity	5.558.945	5.535.732
Shareholders' Equity/((CRCR+MRCR+ORCR) * 12,5) * 100	**21,74**	**21,40**

F. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (ie an exit price). The estimated fair values of financial instruments have been determined by the Bank using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a current market exchange.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair values at 31 December 2019 and 2018:

	31 December 2019		31 December 2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:	**25.894.312**	**25.129.499**	**24.729.569**	**24.039.742**
Due from banks and money market placements	5.366.187	5.366.187	3.187.222	3.187.222
Loans and advances to customers	17.069.115	16.714.284	18.556.247	18.056.266
Financial assets at fair value through other comprehensive income	1.147.310	1.147.310	304.898	304.898
Financial assets measured at amortized cost	2.311.700	1.901.718	2.681.202	2.491.356
Financial liabilities:	**27.477.239**	**27.088.777**	**26.480.077**	**26.068.604**
Deposits	22.097.373	22.098.440	21.561.048	21.562.797
Debt securities issued, subordinated liabilities and due to banks	5.379.866	4.990.337	4.919.029	4.505.807

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

F. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy:

Fair values of remaining financial assets and liabilities carried at cost, including cash and cash equivalents, reserve deposits at Central Bank, current account of loan customers and funds borrowed are considered to approximate their respective carrying values due to their short-term nature.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments using valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and swaps, that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Assets and liabilities measured at fair value

31 December 2019	Level 1	Level 2	Level 3	Total
Financial Assets	**1.146.350**	**1.389.493**	**5.054**	**2.540.897**
Financial Assets at Fair Value through Profit and Loss	4.094	-	-	4.094
Financial Assets at Fair Value through Other Comprehensive Income	1.142.256	-	5.054	1.147.310
Derivative Financial Assets at Fair Value through Profit and Loss	-	1.389.493	-	1.389.493
Derivative Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	-
Financial Liabilities	**-**	**1.260.911**	**-**	**1.260.911**
Derivative Financial Liabilities at Fair Value Through Profit and Loss	-	1.260.911	-	1.260.911
Derivative Financial Liabilities at Fair Value Through Other Comprehensive Income	-	-	-	-

(*) The Bank has 3rd level financial assets amounting to TL 5.054 (31 December 2018: TL 4.659). The exchange increase in current period is amounting to TL 395.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

F. Fair value of financial instruments (continued)

31 December 2018	Level 1	Level 2	Level 3	Total
Financial Assets	**303.508**	**1.085.301**	**4.659**	**1.393.468**
Financial Liabilities	**-**	**1.192.620**	**-**	**1.192.620**

There are no transfers between the first and the second levels in the current year.

6. Cash and balances with central banks

Cash and Balances with the Central Bank of Turkey:

	31 December 2019	31 December 2018
TL	3.425.824	1.094.813
Foreign currency	190.797	2.976.158
Total	**3.616.621**	**4.070.971**

Cash and cash equivalents for the purpose of presentation in the statement of cash flows

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition:

Beginning of the period	Current Period	Prior Period
Cash	**2.595.355**	**1.571.107**
Cash in TL/foreign currency	175.198	182.435
Central Bank of Republic of Turkey	2.420.157	1.388.672
Cash equivalents	**2.692.187**	**3.026.729**
Receivables from banks and other financial institutions	2.002.187	286.729
Receivables from money market placements	690.000	2.740.000
Total cash and cash equivalents	**5.287.542**	**4.597.836**

End of the period	Current Period	Prior Period
Cash	**1.790.375**	**2.595.355**
Cash in TL/foreign currency	192.338	175.198
Central Bank of Republic of Turkey	1.598.037	2.420.157
Cash equivalents	**4.619.150**	**2.692.187**
Receivables from banks and other financial institutions	2.559.150	2.002.187
Receivables from money market placements	2.060.000	690.000
Total cash and cash equivalents	**6.409.525**	**5.287.542**

(Amounts expressed in thousands of TL unless otherwise indicated.)

6. Cash and balances with central banks (continued)

In accordance with the "Communiqué Regarding the Reserve Requirements no. 2013/15, the Bank is required to maintain reserves in CBRT for TL and foreign currency liabilities. The reserve requirements can be maintained as TL, USD, EUR and standard gold. The CBRT pays interest to banks that provide credit growth in accordance with the communique principles dated December 9, 2019 and numbered 2019/19, for Turkish Lira required reserves.

The required reserve rates for TL liabilities vary between 1 % and 7% for TL deposits and other liabilities according to their maturities as of 31 December 2019 (31 December 2018: 1,5% and 8% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 5% and 21% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2019 (31 December 2018: 4% and 20% for all foreign currency liabilities).

7. Due from banks and money market balances

			31 December 2019
	Domestic	**Foreign**	**Total**
TL:			
Nostro/ demand deposits	550.424	-	550.424
Time deposits	-	-	-
Interbank money market and reverse repo	2.060.644	-	2.060.644
	2.611.068	**-**	**2.611.068**
Foreign currency:			
Nostro/ demand deposits (*)	770	2.754.349	2.755.119
Time deposits	-	-	-
	770	**2.754.349**	**2.755.119**
Total	**2.611.838**	**2.754.349**	**5.366.187**

(*) As of 31 December 2019, nostro/ demand deposits include collaterals amounting to TL 747.136 given to the foreign banks for the derivative transactions.

(**) Expected credit loss amounting to TL 1.002 recognized for due from banks and financial institutions as of 31 December 2019.

(Amounts expressed in thousands of TL unless otherwise indicated.)

7. Due from banks and money market balances (continued)

	31 December 2018		
	Domestic	**Foreign**	**Total**
TL:			
Nostro/ demand deposits	1.058.065	9.983	**1.068.048**
Time deposits	-	-	**-**
Interbank money market and reverse repo	740.121	-	**740.121**
Total	**1.798.186**	**9.983**	**1.808.169**
Foreign currency:			
Demand deposits (*)	-	1.379.053	**1.379.053**
Time deposits	-	-	**-**
Total	**-**	**1.379.053**	**1.379.053**
Total	**1.798.186**	**1.389.036**	**3.187.222**

(*) As of 31 December 2018, nostro/ demand deposits include collaterals amounting to TL 444.366 given to the foreign banks for the derivative transactions.

(**) As a result of IFRS 9 adoption, amount of TL 139 expected credit loss booked for due from banks and financial institutions as of 31 December 2018.

8. Financial assets at fair value though profit or loss

	31 December 2019	31 December 2018
Derivative financial instruments	1.389.493	1.085.301
Financial assets at fair value through profit or loss	4.094	3.269
Total financial assets at fair value through profit or loss	**1.393.587**	**1.088.570**

(Amounts expressed in thousands of TL unless otherwise indicated.)

9. Derivative financial instruments

The Bank utilizes the following derivative instruments with the general purpose of minimising market risk carried by balance sheet instruments and/or meeting customer demand:

“Currency forwards” represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions. Forwards are customized contracts transacted in over-the-counter (OTC) market. The Bank has credit exposure to the counterparties of forward contracts.

“Currency and interest rate swaps” are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The Bank’s credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value and the liquidity of the market.

“Options” are contractual agreements that convey the right to the buyer and the obligations to the writer to buy or sell an asset at a specified price either at a fixed future date or at any time within a specified period. Major part of the Bank’s option book activity stems from the clients’ needs; therefore, to meet the client demands Bank actively runs an option book on the residual open positions which are not fully covered.

31 December 2019

	Contract/ notional amount (aggregate of buy and sell)	**Fair values assets**	**Fair values liabilities**
Derivative financial instruments			
Foreign exchange derivatives:			
Currency forwards	5.325.238	17.512	34.959
Currency swaps	29.258.137	591.668	487.574
Currency options	4.604.282	9.871	6.675
Total foreign exchange derivatives	39.187.657	619.051	529.208
Interest rate derivatives:			
Interest rate swaps	37.458.016	770.442	-
Options	408.808	-	731.703
Total interest rate derivatives	37.866.824	770.442	731.703
Total derivative financial instruments	**77.054.481**	**1.389.493**	**1.260.911**
Derivatives for cash flow hedge			
Interest rate swaps	-	-	-
Total derivatives for hedge accounting	-	-	-
Total	**77.054.481**	**1.389.493**	**1.260.911**

(Amounts expressed in thousands of TL unless otherwise indicated.)

9. Derivative financial instruments (continued)

31 December 2018

	Contract/ notional amount (aggregate of buy and sell)	Fair values assets	Fair values liabilities
Derivative financial instruments			
Foreign exchange derivatives:			
Currency forwards	4.497.318	108.315	58.060
Currency swaps	20.933.937	605.731	567.142
Currency options	11.058.251	156.675	195.315
Total foreign exchange derivatives	36.489.506	870.721	820.517
Interest rate derivatives:			
Interest rate swaps	35.637.562	214.473	254.962
Options	755.860	107	1.100
Total interest rate derivatives	36.393.422	214.580	256.062
Total derivative financial instruments	**72.882.928**	**1.085.301**	**1.076.579**
***Derivatives for* cash flow hedge**			
Interest rate swaps	800.000	-	116.041
Total derivatives for hedge accounting	**800.000**	**-**	**116.041**
Total	**73.682.928**	**1.085.301**	**1.192.620**

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Fair Value Hedge	-	-	-	-
Cash Flow Hedge	-	-	116.041	-
Total	**-**	**-**	**116.041**	**-**

As of 31 December 2019, The Bank has no cash flow hedge (31 December 2018: TL 800 Million).

In the periods in which the cash flows (interest expenses) of the hedged item affects the statement of profit or loss, the profit/ loss of the hedging instrument is recognized in the statement of profit or loss from equity. In this context, after tax loss of TL 28.769 was transferred from equity to statement of profit or loss in 2019 (31 December 2018: TL 20.299).

(Amounts expressed in thousands of TL unless otherwise indicated.)

10. Loans and advances to customers

31 December 2019	Commercial	Retail	Total
Standard Loans (*)	10.348.962	560.350	**10.909.312**
Watchlist (*)	4.778.781	165.650	**4.944.431**
Significant Increase in Credit Risk(*)	612.926	-	**612.926**
Non-performing Loans	2.685.541	117.651	**2.803.192**
Expected credit losses (-)	(1.389.075)	(76.062)	**(1.465.137)**
Total	**17.037.135**	**767.589**	**17.804.724**

(*) Presents gross amounts

31 December 2018	Commercial	Retail	Total
Standard Loans (*)	11.514.792	1.187.676	**12.702.468**
Watchlist (*)	3.876.453	268.881	**4.145.334**
Significant Increase in Credit Risk (*)	1.888.887	-	**1.888.887**
Non-performing Loans	1.725.561	36.095	**1.761.656**
Expected credit losses (-)	(915.650)	(14.302)	**(929.952)**
Total	**18.090.043**	**1.478.350**	**19.568.393**

(*) Presents gross amounts

(Amounts expressed in thousands of TL unless otherwise indicated.)

10. Loans and advances to customers (continued)

Loans and advances to the public sector and private sector are as follows:

	31 December 2019	31 December 2018
Public sector	-	-
Private sector	17.069.115	18.556.247
Total	**17.069.115**	**18.556.247**

The movement of total non-performing loans (Stage 3):

	Balance 31 December 2018	Transfers to non-performing loans	Collections	Sales	Balance 31 December 2019
Retail	70.886	100.822	(54.057)	-	117.651
Commercial	1.690.771	1.467.213	(472.443)	-	2.685.541
Total	**1.761.657**	**1.568.035**	**(526.500)**	**-**	**2.803.192**

Movements in the expected credit losses are as follows:

	Stage 1	Stage 2	Stage 3	Total
Beginning Balance (1 January 2019)	**107.550**	**851.197**	**929.952**	**1.888.699**
Additions	98.482	421.849	810.485	1.330.816
Disposals (-)	(130.330)	(305.618)	(477.309)	(913.257)
Sales (-)	-	-	(105.512)	(105.512)
Write-offs (-)	-	-	-	-
Transfers to Stage 1	60.379	(60.379)	-	-
Transfers to Stage 2	(54.015)	54.015	-	-
Transfers to Stage 3	(281)	(307.240)	307.521	-
Balance at the end of the period	**81.785**	**653.824**	**1.465.137**	**2.200.746**

(*) The Bank has sold its non- performing loans amounting to TL 195.512 and provisioned with TL 105.512 to an asset management company on 15 November 2019.

	Stage 1	Stage 2	Stage 3	Total
Beginning Balance (1 January 2018)	**105.024**	**857.195**	**437.507**	**1.399.726**
Additions	133.641	511.441	1.080.676	1.725.758
Disposals (-)	(217.492)	(346.644)	(302.510)	(866.646)
Sales (-)	-	-	(358.204)	(358.204)
Write-offs (-)	-	-	(11.935)	(11.935)
Transfers to Stage 1	154.924	(154.924)	-	-
Transfers to Stage 2	(68.369)	68.391	(22)	-
Transfers to Stage 3	(178)	(84.262)	84.440	-
Balance at the end of the period	**107.550**	**851.197**	**929.952**	**1.888.699**

(Amounts expressed in thousands of TL unless otherwise indicated.)

11. Investment securities

Financial assets at fair value through other comprehensive income

	31 December 2019	31 December 2018
Debt securities - at fair value:		
Turkish Government bonds and treasury bills	1.142.412	295.200
Lebanese Government Eurobonds and treasury bills	-	-
Share Certificates	4.898	9.698
Equity securities - at fair value	-	-
Listed	-	-
Unlisted	-	-
Total securities	**1.147.310**	**304.898**

As of 31 December 2019 financial assets at fair value through other comprehensive income pledged as collateral and also subject to repurchase agreement amount to TL 740.409 (31 December 2018: TL 103.131).

The movement in financial assets at fair value through other comprehensive securities at during the years is as follows:

	31 December 2019	31 December 2018
At January 1	**304.898**	**1.262.433**
Additions	1.066.175	265.352
Disposals / redemption	(458.444)	(922.463)
Interest accruals and changes in fair value	64.443	13.734
Foreign currency differences and realized gain or loss	170.238	166.499
Transfers, net	-	(480.657)
At December 31	**1.147.310**	**304.898**

Financial assets measured at amortized cost

	31 December 2019	31 December 2018
Debt securities - at amortized cost - listed:		
Turkish Government Eurobonds and treasury bills	1.421.490	1.952.162
Foreign government bonds	890.210	729.040
Total securities	**2.311.700**	**2.681.202**

As of 31 December 2019 financial assets measured at amortized cost pledged as collateral and also subject to repurchase agreement amounting TL 1.046.277 (31 December 2018: 1.582.303).

(Amounts expressed in thousands of TL unless otherwise indicated.)

11. Investment securities (continued)

The movement in financial assets measured at amortized cost during the years is as follows:

	31 December 2019	31 December 2018
At 1 January 2019	**2.681.202**	**447.133**
Additions	381.387	1.409.714
Redemptions	(764.630)	(1.379.616)
Transfers	-	1.254.532
Foreign currency differences	54.669	970.579
Expected Credit Loss	(40.928)	(21.140)
At 31 December 2019	**2.311.700**	**2.681.202**

12. Tangible assets

	31 December 2019	31 December 2018
Cost	433.738	259.939
Accumulated depreciation and impairment (-)	221.421	173.116
Net book amount	**212.317**	**86.823**

	Closing Balance December 31, 2018	Additions	Disposals	Other	Change in estimate	Ending Balance December 31, 2019
Cost:						
Land and buildings	9.174	-	-	-	-	9.174
Leased tangible assets	-	160.603	-	-	-	160.603
Vehicles	-	-	-	-	-	-
Other	250.765	24.665	(11.469)	-	-	263.961
Total Cost	**259.939**	**185.268**	**(11.469)**	**-**	**-**	**433.738**

	Closing Balance December 31, 2018	Additions	Disposals	Other	Change in estimate	Ending Balance December 31, 2019
Accumulated Depreciation:						
Land and buildings	1.129	183	-	-	-	1.312
Leased tangible assets	-	32.053	-	-	-	32.053
Vehicles	-	-	-	-	-	-
Other	171.987	24.416	(8.347)	-	-	188.056
Total Accumulated Depreciation	**173.116**	**56.652**	**(8.347)**	**-**	-	**221.421**
Net Book Value	**86.823**	**128.616**	**(3.122)**	**-**	**-**	**212.317**

(Amounts expressed in thousands of TL unless otherwise indicated.)

13. Intangible assets

	31 December 2019	31 December 2018
Cost	239.499	196.220
Accumulated amortization(-)	164.686	133.278
Net book amount	**74.813**	**62.942**

Movements of other intangible assets were as follows:

	Closing Balance December 31, 2018	Additions	Disposals	Other	Change in estimate	Ending Balance December 31, 2019
Cost:						
Software cost	196.220	43.279	-	-	-	239.499
Other intangible assets	-	-	-	-	-	-
Total Cost	**196.220**	**43.279**	-	-	-	**239.499**

	Closing Balance December 31, 2018	Period Charge	Disposals	Other	Change in estimate	Ending Balance December 31, 2019
Accumulated Depreciation:						
Software cost	133.278	31.408	-	-	-	164.686
Other intangible assets	-	-	-	-	-	-
Total Accumulated Depreciation	**133.278**	**31.408**	-	-	-	**164.686**
Net Book Value	**62.942**	**11.871**	**-**	**-**	**-**	**74.813**

14. Other assets and non-current assets held for resale

	31 December 2019	31 December 2018
Loan related assets	418.175	459.575
Prepaid expenses (*)	65.459	169.315
Credit card receivables	82.657	74.873
Settlement accounts	28.529	26.537
Other	5.958	67.352
Total	**600.778**	**797.652**

(*) Prepaid expenses mainly constitute prepaid rents, charges and other items.

Movements in assets held for resale during the years, were as follows:

	31 December 2019	31 December 2018
Cost		
At 1 January 2019	238.525	170.946
Additions	468.927	89.935
Disposals	(116.978)	(22.356)
At 31 December 2019	**590.474**	**238.525**

(Amounts expressed in thousands of TL unless otherwise indicated.)

15. Deposits

	31 December 2019	31 December 2018
Customer deposits	22.046.136	20.406.471
Fiduciary and bank deposits	51.237	1.154.577
Total Deposits	**22.097.373**	**21.561.048**

31 December 2019	Demand			Time			
	TL	FC	Total	TL	FC	Total	Grand Total
Corporate and Commercial	964.314	519.519	1.483.833	538.172	1.906.551	2.444.723	3.928.556
Retail	66.635	84.858	151.493	340.357	1.972.196	2.312.553	2.464.046
SME	272.644	885.362	1.158.006	5.904.639	8.590.889	14.495.528	15.653.534
Customer Deposits	**1.303.593**	**1.489.739**	**2.793.332**	**6.783.168**	**12.469.636**	**19.252.804**	**22.046.136**
Fiduciary and Bank Deposits	**702**	**-**	**702**	**22.400**	**28.135**	**50.535**	**51.237**
Grand Total	**1.304.295**	**1.489.739**	**2.794.034**	**6.805.568**	**12.497.771**	**19.303.339**	**22.097.373**

31 December 2018	Demand			Time			
	TL	FC	Total	TL	FC	Total	Grand Total
Corporate and Commercial	140.867	372.979	513.846	764.083	1.405.641	2.169.724	2.683.570
Retail	176.981	477.874	654.855	6.490.748	8.057.162	14.547.910	15.202.765
SME	45.242	71.494	116.736	868.997	1.534.403	2.403.400	2.520.136
Customer Deposits	**363.090**	**922.347**	**1.285.437**	**8.123.828**	**10.997.206**	**19.121.034**	**20.406.471**
Fiduciary and Bank Deposits	**1.783**	**-**	**1.783**	**8.716**	**1.144.078**	**1.152.794**	**1.154.577**
Grand Total	**364.873**	**922.347**	**1.287.220**	**8.132.544**	**12.141.284**	**20.273.828**	**21.561.048**

(Amounts expressed in thousands of TL unless otherwise indicated.)

16. Subordinated liabilities and due to banks and money market balances

	31 December 2019	31 December 2018
Due to banks and money market balances	2.884.053	3.075.907
Debt securities issued	760.000	207.110
Subordinated liabilities	1.735.813	1.636.012
Total	**5.379.866**	**4.919.029**

a) Information on subordinated liabilities:

The Bank, on August 1, 2017 issued the Basel III compliant, 10 year, semi-annual fixed 7,625% coupon paying bond of USD 300 million to foreign domicile investors. The bond, with the permission of BRSA dated July 17, 2017 was classified as Tier II sub-loan. The Bank, pursuant to the approval of the BRSA on 26 September 2018, bought back USD 670 thousands of Tier II sub-loan on 5 December 2018, and the relevant amount has been deducted from the capital amount in the equity calculation. The Bank has not redeemed or cancelled the shares in circulation, thus selling back any portion of such amount at any time is completely at the Bank management's discretion. As of 31 December 2019, the total amount of Tier II sub-loan the Bank has bought back amounts to USD 17.110 thousand. The Bank has not redeemed or cancelled the shares in circulation, thus selling back any portion of such amount at any time is completely at the Bank management's discretion.

Movement of subordinated liabilities for the year ending at 31 December 2019 is as follows:

Movement for subordinated liabilities	2019	2018
Balance at the beginning of the year	1.636.012	1.174.992
Proceeds during the year	-	-
Repayments during the year	(97.779)	(3.558)
Effect of exchange rate changes on the balance of cash held in foreign currencies	194.516	450.659
Change in accrual balance	3.064	13.919
Balance at the end of the year	**1.735.813**	**1.636.012**

b) Information on due to banks:

a) Information on banks and other financial institutions:

	31 December 2019			31 December 2018		
	TL	FC	Total	TL	FC	Total
From domestic banks and institutions	16.552	38.975	55.527	2.450	12.811	15.261
From foreign banks, institutions and funds	-	2.649.922	2.649.922	-	3.060.546	3.060.546
Total	**16.552**	**2.688.897**	**2.705.449**	**2.450**	**3.073.357**	**3.075.807**

b) Maturity analysis of funds borrowed:

	31 December 2019			31 December 2018		
	TL	FC	Total	TL	FC	Total
Short-term	10.330	166.811	177.141	1.940	780.227	782.167
Medium and long-term	6.222	2.522.086	2.528.308	510	2.293.130	2.293.640
Total	**16.552**	**2.688.897**	**2.705.449**	**2.450**	**3.073.357**	**3.075.807**

(Amounts expressed in thousands of TL unless otherwise indicated.)

16. Subordinated liabilities and due to banks (continued)

c) Information on money market balances:

As of 31 December 2019, the Bank has funds provided under repurchase agreements amounting to TL 178.604 (31 December 2018: TL 100).

d) Information on debt securities issued:

	31 December 2019		31 December 2018	
	TL	**FC**	**TL**	**FC**
Bond	760.000	-	207.110	-
Total	**760.000**	**-**	**207.110**	**-**

As of 31 December 2019, the Bank has repaid for issued bonds amounting to TL 3.293.000.

17. Taxation

	December 31, 2019	December 31, 2018
Current tax income / (expense)	-	-
Deferred tax income / (expense)	(18.956)	520
Tax income/(expense)	**(18.956)**	**520**

Through the enactment of Corporate Tax Law No.5520 ("New Corporate Tax Law") published in the Official Gazette No.26205 dated 21 June 2006, corporation tax is payable at the rate of 20% effective from 1 January 2006 on the total income of the entities in Turkey after adjusting for certain disallowable expenses, exempt income and investment and other allowances. However, in accordance with the addition of temporary 10th article to the Corporate Tax Law, 22% corporate tax rate will be applied to the profits of the entities related to their to 2018, 2019 and 2020 tax periods (for the entities with special accounting period, tax periods commenced in the related year) rather than 20%. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%.

Corporations are required to pay advance corporate tax quarterly at a rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations for the current period is credited against the annual corporation tax calculated on the annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

75% of the income derived by the Company from the sale of participation shares, preferential rights, founders' shares and redeemed shares and 50% of the income derived by the Company from the sale of immovable property which are carried in assets for at least for two years is exempt from corporate tax with the condition that the relevant income should be added to the share capital or kept under a special reserve account under equity for 5 years in accordance with the Corporate Tax Law.

Under the Turkish taxation system, tax losses can be carried forward for offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

(Amounts expressed in thousands of TL unless otherwise indicated.)

17. Taxation (continued)

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Corporations file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and if they find any corrections then the tax amount to be paid might be changed as well.

Deferred income taxes

As of 31 December 2018, the tax rate of 22% is used for the temporary differences expected to be realized / settled within 3 years (2018, 2019 and 2020) for deferred tax calculation since the tax rate applicable for 3 years has been changed to 22%. However, 20% tax rate is used for temporary differences expected / expected to be incurred after 2020 since the tax rate applicable for post-2020 corporations is 20%.

The deferred income tax assets and liabilities represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return in accordance with the applicable tax law plus any available tax loss carried forward from previous years.

The temporary differences giving rise to the deferred income tax assets and deferred income tax liabilities are as follows:

	Cumulative Temporary Differences	Deferred Tax Asset/ Liability	Cumulative Temporary Differences	Deferred Tax Asset/ Liability
	31 December 2019	31 December 2019	31 December 2018	31 December 2018
Difference between net book value and tax value of financial assets	930.659	192.245	1.037.267	215.699
Provisions (*)	52.831	11.623	137.510	30.252
IFRS 16 – Leasings	71.362	14.272	-	-
Deferred commissions	38.596	8.491	53.399	11.748
Tangible assets differences	21.137	4.528	-	-
Other (**)	392.937	86.446	118.957	26.171
Deferred Tax Asset	**1.507.522**	**317.605**	**1.347.133**	**283.870**
Tangible assets differences	-	-	41.084	8.861
Other	326.912	71.765	-	-
Deferred income tax liabilities	**326.912**	**71.765**	**56.193**	**11.703**
Deferred income tax assets, net	**1.180.610**	**245.840**	**1.290.940**	**272.167**

(*) Provisions does not include loan impairment.

(**) The Bank has tax losses carried forward amounting to TL 180.722 and TL 112.856 as of 31 December 2018 and 2019, respectively. Carried forward tax losses can be available for to be offset from tax profit until 2023 corporate tax return is declared. The Bank, has recognized deferred tax asset for all of its tax losses of the Bank.

(Amounts expressed in thousands of TL unless otherwise indicated.)

17. Taxation (continued)

The movements of net deferred income taxes during the years were as follows:

	31 December 2019	31 December 2018
Balance at 1 January 2019	**272.167**	**90.342**
Opening of IFRS 9 effect	**-**	**156.286**
Balance at 1 January 2019 after IFRS 9 effect	**272.167**	**246.628**
IFRS 16 effect	15.234	-
(Charge) / credit for the year, net	(18.956)	520
Financial assets at fair value through other comprehensive income revaluation reserve (*)	(22.605)	25.019
Balance at 31 December 2019	**245.840**	**272.167**

There are no deductible temporary differences for which no deferred tax asset is recognized in the statement of financial position.

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Bank for the years ended 31 December 2019 and 2018 is as follows:

	31 December 2019	31 December 2019
Profit/(loss) before income tax	90.078	16.630
Income tax using the domestic corporation tax rate 22%	(19.818)	(3.659)
Reversal of previously recognised tax losses	60.276	-
Current year tax that has effect on deferred tax asset	(59.414)	4.179
Total income tax expense in the statement of profit or loss	**(18.956)**	**520**

Income tax effects relating to components of other comprehensive income

	31 December 2019		
	Gross amount	Tax (expense) income	Net-of tax amount
Fair value gains on financial assets at fair value through other comprehensive income	71.917	(15.822)	56.095
Cash flow hedge reserve	31.100	(6.842)	24.258
Other	(266)	59	(207)
Other comprehensive income/(loss) for the year (net presentation)	**102.751**	**(22.605)**	**80.146**

(Amounts expressed in thousands of TL unless otherwise indicated.)

17. Taxation (continued)

			31 December 2018
	Gross amount	**Tax (expense) income**	**Net-of tax amount**
Fair value gains on financial assets at fair value through other comprehensive income	(25.696)	5.653	(20.043)
Cash flow hedge reserve	(88.280)	19.422	(68.858)
Other	254	(56)	198
Other comprehensive income/(loss) for the year (net presentation)	**(113.722)**	**25.019**	**(88.703)**

18. Employee benefits

	31 December 2019	**31 December 2018**
Employee termination benefit provision	8.216	6.644
Unused vacation provision	6.355	5.203
Personnel premium	35.000	25.000
Total of provision for employee benefits	**49.571**	**36.847**

Movements in the employee termination benefit provision during the year:

	31 December 2019	**31 December 2018**
Balance at the beginning of period	**6.644**	**5.745**
Service Cost	609	1.689
Interest expense	325	632
Actuarial gain/loss transferred to equity	2.543	706
The amount of provision	(1.905)	(2.128)
Balance at the end of period	**8.216**	**6.644**

Reserve for employment termination benefits

Under the Turkish Labour Law, the Bank is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, who dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement.

The principal actuarial assumptions used at the dates of financial position are as follows:

	31 December 2019	**31 December 2018**
Discount rate in real terms	3,83%	2,78%
Interest rate	13,90%	11,00%
Estimated salary/ Employee termination benefit increase rate	8,83%	8,00%

(Amounts expressed in thousands of TL unless otherwise indicated.)

19. Provisions

Provisions	**31 December 2019**	**31 December 2018**
Provision for non - cash loans	34.736	48.303
Provision for outstanding legal claims	32.500	20.000
General reserve for possible risks	-	16.385
Other	10.623	46.636
Total	**77.859**	**131.324**

20. Taxes Payable

Taxes Payable	**31 December 2019**	**31 December 2018**
Banking and insurance transaction tax	12.579	15.780
Taxes from returns on stocks and bond	18.878	23.163
Income tax from salaries	3.638	3.073
Others	7.170	6.566
Total	**42.265**	**48.582**

21. Other Liabilities

Other liabilities	**31 December 2019**	**31 December 2018**
Lease Liabilities	167.179	-
Credit card payables	98.313	83.374
Cheques in clearance	57.956	76.910
Due to national institute for guarantee of deposits	9.533	4.716
Social security duties	3.638	3.073
Others	84.697	69.874
Total	**421.316**	**237.947**

Explanations on lease obligations (Net):

	31 December 2019	
	Gross	**Net**
Less Than 1 Year	7.578	6.964
Between 1-4 Years	72.701	54.340
More Than 4 Years	168.269	105.875
Total	**248.548**	**167.179**

The Bank has no lease obligation as of 31 December 2018.

(Amounts expressed in thousands of TL unless otherwise indicated.)

22. Share capital

As of 31 December 2019 the historic amount of paid-in share capital of the Bank consists of 3.288.842.000 authorized shares with a nominal value of TL 1 each.

The issued and fully paid-in share capital and share premium are as follows:

	31 December 2019		31 December 2018	
Shareholders (*)	**Participation rate (%)**	**TL**	**Participation rate (%)**	**TL**
Bank Audi S.A.L.-Audi Group	76,419	2.513.293	76,419	2.513.293
European Bank for Reconstruction and Development	8,009	263.394	8,009	263.394
International Finance Corporation	6,362	209.252	6,362	209.252
H.H Sheikh Dheyab Binzayed Binsultan Al-Nahyan	4,004	131.697	4,004	131.697
IFC Financial Institutions Growth Fund L.P	3,426	112.674	3,426	112.674
Mr.Mohammad Hassan Zeidan	1,780	58.532	1,780	58.532
Total share capital	**100,00**	**3.288.842**	**100,00**	**3.288.842**

Earnings per share:

	31 December 2019	31 December 2018
Bank's profit	71.122	17.150
Weighted Average Number of Issued Ordinary Shares (Thousand)	3.288.842	3.288.842
Earnings Per Share	**0,022**	**0,050**

23. Other Reserves

	31 December 2019	31 December 2018
Revaluation reserve - financial assets at fair value through other comprehensive income	36.052	(20.043)
Cash flow hedge reserve	(44.600)	(68.858)
Other reserve (*)	(2.198)	(2.198)
Other	3.987	4.194
Total other reserves	**(6.759)**	**(86.905)**

(*) As per Turkish Account Standards 32, the Bank accounted stamp tax expenses and competition board fees resulted from the capital increase transaction amounting TL 2.198 under equity.

Under the Turkish Commercial Code (TCC), the Bank is required to create the following legal reserves from appropriation of earnings, which are available for distribution only in the event of liquidation or losses:

a) First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.

b) Second legal reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless the reserve exceeds 50% of paid-in share capital.

(Amounts expressed in thousands of TL unless otherwise indicated.)

24. Net interest income

	31 December 2019	31 December 2018
Interest & similar income		
Interest on loans	2.253.133	2.705.675
Interest received from reserve deposits	32.273	53.322
Interest received from banks	185.879	211.783
Interest received from money market transactions	126.403	83.140
Interest received from marketable securities portfolio	305.830	249.059
Other interest income	99.386	198.200
Total interest & similar income	**3.002.904**	**3.501.179**
Interest & similar expense on:		
Interest on deposits	(1.553.318)	(2.067.434)
Interest on funds borrowed	(84.829)	(131.514)
Interest on money market transactions	(7.040)	(2.292)
Interest on securities issued	(271.116)	(126.590)
Finance lease interest expenses	(33.895)	-
Other interest expenses	(56.352)	(89.960)
Total interest & similar expense	**(2.006.550)**	**(2.417.790)**
Net interest income	**996.354**	**1.083.389**

25. Net fee and commission income

	31 December 2019	31 December 2018
Fee and commission income on:		
General banking income	10.185	12.545
Brokerage and custody income	4.656	1.138
Trade finance income	66.505	43.789
Electronic cards	44.099	66.772
Insurance income	1.588	2.805
Corporate finance	1.035	9.463
Other fees and commissions	3.830	17.004
Total fee and commission income	**131.898**	**153.516**
Fee and commission expense on:		
General banking expense	(10.239)	(12.545)
Electronic cards	(8.824)	(13.147)
Other	(5.874)	(8.918)
Total fee and commission expense	**(24.937)**	**(34.610)**
Net fee and commission income	**106.961**	**118.906**

(Amounts expressed in thousands of TL unless otherwise indicated.)

26. Net trading and fair value income and net gains / losses from investment securities

	31 December 2019	31 December 2018
Net trading and fair value gains and losses (*)	135.366	744.478
Foreign exchange gains/losses (*)	(197.172)	(693.212)
Treasury bills and bonds	28.379	(58.430)
Total	**(33.427)**	**(7.164)**

(*) Foreign exchange gains/losses include the spot legs of forward contracts and options in addition to the translated foreign currency assets and liabilities.

27. Other operating expenses

	31 December 2019	31 December 2018
Personnel expenses	**252.416**	**212.922**
Salaries and related benefits	215.816	180.520
Social and regulatory expenses	22.876	21.389
Medical and life insurance	7.003	6.036
Food and beverage	3.920	3.043
Training and seminars	2.224	1.306
Other staff expenses	523	513
Transportation	54	115
Other operating expenses	**303.397**	**386.522**
Buildings rental and related expenses	36.032	83.696
Information technology	65.542	65.748
Taxes and similar disbursements	17.338	55.455
Regulatory fees	26.729	33.540
Professional and outsourcing fees	11.329	28.130
Advertising fees	21.059	24.309
Premium for guarantee of deposits	30.131	18.061
Credit cards expenses	13.516	16.546
Telephone and mailing expenses	7.512	9.880
Subscription to communication services	6.388	5.675
Maintenance machines and material	9.653	4.597
Insurance premiums	4.774	2.610
Office supplies	1.971	1.392
Other expenses	51.423	36.883
Depreciation of property & equipment	**48.305**	**26.557**
Amortization of intangible assets	**31.408**	**32.071**
Total	**635.526**	**658.072**

28. Net impairment/recoveries on financial assets

	31 December 2019	31 December 2018
12-Month Expected Credit Losses (Stage 1)	2.406	-
Significant İncrease İn Credit Risk (Stage 2)	6.575	-
Credit-Impaired (Stage 3)	527.056	664.815
Income from Reversal of Prior Years’ Provisions	(164.132)	(90.468)
Total	**371.905**	**574.347**

(Amounts expressed in thousands of TL unless otherwise indicated.)

29. Commitments and contingent liabilities

In the normal course of its activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities.

Legal proceedings

As of the balance sheet date, there are no lawsuits filed against the Bank and for which provision has been booked due to their likelihood of being lost. The Bank has not any contingent liability with a high probability of realization regarding continuing lawsuits.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as and if required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

31 December 2019 (*)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	749.939	-	-	**749.939**
Letter of guarantees	-	1.774.951	-	-	**1.774.951**
Acceptance credits	-	395.765	-	-	**395.765**
Other guarantees	-	853.802	-	-	**853.802**
Total	**-**	**3.774.457**	**-**	**-**	**3.774.457**

31 December 2018 (*)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	669.337	-	-	**669.337**
Letter of guarantees	-	1.795.569	-	-	**1.795.569**
Acceptance credits	-	651.057	-	-	**651.057**
Other guarantees	-	569.819	-	-	**569.819**
Total	**-**	**3.685.782**	**-**	**-**	**3.685.782**

(*) Based on expected maturities.

Assets under management

Assets under management include client assets managed or deposited with the Bank, where, the client decides how these assets are to be invested.

As of 31 December 2019, assets under management comprise of mutual funds and bills and bonds amounting TL 1.937.072 (31 December 2018: TL 311.697).

(Amounts expressed in thousands of TL unless otherwise indicated.)

30. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by Bank Audi.

A number of transactions were entered into with related parties in the normal course of business,

(i) Balances with related parties:

	31 December 2019	31 December 2018
Other related parties		
Direct and indirect shareholders of the Bank		
Loans and other receivables	2.497	2.587
Total Loans and other receivables	**2.497**	**2.587**
Other related parties		
Deposits	1.686	1.326
Direct and indirect shareholders of the Bank		
Deposits	33.814	452.934
Direct and indirect shareholders of the Bank		
Debt securities and other funds borrowed	13.365	736.057
Total liabilities	**48.865**	**1.190.317**
Other related parties		
Credit related commitments	125	125
Total commitments and contingent liabilities	**125**	**125**

(ii) Transactions with related parties:

	31 December 2019	31 December 2018
Total interest and fee income	**207**	**61**
Interest expense on deposits	2.979	10.727
Interest expense on derivative transactions	440.620	156.621
Total interest and fee expense	**443.599**	**167.348**

(iii) Balances with directors and other key management personnel:

Gross payment made to the executive management in 2019 is TL 17.377 (31 December 2018: TL 16.035).

31. Events after the reporting period

Antoine Najm has been appointed as Member of the Board of Directors beginning from 9 January 2020 per Board of Directors resolution dated 19 December 2019.

A novel strain of coronavirus (COVID-19) that first surfaced in China was classified as a pandemic by the World Health Organization on 11 March 2020, impacting countries globally. The potential impacts from COVID-19 remain uncertain, including, among other things, on economic conditions, businesses and consumers. The extent of these impacts on the Bank is unclear, although they will likely adversely affect its businesses, results of operations and financial condition. This is a non-adjusting event and an estimate of the financial effect cannot be made at the point in time as the situation remains a rapidly evolving one.

According to BRSA's article dated April 18, 2020, and the second paragraph of Article 43 and 93 of the Banking Law (Law) No. 5411, it has been decided that the Banks shall calculate Asset Ratio (AR) on a weekly basis, and as of the end of each month, the monthly average of the Asset Ratio should not fall below 100% for deposit banks and below 80% for participation banks. In accordance with subparagraph (a) of the first paragraph of Article 148 of the Law, as of the end of the relevant month, it was decided to calculate the excess amount that constitutes a contradiction to be taken as the amount of change in the share that will bring the ratio to 100% and 80%, respectively, for banks with an active ratio below 100% and participation banks below 80%. This regulation is valid as of May 1, 2020.

Between 31 December 2019 and 6 May 2020, when the financial statements were approved, the Turkish Lira has significantly depreciated against foreign currencies. This depreciation was 19% against the USD and 15% against the EUR.