Nurol Yatırım Bankası Anonim Şirketi and its Subsidiary

Consolidated financial statements for the year ended 31 December 2019

Güney Bağımsız Denetim ve SMMM A.Ş.
Maslak Mah. Eski Büyükdere Cad.
Orjin Maslak İş Merkezi No: 27
Kat: 2-3-4 Daire: 54-57-59
34485 Sarıyer
İstanbul - Türkiye

Tel: +90 212 315 3000
Fax: +90 212 230 8291
ey.com
Ticaret Sicil No : 479920
Mersis No: 0-4350-3032-6000017

Building a better working world

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Nurol Yatırım Bankası A.Ş.

Opinion

We have audited the consolidated financial statements of Nurol Yatırım Bankası A.Ş. and its subsidiary ("the Group") which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. Key audit 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.

Building a better working world

Key Audit Matter	How the matter is addressed in our audit
Recognition of impairment on financial assets in accordance with IFRS 9 "Financial Instruments" Standard and related significant disclosures	
As disclosed in disclosure 4.10, The Group recognizes expected credit losses of financial assets in accordance with IFRS 9. We considered the impairment of financial assets recognition in accordance with IFRS 9 as a key audit matter since: - Amount of on and off balance sheet items that are subject to expected credit loss calculation is material to the financial statements - There are complex and comprehensive requirements of IFRS 9 - The classification of the financial assets is based on the Bank's business model and characteristics of the contractual cash flows in accordance with IFRS 9 and the Group uses significant judgment on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments. - Policies implemented by the Group management include compliance risk to the regulations and other practices. - Re-structured processes of IFRS 9 are advanced and complex. - Judgements and estimates used in expected credit loss calculation are new, complex and comprehensive. - Disclosure requirements of IFRS 9 are comprehensive and complex	- Our audit procedures included among others include: - Evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding and industry practice. - Identifying and testing relevant controls and new IT systems by involving Information technology and Process audit specialists - Evaluating the reasonableness of management's key judgements and estimates made in expected credit loss calculations, including selection of methods, models, assumptions and data sources and evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding and industry practice - Evaluating the understanding and the control of the Group's business model assessment and the test on the contractual cash flows - Involving Financial risk management specialists to challenge significant assumptions / judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, macro-economic variables, and recovery rates and performing loan review from the selected samples - Assessing the completeness, accuracy and relevance of the data used for the calculation of expected credit loss - Evaluating the appropriateness and tested the mathematical accuracy of Expected credit loss models applied. - Evaluating the judgments and estimates used for the individually assessed financial assets - Evaluating the reasonableness of and tested the post-model adjustments. - Auditing of the IFRS 9 disclosures.

A member firm of Ernst & Young Global Limited

Building a better working world

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

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

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

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

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

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

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

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

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

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

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

A member firm of Ernst & Young Global Limited

Building a better
working world

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

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

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

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

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

The engagement partner who supervised and concluded this independent auditor's report is Yaşar Bivas.

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

Yaşar Bivas, SMMM
Partner

Istanbul, Turkey
February 24, 2020

TABLE OF CONTENTS

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2019
(Currency - In thousands of Turkish Lira)

	Note	Audited 31 December 2019	Audited 31 December 2018
Assets			
Cash and cash equivalents	*6*	473,645	308,898
Reserve deposits at Central Bank	*7*	149,683	321,030
Derivative financial assets		11,937	24,929
Financial assets measured at fair value through other comprehensive income	*8*	198,356	80,431
Loans and advances to customers	*9*	2,159,206	1,682,717
Property and equipment	*12*	7,131	4,040
Investment property	*10*	223,545	34,385
Intangible assets	*13*	4,811	2,190
Deferred tax assets	*19*	8,741	2,032
Current tax assets		-	7,157
Other assets	*11*	16,895	211,678
Total assets		**3,253,950**	**2,679,487**
Liabilities			
Funds borrowed	*14*	904,639	909,077
Debt securities issued	*15*	763,268	736,306
Other liabilities	*17*	987,772	652,855
Derivative financial liabilities		43,444	37,257
Subordinated debts	*16*	90,305	80,254
Provisions	*18*	22,352	9,027
Current tax liability		5,828	-
Total liabilities		**2,817,608**	**2,424,776**
Equity			
Share capital	*21*	300,000	160,000
Reserves		54,997	19,283
Retained earnings		81,345	75,428
Total equity		**436,342**	**254,711**
Total liabilities and equity		**3,253,950**	**2,679,487**

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

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

(Currency - In thousands of Turkish Lira)

	Note	Audited 1 January- 31 December 2019	Audited 1 January- 31 December 2018
Interest income	*22*	459,409	379,123
Interest expense	*22*	(250,381)	(204,427)
Net interest income		**209,028**	**174,696**
Fee and commission income	*23*	57,527	21,952
Fee and commission expense	*23*	(8,726)	(10,745)
Net fee and commission income		**48,801**	**11,207**
Net trading income / (loss)	*24*	**(73,937)**	**(51,622)**
Net gains/(losses) on financial assets/liabilities at fair value through profit or loss		*(64,787)*	*(30,845)*
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income		*(9,150)*	*(20,777)*
Other operating income	*25*	12,918	22,609
		(61,019)	**(29,013)**
Operating income		**196,810**	**156,890**
Net impairment/recoveries on financial assets	9	(24,029)	(21,186)
Other provision expenses	*26*	(17,415)	(4,193)
Personnel expenses	*27*	(25,150)	(16,684)
Depreciation and amortization		(4,955)	(1,980)
Administrative expenses	*28*	(38,056)	(29,412)
Profit before income tax		**87,205**	**83,435**
Income tax expense	*17*	(18,693)	(18,445)
Profit for the period		**68,512**	**64,990**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Financial assets measured at fair value through other comprehensive income			
Gain / (Loss) arising during the period		33,398	(19,405)
Income tax relating to components of other comprehensive income	*19*	(279)	326
Other comprehensive income (loss) for the period, net of income tax		**33,119**	**(19,079)**
Total comprehensive income for the period		**101,631**	**45,911**

The accompanying notes are an integral part of these consolidated financial statements

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

(Currency - In thousands of Turkish Lira)

Audited	**Note**	**Share capital**	**Fair value reserve of financial assets at fair value through other comprehensive income**	**Legal reserves**	**Retained earnings**	**Total equity**
Balances at 1 January 2018		**125,000**	**30,988**	**4,500**	**48,312**	**208,800**
Transfer to reserves		**-**	**-**	**2,874**	**(2,874)**	**-**
Capital Increase		**35,000**	**-**	**-**	**(35,000)**	**-**
Internal Resources		35,000	-	-	(35,000)	-
Total comprehensive income for the period		-	-	-	-	-
- Profit for the period		-	-	-	64,990	**64,990**
- Other comprehensive income for the period, net0 of tax		-	(19,079)	-	-	**(19,079)**
Total comprehensive income for the period		**-**	**(19,079)**	**-**	**64,990**	**45,911**
Balance at 31 December 2018		**160,000**	**11,909**	**7,374**	**75,428**	**254,711**
Audited						
Balances at 1 January 2019		**160,000**	**11,909**	**7,374**	**75,428**	**254,711**
Transfer to reserves		**-**	**-**	**2,595**	**(2,595)**	**-**
Capital Increase		**140,000**	**-**	**-**	**(60,000)**	**80,000**
Internal Resources		60,000	-	-	(60,000)	-
Cash Resources		80,000			-	80,000
Total comprehensive income for the period		-	-	-	-	-
- Profit for the period		-	-	-	68,512	**68,512**
- Other comprehensive income for the period, net of tax		-	33,119	-	-	**33,119**
Total comprehensive income for the period		**-**	**33,119**	**-**	**68,512**	**101.631**
Balance at 31 December 2019		**300,000**	**45,028**	**9,969**	**81,345**	**436,342**

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

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

(Currency - In thousands of Turkish Lira)

	Note	**Audited 1 January- 31 December 2019 (*)**	**Audited 1 January- 31 December 2018 (*)**
Cash flows from operating activities			
Net profit for the period		68,512	64,990
Adjustments:			
Depreciation and amortisation		4,955	1,980
Current tax expense	*17*	25,681	17,269
Deferred tax (income)/expense	*17*	(6,988)	1,176
Provision for loan losses	*9*	24,029	21,186
Other provisions		17,415	4,193
Other accruals		(15,021)	(9,903)
Loss from asset sale		-	-
Foreign exchange loss / (gain)		(22,722)	(50,626)
Fair value gain on investment property		(4,169)	(16,863)
		91,692	**33,402**
Changes in operating assets and liabilities			
Change in derivative financial assets		12,992	(23,264)
Change in loans and advances to customers		(475,230)	(630,675)
Change in reserve deposits		169,885	(7,838)
Change in other assets		5,632	(103,530)
Change in other liabilities		420,119	369,078
Change in derivative financial liabilities		6,187	18,426
Change in borrowings		(3,905)	461,308
Taxes paid		(18,728)	(26,328)
Net cash provided by / (used in) operating activities		**116,952**	**57,176**
Cash flows from investing activities			
Purchase of financial assests measured at fair value through other comprehensive income		(6,173,688)	(3,897,624)
Sale of financial assests measured at fair value through other comprehensive income		6,090,010	3,932,938
Purchase of property and equipment		(1,525)	(9,313)
Proceeds from sale of investment property		-	-
Purchase of intangible assets		(4,347)	(1,546)
Net cash (used in) / provided by investing activities		**(89,550)**	**24,455**
Proceeds from debt securities issued		5,046,664	3,955,632
Repayment from debt securities issued		(5,023,733)	(3,839,075)
Proceeds from subordinated debts		-	-
Net cash provided by /(used in) financing activities		**22,931**	**116,557**
Effect of foreign exchange rate change on cash and cash equivalents		**22,722**	**50,626**
Net increase in cash and cash equivalents		**164,747**	**282,216**
Cash and cash equivalents at 1 January	*6*	308,898	26,682
Cash and cash equivalents at 31 December	*6*	**473,645**	**308,898**

(*) Cash flows from interest received and paid disclosed together. Interest received is amounting to TL 434,579 (31 December 2018: 366,699) and interest paid is amounting to TL 239,682 (31 December 2018: 202,142).

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

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

Nurol Yatırım Bankası A.Ş. (the “Bank” or “Nurolbank”) was established in 1998 by the permission of the council of Ministers Decree No. 98/11565 dated 6 August 1998, to finance investment and foreign trade activities, and started its financial banking activities in May 1999. Nurolbank is owned controlled by the Nurol Holding A.Ş.

Nurol Varlık Kiralama A.Ş. is established in 2017 to operate in asset leasing sector. Nurol Varlık Kiralama A.Ş. has been registered in trade register as of June 14, 2017 and published in Turkey Trade Registry Gazette numbered 9351 dated 20 September 2017. Nurol Varlık Kiralama A.Ş.’s paid in capital is amounting to TL 50 as of December 31, 2019.

Nature of Activities of the Group

The Group activities include investment banking and corporate services such as asset and financial leasing, lending and trade finance.

Nurolbank operates as an investment bank and according to the current legislation for investment banks, the Bank is not authorised to receive deposits from customers. The Bank’s head office is located at Nurol Plaza in Maslak in İstanbul, Turkey.

The shareholders’ structure of the Bank is as disclosed below:

Shareholders	Total nominal value of the shares	Share percentage (%)
Nurol Holding A.Ş.	236,947	78.98
Nurol İnşaat ve Tic. A.Ş.	50,112	16.70

The Parent Bank's paid in capital has been increased by TL 140,000 provided from internal sources in the current period (January 1- December 31, 2018: The Parent Bank's paid in capital has been increased by TL 35,000 provided from internal resources).

The shareholder having direct or indirect control over the shares of the Bank is Nurol Group. Nurol Group has operations in construction, defence, finance, tourism, health, mining, real estate, marketing and manufacturing industries through 33 firms within the Nurol Group 4 joint ventures and 11 domestic-foreign associates and subsidiaries.

2. The new standards, amendments and interpretations

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

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

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019.

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognises an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The standard is applied for annual periods beginning on or after 1 January 2019. The Group disclosed the impact of the standard on financial position or performance of the Group. As of 31 December 2019, The Group recognized right of use asset classified under tangible assets and lease liability amounting to TL 4,797 and TL 3, 167 respectively due to application of IFRS 16.

Amendments to IAS 28 "Investments in Associates and Joint Ventures" (Amendments)

In October 2017, the IASB issued amendments to IAS 28 *Investments in Associates and Joint Ventures*. The amendments clarify that a company applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

IFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with IAS 28 Investments in Associates and Joint Ventures. In this amendment, IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the Group.

2. The new standards, amendments and interpretations (continued)

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in "IAS 12 Income Taxes" when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:
(a) whether an entity considers uncertain tax treatments separately;
(b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
(c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
(d) how an entity considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The interpretation did not have a significant impact on the financial position or performance of the Group

Annual Improvements – 2015–2017 Cycle

In December 2017, the IASB issued Annual Improvements to IFRS Standards 2015–2017 Cycle, amending the following standards:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 *Income Taxes* — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 *Borrowing Costs* — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalisation rate on general borrowings.

The amendments are effective from annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the the Group.

Plan Amendment, Curtailment or Settlement" (Amendments to IAS 19)

On 7 February 2018, the IASB published Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

2. The new standards, amendments and interpretations (continued)

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The IASB issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

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

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

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

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

IFRS 17 - The new Standard for insurance contracts

The ISB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test.

2. The new standards, amendments and interpretations (continued)

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted.

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

Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

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

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

The amendments issued to IFRS 9 and IAS 39 which are effective for periods beginning on or after 1 January 2020 provide certain reliefs for 4 fundamental matters in connection with interest rate benchmark reform. These reliefs are related to hedge accounting as follows:

- Highly probable requirement
- Prospective Assessments
- Retrospective Assessments
- Separately identifiable risk components

Reliefs used as a result of amendments in IFRS 9 and IAS 39 is aimed to be disclosed in financial statements based on the amendments made in IFRS 7.

3. Consolidation

3.1 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Parent Bank and its subsidiary, which is the entity controlled by the Parent Bank. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When necessary, adjustments are made to the consolidated financial statements of subsidiary to bring their accounting policies into line with those of the Group. Nurol Yatırım Bankası A.Ş. has 100% ownership of Nurol Varlık Kiralama A.Ş.

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

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with international Financial Reporting Standards ("IFRS") as issued by the international Accounting Standards Board ("IASB").

The Parent Bank maintains its book of account and prepares their statutory consolidated financial statements in Turkish Lira ("TL") in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation. The accompanying consolidated financial statements are derived from statutory consolidated financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. The subsidiary maintains its books of accounts based on statutory rules and regulations applicable in its jurisdiction. The accompanying consolidated financial statements are derived from statutory financial statements with adjustments and reclassifications For the purpose of fair presentation in accordance with IFRS. The consolidated financial statements were authorised for issue by the Group's management on 24 February 2020.

4.2 Basis of measurement

The consolidated financial statements have been prepared on historical cost basis except for the following which are measured at fair value:

- derivative financial instruments
- financial instruments measured at fair value through profit or loss,
- financial instruments measured at fair value through other comprehensive income,
- Investment property

4.3 Foreign currency transactions

Transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency differences arising on retranslation are recognised in profit or loss.

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

	USD / TL (full)	**EUR / TL (full)**
31 December 2019	**5.9400**	**6.6621**
31 December 2018	5.2810	6.0422

4.4 lnterest income and interest expense

Interest income and expense are recognised in the profit or loss using the effective interest method. Interest income is recorded according to the effective interest rate method (rate equal to net present value of future cash flows or financial assets and liabilities) defined in the IFRS 9 "Financial Instruments" standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets.

4. Significant accounting policies (continued)

If the financial asset is impaired and classified as a non-performing receivable, the Parent Bank applies the effective interest rate on the amortized cost of the asset for subsequent reporting periods. Such interest income calculation is made on an individual contract basis for all financial assets subject to impairment calculation. It is used effective interest rate during calculation of loss given default rate in expected credit loss models and accordingly, the calculation of expected credit losses includes an interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), interest income at subsequent reporting periods are calculated by applying the effective interest rate to the gross amount.

Interest income and expense presented in the statement of comprehensive income statement include:

- The interest income on fınancial assets and liabilities at amortized cost on an effective interest rate basis
- The interest income on held for trading investments and fair value through other comprehensive income investments.

4.5 Fees and commission

Except for fees and commissions that are integral part of the effective interest rates of financial instruments measured at amortized costs, the fees and commissions are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. Except for certain fees related with certain banking transactions and recognized when the related service is given, fees and commissions received or paid, and other fees and commissions paid to financial institutions are accounted under accrual basis of accounting throughout the service period. Income from asset purchases to a third party or by natural or legal persons contracts are recognized in the period they occur.

4.6 Net trading income

Net trading income comprises gains less loss related to derivative financial and liabilities, and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of derivative financial assets and liabilities are recorded as trading income.

4.7 Dividends

Dividends are recognised when the shareholders' right to receive the payments is established.

4.8 Taxation and deferred income taxes

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

Current tax

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

4. Significant accounting policies (continued)

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

4.9 Financial instruments

Initial recognition of financial instruments

The Parent Bank shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted**.**

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. Except for the assets in the scope of IFRS 15 Revenue from contracts with customers, at initial recognition, the Parent Bank measures financial asset or financial liabilities at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit/loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

4. Significant accounting policies (continued)

Classification of financial instruments

On which category a financial instruments shall be classified at initial recognition depends on both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

As per IFRS 9, the Parent Bank classifies a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at fair value through profit or loss. The Parent Bank tested all financial assets whether their "contractual cash-flows solely represent payments of principal and interest" and assessed the asset classification within the business model.

Assessment of business model

As per IFRS 9, the Parent Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Parent Bank's business models are divided into three categories.

Business model aimed to hold assets in order to collect contractual cash flows

This is a 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 amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Receivables from the Central Bank, Banks, Money Market Placements, investments under financial assets measured at amortized cost, loans, leasing receivables, factoring receivables and other receivables are assessed within this business model.

Business model aimed to collect contractual cash flows and sell financial assets

This is a model whose objective is achieved by both collecting contractual cash flows and selling financial assets: the Parent 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 cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial Assets Measured at Fair Value through Other Comprehensive Income are assessed in this business model.

Other business models

Financial assets are measured at fair value through profit or loss when 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. Financial assets measured at fair value through profit/loss are assessed in this business model.

4. Significant accounting policies (continued)

4.9.1 Financial assets

Financial assets are classified in three main categories as listed below:

- Financial assets measured at fair value through profit/loss
- Financial assets measured at fair value through other comprehensive income and
- Financial assets measured at amortized cost

Financial assets at the fair value through profit or 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 aimes 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 measured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

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 are solely payments of principal and interest at certain dates, they 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 measured 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 income statement.

"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 income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and are accounted under the "Other comprehensive income/expense items to be recycled to profit/loss" under shareholders' equity. Equity securities, 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 securities 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.

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 accounted in income statement.

4. Significant accounting policies (continued)

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".

All loans of the Parent Bank has classified under Measured at Amortized Cost, after loan portfolio passed the test of "All cash flows from contracts are made only by interest and principal" during the transition period.

Due from banks

Due from banks are non-derivative fınancial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

When the Group purchases a fınancial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fıxed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as amounts due from banks, and the underlying asset is not recognised in the Group's financial statements.

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

Repossessed assets

As part of its treatment of defaulted loans and guarantees, the Group in a number of cases takes over assets as security for such exposures. Upon repossession the assets are valued at their presumed realisable value. Any deviation from the carrying value of a defaulted or written down exposure upon takeover is classified as a loan write-down. Repossessed assets are carried according to type. Upon final disposal, the deviation from carrying value is entered in profit or loss based on the asset's type in the accounts.

Cash and cash equivalents

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

4.9.2 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the defınitions of a fınancial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific fınancial liabilities and equity instruments are set out below.

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

4. Significant accounting policies (continued)

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

Other fınancial liabilities, including funds borrowed, are initially measured at fair value, net of transaction costs.

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

Deposits, funds borrowed and debt securities issued

The Group is not entitled to collect deposits. Current accounts of loan customers and funds borrowed are the Group’s sources of debt funding.

Current accounts of loan customers and funds borrowed are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

4.9.3 Derivative financial instruments

Derivative fınancial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are recognised in profit or loss.

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

4.10 Expected Credit Loss

As of 31 December 2019, the Group recognizes a loss allowance for expected credit losses on financial assets and loans measured at amortized cost and fair value through other comprehensive income and loan commitments not measured at fair value through profit/loss based and non-cash loans on IFRS 9.

At each reporting date, the Group shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. The Parent Bank considers the changes in the default risk of financial instrument, when making the assessment.

The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets are divided into three categories depending on increase in credit risk observed since their initial recognition:

4. Significant accounting policies (continued)

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of expected credit losses on the 12-month default risk. It is calculated 12-month expected credit loss based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate. Such calculation is performed for each of three scenarios explained above.

Stage 2:

As of the reporting date of the financial asset, in the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument’s lifetime expected credit losses. Calculation approach is quite similar with approach mentioned above, but probability of default and loss amount in default ratios estimated for the lifetime of instruments.

Stage 3:

Financial assets considered as impaired at the reporting date are classified as stage 3. The probability of default is taken into account as 100% in the calculation of impairment provision and the Group accounts lifetime expected credit losses. In determining the impairment, the Parent Bank takes into consideration the following criteria:

- Delay of over 90 days
- Do not carry the necessary conditions for Stage 1 and Stage 2

Calculation of expected credit losses

The Parent Bank measured expected credit losses with the reasonable, objective and supportable information based on a probability-weighted including estimations about time value of money, past events, current conditions and future economic conditions as of the reporting date, without undue cost or effort. The calculation of expected credit losses consists of three main parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

As of 1 January 2018, the Parent Bank has started to apply IFRS 9 for the classification of loans and receivables, measuring credit quality and calculating expected loss provisions. The Parent Bank calculates PDs, LGD and EAD (Exposure at default) and ECL (expected credit losses) for each financial asset, rather than group or portfolio basis. PDs are determined by the parent bank based on internal rating scores calculated within own model. The Parent Bank’s policy is to use standard PDs published based on historical data published by international rating agencies. PDs are available for the next ten years as annual and cumulative basis. Annual periods are calculated by interpolating. For noncash loans, prior to calculating EAD, cash equivalent risk exposures are calculated by a credit conversion factor (CCF). Credit Conversion Factors are determined based on the ratios specified in the “Capital Adequacy Regulation” settled by BRSA. The present value of the ECLs are then calculated using the effective interest rates of the related financial assets.

The Parent bank calculated the average PD and LGD as 5.42% and 25.27%, respectively for cash financial assets, 2.28% and 39.33% for noncash loans as of 31 December 2019. 100% PD is applied for all financial assets in stage 3.

4. Significant accounting policies (continued)

Probability of Default ("PD")

The PD represents the likelihood of a default over a specified time period. A 12-month PD represents the likelihood of default determined for the next 12 months and a lifetime PD represents the probability of default over the remaining lifetime of the instrument. The lifetime PD calculation is based on a series of 12-month PIT PDs that are derived from TTC PDs and scenario forecasts. In the modeling, different probability of default are used for products which have country risk.

In order to measure risk, internal rating systems, credit ratings issued by external rating agencies, payment performance of customers, and risk center credit notes for commercial customers are used to a certain extent.

Historical datas which are issued by international rating agencies are considered in order to calculate probability of default for customers and countries. The probabilities of default are cumulative in the next ten years and are calculated in the annual periods based on the estimation method.

In addition, the probability of default calculation includes historical data, current conditions and prospective macroeconomic they are updated considering expectations.

Loss Given Default ("LGD")

The LGD represents an estimate of the economic loss at the time of a potential default occurring during the life of a financial instrument. The LGD is calculated taking into account expected future cash flows from collateral and other credit enhancements by considering time value of money.

LGD calculation are also considered collaterals based on specified rate according to 'Determining the Qualifications of Loans and Other Receivables by Banks Regulation on Procedures and Principles for Provisions'

Exposure at Default ("EAD")

The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial instrument. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals, discounted at the effective interest rate.

Consideration of the Macroeconomic Factors

The probability of default is determined by basic macroeconomic factors such as unemployment, GDP growth, inflation and interest rates. Also, Turkey's 5-year credit risk (CDS Spreads) that has high correlation are based in order to update to "PD". While updating "PD", average amount for a year and the end of period value are considered for CDS Spreads.

Calculating the Expected Loss Period

Lifetime ECL is calculated by taking into account maturity extensions, repayment options and the period during which the Parent Bank will be exposed to credit risk. The time in financial guarantees and other irrevocable commitments represents the credit maturity for which the liabilities of the Parent Bank. Estimated periods for the parent bank's exposure to risk were calculated by considering at historical data for full guarantee letters.

4. Significant accounting policies (continued)

Significant increase in credit risk

The Parent Bank makes qualitative and quantitative assessments regarding assessment of significant increase in credit risk of financial assets to be classified as stage 2 (Significant Increase in Credit Risk).

Within the scope of quantitative assessment, The quantitative reason explaining the significant increase in the credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date. If there is a significant deterioration in PD, it is considered that there is a significant increase in credit risk and the financial asset is classified as stage 2. In this context, the Parent Bank has calculated thresholds at which point the relative change is a significant deterioration.

When determining the significant increase in parent bank credit risk, The Parent Bank also assessed the absolute change in the PD date on the transaction date and on the reporting date. If the absolute change in the PD ratio is above the threshold values, the related financial asset is classified as stage 2.

The Parent Bank classifies the financial asset as Stage 2 (Significant Increase in Credit Risk) where any of the following conditions are satisfied as a result of a qualitative assessment:

- Loans overdue more than 30 days as of the reporting date
- When there is a change in the payment plan due to restructuring

4.11 Derecognition, reclassification and refinancing of financial instrument

Derecognition of financial assets due to change in contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset could lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a ‘new’ financial asset. When the Parent Bank assesses the characteristics of the new contractual terms of the financial asset, it evaluates the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognized a modification gain or loss in profit or loss.

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

Derecognition of financial assets without any change in contractual terms

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

Derecognition of financial liabilities

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

4. Significant accounting policies (continued)

Reclassification of financial instruments

Based on IFRS 9, it shall be reclassified all affected financial assets at amortised cost to financial assets measured at fair value through other comprehensive income and fair value through profit or loss in the subsequent accounting when, it is changed the business model for managing financial assets.

Restructuring and refinancing of financial instruments

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

Restructuring is to change the financial terms of existing loans in order to facilitate the payment of debt. Refinancing is granting a new loan which will cover either the principal or the interest payment in a whole or in part of one or a few existing loans due to the anticipated financial difficulty which the customer or group encounter currently or will encounter in the future.

Changes in the original terms of a credit risk can be made in the current contract or through a new contract.

Corporate and commercial companies which have been restructured and refinanced can be removed from the watchlist when the following conditions are met:

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

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

In order for the restructured non-performing corporate and commercial loans to be classified to the watchlist category, the following conditions are met:

- Recovery in debt service,
- At least 1 year should pass over the date of restructuring,
- Payment of all accrued and overdue amounts by debtor (interest and principal) since the date of restructuring/refinancing or the date when the debtor is classified as non-performing (earlier date to be considered) and fulfilment or the payment condition of all overdue amounts as of the date of restructuring/refinancing.
- Collection of all overdue amounts, disappearance of the reasons for classification as non-performing receivable (based on the conditions mentioned above) and having no overdue more than 30 days os of the date of reclassification.

During the follow-up period of at least two years following the date of restructuring/refinancing, if there is a new structuring/refinancing or a delay of more than 30 days, the transactions which were non-performing at the beginning of the follow-up period are classified as non-performing loans again. The performing or non-performing retail loans being subject to restructuring shall be removed from the watchlist only if the debt is paid in full.

4. Significant accounting policies (continued)

4.12 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

4.13 Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefıts exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

4.14 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value.

The Group’s investment properties are valued by external, independent valuation companies on a periodic basis. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm’s length transaction. In the absence of available current prices in an active market, the valuations are based on estimated cash flows expected to be received.

4. Significant accounting policies (continued)

4.14 Investment properties (continued)

Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

4.15 Leases

Leases are classified as fınance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under fınance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of fınancial position as a fınance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets.

The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

4.16 Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4. Significant accounting policies (continued)

4.17 Employee benefıts

Termination and retirement benefıts

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defıned retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19"). The retirement benefıt obligation recognized in the balance sheet represents the present value of the defıned benefit obligation.

Profıt-sharing and bonus plans

The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

4.18 Fiduciary assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the balance sheet, since such items are not treated as assets of the Group.

4.19 Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

4.20 Key sources of estimation uncertainty

Expected credit loss

Expected credit loss calculation methodology of the Group described in accounting policy 4.10.

Determining fair values

The determination of fair value for financial assets and liabilities of the Group described in accounting policy 4.9.

(Currency - In thousands of Turkish Lira)

5. Segment reporting

An operating segment is a component of an entity: that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group operates in investment, retail and corporate banking and asset leasing. Accordingly, the Group invests with the funds provided by using the capital market instruments and provides consultancy services so as to provide efficient management and sound financial structure to business enterprises.

The Group provides investment and operating loans to its commercial and retail customers and also provides service packages consisting of foreign trade operations, investment products, cash management, financial leasing, factoring, and other banking products.

Major financial statement items according to business lines:

31 December 2019	**Corporate banking**	**Other (*)**	**Total operations of the Group**
Operating income	195,618	1,192	196,810
Other expenses	(109,605)	-	(109,605)
Profit before income tax	86,013	1,192	87,205
Income tax income/expense			(18,693)
Profit for the period	**67,320**	**1,192**	**68,512**
Segment assets	3,249,928	4,022	3,253,950
Non-distributed Asset	-	-	-
Total assets	**3,249,928**	**4,022**	**3,253,950**
Segment liabilities	2,817,608	-	2,817,608
Shareholders' equity	-	436,342	436,342
Total liabilities	**2,817,608**	**436,342**	**3,253,950**

(*) includes investment, retail and other banking business lines.

31 December 2018	**Corporate banking**	**Other (*)**	**Total operations of the Group**
Operating income	136,294	20,596	156,890
Other expenses	(73,455)	-	(73,455)
Profit before income tax	62,839	20,596	83,435
Income tax income/expense			(18,445)
Profit for the period	**44,394**	**20,596**	**64,990**
Segment assets	2,677,945	1,542	2,679,487
Non-distributed Asset	-	-	-
Total assets	**2,677,945**	**1,542**	**2,679,487**
Segment liabilities	2,424,776	-	2,424,776
Shareholders' equity	-	254,711	254,711
Total liabilities	**2,424,776**	**254,711**	**2,679,487**

(*) includes investment, retail and other banking business lines.

(Currency - In thousands of Turkish Lira)

6. Cash and cash equivalents

	31 December 2019	31 December 2018
Cash and balances with central banks	1,286	226,522
- *Cash on hand*	*1,283*	*734*
- *Balances with central banks*	*3*	*225,788*
Due from banks and financial institutions(*)	472,359	82,376
Cash and cash equivalents in the balance sheet	**473,645**	**308,898**

(*)As a result of IFRS 9 adoption, amount of TL 101 provision booked for due from banks and financial instutions as of December 31, 2019 (31 December 31, 2018: 6).

Expected credit loss for banks and reserve deposits at central bank

	Stage 1	Stage 2	Stage 3	Total
Balances at Beginning of Period (1 January 2018)	**6**	**-**	**-**	**6**
Additions During the Period (+)	407	-	-	407
Disposal (-)	(312)	-	-	(312)
Balances at End of Period	**101**	**-**	**-**	**101**

7. Reserve deposits at Central Bank

	31 December 2019	31 December 2018
Turkish Lira	20,186	233,697
Foreign currency	129,497	87,333
	149,683	**321,030**

(Currency - In thousands of Turkish Lira)

8. Financial assets measured at fair value through other comprehensive income

	31 December 2019		31 December 2018	
	Amount	**Effective interest rate**	**Amount**	**Effective interest rate**
Financial assets measured at fair value through other comprehensive income				
Debt instruments [(a)]	67,205	13.91%	60,670	16.44%
Equity instruments – listed [(b)]	122,671		13,446	
Equity instruments – unlisted	9,176		6,414	
Financial assets measured at fair value through other comprehensive income	**199,052**		**80,530**	
Expected Credit Losses (-)[(c)]	**(696)**		**(99)**	
Total FVTOCI	**198,356**		**80,431**	

(a) Financial assets measured at fair value through other comprehensive income include government bonds denominated in TL amounting to TL 477 (31 December 2018: TL 1,155), bank bonds amounting to TL 6,134 (31 December 2018: TL 6,065), private sector securities amounting to 3,866 TL (31 December 2018: TL 18,030), Private sector bonds amounting to TL 56,032 (31 December 2018: TL 53,357).
(b) The Group holds 16.69% of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş. ("Company")'s shares as of 31 December 2019 and the investment is accounted under fair value through other comprehensive income investments, as the Group has no significant influence on the Company. As of the balance sheet date the shares are accounted for using the market price and fair value reserve of TL 40,304 is accounted under equity (31 December 2018: TL 11,230).
(c) The Group calculates expected credit loss for financial assets measured at fair value through other comprehensive income with the adoption of IFRS 9. As of 31 December 2019, the expected credit loss that is calculated for financial assets measured at fair value through other comprehensive income is TL 114 (December 31, 2018: 99).

Expected credit loss for financial assets measured at amortised cost

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balances at Beginning of Period (1 January 2018)	**99**	**-**	**-**	**99**
Additions During the Period (+)	104	-	-	104
Disposal (-)	(89)	-	-	(89)
Balances at End of Period	**114**	**-**	**-**	**114**

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers

		31 December 2019	
		Amount	
	TL	**Foreign currency**	**Total**
Short-term loans	1,105,257	328,073	1,433,330
Medium and long-term loans	187,411	413,004	600,415
Total performing loans	**1,292,668**	**741,077**	**2,033,745**
Generic provisions for Stage 1 and Stage 2	**(8,730)**	**-**	**(8,730)**
Non-performing loans	161,610	-	161,610
Provisions for Stage 3	(27,419)	-	(27,419)
Total non-performing loans (net)	**134,191**	**-**	**134,191**
Total loans, net	**1,418,129**	**741,077**	**2,159,206**

		31 December 2018	
		Amount	
	TL	**Foreign currency**	**Total**
Short-term loans	885,499	55,758	941,257
Medium and long-term loans	178,731	421,951	600,682
Total performing loans	**1,064,230**	**477,709**	**1,541,939**
Generic provisions for Stage 1 and Stage 2	**(9,143)**	**-**	**(9,143)**
Non-performing loans (*)	152,285	-	152,285
Provisions for Stage 3 (*)	(2,364)	-	(2,364)
Total non-performing loans (net)	**149,921**	**-**	**149,921**
Total loans, net	**1,205,008**	**477,709**	**1,682,717**

(*)Non performing loans amounting to TL 44,395 has been written off by the Group in 2018.

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers (continued)

Lending structure of the Group:

	31 December 2019	31 December 2018
Corporate Lending	1,721,502	1,400,188
SME Lending	55,113	31,881
Other Lending	418,740	262,155
Less: Allowance for ECL/impairment losses	(36,149)	(11,507)
Total	**2,159,206**	**1,682,717**

Expected Credit Loss Expense Movement of the Group:

	31 December 2019				31 December 2018			
	ECL allowance				ECL allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents (including reserves at Central Bank)	96	-	-	96	5	-	-	5
Securities	15	-	-	15	(16)	-	-	(16)
Derivatives	-	-	-	-	-	-	-	-
Loans and advances to customers	(1,326)	923	25,055	24,652	1,517	3,046	18,107	22,670
Other financial assets	28	-	-	28	(43)	-	-	(43)
Guarantees	232	(303)	(676)	(747)	(13)	820	(2,172)	(1,365)
LCs and Acceptances	(15)	-	-	(15)	(65)	-	-	(65)
	(970)	**620**	**24,379**	**24,029**	**1,385**	**3,866**	**15,935**	**21,186**

Expected Credit Loss Measurement of On-Balance Sheet Financial Assets:

	31 December 2019							
	Carrying Amount				ECL Allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents (including reserves at Central Bank)	623,328	-	-	623,328	101	-	-	101
Securities	198,356	-	-	198,356	114	-	-	114
Derivatives	11,937	-	-	11,937	-	-	-	-
Loans and advances to customers	1,880,130	153,613	161,610	2,195,355	632	8,108	27,419	36,159
of which : Large corporate clients	*1,406,279*	*153,613*	*161,610*	*1,721,502*	*553*	*8,108*	*27,419*	*36,080*
of which : SME clients	*55,113*	-	-	*55,113*	*5*	-	-	*5*
of which : Others	*418,738*	-	-	*418,738*	*74*	-	-	*74*
Other financial assets	4,263	-	-	4,263	62	-	-	62
Total on-balance sheet financial assets in scope of ECL requirements	**2,718,014**	**153,613**	**161,610**	**3,033,237**	**909**	**8,108**	**27,419**	**36,436**

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers (continued)

	31 December 2018							
	Carrying Amount				**ECL Allowance**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents (including reserves at Central Bank)	629,934	-	-	629,934	6	-	-	6
Securities	80,530	-	-	80,530	99	-	-	99
Derivatives	24,929	-	-	24,929	-	-	-	-
Loans and advances to customers	1,417,029	124,910	152,285	1,694,224	1,958	7,185	2,364	11,507
of which : Large corporate clients	*1,122,993*	*124,910*	*152,285*	*1,400,188*	*1,905*	*7,185*	*2,364*	*11,454*
of which : SME clients	*31,881*	-	-	*31,881*	*5*	-	-	*5*
of which : Others	*262,155*	-	-	*262,155*	*48*	-	-	*48*
Other financial assets	2,271	-	-	2,271	34	-	-	34
Total on-balance sheet financial assets in scope of ECL requirements	**2,154,693**	**124,910**	**152,285**	**2,431,888**	**2,097**	**7,185**	**2,364**	**11,646**

Impairment allowance for loans and advances to customers	**31 December 2019**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	131	-	-	131
Standard grade	209	-	-	209
Sub-standard grade	282	8,108	-	8,390
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	27,419	27,419
	622	**8,108**	**27,419**	**36,149**

Impairment allowance for loans and advances to customers	**31 December 2018**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	84	-	-	84
Standard grade	623	142	-	765
Sub-standard grade	1,251	7,043	-	8,294
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	2,364	2,364
	1,958	**7,185**	**2,364**	**11,507**

Aging of past-due exposures	**31 December 2019**				
	Up to 1 Month	**1-3 Months**	**3-12 Months**	**1-5 Years**	**5 Years and other**
Current Period					
Corporate and Commercial Loans	-	30,725	-	-	-
Retail Loans	-	-	-	-	-
Others	-	-	-	-	-
	-	**30,725**	**-**	**-**	**-**

(Currency - In thousands of Turkish Lira)

10. Investment Property

As of 30 November 2015, the Parent Bank transferred the loan which is classified in the portfolio of The Pre-emption agreement on the real estate properties registered to the Serik District of Antalya Province which is owned by the Parent Bank account in "Other Assets" has not been realized due to the counterparty Vera Varlık Yönetim A.Ş. is not fullfulling the obligations and the legal process is ongoing aforementioned real estate properties have been removed from "Other Assets" and recognized to "Investment Properties" in TL Currency and reevaluated with and independent valuation report (appraisement value: TL 138,955). Similarly, the Right to repurchase agreement on the real estate properties registered to which is owned by the Parent Bank account in "Other Assets" has not been realized due to the counterparty Palmali International is not fullfulling the obligations and the legal process is ongoing aforementioned real estate properties have been removed from "Other Assets" and recognized to "Investment Properties" in TL Currency and reevaluated with and independent valuation report (appraisement value: TL 47,260). Also, other investment properties accounted amounting to TL 37,330 in the account. As of 31 December 2019, the Group has investment property amounting to TL 223,545 (31 December 2018: 34,385).

11. Property and equipment

	Office equipment	Furniture and fixtures	Other fixed assets	Total
Cost				
Balance at 1 January 2019	4,146	711	3,143	8,000
Acquisitions	470	7	5,844	6,321
Disposals	-	-	-	-
Balance at 31 December 2019	**4,616**	**718**	**8,987**	**14,321**
Depreciation				
Balance at 1 January 2019	2,474	275	1,211	3,960
Depreciation charge for the period	639	131	2,460	3,230
Disposals	-	-	-	-
Balance at 31 December 2019	**3,113**	**406**	**3,671**	**7,190**
Carrying value as of 31 December 2019	**1,503**	**312**	**5,316**	**7,131**

(*) TFRS 16 opening balances (2,861 TL Real Estate and 1,936 TL Vehicles) are shown in the cost line.

	Office Equipment	Furniture and fixtures	Other fixed assets	Total
Cost				
Balance at 1 January 2018	3,368	338	1,497	5,203
Acquisitions	778	373	1,646	2,797
Disposals	-	-	-	-
Balance at 31 December 2018	**4,146**	**711**	**3,143**	**8,000**
Depreciation				
Balance at 1 January 2018	1,919	180	782	2,881
Depreciation charge for the period	555	95	429	1,079
Disposals	-	-	-	-
Balance at 31 December 2018	**2,474**	**275**	**1,211**	**3,960**
Carrying value as of 31 December 2018	**1,672**	**436**	**1,932**	**4,040**

(Currency - In thousands of Turkish Lira)

13. Intangible assets

	2019	Total
Cost		
Balance at 1 January 2019	6,850	6,850
Additions	4,347	4,347
Balance at 31 December 2019	**11,197**	**11,197**
Amortization and impairment		
Balance at 1 January 2019	4,661	4,661
Amortization charge for the period	1,725	1,725
Balance at 31 December 2019	**6,386**	**6,386**
Carrying value as of 31 December 2019	**4,811**	**4,811**

	2018	Total
Cost		
Balance at 1 January 2018	5,304	5,304
Additions	1,546	1,546
Balance at 31 December 2018	**6,850**	**6,850**
Amortization and impairment		
Balance at 1 January 2018	3,929	3,929
Amortization charge for the period	731	731
Balance at 31 December 2018	**4,660**	**4,660**
Carrying value as of 31 December 2018	**2,190**	**2,190**

14. Funds borrowed

	31 December 2019			**31 December 2018**		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Funds borrowed	409,922	463,010	872,932	309,131	505,933	815,064
Obligations under repurchase agreements	3,538	28,169	31,707	84,033	9,980	94,013
	413,460	**491,179**	**904,639**	**393,164**	**515,913**	**909,077**

The effective interest rate for funds borrowed denominated in USD is 4.73% (31 December 2018 – 5.63%), in EUR is 1.75% (31 December 2018 – 3.15%) and in TL is 10.70% (31 December 2018 – 25.41%).

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

(Currency - In thousands of Turkish Lira)

15. Debt securities issued

	31 December 2019			31 December 2018		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Bonds	717,235	-	717,235	718,363	-	718,363
Bills	46,033	-	46,033	17,943	-	17,943
	763,268	**-**	**763,268**	**736,306**	**-**	**736,306**

Debt securities issued – Cash flow movement

	31 December 2019
Balance as at 1 January 2019	736,306
Proceed during the year	5,046,664
Repayments during the year	(5,023,733)
Other non-cash movements	4,031
Balance as at 31 December 2019	**763,268**

As of December 31, 2019, the list of the issued bills and bonds by the Parent Bank in 2019 are shown below:

ISSUE TYPE	ISSUE DATE	MATURITY DATE	DAYS	NOMINAL VALUE (full TL)	INTEREST RATE
BOND	11.09.2019	10.01.2020	121	100,000,000	17.00%
BOND	17.10.2019	16.01.2020	91	50,000,000	15.50%
BOND	25.10.2019	05.02.2020	103	50,000,000	14.50%
BOND	07.11.2019	13.02.2020	98	100,000,000	13.85%
BOND	04.12.2019	26.02.2020	84	100,000,000	12.50%
BILL	01.03.2019	06.03.2020	371	50,000,000	23.00%
BOND	25.12.2019	11.03.2020	77	80,000,000	11.00%
BOND	27.06.2019	25.06.2020	364	100,000,000	25.00%
BOND	28.08.2019	26.08.2020	364	50,000,000	16.50%
BOND	28.11.2019	26.11.2020	364	50,000,000	12.00%
BOND	04.10.2019	19.03.2020	167	50,000,000	14.90%
BOND	17.10.2019	01.04.2020	167	50,000,000	15.70%
BOND	25.12.2019	19.03.2020	85	50,000,000	10.85%

Nurol Varlık Kiralama Şirketi A.Ş. issued “Lease certificates” amounting to TL 150,000,000 (full TL) in 2019.

16. Subordinated debts

	31 December 2019			31 December 2018		
	TL	**Foreign Currency**	**Total**	**TL**	**Foreign currency**	**Total**
Bonds (*)	-	29,761	29,761	-	53,781	53,781
Loan (*)	-	60,544	60,544	-	26,473	26,473
	-	**90,305**	**90,305**	**-**	**80,254**	**80,254**

(*) The Parent Bank has issued Eurobond on March 31, 2016 with a nominal value of USD 10,000,000, 10 years maturity and fixed interest rate of 10%, having a coupon payments every six months and received a loan on December 27, 2016 from World Business Capital at an amount of USD 5,000,000 with an interest rate of 6.65%, 10 years maturity, floating rate and quarterly interest payment (31 December 2018 – USD 15,000,000).

(Currency - In thousands of Turkish Lira)

17. Other liabilities

	31 December 2019	31 December 2018
Cash collaterals (*)	963,645	618,939
Taxes and funds payable	7,461	5,272
Lease Liabilities	3,167	-
Others	13,499	28,644
	987,772	**652,855**

(*) The balance includes cash collaterals received for the derivative transactions made with the corporate customers.

18. Provisions

	31 December 2019	31 December 2018
Provision for non - cash loans (*)	2,321	3,083
Employee termination benefits	1,445	1,064
Bonus accrual	-	3,279
Unused vacation accrual	1,779	1,401
Provision for lawsuits	16,807	200
	22,352	**9,027**

The movement in vacation pay liability is as follows:

	2019	2018
At 1 January	1,401	863
Provision provided /(reversal)	378	538
At 31 December	**1,779**	**1,401**

The movement in provision for bonus accrual is as follows:

	2019	2018
At 1 January	3,279	-
Provision provided	3,250	3,279
Bonus paid	(6,529)	-
At 31 December	**-**	**3,279**

The movement in provision for employee termination benefits is as follows:

	2019	2018
At 1 January	1,064	857
Provision provided/(reversal)	381	207
At 31 December	**1,445**	**1,064**

(Currency - In thousands of Turkish Lira)

18. Provision (continued)

Employee termination benefits

Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, who is called up for military service, dies or retires after completing 25 years (20 years for women) of service and reaches the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TL 6,379.86 for each period of service at 31 December 2019 (31 December 2018: TL 5,434.42).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. IAS 19 *Employee Benefits* stipulates the development of company's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying consolidated financial statements as at 31 December 2019, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated by using 10.00% (31 December 2018: 10.00%) annual inflation rate and 15.00% (31 December 2018: 15.00%) discount rate.

Expected credit loss measurement of off-balance sheet financial assets:

	31 December 2019							
Expected credit loss measurement	**Carrying Amount**				**ECL Allowance(*)**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Guarantees	870,320	19,352	2,273	891,945	629	1,490	196	2,315
LCs and Acceptances	33,908	-	-	33,908	6	-	-	6
Total	**904,228**	**19,352**	**2,273**	**925,853**	**635**	**1,490**	**196**	**2,321**

(*) ECL allowance for off-balance sheet financial assets are recognized in Liabilities' "Provisions" line.

	31 December 2018							
Expected credit loss measurement	**Carrying Amount**				**ECL Allowance(*)**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Guarantees	762,875	18,744	7,312	788,931	397	1,793	872	3,062
LCs and Acceptances	5,868	-	-	5,868	21	-	-	21
Total	**768,742**	**18,744**	**7,312**	**794,799**	**418**	**1,793**	**872**	**3,083**

(*) ECL allowance for off-balance sheet financial assets are recognized in Liabilities' "Provisions" line.

(Currency - In thousands of Turkish Lira)

18. Provision (continued)

Impairment allowance for off-balance sheet financial assets:

	31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	20	-	-	20
Standart grade	396	-	-	396
Sub-standart grade	219	1,490	-	1,709
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	196	196
Total	**635**	**1,490**	**196**	**2,321**

Movement for impairment allowance for off-balance sheet financial assets:

	31 December 2019			
	Financial guarantees	**Letters of credit and acceptances**	**Other undrawn commitments**	**Total**
At 1 January 2019	**3,062**	**21**	**-**	**3,083**
Charge for the year	(747)	(15)	-	(762)
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Unwind of transformed into cash	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
At 31 December 2019	**2,315**	**6**	**-**	**2,321**

19. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. In Turkey, corporate tax rate is 22% (31 December 2018: 20%). The tax legislation provides for a temporary tax of 22% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end balance sheet date and taxes must be paid in one instalment by the end of the fourth month.

Income tax recognised in the income statement

The components of income tax expense as stated below:

	31 December 2019	**31 December 2018**
Current tax		
Current income tax	25,681	(17,269)
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	(6.988)	(1,176)
Income tax expense reported in the income statement	**18.693**	**(18,445)**

(Currency - In thousands of Turkish Lira)

19. Taxation (continued)

Reconciliation of effective tax rate

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

	31 December 2019	31 December 2018
Profit before income tax	87,205	83,435
Income tax using the domestic corporate tax rate	(19,185)	(18,356)
Other	(6,496)	1,087
Total income tax expense in the profit or loss	**(25,681)**	**(17,269)**

Movement of net deferred tax assets can be presented as follows:

	31 December 2019	31 December 2018
Deferred tax assets / (liability), net at 1 January	2,032	2,882
Deferred tax recognised in the profit or loss	6,988	(1,176)
Deferred income tax recognised in other comprehensive income	(279)	326
Deferred tax assets/(liabilities), net at end of December	**8,741**	**2,032**

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2019			31 December 2018		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Liability for employee benefits	709	-	709	542	-	542
Valuation of financial assets at FVOCI	-	118	118	(161)	-	-
Economic life property and equipment	(417)	-	(417)	-	(254)	(254)
Derivatives	6,433	-	6,433	2,389	-	2,389
Other	-	1,898	1,898	-	(484)	(484)
	6,725	**2,016**	**8,741**	**2,770**	**(738)**	**2,032**

20. Commitments and contingencies

In the normal course of business, the Group enters into a number of contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These contractual commitments consist of commitments to extend credit, commercial letters of credit and standby letters of credit and guarantees. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the conditions established in the contract. Commercial letters of credit ensure payment by a bank to a third party for a customer's foreign or domestic trade transactions, generally to finance a commercial contract for the shipment of goods.

Standby letters of credit and financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. All of these arrangements are related to the normal lending activities of the Group. The Group's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and commercial and standby letters of credit is represented by the contractual notional amount of those instruments. The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

(Currency - In thousands of Turkish Lira)

20. Commitments and contingencies (continued)

As at 31 December 2019; commitments and contingencies comprised the following:

	31 December 2019	31 December 2018
Letters of guarantee	891,944	788,930
Bank acceptance	-	1,825
Letters of credit	33,909	4,044
Other commitments	-	-
Total	**925,853**	**794,799**

21. Share capital and reserves

Share capital

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

	31 December 2019		31 December 2018	
	Amount	**%**	**Amount**	**%**
Nurol Holding A.Ş.	236,947	78	125,052	78
Nurol İnşaat ve Tic. A.Ş.	50,112	16	25,536	16
Others	12,941	4	9,412	6
Total	**300,000**		**160,000**	

The Parent Bank's paid in capital has been increased by TL 60,000 provided from internal sources in the current period and also November 25, 2019, the Parent Bank’s extraordinary general assembly took the decision about capital increase by TL 80.000 provided from cash in (January 1- December 31, 2018: The Parent Bank's paid in capital has been increased by TL 35,000 provided from internal resources).

As at 31 December 2019, the authorised share capital comprised of 300,000 ordinary shares having a par value of TL full 1,000 (As at 31 December 2018, the authorised share capital comprised of 160,000 ordinary shares having a par value of TL full 1,000). All issued shares are paid.

Legal Reserves

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

As at 31 December 2019, the Group’s legal reserves amounted to TL 9,969 (31 December 2018 – TL 7,374).

(Currency - In thousands of Turkish Lira)

21. Share capital and reserves (continued)

Fair value through other comprehensive income ("FVOCI") reserves

The fair value through other comprehensive income includes the cumulative net change in the fair value of other comprehensive income for sale investments until the investment is derecognised or impaired.

Movement in fair value through comprehensive income reserve is as follows:

At 31 December 2018	**11,909**
At 1 January 2019	**11,909**
Change in fair value through other comprehensive income (net of tax)	33,119
At 31 December 2019	**45,028**

22. Net interest income

	31 December 2019	31 December 2018
Interest income		
Loans and advances to customers	300,642	327,506
Deposits with banks and other financial institutions	31,984	14,119
Financial assets measured at fair value through profit/loss and financial assets measured at fair value through other comprehensive income	98,761	16,324
Financial leases	-	-
Other	28,022	21,174
	459,409	**379,123**
Interest expense		
Funds borrowed	74,329	44,674
Debt securities issued	132,668	131,050
Interbank funds borrowed	12,098	6,374
Financial leases	746	-
Other	30,540	22,329
	250,381	**204,427**
Net interest income	**209,028**	**174,696**

23. Net fee and commission income

	31 December 2019	31 December 2018
Fee and commission income		
Non-cash loans	19,967	13,785
Other	37,560	8,167
Total fee and commission income	**57,527**	**21,952**
Fee and commission expense		
Non-cash loans	1,911	866
Other	6,815	9,879
Total fee and commission expense	**8,726**	**10,745**
Net fee and commission income	**48,801**	**11,207**

(Currency - In thousands of Turkish Lira)

24. Net trading income/loss

	31 December 2019	31 December 2018
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	(9,150)	(20,777)
Net gains/(losses) on financial assets/liabilities at fair value through profit or loss	(64,787)	(30,845)
Gain / (losses) from derivatives	*(44,709)*	*54,234*
Gain / (losses) from FX losses	*(20,078)*	*(85,079)*
Total	**(73,937)**	**(51,622)**

25. Other operating income

	31 December 2019	31 December 2018
Fair value gain on investment properties (***)	4,169	16,863
Gain on sales of assest	20	3,453
Dividend	-	151
Communication expenses reflected to the customers	281	26
Reversal of provision	311	19
Other(*)	8,137	2,097
	12,918	**22,609**

(*)The parent bank's takasbank income is TL 1,028, other communication income is TL 58, swift income is TL 2,602, rental income is TL 3,777 and other income is TL 672.

26. Other provision expenses

	1 January- 31 December 2019	1 January- 31 December 2018
Provision of lawsuits	16,843	-
Bonus expenses	-	3,279
Unused vacation expenses	378	538
Other expenses	194	376
Total	**17,415**	**4,193**

27. Personnel expenses

	31 December 2019	31 December 2018
Wages and salaries	18,486	14,284
Compulsory social security obligations	1,513	1,134
Other benefits	5,151	1,266
Total	**25,150**	**16,684**

(Currency - In thousands of Turkish Lira)

28. Administrative expenses

	31 December 2019	31 December 2018
Nurol Holding re-charges	6,330	9,749
Audit and advisory expenses	9,029	4,703
Taxes and duties expenses	7,105	3,264
Rent expenses	202	2,299
Telecommunication expenses	1,947	1,477
Expenses made for non performing loans	-	1,083
Computer expenses	1,182	1,050
Maintenance expenses	339	526
Marketing expenses	1,534	293
Notary expenses	154	144
Advertising expenses	76	69
Transportation expenses	381	-
Other various administrative expenses	9,777	4,755
Total	**38,056**	**29,412**

29. Financial risk management objectives and policies

a) Introduction and overview

The Group has exposure to the following risks from financial instruments:

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

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Group's risk approach is to achieve sound and sustainable low risk profile, through the identification, the measurement and the monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Group is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions.

In the course of its normal operations, the Group is exposed to a number of risks such as credit risk, liquidity risk, market risk and operational risk, The Group's risk policy can be summarised as:

- well managing the credit risk through a high standardised credit risk management
- eliminating liquidity risk
- minimising market risk

29. Financial risk management objectives and policies (Continued)

In accordance with the Group's general risk management strategy; the Group aims to eliminate and hedge its currency, interest rate and maturity positions that might create liquidity or market risk to the Group. Additionally, in order to minimise the market risk, marketable securities portfolio is limited proportional to the total assets size.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Group implements all necessary risk management techniques in compliance with the related regulatory requirements in Turkey.

All risk levels are set and approved by the Board of Directors on a regularly basis, and it is announced to the organization.

The Group manages its exposure to all types of risks through the Asset and Liability Committee, comprising members of senior management, and a representative of main shareholder.

In summary, in order not to be exposed to any liquidity, interest rate, market and foreign currency risk, the Parent Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate) and hedges its positions through various derivative transactions, In addition to that, the Parent Bank does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Group.

b) Credit risk

Credit risk represents the risk arising from the counter party's not fulfilling its responsibilities stated in the agreement either partially or totally. Credit Risk Management Committee is responsible for managing credit risk at the Group.

Total amount of credits granted to a group is subject to certain credit risk limits. According to the decision taken by the Board of Directors; the maximum amount of the loan to be granted to a group (cash and non-cash) is limited with the calculation of certain percentages of the shareholders' equity based on the rating of the group. Furthermore, concentration risk is monitored on monthly basis in terms of industry, rating by risk group and customer.

The credibility of the debtors of the Group is assessed periodically. Loan limits of the loan customers are revised periodically in line with the Group's procedures. The Group analyses the credibility of the loans within the framework of its loan policies and obtains collaterals for loans and other receivables.

The restructured and rescheduled loans are evaluated in the Group's current rating system besides the follow up method determined in the related regulation.

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Credit risk by risk groups

	Individual	Corporate	Total
31 December 2019			
Performing loans	4,022	1,922,745	1,926,767
Loans under close monitoring	-	106,978	106,978
Non-performing loans	-	161,610	161,610
Gross	**4,022**	**2,191,333**	**2,195,355**
Transferred asset	-	-	-
Specific provisions for Stage 3	-	(27,419)	(27,419)
Generic provisions for Stage 1 and Stage 2	-	(8,730)	(8,730)
Total	**4,022**	**2,155,184**	**2,159,206**
31 December 2018			
Performing loans	1,542	1,415,487	1,417,029
Loans under close monitoring	-	124,910	124,910
Non-performing loans	-	152,285	152,285
Gross	**1,542**	**1,692,682**	**1,694,224**
Transferred asset	-	-	-
Reserve for possible loan losses	-	(2,364)	(2,364)
Collective impairment	-	(9,143)	(9,143)
Total	**1,542**	**1,681,175**	**1,682,717**

Exposure to credit risk

		Due from banks		**Loans and advances to customers**	
	Notes	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Carrying amount		**472,460**	**82,382**	**2,159,206**	**1,682,717**
Non-performing financial assets		-	-	161,593	152,285
Gross amount		**-**	**-**	**161,593**	**152,285**
Specific provision for Stage 3	*9*	-	-	(27,419)	(2,364)
Generic provision for Stage 1 and 2	*9*	(101)	(6)	(8,730)	(9,143)
Neither past due nor impaired		472,359	82,376	2,107,655	1,584,785
Carrying amount		**472,359**	**82,376**	**2,107,655**	**1,584,785**
Restructured and rescheduled loans and other receivables		-	-	51,551	97,932
Carrying amount		**-**	**-**	**51,551**	**97,932**
Carrying amount (amortised cost)		**472,359**	**82,376**	**2,159,206**	**1,682,717**

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk (continued)

Write-off policy
The Group writes off a loan balance and any related allowances for impairment losses, when Group position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not sufficient to pay back the entire exposure.

Collateral policy
The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The breakdown of financial assets by type of collateral is as follows:

31 December 2019		Collaterals after rate of consideration								
Type of collateral or credit enhancement	**Maximum exposure to credit risk**	**Cash**	**Securities (Cheques& Acts&Stock Share)**	**Property (Mortgages)**	**Assignment of receivables**	**Vehicle Pledge**	**Other**	**Total collateral**	**Net exposure**	**Associated ECLs**
Financial assets										
Cash and cash equivalents (including reserves at Central Bank)	622,146	-	-	-	-	-	-	-	622.146	101
Loans and advances to customers	2,263,508	18,547	480,785	79,042	128,705	99,685	2,376	809.140	1.454.368	36,159
of which : Large corporate clients	1,787,612	18,547	309,585	79,042	128,705	99,685	2,376	637.940	1.149.672	30,080
of which : SME clients	55,113	-	33,946	-	-	-	-	33.946	21.167	5
of which : Others	420,783	-	137,255	-	-	-	-	137.255	283.528	74
Other financial assets	4,263	-	-	-	-	-	-	-	4.263	62
Derivative financial instruments	11,937	-	-	-	-	-	-	-	11.937	-
Securities at fair value through OCI	70,159	-	-	-	-	-	-	-	70.159	114
Guarantees (after Credit Conversion Factor)	536,105	9,834	19,210	18,365	2,208	1,024	-	50.641	485.464	2.119
LCs and Acceptances (after Credit Conversion Factor)	8,329	-	-	-	-	-	848	848	7,481	6

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

31 December 2018	Collaterals after rate of consideration									
Type of collateral or credit enhancement	**Maximum exposure to credit risk**	**Cash**	**Securities (Cheques& Acts&Stock Share)**	**Property (Mortgages)**	**Assignment of receivables**	**Vehicle Pledge**	**Other**	**Total collateral**	**Net exposure**	**Associated ECLs**
Financial assets										
Cash and cash equivalents (including reserves at Central Bank)	629,934	-	-	-	-	-	-	-	629,934	6
Loans and advances to customers	2,377,508	3,729	149,748	94,742	161,285	90,781	2,112	502,398	1,875,110	11,507
of which : Large corporate clients	2,079,654	3,729	92,640	91,487	151,179	90,781	2,112	431,929	1,647,725	11,454
of which : SME clients	31,881	-	2,342	3,255	10,106	-	-	15,703	16,179	5
of which : Others	265,972	-	54,766	-	-	-	-	54,766	211,206	48
Other financial assets	2,271	-	-	-	-	-	-	-	2,271	34
Derivative financial instruments	24,929	-	-	-	-	-	-	-	24,929	-
Securities at fair value through OCI	80,530	-	-	-	-	-	-	-	80,530	99
Guarantees (after Credit Conversion Factor)	450,449	11,859	16,193	13,757	5,406	-	-	47,215	403,234	2,190
LCs and Acceptances (after Credit Conversion Factor)	2,934	-	-	-	-	-	-	-	2,934	21

The Bank's independent Credit Risk Department operates its internal rating models. The Parent Bank runs models for its key portfolios in which its customers are rate from 1 to 100 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. These information sources are first used to determine the PDs within the Parent Bank's IFRS 9 ECL calculation.

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Internal rating grades of the Parent Bank:

Cash Loans

Internal rating grade	Internal rating description	Internal rating category	12 month PD range	Good Rating Agency's rating	Average Exposure at default	Average PDs	Average LGD
Performing							
100-90	Highest	High grade	0.0001-0.02	AAA	376,333	0.04%	45.00%
89-87	Very high+	High grade	0.0001-0.02	AA+	3,924	0.00%	0.00%
86-84	Very high	High grade	0.0001-0.02	AA	186,626	0.04%	45.00%
83-81	Very high-	High grade	0.0001-0.03	AA-	247,055	0.04%	45.00%
80-78	High+	High grade	0.0001-0.05	A+	150,164	0.04%	45.00%
77-75	High	High grade	0.0002-0.06	A	12,207	0.00%	0.00%
74-72	High-	High grade	0.0002-0.07	A-	252,522	0.08%	29.71%
71-69	Adequate level+	Standard grade	0.0003-0.12	BBB+	157,885	0.08%	9.95%
68-66	Adequate level	Standard grade	0.0005-0.17	BBB	358,730	0.06%	16.79%
65-63	Adequate level-	Standard grade	0.0007-0.26	BBB-	248,107	0.10%	39.47%
62-60	Depends on economic conditions+	Standard grade	0.001-0.36	BB+	123,129	0.30%	15.65%
59-57	Depends on economic conditions	Standard grade	0.0016-0.58	BB	271,402	0.19%	26.94%
56-54	Depends on economic conditions-	Standard grade	0.0029-1.05	BB-	39,040	0.45%	7.76%
53-51	Low level+	Sub-standard grade	0.0059-2.15	B+	35,364	2.15%	44.36%
50-48	Low level	Sub-standard grade	0.0107-3.89	B	57,885	15.47%	31.63%
47-45	Low level-	Sub-standard grade	0.0205-7.49	B-	942	10.20%	44.04%
44-36	Possibility of default	Sub-standard grade	0.0734-26.78	CCC	27,688	77.76%	30.26%
35-33	High default risk	Sub-standard grade	0.0734-26.78	CC	24,381	0.00%	0.00%
32-30	Very high default risk	Sub-standard grade	0.0734-26.78	C	-	0.00%	0.00%
Total Performing					**2,573,383**	**1.39%**	**28.87%**
Non-performing							
29-0	In default		100-100	D	161,610	100.00%	16.97%
Total Nonperforming					**161,610**	**100.00%**	**100.00%**

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Noncash Loans

Internal rating grade	Internal rating description	Internal rating category	12 month PD range	Good Rating Agency's rating	Average Exposure at default (after CCF)	Average PDs	Average LGD
Stage 1 & Stage 2							
100-90	Highest	High grade	0.0001-0.02	AAA	-	-	-
89-87	Very high+	High grade	0.0001-0.02	AA+	23	0.04%	45.00%
86-84	Very high	High grade	0.0001-0.02	AA	1,385	0.04%	45.00%
83-81	Very high-	High grade	0.0001-0.03	AA-	8,559	0.04%	45.00%
80-78	High+	High grade	0.0001-0.05	A+	15,001	0.05%	45.00%
77-75	High	High grade	0.0002-0.06	A	-	0.00%	0.00%
74-72	High-	High grade	0.0002-0.07	A-	56,756	0.06%	45.00%
71-69	Adequate level+	Standard grade	0.0003-0.12	BBB+	49,320	0.09%	38.40%
68-66	Adequate level	Standard grade	0.0005-0.17	BBB	86,505	0.11%	29.69%
65-63	Adequate level-	Standard grade	0.0007-0.26	BBB-	56,611	0.21%	45.00%
62-60	Depends on economic conditions+	Standard grade	0.001-0.36	BB+	101,253	0.23%	44.12%
59-57	Depends on economic conditions	Standard grade	0.0016-0.58	BB	99,489	0.44%	44.91%
56-54	Depends on economic conditions-	Standard grade	0.0029-1.05	BB-	9,721	0.58%	40.03%
53-51	Low level+	Sub-standard grade	0.0059-2.15	B+	27,333	1.62%	44.87%
50-48	Low level	Sub-standard grade	0.0107-3.89	B	2,014	4.63%	33.64%
47-45	Low level-	Sub-standard grade	0.0205-7.49	B-	-	0.00%	0.00%
44-36	Possibility of default	Sub-standard grade	0.0734-26.78	CCC	12,143	29.68%	45.00%
35-33	High default risk	Sub-standard grade	0.0734-26.78	CC	-	0.00%	0.00%
32-30	Very high default risk	Sub-standard grade	0.0734-26.78	C	-	0.00%	0.00%
Total Stage 1 & 2					**526,113**	**0.98%**	**44.34%**

Noncash Loans

Internal rating grade	Internal rating description	Internal rating category	12 month PD range	Good Rating Agency's rating	Total Exposure	Average PDs	Average LGD
Stage 3							
29-0	In default		100-100	D	152,285	100.00%	17.29%
Total Stage 3					**152,285**	**100.00%**	**17.29%**

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Segment concentration

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from due from banks and loans and advances to customers at the reporting date is shown below:

	Due from banks		**Loans and advances to customers**	
	2019	**2018**	**2019**	**2018**
Banks	472,359	82,376	116,731	40,152
Manufacturing	-	-	359,132	40,137
Production	-	-	*359,132*	*40,137*
Construction	-	-	294,696	205,714
Services	-	-	939,100	882,489
Wholesale and retail trade	-	-	*66,003*	*93,042*
Hotel food and beverage services	-	-	-	*16,079*
Financial institutions	-	-	*568,265*	*434,331*
Communication services	-	-	*98,511*	*111,954*
Health and social services	-	-	*867*	*1,823*
Renting Service	-	-	*205,454*	*225,260*
Other	-	-	315,356	364,304
Non-performing loans net	-	-	134,191	149,921
Total	**472,359**	**82,376**	**2,159,206**	**1,682,717**

		Due from banks		**Loans and advances to customers**	
	Notes	**2019**	**2018**	**2019**	**2018**
Turkey		28,763	25,340	1,734,067	1,297,618
Europe		60,779	30,297	220,048	88,745
Other		382,817	26,739	205,091	296,354
	6, 9	**472,359**	**82,376**	**2,159,206**	**1,682,717**

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Information by major sectors and type of counterparties

Financial assets are assessed in 3 stages based on IFRS 9 as explained in accounting policy note 4 “Calculation of expected credit losses”. In this respect, the life time expected credit losses are recognized for impaired loans (stage 3) and the probability of default is considered to be 100%.

When the loan is not under default yet, but there is a significant increase in the credit risk since origination date, the life time expected credit losses are calculated for these loans (stage 2).

Regarding the remaining financial assets within the scope of IFRS 9, the 12-month estimated probability of default is calculated and the loss allowance for these loans (stage 1) is measured at an amount equal to 12-month (after the reporting date) expected credit losses.

	Loans(*)		
Sectors	**Significant increase in credit risk (Stage 2)**	**Defaulted (Stage 3)**	**Expected Credit Losses (IFRS 9)**
1. Agriculture	**-**	**-**	**-**
1.1. Farming and Stockbreeding	-	-	-
1.2. Forestry	-	-	-
1.3. Fishery	-	-	-
2. Manufacturing	**41,340**	**-**	**1,755**
2.1. Mining and Quarrying	-	-	-
2.2. Production	-	-	-
2.3. Electricity, Gas and Water	41,340	-	1,755
3. Construction	**38,605**	**17**	**17**
4. Services	**72,222**	**161,593**	**33,717**
4.1. Wholesale and Retail Trade	-	-	-
4.2. Hotel food and beverage services	-	161,398	27,207
4.3. Communication Services	-	-	-
4.4. Financial Institutions	-	195	195
4.5. Renting Services	71,366	23,000	6,314
4.6. Professional Services	-	-	-
4.7. Educational Services	-	-	-
4.8. Health and Social Services	856	-	1
5. Other	**1,446**	**-**	**38**
6. Total	**153,613**	**161,610**	**35,527**

(*) Including only cash loans.

Macroeconomic Scenario Analysis

Key Drivers	**ECL Scenario**	**Assigned Probabilities**	**2019**	**2020**	**2021**	**2022**	**2023**	**Subsequent Years**
CDS Turkey- 5 Year	%	%	%	%	%	%	%	%
	Upside	30	2.00	1.96	1.92	1.88	1.84	1.80
	Base Case	50	3.00	2.97	2.94	2.91	2.88	2.85
	Downside 1	10	3.75	3.94	3.74	3.93	3.73	3.92
	Downside 2	10	4.61	5.07	4.56	5.02	4.52	4.97

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

Fair value through profit or loss (FVTPL)

At 31 December 2019, the Parent Bank has derivative financial assets at FVTPL amounting to TL 11,937 (31 December 2018 – TL 24,929). An analysis of the credit quality of the maximum credit exposure is as follows:

	31 December 2019	31 December 2018
Derivative financial assets	11,937	24,929
Fair value and carrying amount	**11,937**	**24,929**

c) Operational Risk

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

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

The Group calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Offıcial Gazette no. 28337 dated 28 June 2012 and, using gross profıt of the last three years, 2015, 2016 and 2017. The amount calculated as TL 198,633 as at 31 December 2019 (31 December 2018 - TL 140,160) represents the operational risk that the Group may expose and the amount of minimum capital requirement to eliminate this risk.

d) 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% of total capital to total risk-weighted assets.

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.

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

d) Capital management (continued)

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group and the Group's regulated operations have complied with externally imposed capital requirements throughout the period.

There have been no material changes in the Group's management of capital during the period.

The Group's capital position in accordance with BRSA regulations is as follows:

	31 December 2019	31 December 2018
Amount subject to credit risk (I)	3,189,103	2,147,685
Amount subject to market risk (II)	59,713	36,893
Amount subject to operational risk (III)	198,633	140,160
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)	**3,447,449**	**2,324,738**
Shareholders' equity:		
Tier 1 capital	438,876	263,502
Tier 2 capital	100,118	90,708
Total regulatory capital	**538,994**	**354,210**
Capital adequacy ratio	**15.64%**	**15.24%**

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

e) Fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets or valuation techniques. However, the Group expects no significant difference between the fair value and carrying value of the financial instruments below since their maturities are short-term.

The table below sets out the Group's classification of each class of financial assets and liabilities and their fair values.

	Notes	Trading	Loans and receivables	FVOCI	Other amortised cost	Total carrying amount	Fair value
2019							
Cash and cash equivalents	*6*	-	473,645	-	-	473,645	473,645
Reserve deposits at Central Bank	*7*	-	149,683	-	-	149,683	149,683
FVTPL investments		11,937					
FVOCI financial assets	*8*	-	-	198,356	-	198,356	198,356
Loans and advances to customers(1)	*9*	-	2,159,206	-	-	2,159,206	2,123,037
Other asset		-	-	-	4,201	4,201	4,201
		11,937	**2,782,534**	**198,356**	**4,201**	**2,985,091**	**2,948,922**
Funds borrowed	*14*	-	-	-	904,639	904,639	1,094,143
Debt securities issued(1)	*15*	-	-	-	763,268	763,268	763,268
Derivative financial liabilities		43,444	-	-	-	43,444	43,444
Other liabilities	*17*	-	-	-	963,645	963,645	963,645
		43,444	**-**	**-**	**2,631,552**	**2,674,996**	**2,864,500**

(1) The Group management assumes that the fair values of the loans and debt securities issued approximate their carrying values since the majority of them are short-term.

	Notes	Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
2018							
Cash and cash equivalents	*6*	-	308,898	-	-	308,898	308,898
Reserve deposits at Central Bank	*7*	-	321,030	-	-	321,030	321,030
Held for trading investments		24,929					
Available for sale investments	*8*	-	-	80,431	-	80,431	80,431
Loans and advances to customers(1)	*9*	-	1,682,717	-	-	1,682,717	1,682,717
Other asset		-	-	-	185,156	185,156	185,156
		24,929	**2,312,645**	**80,431**	**185,156**	**2,578,232**	**2,578,232**
Funds borrowed	*14*	-	-	-	909,077	909,077	976,608
Debt securities issued(1)	*15*	-	-	-	736,306	736,306	736,306
Derivative financial liabilities		37,257	-	-	-	37,257	37,257
Other liabilities	*17*	-	-	-	618,939	618,939	618,939
		37,257	**-**	**-**	**2,264,322**	**2,301,579**	**2,301,579**

(1) The Group management assumes that the fair values of the loans and debt securities issued approximate their carrying values since the majority of them are short-term.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

29. Financial risk management objectives and policies (continued)

e) Fair values (continued)

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 Group 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 Group 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 Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and currency 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.

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

d) Fair values (continued)

This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

31 December 2019	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets		11,937	-	-	11,937
Financial assets measured at fair value through other comprehensive income	*8*	198,356	-	-	198,356
Investment property		-	223,545	-	223,545
Derivative financial liabilities		-	43,444	-	43,444

31 December 2018	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets		24,929	-	-	24,929
Financial assets measured at fair value through other comprehensive income	*8*	80,431	-	-	80,431
Investment property		-	34,385	-	34,385
Derivative financial liabilities		-	37,257	-	37,257

e) Market risk

Market risk is the risk that changes in market prices such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Parent Bank's income or the value of its holdings of financial instruments.

The Board of Directors of the Group determines the risk limits for primary risks carried by the Group and periodically revises these limits. For the purpose of hedging market risk, the Group primarily aims to balance the foreign currency position, collateralise the loans and manage liquidity.

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

31 December 2019 and 31 December 2018 calculated as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Offıcial Gazette no. 28337 dated 28 June 2012, are as follows:

	2019			**2018**		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	3,851	5,344	1,916	3,201	4,280	1,660
Equity price risk	-	-	-	-	-	-
Currency risk	1,956	3,042	1,552	1,641	4,890	265
Counter party risk	-	-	-	-	-	-
Total value-at-risk	**5,807**	**8,386**	**3,468**	**4,842**	**9,170**	**1,925**

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that the Group is subject to due to the exchange rate movements in the market.

Position limit of the Group related with currency risk is determined according to Foreign Currency Net Position Standard ratio determined by BRSA.

The concentrations of assets, liabilities and off balance sheet items are as follows:

	USD	Euro	Others	Total
2019				
Assets				
Cash and cash equivalents	219,363	221,103	4,210	444,676
Reserve deposits at Central Bank	33,935	95,562	-	129,497
Loans and advances to customers	184,703	556,374	-	741,077
Financial assets measured at fair value through other comprehensive income	56,032	-	-	56,032
Other assets	4	-	-	4
Total assets	**494,037**	**873,039**	**4,210**	**1,371,286**
Liabilities				
Funds borrowed	101,051	227,816	3,869	332,736
Subordinated debts	90,305	-	-	90,305
Other liabilities	183,658	889,153	-	1,072,811
Total liabilities	**375,014**	**1,116,969**	**3,869**	**1,495,852**
Gross exposure	**119,023**	**(243,930)**	**341**	**(124,566)**
Off-balance sheet position				
Net notional amount of derivatives	(120,458)	245,515	-	125,057
Net exposure	**(1,435)**	**1,585**	**341**	**491**

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Currency risk (continued)

	USD	Euro	Others	Total
2018				
Assets				
Cash and cash equivalents	98,224	206,337	3,564	308,124
Reserve deposits at Central Bank	36,747	50,585	-	87,333
Loans and advances to customers	45,037	432,672	-	477,709
Financial assets measured at fair value through other comprehensive income	38,061	15,389	-	53,450
Other assets	138,683	15	-	138,698
Total assets	**356,752**	**704,998**	**3,564**	**1,065,314**
Liabilities				
Funds borrowed	256,523	255,074	3,507	515,103
Subordinated debts	80,254	-	-	80,254
Other liabilities	29,315	561,588	-	590,904
Total liabilities	**366,092**	**816,662**	**3,507**	**1,186,261**
Gross exposure	**(9,340)**	**(111,664)**	**57**	**(120,947)**
Off-balance sheet position				
Net notional amount of derivatives	6,444	117,929	-	124,373
Net exposure	**(2,896)**	**6,265**	**57**	**3,426**

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies at 31 December 2019 and 31 December 2018 would have effect on the equity and profit or loss by the amounts shown below.

2019	**Equity**	**Profit or loss**
EUR	159	159
USD	(149)	(144)
Other currencies	34	34
Total	**44**	**49**

2018	**Equity**	**Profit or loss**
EUR	627	627
USD	(290)	(392)
Other currencies	6	6
Total	**343**	**241**

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Interest rate risk

Interest rate risk that would arise from the changes in interest rates depending on the Group's position is managed by the Asset and Liability Committee of the Group.

Interest rate sensitivity of assets, liabilities and off balance sheet items is analysed by top management in the Asset and Liability Committee meetings held every week by taking the market developments into consideration.

The Management of the Group follows the interest rates in the market on a daily basis and revises interest rates of the Group when necessary.

The following table indicates the periods in which financial assets and liabilities reprice as of 31 December 2019 and 31 December 2018:

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2019							
Assets							
Cash and cash equivalents	48,669	-	-	-	-	424,976	473,645
Reserve deposits at Central Bank	129,497	-	-	-	-	20,186	149,683
FVTPL investments	6,969	4,534	434	-	-	-	11,937
Financial assets at fair value through other comprehensive income	17,777	30,951	16,770	1,011	-	131,847	198,356
Loans and advances to customers	1,283,855	61,038	319,015	471,236	24,062	-	2,159,206
Other assets	-	-	-	-	-	261,123	261,123
Total assets	**1,486,767**	**96,523**	**336,219**	**472,247**	**24,062**	**838,132**	**3,253,950**
Liabilities							
Funds borrowed(*)	301,077	91,599	126,442	-	52,877	362,405	934,400
Debt securities issued(**)	122,034	436,859	204,375	-	60,544	-	823,812
Other liabilities(***)	532,715	374,442	49,771	-	-	538,810	1,495,738
Total liabilities	**955,826**	**902,900**	**380,588**	**-**	**113,421**	**901,215**	**3,253,950**
On balance sheet interest sensitivity gap	530,941	(806,377)	(44,369)	472,247	(89,359)	(63,083)	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**530,941**	**(806,377)**	**(44,369)**	**472,247**	**(89,359)**	**(63,083)**	**-**

(*) Includes subordinated loans amounting to TL 29,761.
(**) Includes subordinated bonds amounting to TL 60,544.
(***) Derivative financial instruments are included in other liabilities.

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Interest rate risk (continued)

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2018							
Assets							
Cash and cash equivalents	275,955	-	-	-	-	32,943	308,898
Reserve deposits at Central Bank	87,333	-	-	-	-	233,697	321,030
FVTPL investments	24,906	23	-	-	-	-	24,929
Available for sale investments	4,955	53,950	655	1,011	-	19,860	80,431
Loans and advances to customers	649,507	36,464	627,201	320,708	41,079	7,758	1,682,717
Other assets	-	-	-	-	-	261,482	261,482
Total assets	**1,042,656**	**90,437**	**627,856**	**321,719**	**41,079**	**555,740**	**2,679,487**
Liabilities							
Funds borrowed (*)	435,718	119,431	157,524	-	49,876	173,002	935,550
Debt securities issued(**)	115,724	377,195	172,860	-	124,308	-	790,087
Other liabilities(***)	346,834	252,385	9,123	-	-	315,657	953,850
Total liabilities	**898,276**	**749,011**	**339,507**	**-**	**174,184**	**488,659**	**2,679,487**
On balance sheet interest sensitivity gap	144,380	(658,574)	288,349	321,719	(133,105)	67,081	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**144,380**	**(658,574)**	**288,349**	**321,719**	**(133,105)**	**67,081**	**-**

(*) Includes subordinated loans amounting to TL 26,473.
(**) Includes subordinated bonds amounting to TL 53,781.
(***) Derivative financial instruments are included in other liabilities.

Summary of average interest rates

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

	31 December 2019			31 December 2018		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and balances with the Central Bank	-	1.50	13.00	-	1.50	13.00
Due from banks	0.03	2.39	18.23	0.04	2.00	18.92
FVTPL investments	-	-	-	-	-	-
Placements at money markets	-	-	-	-	-	19.72
FVTOCI investments	-	10.07	29.49	8.07	11.17	15.32
Loans and advances to customers	6.74	8,56	25.08	6.41	10.44	25.83
Other	-	-	-	-	-	-
Liabilities						
Money market borrowings	0.71	1.64	9.70	-	-	-
Funds borrowed	6.37	7.13	16.81	4.68	6.41	19.89
Debt securities issued	-	10.00	19.13	-	10.00	17.15
Funds from other financial institutions	3.78	3.96	21.83	2.34	4.56	20.32

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its fınancial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is a substantial risk in the Turkish market, which exhibits significant volatility.

Management of liquidity risk

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis and maintains liquid assets, which it judges sufficient to meet its commitments.

As at 31 December 2019 and 31 December 2018, the following table provides the contractual maturities of the Group's financial liabilities.

	31 December 2019						
	Carrying Amount	**Contractual cash flows**	**6 month or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 Years**
Funds borrowed	904,639	1,094,143	932,081	96,101	-	-	65,961
Debt securities Issued	763,268	803,320	702,365	100,955	-	-	-
	1,667,907	**1,897,463**	**1,634,446**	**197,056**	**-**	**-**	**65,961**

	31 December 2018						
	Carrying Amount	**Contractual cash flows**	**6 month or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 Years**
Funds borrowed	909,077	1,097,834	928,888	137,946	-	-	31,000
Debt securities Issued	736,306	765,839	761,730	4,109	-	-	-
	1,645,383	**1,863,673**	**1,690,618**	**142,055**	**-**	**-**	**31,000**

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Exposure to liquidity risk

Maturity analysis of monetary assets and liabilities according to their remaining maturities is presented below:

31 December 2019	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	424,976	48,669	-	-	-	-	-	473,645
Reserve deposits at Central Bank	20,186	129,497	-	-	-	-	-	149,683
FVTPL investments	-	6,969	4,534	434	-	-	-	11,937
FVOCI investments	-	-	-	3,333	14,871	48,305	131,847	198,356
Loans and advances to customers	-	1,283,855	61,038	319,015	495,298	-	-	2,159,206
Other assets	5	25,632	-	-	-	-	235,486	261,123
Total assets	**445,167**	**1,494,622**	**65,572**	**322,782**	**510,169**	**48,305**	**367,333**	**3,253,950**
Funds borrowed (*)	362,406	301,077	91,598	126,442	-	52,877	-	934,400
Debt securities issued (**)	-	122,034	436,859	204,375	-	60,544	-	823,812
Other liabilities(***)	87,722	532,725	374,443	49,771	-	-	451,077	1,495,738
Total liabilities	**450,128**	**955,836**	**902,900**	**380,588**	**-**	**113,421**	**451,077**	**3,253,950**
Liquidity gap	**(4,961)**	**538,786**	**(837,328)**	**(57,806)**	**510,169**	**(65,116)**	**(83,744)**	**-**
Off Balance Sheet Position	**-**	**(13,524)**	**(2,633)**	**(10,752)**	**(24,068)**	**-**	**-**	**(50,977)**
Receivables from derivatives	-	989,602	373,635	146,304	35,332	-	-	1,544,873
Liabilities from derivatives	-	1,003,126	376,268	157,056	59,400	-	-	1,595,850
Non cash loans	**-**	**450**	**54,656**	**73,124**	**76,853**	**720,770**	**-**	**925,853**

(*) Includes subordinated loans amounting to TL 29,761.
(**) Includes subordinated bonds amounting to TL 60,544.
(***) Derivative financial instruments are included in other liabilities.

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

e) Market risk (continued)

31 December 2018	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	32,943	275,955	-	-	-	-	-	308,898
Reserve deposits at Central Bank	233,697	87,333	-	-	-	-	-	321,030
FVTPL investments	-	9,739	14,473	717	-	-	-	24,929
FVOCI investments	-	-	21,201	655	1,011	37,704	19,860	80,431
Loans and advances to customers	-	649,507	36,464	627,201	361,787	-	7,758	1,682,717
Other assets	73	213,639	-	-	-	-	47,770	261,482
Total assets	**266,713**	**1,236,173**	**72,138**	**628,573**	**362,798**	**37,704**	**75,388**	**2,679,487**
Funds borrowed (*)	173,002	435,718	119,431	157,524	-	49,876	-	935,550
Debt securities issued (**)	-	115,724	409,561	211,021	-	52,781	-	790,087
Other liabilities(***)	54,621	346,826	282,235	9,123	-	-	261,044	953,850
Total liabilities	**227,623**	**898,268**	**811,227**	**377,668**	**-**	**103,657**	**261,044**	**2,679,484**
Liquidity gap	**39,090**	**337,905**	**(739,089)**	**250,905**	**362,798**	**(65,953)**	**(185,656)**	**-**
Off Balance Sheet Position	**-**	**(5,048)**	**(19,577)**	**(1,333)**	**(17,347)**	**-**	**-**	**(43,305)**
Receivables from derivatives	-	769,226	268,831	8,408	135,159	-	-	1,181,624
Liabilities from derivatives	-	774,274	288,408	9,741	152,506	-	-	1,224,929
Non cash loans	**-**	**1,169**	**139,495**	**97,451**	**11,370**	**545,314**	**-**	**794,799**

(*) Includes subordinated loans amounting to TL 26,473.

(**) Includes subordinated bonds amounting to TL 53,781.

(***) Derivative financial instruments are included in other liabilities.

(Currency - In thousands of Turkish Lira)

30. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions.

In the course of conducting its banking business, the Group conducted various business transactions with related parties. These include loans, customer accounts, funds borrowed and non-cash transactions. The volumes of related party transactions, outstanding balances at year-end and relating expense and income for the period are as follows:

31 December 2019	**Balance**	**Percentage of the financial statement amount (%)**
Cash loans	331,465	15%
Non-cash loans	19,369	2%
Borrower funds / Funds borrowed	110,136	12%

31 December 2018	**Balance**	**Percentage of the financial statement amount (%)**
Cash loans	145,500	9%
Non-cash loans	18,639	2%
Borrower funds / Funds borrowed	366,092	40%

31 December 2019	**Balance**	**Percentage of the financial statement amount (%)**
Interest income and commissions	62,654	14%
Other operating expense (-)	6,330	7%

31 December 2018	**Balance**	**Percentage of the financial statement amount (%)**
Interest income and commissions	49,090	13%
Other operating expense (-)	9,749	17%

As at 31 December 2019, no provisions have been recognised in respect of loans given to related parties (31 December 2018 – none).

Compensation of key management personnel of the Bank

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 12,671 comprising salaries and other benefits for the period 1 January-31 December 2019 (1 January - 31 December 2018: TL 8,677).

31. Events after balance sheet date

98,610 TL (gross) cash collection was made in February 19, 2020 from the loan receivables followed by The Parent Bank's non performing loans account.