PASHA YATIRIM BANKASI A.Ş.

FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2019
TOGETHER WITH INDEPENDENT AUDITORS

Building a better working world

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

Independent auditor's report

To the Shareholders of PASHA Yatırım Bankası A.Ş.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PASHA Yatırım Bankası A.Ş. (the "Bank") which comprise the statement of financial position as of 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

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

Key Audit Matter	How the matter is addressed in our audit
Financial impact of IFRS 9 "Financial Instruments" standard and recognition of impairment on financial assets and related important disclosures	
We considered the impact of IFRS 9 to the financial Statements which outlines the expected credit loss calculations of financial assets as a key audit matter due to: - Balance sheet and off balance sheet items that are subject to expected credit loss calculation is material for the financial statements - Complex accounting requirements of IFRS 9 - The model that is established by the Group management to calculate the expected credit losses has the compliance risk whether it is established based on the requirements of IFRS 9 and other practices - IFRS 9, have complex and intensive control environment - The new, significant and complex judgments and estimations needed for the calculation of expected credit losses and - The complex disclosure requirements of IFRS.	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 by involving 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 - 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 significant estimates and judgements - Assessing the completeness, accuracy and relevance of the data used for the calculation of expected credit loss - Evaluating the appropriateness and testing the mathematical accuracy of Expected credit loss models applied. - Evaluating the reasonableness of and tested the post-model adjustments.

Responsibilities of the Management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is Emre Çelik.

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

Emre Çelik, SMMM
Associate Partner

Istanbul, Turkey
31 January 2020

CONTENTS

Independent auditor's report

Financial statements

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	4	190,625	101,185
Amounts due from credit institutions	5	122,897	76,482
Financial assets at fair value through profit and loss	6	-	2,787
Derivative financial assets	17	132	2,247
Investment securities	7	96,133	68,528
Loans to customers	8	1,045,060	840,278
Investment property	9	145,599	218,333
Property and equipment	10	90,238	2,375
Intangible assets	11	6,077	1,274
Current tax asset	19	993	-
Deferred tax asset	19	15,628	12,171
Other assets	12	12,121	23,905
TOTAL ASSETS		**1,725,503**	**1,349,565**
Liabilities			
Amounts due to banks	13	666,735	461,048
Amounts due to customers	14	16,760	22,342
Money market deposits	15	6,192	-
Debt securities issued	16	475,964	318,492
Derivative financial liabilities	17	-	116
Provisions	18	10,388	9,828
Current tax liability	19	1,960	5,425
Other liabilities	12	15,894	26,657
Total Liabilities		**1,193,893**	**843,908**
Equity			
Share capital	20	500,000	500,000
Retained earnings	20	25,734	43
Other reserves	20	5,655	5,655
Net unrealised gain/(loss) on investment securities		221	(41)
Total Equity		**531,610**	**505,657**
TOTAL LIABILITIES AND EQUITY		**1,725,503**	**1,349,565**

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

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	2019	2018
Interest income on loans		111,198	110,581
Interest income on investment securities		8,171	3,806
Interest income on deposits at banks		19,990	8,293
Interest on amount due from credit institutions		1,566	1,690
Total Interest Income		**140,925**	**124,370**
Interest expense on amounts due to customers		(1,766)	(863)
Interest expense on amounts due to banks		(21,253)	(18,335)
Interest expense on debt securities issued		(20,560)	(21,641)
Interest expense on money market deposits		(265)	(4,033)
Other interest expense		(21)	-
Total Interest Expense		**(43,865)**	**(44,872)**
Net Interest Income		**97,060**	**79,498**
Provisions for loans and other credit risks, net	22	(33,791)	(17,663)
Net Interest Income After Credit Loss Expense		**63,269**	**61,835**
Fees and commissions income		5,386	4,324
Fees and commissions expense		(1,369)	(1,156)
Net Fees and Commissions Income	23	**4,017**	**3,168**
Net gains from trading securities		128	482
Foreign exchange gains/(losses), net		1,869	(3,844)
Net (losses)/gains from derivative financial instruments		(5,281)	2,303
Other income		491	855
Total Non-Interest Income Expense		**(2,793)**	**(204)**
Total Operating Income		**64,493**	**64,799**
Personnel expenses	24	(15,996)	(13,736)
General and administrative expenses	24	(11,792)	(11,856)
Depreciation and amortisation	9,10,11	(3,736)	(1,330)
Impairment of investment property	9	-	(42,173)
Total Non-Interest Expenses		**(31,524)**	**(69,095)**
Profit/(Loss) Before Tax	19	**32,969**	**(4,296)**
Income tax (expense)/credit	19	(7,278)	733
Net Profit/(Loss) for the Year		**25,691**	**(3,563)**
Other Comprehensive Income			
Net gain on FVOCI		335	8
Tax effect of net gains on FVOCI		(73)	(1)
Other Comprehensive Income for the Year, net of tax		**262**	**7**
Total Comprehensive Income/(Loss) for the Year		**25,953**	**(3,556)**

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

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	Share capital	Fair value reserve of financial assets at FVOCI	Legal reserves	Retained earnings	Total equity
Balance at 31 December 2017		**255,000**	**(48)**	**324**	**10,869**	**266,145**
Impact of adopting IFRS 9[1]		-	-	-	(1,932)	**(1,932)**
Balances at 1 January 2018		**255,000**	**(48)**	**324**	**8,937**	**264,213**
Profit for the year		-	-	-	(3,563)	**(3,563)**
Other comprehensive income/(loss) for the year, net		-	7	-	-	**7**
Total comprehensive income/(loss) for the year		**-**	**7**	**-**	**(3,563)**	**(3,556)**
Transfer to reserves		-	-	5,331	(5,331)	-
Capital Increase		245,000	-	-	-	245,000
Balance at 31 December 2018	**20**	**500,000**	**(41)**	**5,655**	**43**	**505,657**
Balances at 1 January 2019		**500,000**	**(41)**	**5,655**	**43**	**505,657**
Profit for the year		-	-	-	25,691	**25,691**
Other comprehensive income/(loss) for the year, net		-	262	-	-	**262**
Total comprehensive income/(loss) for the year		**-**	**262**	**-**	**25,691**	**25,953**
Balance at 31 December 2019	**20**	**500,000**	**221**	**5,655**	**25,734**	**531,610**

[1] Prior year financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules and the difference between the book value of 1 January 2018 at the date of application reflected in the retained earnings under equity.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	2019	2018
Interest received		148,125	109,406
Interest paid		(43,315)	(38,730)
Fees and commissions received		4,680	4,324
Fees and commissions paid		(853)	(1,156)
Net realized gains from trading securities		128	
Other operating income received		719	855
Personnel expenses paid		(15,680)	(13,262)
General and administrative expenses paid		(12,790)	(20,554)
Cash flows from operating activities before changes in operating assets and liabilities		**81,014**	**40,883**
Net (increase)/decrease in operating assets			
Trading securities		2,787	181
Amounts due from credit institutions	5	(35,674)	(8,863)
Loans to customers	8	(168,055)	(113,008)
Other assets		(626)	23,635
Net increase/(decrease) in operating liabilities			
Amounts due to banks		143,900	(22,222)
Amounts due to customers		(8,029)	3,013
Money market deposits		6,173	-
Other liabilities		3,499	(14,796)
Net cash flows from/(used in) operating activities before income tax		**24,989**	**(91,177)**
Income tax paid		(14,154)	(5,471)
Net cash from operating activities		**10,835**	**(96,648)**
Cash flows from/(used in) investing activities			
Proceeds from sale and redemption of investment securities	7	25,610	19,596
Purchase of investment securities	7	(43,057)	(66,544)
Purchase and prepayments for property and equipment	10	(17,143)	(1,964)
Purchase and prepayments for intangible assets	11	(5,707)	(1,081)
Purchase and addition to investment property	9	(580)	(260,916)
Net cash used in investing activities		**(40,877)**	**(310,909)**
Cash flows from/(used in) financing activities			
Proceeds from debt securities issued	27	346,661	388,338
Payment of debt securities	27	(236,731)	(305,293)
Proceeds from issue of share capital		-	245,000
Net cash from financing activities		**109,930**	**328,045**
Effect of net foreign exchange differences on cash and cash equivalents		9,755	96,984
Net increase in cash and cash equivalents		**89,643**	**17,472**
Cash and cash equivalents, beginning		100,988	83,516
Cash and cash equivalents in the statement of cash flows		**190,631**	**100,988**
Effect of expected losses on cash and cash equivalents	4	(54)	197
Effect of restricted balances and accruals		48	-
Cash and cash equivalents in the statement of financial position		**190,625**	**101,185**

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

1. Principal activities

PASHA Yatırım Bankası A.Ş. ("the Bank", "PASHA Bank"), set up in Istanbul on 25 December 1987 under the title of Yatırım Bank A.Ş., is the first foreign investment bank in Turkey. With the decision taken by the previous parent of the Bank regarding the sale of its shares in the Bank, a share purchase agreement was signed between the Aksoy Holding A.Ş. and previous parent of the Bank on 13 May 2013. Upon the Banking Regulation and Supervision Agency ("BRSA")'s approval dated 26 June 2013, Aksoy Holding A.Ş. acquired the 99.4689% of the shares of the Bank.

PASHA Bank OJSC and Aksoy Holding A.Ş. has agreed on transferring the majority shares of the Bank. Acquisition of TL 28,795 of the Bank's capital by PASHA Bank OJSC and increase in the paid-in capital from TL 80,000 to TL 255,000 upon the acquisition were approved by the BRSA's decision dated 26 December 2014 and numbered 6137. The capital increase from TL 80,000 to TL 175,000 has been completed as of 25 February 2015. Paid-in capital increase from TL 175,000 to TL 255,000, approval of the share transfer and changing the Bank's title as "PASHA Yatırım Bankası A.Ş." have been approved in the extra ordinary general assembly of the Bank dated 27 January 2015. The change of Bank's title as "PASHA Yatırım Bankası A.Ş." was registered on 2 March 2015 and announced at the Turkish Trade Registry Gazette dated 6 March 2015 and numbered 8773. Acquisition of remaining 51,000 shares of Aksoy Holding A.Ş. by PASHA Bank OJSC by increasing PASHA Bank OJSC shares from 79,9196% to 99,9196% has been approved by the BRSA's resolution dated 23 December 2015 and numbered 18038.

In the Extraordinary General Meeting held on 18 May 2018, it was decided that the outstanding TL 255,000 paid-in capital will be increased to TL 500,000 with cash injection of TL 245,000 committed by PASHA Holding LLC, and the main agreement of the Bank will be revised accordingly. In accordance with the BRSA decision dated 4 May 2018 and numbered 7803, it has been approved that the indirect shareholder PASHA Holding LLC has the right to participated directly by 49% in the Bank. The share capital increase and the total paid-in capital TL 500,000 has been registered by Istanbul Trade Registry Chamber on 6 June 2018. The amendments to main agreement of the Bank has been published by Turkish Trade Registry Gazette's copy dated 12 June 2018 and numbered 9598.

The shareholder structure of the Bank as of 31 December 2019, is stated below:

	Capital	Share Rate %
PASHA Bank OJSC	254,795	50.96
PASHA Holding LLC	245,000	49.00
Others	205	0.04
	500,000	**100.00**

As of 31 December 2019, the Bank is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva and Mr. Arif Pashayev (31 December 2018: by Mrs. Leyla Aliyeva and Mrs. Arzu Aliyeva).

The financial statements were authorised for issue by the Board of Directors on 31 January 2020.

2. Basis of preparation

The financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared under the historical cost convention except for financial assets measured at fair value such as derivative financial instruments, financial assets at fair value through profit or loss, available-for-sale investments.

The financial statements are presented in Turkish Lira ("TL") and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

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 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.

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

2. Basis of preparation *(continued)*

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over-the-counter ("OTC") derivatives, unlisted securities, retirement benefits obligation, impairment of loans and receivables, provisions for taxes and contingencies from litigation. Actual results in the future may differ from those reported.

3. Summary of significant accounting policies

3.1 Interest income and 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.

If the financial asset is impaired and classified as a non-performing receivable, the 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. Effective interest rate method is used 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 over gross amount.

Interest income and expense presented in the statement of comprehensive income statement include the interest income on financial assets and liabilities carried at amortized cost on an effective interest rate basis and the interest income on held for trading investments and fair value through other comprehensive income investments.

3.2 Fees and commissions

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.

3.3 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.

3. Summary of significant accounting policies *(continued)*

3.4 Taxation

The income tax charge is composed of the sum of current tax and deferred tax.

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

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition 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 reporting date. Deferred tax is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

3.5 Financial instruments

The Bank categorises its financial assets as "Financial Assets at Fair Value Through Profit/Loss", "Financial Assets at Fair Value Through Other Comprehensive Income" and "Financial Assets Measured at Amortized Cost". Such financial assets are recognized or derecognized according to the principles defined in section three of "IFRS 9 Financial Instruments" standard, issued for classification and measurement of the financial instruments. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value Through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and hedge accounting.

Classification and measurement of financial assets

According to IFRS 9 requirements, classification and measurement of the financial assets depend on two fundamental criteria:

- The business model within financial assets are managed and
- The features of contractual cash flow; whether contractual cash flows are based on solely payments of principal and interest or not

Assessment for the business model:

The business model of the Bank represents how the Bank manages its financial assets for generating cash flows. The business model specifies whether cash flows arise from the collection of contractual cash flows or the sale of financial assets, or both. This assessment is based on scenarios the Bank expects to reasonably occur.

3. Summary of significant accounting policies *(continued)*

3.5 Financial instruments *(continued)*

Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making such assessment, the Bank considers contingent events that would change the amount and timing of cash flows, conditions that limit the Bank’s claim to cash flows, prepayments and extension terms and features that modify consideration for the time value of money. Such assessments are also briefly defined as contractual cash flow characteristics test.

The Bank fulfils the on-balance sheet classification and measurement criteria by applying the procedures described above for all financial assets.

Financial assets at 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 aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

Financial assets at fair value through other comprehensive income

“Financial Assets at Fair Value through Other Comprehensive Income” are financial assets which are managed with business model that aims to hold to collect contractual cash flows and aims to hold to sell; and if the contractual terms of the financial assets lead to cash flows representing solely payments of principal and interest at certain dates.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost which reflects the fair value of the financial asset. After initial recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to 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 they are accounted under the “Accumulated other comprehensive income or expense to be reclassified through profit or 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.

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

Financial assets measured at amortised 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 (internal rate of return) method. Interest income obtained from financial assets measured at amortized cost is accounted in the income statement.

3. Summary of significant accounting policies *(continued)*

3.5 Financial instruments *(continued)*

Loans

Loans are financial assets that have fixed or determinable payment terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and subsequently measured at amortized cost using the effective interest rate (internal rate of return) method. Bank's loans are fully recorded under the "Measured at Amortised Cost" account.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities. Financial liabilities, including funds borrowed, securities issued, customer accounts and money market payables are initially measured at fair value, net of transaction costs. Such financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value 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.

3.6 Expected credit losses

As of 1 January 2018, the Bank started to recognize a loss allowance for expected credit losses on financial assets and loans measured at amortized cost and fair value through other comprehensive income and non-cash loans in accordance with IFRS 9. IFRS 9 introduces a forward-looking expected credit loss (ECL) approach, which is intended to result in an earlier recognition of credit losses based on an ECL impairment approach compared with the incurred-loss impairment approach for financial instruments under IAS 39, Financial Instruments: Recognition and Measurement and the loss-provisioning approach for financial guarantees and loan commitments.

At each reporting date, the Bank assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. The 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:

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

Stage 2: As of the reporting date of the financial asset, in the event of a significant increase in credit risk since initial recognition or met criteria below 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.

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 Bank accounts lifetime expected credit losses. In determining the impairment, the Bank takes into consideration the following criteria:

Furthermore, individual assessment would be applied for stage 2 and stage 3 financial assets when it is necessary by considering various scenarios including discounting cash flows of financial assets.

3. Summary of significant accounting policies *(continued)*

3.6 Expected credit losses *(continued)*

The Bank measured expected credit losses with the reasonable, objective and supportable information based on a probability-weighted including estimations regarding 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).

Prior to 1 January 2018, the Bank did not have any default history track and no historical data for assumptions of PD and LGD. The Bank uses Moody's global default rates corresponding to the ratings of external / internal rating of lenders when there are default probabilities (PDs) to be used to calculate ECLs. The recovery rates of collateralized loss (LGD) rates are calculated taking into account the specific coefficients. Credit risks carried outside of the statement of financial position is included in the ECL calculation using a specific credit conversion rate. Such ECL calculation is modelled taking into Basel criterias.

With the adoption of IFRS 9, the 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 bank based on internal rating scores calculated by in-house built up model in the absence of external independent rating grades. The Bank's policy is to use standard PDs published by international rating agencies. The PDs in Stage 1 and Stage 2 are considered using the linear projection method (interpolation) for the remaining period of existence of quarters. The Bank would use the same model for stage 2 loans when exists with using life-time PDs. Further; PDs will be %100 for stage 3 loans when there will be non-performing loans. For non-cash 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" set by BRSA, local regulator. The present value of the ECLs are then calculated using the effective interest rates of the related financial assets.

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.

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. Future drawdowns on facilities are considered through a credit conversion factor (CCF) that is reflective of historical drawdown and default patterns and the characteristics of the respective portfolios.

The Bank defines EAD with following terms while summing up to express the total exposure:

- Accrued interest and principal at reporting date;
- Possible interest costs during the post-default lifecycle, if interest calculations are not stopped at default date (normally, we accept one-year horizon);
- Contractual future penalties that might increase the value of the borrower's liability during the post-default year

Calculating the Expected Loss Period

Lifetime ECL is calculated by considering 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 Bank.

Significant increase in credit risk

The 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.

3. Summary of significant accounting policies *(continued)*

3.6 Expected credit losses *(continued)*

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- Gross Domestic Product;
- Turkey Banking Sector NPL rates;

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Based on three-year expectations on NPL and gross domestic product, PD table is calibrated. Economic changes show its influence to the rating score and PD estimates across industries for the three years period forward at least. It will be an extensive channel to the rating factors and PD estimates from the forecasted indicators written sourced from the strategy.

3.7 Derecognition of financial instruments

Derecognition of financial assets due to change in contractual terms

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

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

Derecognition of financial assets without any change in contractual terms

The 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 extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

3. Summary of significant accounting policies *(continued)*

3.8 Property and equipment

Property and equipment is measured at its cost when initially recognised and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. Subsequently, property and equipment are carried at cost less accumulated depreciation and provision for value decrease, if any. Depreciation is calculated over the cost of property and equipment using the straight-line method. The useful lives are stated below:

	Useful Life
Buildings	50 years
Furniture and fixtures	5-10 years
Computer and Other Equipment	3-10 years
Other Equipment	3-10 years
Vehicles	5 years

The depreciation charge for items remaining in property and equipment for less than an accounting period at the balance sheet date is calculated in proportion to the period the item remained in property and equipment.

Where the carrying amount of an asset is greater than its estimated "recoverable amount", it is written down immediately to its "recoverable amount" and the provision for the diminution in value is charged to the income statement.

Property and equipment are not subject to valuation such that fair value is presented in the financial statements.

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its sales revenue.

Expenditures for the regular repair and maintenance of property and equipment are recognised as expense. The capital expenditures made in order to increase the capacity of the tangible asset or to increase its future benefits are capitalised on the cost of the tangible asset. The capital expenditures include the cost components which are used either to increase the useful life or the capacity of the asset, or the quality of the product or to decrease the costs.

There is no pledge, mortgage or commitment on the Bank's property and equipment.

The Bank expects no change with respect to accounting estimates that have significant impact on the current period or may have significant impact on the following periods.

3.9 Intangible assets

Intangible assets are measured at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical costs after the deduction of accumulated amortization and the provision for value decreases, if any.

Intangibles are amortised over their estimated useful lives of three to five years using the straight-line method. The useful life of the asset is determined by assessing the expected useful life of the asset, technical, technological and other kinds of obsolescence and all required maintenance expenses necessary to utilise the economic benefit of the assets.

The Bank expects no change with respect to accounting estimates, amortization period, amortization method, or residual value that will have significant impact on the current or the following periods.

3.10 Investment property

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 carried at cost less amortisation less any impairment losses.

The Bank's investment properties are valued by external, independent valuation companies on a periodic basis for disclosure and impairment assessment purposes. 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. Investment property held consists of land and building with a useful life of 50 years.

3. Summary of significant accounting policies *(continued)*

3.11 Leases

Assets acquired under finance lease agreements are capitalised at the inception of the lease at the “lower of the fair value of the leased asset or the present value of the amount of cash consideration given for the leased asset”. Leased assets are included in the property and equipment and depreciation is charged on a straight-line basis over the useful life of these assets. If there is any diminution in value of the leased asset, a “Provision for value decrease” is recognised. Liabilities arising from the leasing transactions are included in “Financial Lease Payables” on the balance sheet. Interest and foreign exchange expenses regarding lease transactions are charged to the income statement.

The Bank can engage in financial lease transactions as the lessor. The Bank records the gross amount of minimum lease receivables comprising of principal and interest amounts as “financial lease receivables” under lease receivables account. The difference between the aggregate of lease receivables and the cost of the related leased assets, corresponding to interest, is recorded under “unearned income” item. The interest income is recognised in the income statement on an accrual basis.

Effective 1 January 2019, The Bank adopted IFRS 16 Leases and started to present most leases on-balance sheet except its short term leases and its low value assets. The Bank did not restate the financial information for the comparative year by choosing the modified approach.

3.12 Provisions

Provisions and contingent liabilities except for the financial instruments within the scope of the IFRS 9 or the provisions recognised in accordance with other standards such as IAS 12 and IAS 19 are accounted in accordance with the “IAS 37 Standard for Provisions, Contingent Liabilities and Contingent Assets”.

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The provision for contingent liabilities arising from past events should be recognised in the same period of occurrence in accordance with the “Matching principle”. When the amount of the obligation cannot be estimated and there is no possibility of an outflow of resources from the Bank, it is considered that a “Contingent” liability exists and it is disclosed in the related notes to the financial statements.

3.13 Employee benefits

Termination and retirement benefits

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

Profit-sharing and bonus plans

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

The Bank has a bonus policy which depends on the profitability and each employee’s performance. When certain performance criteria are met during the year, the Bank recognises a bonus provision for that year.

3.14 Fiduciary and trust activities

The Bank provides fiduciary and trust services to individuals and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets held by the Bank in a fiduciary, agency or custodian capacity for its customers are not recognized in the financial statements, since such items are not as assets of the Bank. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

3.15 Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

3. Summary of significant accounting policies *(continued)*

3.16 Events after reporting period

No any significant events after reporting period occurred.

3.17 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as of 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 Bank's financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations effective from 1 January 2019:

IFRS 16 Leases

In April 2018, POA 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, with earlier adoption permitted.

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 effect of adoption IFRS 16 as of 1 January 2019 is as follows:

Property and equipment, net	238
Total assets	**238**
Other liabilities, net	238
Total liabilities	**238**
Retained earnings	-
Total adjustment on equity	-

Set out below, are the carrying amounts of the Bank's right-of-use assets and lease liabilities and the movements during the year:

	Right-of-use assets			Lease liabilities
	Buildings	Vehicles	Total	
31 December 2018	-	-	-	-
Additions	100	138	238	(238)
Depreciation expense	(17)	(80)	(97)	-
Interest expense	-	-	-	(21)
Payments	-	-	-	118
31 December 2019	**83**	**58**	**141**	**(141)**

3. Summary of significant accounting policies *(continued)*

3.17 The new standards, amendments and interpretations *(continued)*

Standards issued but not yet effective and not early adopted

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

The revised Conceptual Framework

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

Amendments to IAS 1 and IAS 8 - Definition of Material

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

Amendments to IFRS 3 - Definition of a Business

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

4. Cash and cash equivalents

	31 December 2019	31 December 2018
Cash on hand	14	17
Current accounts with the Central Bank of the Republic Turkey (CBRT)	3,710	8,558
Current accounts with other credit institutions	1,860	8,759
Time deposits with credit institutions up to 3 months	185,095	83,877
Less: allowance for impairment	(54)	(26)
	190,625	**101,185**

As of 31 December 2019, all the cash and cash equivalents are allocated to Stage 1 in accordance with IFRS 9. An analysis of changes in the ECL allowances during the year is, as follows:

	31 December 2019	31 December 2018
ECL allowance as of 1 January	(26)	-
IFRS 9 transition under equity	-	(8)
Changes in ECL	(28)	(18)
Foreign exchange adjustments	-	-
At 31 December	**(54)**	**(26)**

As of 31 December 2019, the interest rates for time deposits vary between 13.6% and 13.7% for TRY balances and 1.6% and 1.8% for USD balances (31 December 2018: 24.3 – 25.0 for TRY balances and 2.2% - 5.0% for USD balances).

5. Amounts due from credit institutions

	31 December 2019	31 December 2018
Obligatory reserve with the Central Bank of the Republic Turkey (CBRT)	123,007	76,536
Time deposits with credit institutions for more than 3 months	-	-
Less: allowance for impairment	(110)	(54)
	122,897	**76,482**

As of 31 December 2019 and 31 December 2018, all the reserve requirements are allocated to Stage 1 in accordance with IFRS 9.

The reserve rates for TL liabilities vary between 1% and 7% for TL deposits and other liabilities according to their maturities as of 31 December 2019 (31 December 2018: 1.5% and 8% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 5% and 21% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2019 (31 December 2018: 4% and 20% for all foreign currency liabilities).

An analysis of changes in the gross carrying values from credit institutions as of 31 December 2019 and 31 December 2018 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2019	**76,536**	**-**	**-**	**76,536**
New assets originated or purchased	94,010	-	-	94,010
Assets repaid	(58,336)	-	-	(58,336)
Foreign exchange adjustments	10,797	-	-	10,797
Gross carrying value as of 31 December 2019	**123,007**	**-**	**-**	**123,007**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2018	**67,673**	**-**	**-**	**67,673**
New assets originated or purchased	59,600	-	-	59,600
Assets repaid	(96,601)	-	-	(96,601)
Foreign exchange adjustments	45,864	-	-	45,864
Gross carrying value as of 31 December 2018	**76,536**	**-**	**-**	**76,536**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

5. Amounts due from credit institutions *(continued)*

An analysis of changes in ECL allowance on amounts from credit institutions as of 31 December 2019 and 31 December 2018 are as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2019	**(54)**	**-**	**-**	**(54)**
New assets originated or purchased	(148)	-	-	(148)
Assets repaid	92	-	-	92
ECL as of 31 December 2019	**(110)**	**-**	**-**	**(110)**

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2018	**-**	**-**	**-**	**-**
New assets originated or purchased	(35)	-	-	(35)
Assets repaid	-	-	-	-
IFRS 9 transition under equity	(19)	-	-	(19)
ECL as of 31 December 2018	**(54)**	**-**	**-**	**(54)**

6. Financial assets at fair value through profit or loss

	31 December 2019	31 December 2018
Quoted		
Mutual funds participation certificate	-	2,787
	-	**2,787**

7. Investment Securities

	31 December 2019	31 December 2018
Debt securities at FVOCI		
Turkey government bonds	4,620	3,748
Bonds of financial institutions	2,506	2,526
Corporate bonds	2,039	2,040
	9,165	**8,314**

Equity securities at FVOCI[1]	31 December 2019	31 December 2018
Investment in Kredi Garanti Fonu A.Ş.	7,659	-
	7,659	**-**

[1] The Bank purchased the shares of Kredi Garanti Fonu A.Ş. amounting to TL 7,659 of which 1.4925% of its capital with the decision of the Board of Directors dated 1 March 2019. The acquired new shares were classified as equity investments measured at FVOCI. The equity instrument do not have a quoted market price in an active market. The cost represents the best estimate of their fair values within that range and therefore, these investment are accounted at cost in the accompanying financial statements.

	31 December 2019	31 December 2018
Debt securities at amortized cost		
Bonds of financial institutions	50,057	23,161
Turkey government bonds	29,918	37,533
	79,975	**60,694**
Less: allowance for impairment	(666)	(480)
	79,309	**60,214**

The details of securities pledged under repurchase of investment securities of 31 December 2019 are as follows:

	31 December 2019	31 December 2018
Debt securities at FVOCI		
Securities pledged under repurchase agreements	-	711
Debt securities at amortized cost		
Securities pledged under repurchase agreements	8,110	-
	8,110	**711**

All balances of investment securities are allocated to Stage 1 and Stage 2.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

7. Investment Securities *(continued)*

The interest rate range and the latest maturity of investment securities as of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019		31 December 2018	
	Interest Rate Range %	**Latest Maturity**	**Interest Rate Range %**	**Latest Maturity**
Debt securities at FVOCI				
Turkey government bonds in TL	10.5%	Apr 2021	13.0%	Nov 2019
Bonds of financial institutions in TL	15.4%	Oct 2027	19.9%	Oct 2027
Corporate bonds in TL	15.4%	Feb 2020	23.4%	Feb 2020
Debt securities at amortized cost				
Turkey government bonds in USD	7.0%	Jun 2020	7.0%-7.5%	Jun 2020
Bonds of financial institutions in USD	5.0%-6.0%	Jan 2023	5.5%-6.0%	Dec 2022

An analysis of changes in the gross carrying values in relation to debt securities at FVOCI and at amortized cost are as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities and equity securities at FVOCI				
Gross carrying value as of 1 January 2019	**8,314**	**-**	**-**	**8,314**
New assets originated or purchased	21,936	-	-	21,936
Assets repaid	(13,628)	-		(13,628)
Transfer between stages	(2,039)	2,039		-
Unwinding of discount (recognised in interest revenue)[1]	(45)	-	-	(45)
Fair value increase	247	-	-	247
Gross carrying value as of 31 December 2019	**14,785**	**2,039**	**-**	**16,824**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities at amortized cost				
Gross carrying value as of 1 January 2019	**60,694**	**-**	**-**	**60,694**
New assets originated or purchased	21,121	-	-	21,121
Asset repaid/redemption	(11,982)	-	-	(11,982)
Unwinding of discount (recognised in interest revenue)[1]	714	-	-	714
Foreign exchange adjustments	9,428	-	-	9,428
Gross carrying value as of 31 December 2019	**79,975**	**-**	**-**	**79,975**

[1] The amounts represent the change in interest accruals.

An analysis of changes in ECLs in relation to debt securities at FVOCI and at amortized cost are as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities at FVOCI				
ECL as of 1 January 2019	**(91)**	**-**	**-**	**(91)**
New assets originated or purchased	(35)	-	-	(35)
Asset repaid	22	-	-	22
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	52	(52)	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	(18)	34	-	16
ECL as of 31 December 2019	**(70)**	**(18)**	**-**	**(88)**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities at amortized cost				
ECL as of 1 January 2019	**(480)**	**-**	**-**	**(480)**
New assets originated or purchased	(272)	-	-	(272)
Asset repaid	154	-	-	154
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	(68)	-	-	(68)
ECL as of 31 December 2019	**(666)**	**-**	**-**	**(666)**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

8. Loans to customers

	31 December 2019	31 December 2018
Corporate customers	1,093,049	855,234
Individuals	-	-
Gross loans to customers at amortised cost	**1,093,049**	**855,234**
Less: allowance for impairment	(47,989)	(14,956)
	1,045,060	**840,278**

Finance lease receivables included in corporate lending portfolio and the analysis of the gross finance lease receivables and the unearned future finance income are as follows:

	31 December 2019			31 December 2018		
	Gross	Unearned	Net	Gross	Unearned	Net
Up to 1 year	13,692	(2,130)	11,562	8,784	(1,573)	7,211
1 to 5 years	21,450	(498)	20,952	6,350	(976)	5,374
Over 5 years	-	-	-	-	-	-
	35,142	**(2,628)**	**32,514**	**15,134**	**(2,549)**	**12,585**

The breakdown of loans to customers is as follows:

	31 December 2019	31 December 2018
Construction	311,438	87,711
Non-banking credit organizations	254,888	310,261
Manufacturing	163,354	77,931
Energy	98,193	92,021
Transport and telecommunication	72,869	54,191
Rental services	37,195	21,815
Mining	32,674	37,972
Trade and services	8,290	76,805
Other	114,148	96,527
	1,093,049	**855,234**

An analysis of changes in the gross carrying value and corresponding ECL are as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2019	**766,511**	**86,060**	**2,663**	**855,234**
New assets originated or purchased	1,516,137	38,309	4,264[2]	1,558,710
Assets repaid (excluding write-offs)[1]	(1,309517)	(81,128)	(10)	(1,390,655)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(69,592)	69,592	-	-
Transfers to Stage 3	(7,500)	(20,197)	27,697	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Foreign exchange adjustments	58,717	10,203	840	69,760
Gross carrying value as of 31 December 2019	**954,756**	**102,839**	**35,454**	**1,093,049**

[1] Includes TL (12,560) change of accrual amount
[2] Includes TL 2,770 liquidated amount of non-cash loan

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2019	**(5,830)**	**(6,463)**	**(2,663)**	**(14,956)**
New assets originated or purchased	(6,347)	-	(2,780)	(9,127)
Assets repaid	1,993	134	-	2,127
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	2,054	(2,054)	-	-
Transfers to Stage 3	45	1,660	(1,705)	-
Changes to models and inputs used for ECL calculations	460	(11,362)	(15,131)	(26,033)
ECL as of 31 December 2019	**(7,625)**	**(18,085)**	**(22,279)**	**(47,989)**

(Currency - in Thousands of Turkish Lira (“TL”) unless otherwise indicated)

8. Loans to customers *(continued)*

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2018	**713,048**	**-**	**-**	**713,048**
New assets originated or purchased	579,857	-	-	579,857
Assets repaid (excluding write-offs)[1]	(508,402)	-	-	(508,402)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(82,791)	82,791	-	-
Transfers to Stage 3	(2,663)	-	2,663	-
Unwinding of discount	33,542	4,638	-	38,180
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Foreign exchange adjustments	33,920	(1,369)	-	32,551
Gross carrying value as of 31 December 2018	**766,511**	**86,060**	**2,663**	**855,234**

[1] The amount represents change in accrued interest

	Stage 1	Stage 2	Stage 3	Total
ECL as of 31 December 2017	**(2,378)**	**-**	**-**	**(2,378)**
IFRS 9 Effect	(880)	-	-	(880)
ECL as of 1 January 2018	**(3,258)**	**-**	**-**	**(3,258)**
New assets originated or purchased	(10,841)	-	-	(10,841)
Assets repaid	3,114	-	-	3,114
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	4,124	(4,124)	-	-
Transfers to Stage 3	2,663	-	(2,663)	-
Impact on year end ECL of exposures transferred between stages during the year	-	(1,832)	-	(1,832)
Unwinding of discount (recognised in interest revenue)	(255)	(348)	-	(603)
Foreign exchange adjustments	(1,377)	(159)	-	(1,536)
ECL as of 31 December 2018	**(5,830)**	**(6,463)**	**(2,663)**	**(14,956)**

9. Investment Property

	31 December 2019	31 December 2018
Opening balance at 1 January 2019	**218,333**	**-**
Additions	580	260,916
Impairment loss[1]	-	(42,173)
Amortisation for the year	(1,124)	(410)
Transfer of the cost to buildings and lands[2]	(86,479)	-
Transfer of the accumulated depreciation to building[2]	136	-
Transfer of the impairment loss to building and lands[2]	14,153	-
Closing balance at 31 December 2019	**145,599**	**218,333**

[1] TL 42,173 of impairment expenses was recorded as of 31 December 2018.

[2] The Bank reclassified net TL 72,190 of investment properties to the buildings and land since the bank moved to its investment property and established the headquarter at some parts of the investment property. All of the amount of cost, accumulated depreciation and impairment losses related to bank’s own use was transferred to buildings and land.

The investment property is carried at cost less amortisation less impairment. As of 31 December 2019, the fair value of the property is based on valuations performed by the accredited independent companies. The fair value of the property is TL 145 million according to reports of the accredited independent companies and no additional impairment loss recognized as of 31 December 2019.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

10. Property and equipment

	Land	Buildings	Furniture and fixtures	Computers and other equipment	Vehicles	Leasehold improve-ments	Right of use assets	Other equipment	Total
Cost									
31 December 2017	**-**	**-**	**214**	**1,071**	**-**	**77**	**-**	**71**	**1,433**
Additions	-	-	2	1,327	625	10	-	-	1,964
Disposals	-	-	-	-	-	-	-	-	-
31 December 2018	**-**	**-**	**216**	**2,398**	**625**	**87**	**-**	**71**	**3,397**
Additions[2]	-	11,289	3,198	403	1,003	-	238	1,250	17,381
Disposals	-	-	-	-	-	-	-	-	-
Transfer[1]	58,718	27,761	95	(108)	-	-	-	13	86,479
31 December 2019	**58,718**	**39,050**	**3,509**	**2,693**	**1,628**	**87**	**238**	**1,334**	**107,257**
Accumulated depreciation									
31 December 2017	**-**	**-**	**(56)**	**(625)**	**-**	**(26)**	**-**	**(71)**	**(778)**
Additions	-	-	(5)	(201)	(21)	(17)	-	-	(244)
Disposals	-	-	-	-	-	-	-	-	-
31 December 2018	**-**	**-**	**(61)**	**(826)**	**(21)**	**(43)**	**-**	**(71)**	**(1,022)**
Additions[2]	-	(632)	(180)	(523)	(192)	(44)	(97)	(40)	(1,708)
Disposals	-	-	-	-	-	-	-	-	-
Transfer acc. depreciation[1]	-	(136)	-	-	-	-	-	-	(136)
Transfer impairment expense[1]	(9,609)	(4,544)	-	-	-	-	-	-	(14,153)
31 December 2019	**(9,609)**	**(5,312)**	**(241)**	**(1,349)**	**(213)**	**(87)**	**(97)**	**(111)**	**(17,019)**
Net Book Value									
31 December 2017	**-**	**-**	**158**	**446**	**-**	**51**	**-**	**-**	**655**
31 December 2018	**-**	**-**	**155**	**1,572**	**604**	**44**	**-**	**-**	**2,375**
31 December 2019	**49,109**	**33,738**	**3,268**	**1,344**	**1,415**	**-**	**141**	**1,223**	**90,238**

[1] Transfer from the investment property

[2] Due to the implementation of IFRS 16, amount of TL 238 that are not generated cash outflow and TL 97 was added to cost and accumulated depreciation, respectively.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

11. Intangible assets

	Computer software	Total
Cost		
31 December 2017	**1,992**	**1,992**
Additions	1,081	1,081
Disposals	-	-
31 December 2018	**3,073**	**3,073**
Additions	5,707	5,707
Disposals	-	-
31 December 2019	**8,780**	**8,780**
Accumulated depreciation		
31 December 2017	**(1,123)**	**(1,123)**
Additions	(676)	(676)
Disposals	-	-
31 December 2018	**(1,799)**	**(1,799)**
Additions	(904)	(904)
Disposals	-	-
31 December 2019	**(2,703)**	**(2,703)**
Net Book Value		
31 December 2017	**869**	**869**
31 December 2018	**1,274**	**1,274**
31 December 2019	**6,077**	**6,077**

12. Other assets and liabilities

	31 December 2019	31 December 2018
Other financial assets		
Clearance cheque accounts[1]	9,393	22,161
Other receivables	5	284
	9,398	**22,445**
Less: allowance for impairment of other financial assets	-	-
Total other financial assets	**9,398**	**22,445**
Other non-financial assets		
Prepayments	1,992	844
Collaterals given	632	82
Other non-financial assets	99	534
Total other non-financial assets	**2,723**	**1,460**
Other assets	**12,121**	**23,905**

[1] Amount consists of collateral cheques received from customers and submitted to settlement and custody bank.

As of 31 December 2019 and 2018, all the financial assets are allocated to Stage 1 in accordance with IFRS 9

(Currency - in Thousands of Turkish Lira (“TL”) unless otherwise indicated)

12. Other assets and liabilities *(continued)*

	31 December 2019	31 December 2018
Other financial liabilities		
Clearance cheque accounts[1]	9,393	22,161
Payable to suppliers[2]	4,439	-
Other financial liabilities	3	-
Total other financial liabilities	**13,835**	**22,161**
Other non-financial liabilities		
Deferred income	1,733	1,923
Accrued expenses	288	139
Other non-financial liabilities	38	2,434
Total other non-financial liabilities	**2,059**	**4,496**
Other liabilities	**15,894**	**26,657**

[1] Amount consists of collateral cheques received from customers and submitted to settlement and custody bank.
[2] Amount consists of accrued cost of the improvement for fixed assets to be paid.

13. Amounts due to banks

	31 December 2019	31 December 2018
Short Term		
Foreign banks	144,251	81,288
Domestic banks	113,276	26,812
	257,527	**108,100**
Long Term		
Domestic banks	-	-
Foreign banks	409,208	352,948
	409,208	**352,948**
	666,735	**461,048**

The interest rate range and the latest maturity of amounts due to banks of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019		31 December 2018	
	Interest Rate Range %	**Latest Maturity**	**Interest Rate Range %**	**Latest Maturity**
Domestic banks in EUR	0.0%-0.1%	Jan 2020	1.0%-3.0%	Jan 2019
Foreign banks in TL	10.0%-11.3%	Jan 2020	21.0%-22.5%	Feb 2019
Foreign banks in USD	2.5%-3.8%	Jul 2020	2.5%-4.5%	Jul 2019
Foreign banks in EUR	1.0%-1.7%	Nov 2020	1.0%-1.3%	Aug 2019

14. Amounts due to customers

	31 December 2019	31 December 2018
Time deposits	12,407	15,208
Demand deposits[1]	4,353	7,134
	16,760	**22,342**

[1] TL 1,821 of held as security against guarantees issued as of 31 December 2019.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

14. Amounts due to customers *(continued)*

An analysis of customers by economic sectors is as follows:

	31 December 2019	31 December 2018
Non-banking credit organizations	10,613	9,814
Energy	2,620	5,410
Manufacturing	1,981	630
Trade and services	622	46
Mining	440	157
Leasing	22	127
Construction	14	5,769
Transport and telecommunication	10	8
Other	438	381
	16,760	**22,342**

15. Money market deposits

	31 December 2019	31 December 2018
From corporates	6,192	-
From financial institutions	-	-
	6,192	**-**

The interest rate range and the latest maturity of money market as of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019		31 December 2018	
	Interest Rate Range %	Latest Maturity	Interest Rate Range %	Latest Maturity
Money market deposits in TL	9.8%	Jan 2020	-	-

16. Debt securities issued

	31 December 2019	31 December 2018
Debt securities issued in TL	7,815	54,104
Debt securities issued in FC	468,149	264,388
	475,964	**318,492**

The interest rate range and the latest maturity of debt securities issued as of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019		31 December 2018	
	Interest Rate Range %	Latest Maturity	Interest Rate Range %	Latest Maturity
Debt securities issued in TL	11.4%	Feb 2020	26.5%-27.5%	Feb 2019
Debt securities issued in USD	3.0%-4.9%	Dec 2022	3.0%-4.9%	Dec 2022
Debt securities issued in EUR	1.7%	Feb 2023	-	-

17. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2019			31 December 2018		
	Notional amount	Fair Values		Notional amount	Fair Values	
		Asset	Liability		Asset	Liability
Forwards – domestic	23,593	132	-	98,646	2,247	(116)
Forwards – foreign	-	-	-	-	-	-
	23,593	**132**	**-**	**98,646**	**2,247**	**(116)**

The Bank's derivative financial instruments comprise of OTC derivatives.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

18. Provisions

The principal components of provisions are as follows:

	31 December 2019	31 December 2018
Expected credit losses from non-cash loans	7,387	6,909
Bonus provision	2,400	2,004
Vacation pay liability	399	346
Employee termination benefits	152	219
Other	50	350
	10,388	**9,828**

Expected credit losses from non-cash loans

An analysis of changes in the ECLs as of 31 December 2019 are as follows

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2019	**(3,416)**	**(123)**	**(3,370)**	**(6,909)**
New exposures	(779)	(149)	-	(928)
Exposures derecognised or matured (excluding write-offs)	579	9	3,370	3,958
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	1,808	(1,808)	-	-
Transfers to Stage 3	-	-	-	-
Changes to inputs used for ECL calculations	217	(3,725)	-	(3,508)
ECL as of 31 December 2019	**(1,591)**	**(5,796)**	**-**	**(7,387)**

Reserve for employee termination benefits

In accordance with existing Turkish Labour Law, the Bank is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government.

The Bank reserved for employee severance indemnities in the accompanying financial statements using the projected unit credit method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement payment and discounted by using the current market yield on government bonds at the reporting date in compliance with the IAS 19 - Employee Benefits.

Other benefits to employees

The Bank has provided provision for undiscounted short-term employee benefits earned during the financial period as per services rendered in compliance with the IAS 19 - Employee Benefits in the accompanying financial statements.

19. Taxation

The income tax charge is composed of the sum of current tax and deferred tax.

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. 22% is used in the calculation of the corporation tax. In accordance with the Provisional Article 10 added to the Corporate Tax Act, Corporate Tax will be applied as 22% for corporate earnings for the years 2018, 2019 and 2020.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income. 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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

19. Taxation *(continued)*

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition 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 reporting date. Deferred tax is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

The current tax assets comprises:

	31 December 2019	31 December 2018
Current tax asset	-	-
Withholding income tax	993	-
	993	**-**

The current tax liabilities comprises:

	31 December 2019	31 December 2018
Current income tax liability	798	4,076
Banking insurance transactions tax liability	484	586
Social security premiums payable	243	201
Value added tax liability	72	71
Other taxes, duties and premiums payable	363	491
	1,960	**5,425**

The corporate income tax expense comprises:

	31 December 2019	31 December 2018
Current tax charge	(10,881)	(9,548)
Deferred tax credit/(charge) − origination and reversal of temporary differences	3,530	10,280
Less: current tax recognised in other comprehensive income	73	1
Income tax (expense)/credit	**(7,278)**	**733**

Deferred tax related to items charged or credited to other comprehensive income is as follows:

	31 December 2019	31 December 2018
Net (losses) on investment securities FVOCI	(73)	(1)
Income tax (charged) to other comprehensive income	**(73)**	**(1)**

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	31 December 2019	31 December 2018
Profit before income tax expense	32,969	(4,296)
Statutory tax rate	22%	22%
Theoretical tax expense at the statutory rate	**(7,253)**	**945**
Tax effect of non-deductible expenses	(81)	(212)
Tax effect of tax-exempt income	56	-
Income tax expense	**(7,278)**	**733**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

19. Taxation (continued)

Deferred tax assets and liabilities and their movements are as follows:

		Origination and reversal of temporary differences		
	2018	*In the statement of profit or loss*	*In other comprehensive income*	*2019*
Loans to customers	2,732	2,988	-	5,720
Amount due from credit institutions	18	18	-	36
Investment securities	133	295	73	355
Provision for non-cash loans	779	846	-	1,625
Provision for employee benefits	565	84	-	649
Property, equipment and intangible assets	8,144	(1,253)	-	6,891
Other provisions	108	(56)	-	52
Other	363	(18)	-	345
Deferred tax assets	**12,842**	**2,904**	**73**	**15,673**
Amounts due to banks and debt securities issued	(202)	182	-	(20)
Other	(469)	444	-	(25)
Deferred tax liabilities	**(671)**	**626**	**-**	**(45)**
Net deferred tax assets	**12,171**	**3,530**	**73**	**15,628**

20. Equity

Share capital:

As of 31 December 2019, the authorised nominal share capital of PASHA Yatırım Bankası A.Ş. amounted to TL 500,000 (31 December 2018: TL 500,000), comprising 500 million (Full TL) registered shares of one TL 0.01 each.

The composition of shareholders and their respective percentage of ownership can be summarised as follows:

	31 December 2019		**31 December 2018**	
	Amount	**%**	**Amount**	**%**
PASHA Bank OJSC	254,795	50.96	254,795	50.96
PASHA Holding LLC	245,000	49.00	245,000	49.00
Others	205	0.04	205	0.04
	500,000	**100.00**	**500,000**	**100.00**

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. The statutory legal reserve is TL 5,655 as of 31 December 2019 and 31 December 2018.

21. Commitments and contingencies

Litigation

The Bank has provided TL 50 (31 December 2018: TL 350) of provision for the disputed legal cases filed by various persons and institutions, high probability of occurrence and requiring cash outflow. Although there are other ongoing lawsuits that against the Bank, do not expect high possibility of against result and cash outflows related to these cases.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

21. Commitments and contingencies *(continued)*

Financial commitments and contingencies:

The Bank enters into various contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk ("non-cash loans") to meet the financing needs of its customers. These contractual commitments consist of letters of guarantees, letters of credit and other guarantees. All these arrangements are related to the normal lending activities of the Bank. The exposure to credit loss in the event of non-performance of the other party is presented by the contractual notional amount of those instruments.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

	31 December 2019	31 December 2018
Letter of guarantee	332,031	370,961
Letter of credit	598	-
Other guarantees	23,760	51,692
Total non-cash loans	**356,389**	**422,653**
Other commitments	17	17
Total	**356,406**	**422,670**

22. Provisions for loans and other credit risks, net

31 December 2019	Note	Stage 1	Stage 2	Stage 3[1]	Total
Cash and cash equivalents	(4)	(28)	-	-	(28)
Amounts due from credit institutions	(5)	(56)	-	-	(56)
Investment securities at FVOCI	(7)	3	-	-	3
Investment securities at amortised cost	(7)	(186)	-	-	(186)
Loans to customers	(8)	(1,795)	(11,622)	(19,629)	(33,046)
Credit related commitments	(17)	1,825	(5,673)	3,370	(478)
Provisions for loans and other credit risks, net		**(237)**	**(17,295)**	**(16,259)**	**(33,791)**

[1] Includes TL 13 interest accruals and provision expense for Stage 3.

31 December 2018	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	(4)	(18)	-	-	(18)
Amounts due from credit institutions	(5)	(35)	-	-	(35)
Investment securities at FVOCI		89	-	-	89
Investment securities at amortised cost		(480)	-	-	(480)
Loans to customers	(8)	(2,572)	(6,463)	(2,663)	(11,698)
Credit related commitments		(2,081)	(70)	(3,370)	(5,521)
Provisions for loans and other credit risks, net		**(5,097)**	**(6,533)**	**(6,033)**	**(17,663)**

Allowance for impairment of other assets is deducted from the carrying amounts of the related assets. Provision for ECL for credit related commitments are recorded in liabilities.

23. Net fees and commissions income

	31 December 2019	31 December 2018
Guarantees and letters of credit	3,784	3,669
Settlements operations	168	140
Money transfer operations	257	153
Other[1]	1,177	362
Fees and commissions income	**5,386**	**4,324**
Fee to correspondent banks and money transfer operations-expenses	(647)	(763)
Commissions for letter of guarantee obtained	(526)	(314)
Settlements operations	(67)	(79)
Other	(129)	-
Fees and commissions expense	**(1,369)**	**(1,156)**
Net fees and commissions income	**4,017**	**3,168**

[1] Includes TL 997 early payment of cash loans as of 31 December 2019.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

24. Personnel, general and administrative expenses

	31 December 2019	31 December 2018
Salaries and bonuses	(12,774)	(10,763)
Social security costs	(1,486)	(1,160)
Other employee related expenses	(1,736)	(1,813)
Total personnel expenses	**(15,996)**	**(13,736)**

	31 December 2019	31 December 2018
Professional services	(2,823)	(2,307)
Software cost	(1,835)	(2,090)
Membership fees	(1,550)	(1,361)
Taxes, other than income tax	(1,162)	(1,160)
Transportation and business trip expenses	(890)	(517)
Operating leases	(737)	(1,907)
Communications	(673)	(219)
Utilities	(518)	(132)
Advertising costs	(418)	(155)
Insurance	(288)	(212)
Representation expenses	(184)	(289)
Security expenses	(153)	(270)
Stationery	(119)	(364)
Repair and maintenance	(89)	(344)
Other expenses	(353)	(529)
Total general and administrative expenses	**(11,792)**	**(11,856)**

25. Financial risk management

Introduction and overview

The Bank'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 Bank 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 Bank is exposed to a number of risks such as credit risk, market risk, liquidity risk, currency risk and operational risk. The Bank's risk policy can be summarised as:

- eliminating currency, interest rate and maturity risk
- minimizing market risk
- well managing the credit risk through a high standardized credit risk management

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

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Bank 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 main functions and authority of the Board of Directors related to risk management activities are as follows;

- to define the policy of the Bank, regarding exposure to various risks (credit risks, market risks, operational risks, liquidity risks, legal risks, etc.)
- to manage, and guide all the activities of Internal Systems
- to approve new business lines, products or activities that would have a substantial effect on activities of the Bank

The Bank 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.

25. Financial risk management *(continued)*

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

Strategy in using financial instruments

To maintain and improve the soundness of its operations, the Bank accords top management priority to upgrading its risk management systems and capabilities. According to the Bank's "Risk Management Policy", Financial Risks are composed of Market, Credit and Liquidity risks. Risk Management Policy includes details about the framework for defining, measuring, monitoring and managing the risks taken by the business units across the bank. Risk Management Policy covers sound and optimum capital allocation quantification of the actual risks establishment of dynamic risk limit.

The Bank determines risk-based limits, with respect to available economic capital and monitors actual risks against these limits. All risks (market, credit or liquidity), arising from any type financial instrument are subject to aforementioned risk based limits.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the component of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Internal rating and PD estimation process

The Bank's independent Credit Unit and Risk Management Unit operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are internally rated. Different rating assessment models to be used for different customer segments. Customer segments to be identified in accordance to internal segmentation rules. Each rating is tied to certain one-year probability of default rate (1-year PD). The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's Risk Management Unit analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below.

25. Financial risk management *(continued)*

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments and 2 times within three years restructured loans that have been overdue (in principal amount and/or accrued interest and/or any of other payment) less than 30 days from the date specified in the contract at the moment of each particular restructuring. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.
- It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition

Corporate lending

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.

- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The Bank has formed an internal scoring and rating system, based on statistical methods to monitor the credibility of its clients. This system classifies the customers according to their default risk from highest to lowest score or rating. Internal scoring systems are used to improve the efficiency of the loan granting process, to monitor loan portfolio quality effectively and to assist in the determination of the actions required. By using the facility rating outputs derived from this internal scoring and rating system, the Bank has formed its ECL calculation methodology. According to this methodology, the internal facility ratings have been attributed to specific grade classes.

The table below shows the allocation of ratings according to the grade class of financial assets taking into account their probability of default behaviour. The Bank classifies its financial assets, having rating between Aaa and Ba2 as high grade, rating between Ba3 and Caa1 as standard grade, rating Caa2 and Ca as sub-standard grade. Lower ratings are considered as impaired. Where a loan has passed due but not impaired, regardless of its internal rating, it is classified as sub-standard grade.

Classes	**Ratings**
High Grade	Between Aaa & Ba2
Standard Grade	Between Ba3 & Caa1
Sub-standard Grade	Between Caa2 & Ca
Impaired	C

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

25. Financial risk management *(continued)*

The table below shows the credit quality by class of asset for loan-related lines in financial statement of financial position, based on Bank's credit rating system.

31 December 2019	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	4	Stage 1	1,288	189,377	-	-	190,665
Amounts due from credit institutions	5	Stage 1	-	123,007	-	-	123,007
		Stage 1	89,762	844,295	20,699	-	954,756
Loans to customers	8	Stage 2	-	5,939	96,900	-	102,839
		Stage 3	-	-	-	35,454	35,454
Investment Securities							
Measured at FVOCI	7	Stage 1	-	14,785	-	-	14,785
		Stage 2	-	-	2,039	-	2,039
Measured at amortised cost		Stage 1	-	79,975	-	-	79,975
Other financial assets	12	Stage 1	-	9,398	-	-	9,398
Letter of guarantee		Stage 1	33,635	252,183	-	-	285,818
		Stage 2	-	12,322	33,891	-	46,213
Letter of credit		Stage 1	-	598	-	-	598
Other guarantee		Stage 1	-	23,777	-	-	23,777
Total			**124,685**	**1,555,656**	**153,529**	**35,454**	**1,869,324**

31 December 2018	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	4	Stage 1	15,685	75,502	10,007	-	101,194
Amounts due from credit institutions	5	Stage 1	-	76,536	-	-	76,536
		Stage 1	192,430	527,056	47,025	-	766,511
Loans to customers	8	Stage 2	-	34,351	51,709	-	86,060
		Stage 3	-	-	-	2,663	2,663
Financial assets at FVTPL	6	Stage 1	-	2,787	-	-	2,787
Investment Securities							
Measured at FVOCI	7	Stage 1	-	6,326	1,988	-	8,314
Measured at amortised cost		Stage 1	-	60,694	-	-	60,694
Other financial assets	12	Stage 1	-	22,445	-	-	22,445
		Stage 1	69,057	282,860	2,051	-	353,968
Letter of guarantee		Stage 2	10,000	3,623	-	-	13,623
		Stage 3	-	-	-	3,370	3,370
Other guarantee / Commitments		Stage 1	39,608	12,101	-	-	51,709
Total			**326,780**	**1,104,281**	**112,780**	**6,033**	**1,549,874**

The geographical concentration of Bank's financial assets and liabilities is set out below:

	31 December 2019				31 December 2018			
	Turkey	Azerbaijan	Others	Total	Turkey	Azerbaijan	Others	Total
Cash and cash equivalents	188,402	167	2,056	190,625	92,947	222	8,016	101,185
Amounts due from credit institutions	122,897	-	-	122,897	76,482	-	-	76,482
Financial assets at FVTPL	-	-	-	-	2,787	-	-	2,787
Derivative financial assets	132	-	-	132	2,247	-	-	2,247
Investment securities	96,133	-	-	96,133	68,528	-	-	68,528
Loans to customers	748,697	3,951	292,412	1,045,060	713,239	-	127,039	840,278
Other financial assets	9,398	-	-	9,398	22,445	-	-	22,445
Total financial assets	**1,165,659**	**4,118**	**294,468**	**1,464,245**	**978,675**	**222**	**135,055**	**1,113,952**
Amounts due to banks	113,277	429,283	124,175	666,735	27,470	393,330	40,248	461,048
Amounts due to customers	16,760	-	-	16,760	21,091	466	785	22,342
Money market deposits	6,192	-	-	6,192	-	-	-	-
Debt securities issued	7,815	468,149	-	475,964	54,104	264,388	-	318,492
Derivative financial liabilities	-	-	-	-	116	-	-	116
Other financial liabilities	13,835	-	-	13,835	22,161	-	-	22,161
Total financial liabilities	**157,879**	**897,432**	**124,175**	**1,179,486**	**124,942**	**658,184**	**41,033**	**824,159**
Net financial assets and liabilities	**1,007,780**	**(893,314)**	**170,293**	**284,759**	**853,733**	**(657,962)**	**94,022**	**289,793**

25. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the risk occurring as a result of non-availability of sufficient cash on hand or cash inflow to meet cash outflows in a timely manner completely as a result of imbalance in cash flows. Treasury department manages the liquidity of the Bank daily and informs assets and liabilities committee weekly about the liquidity level of the Bank. Treasury department is responsible for planning liquidity management, taking measures and informing the senior management of aforementioned issues.

The Bank forms its assets and liabilities in balance not to create a negative gap on cumulative basis in maturity segments.

In accordance with the "Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks" entered into force after published on Official Gazette dated November 1, 2006 and numbered 26333 by BRSA, weekly simple average of total liquidity adequacy rates related to primary maturity segment and total liquidity adequacy rate related to secondary maturity segment cannot be less than 100% while weekly simple average of foreign currency liquidity ratio related to primary maturity segment and foreign currency adequacy rate related to secondary maturity segment cannot be less than 80%.

Treasury department manages the liquidity of the Bank daily and informs assets and liabilities committee weekly about the liquidity level of the Bank. Treasury department is responsible for planning liquidity management, taking measures and informing the senior management of aforementioned issues.

Financial planning, control and strategy department is responsible for reporting of liquidity risk. Stress test applied to liquidity position and calculation of liquidity coverage rate is performed by Risk Management Department and monitors related unit's activities and reports to the Senior Management monthly

The main funding sources of the Bank are provided by domestic and foreign banks and repo transactions and Money market transactions and diversification of aforementioned sources are made in order to minimize liquidity risk. Financial Institutions Department carries out studies which are required to relate supplying of long-term foreign source.

TL liquidity of the Bank is managed through funds provided from domestic and foreign banks via repo transactions using high quality (premium) securities. TL and foreign currency cash flow of the Bank in scope of Balance sheet management is monitored separately. Risk Management Unit reports to ALCO and Board of Directors on a monthly basis.

Liquidity limits are determined in order to keep the risk regarding liquidity risk in defined limits and to monitor liquidity position. The aforementioned limits have been determined in accordance with "Regulation on Measurement and Evaluation of Bank's Liquidity Adequacy" in Risk Limits document and approved by Board of Directors.

At least one of the following liquidity stress tests related to issues mentioned below is applied monthly and result of the related test is reported to top management by Risk Management Unit.

- Negative influence of economic crisis occurring in domestic finance markets on the liquidity of the bank.
- Negative influence of global crisis on the liquidity of the Bank.
- Negative influence of a problem occurred within the Bank (abuse, fraud, reputation risk etc.).

Threshold of weekly and monthly liquidity rate for stress tests which shall be applied for above mentioned scenarios is taken into consideration as 80% for foreign currency assets/liabilities and as 100% for total assets/liabilities.

"Emergency and unexpected situation plan for Liquidity" is approved by the Board of Directors and established in order to manage possible liquidity crisis and required actions for losses which can occur in extraordinary conditions are determined with preventing mechanisms and liquidity squeeze scenarios. The scope of the aforementioned plan is to pre-determine applicable scenarios, measurement of liquidity risk and the actions which shall be taken towards those risks.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

25. Financial risk management *(continued)*

Liquidity risk *(continued)*

The table below shows the remaining maturities of financial assets and liabilities at the balance sheet date.

31 December 2019	Up to 1 month	1 to 3 months	3 to12 months	1 to 5 years	Over 5 year	Undistri-buted[1]	Total
Cash and cash equivalents	190,679	-	-	-	-	(54)	190,625
Amounts due from credit institutions	123,007	-	-	-	-	(110)	122,897
Financial assets at FVTPL	-	-	-	-	-	-	-
Derivative financial assets	-	132	-	-	-	-	132
Investment securities	544	2,628	30,385	53,092	10,150	(666)	96,133
Loans to customers	151,149	102,244	419,187	377,640	42,829	(47,989)	1,045,060
Other financial assets	9,398	-	-	-	-	-	9,398
Total financial assets	**474,777**	**105,004**	**449,572**	**430,732**	**52,979**	**(48,819)**	**1,464,245**
Amounts due to banks	374,103	128,633	163,999	-	-	-	666,735
Amounts due to customers	14,939	-	1,821	-	-	-	16,760
Money market deposits	6,192	-	-	-	-	-	6,192
Debt securities issued	1,107	8,038	-	466,819	-	-	475,964
Derivative financial liabilities	-	-	-	-	-	-	-
Other financial liabilities	13,694	13	52	76	-	-	13,835
Total financial liabilities	**410,035**	**136,684**	**165,872**	**466,895**	**-**	**-**	**1,179,486**
Net financial assets and liabilities	**64,742**	**(31,680)**	**283,700**	**(36,163)**	**52,979**	**(48,819)**	**284,759**

[1] Includes expected credit losses

31 December 2018	Up to 1 month	1 to 3 months	3 to12 months	1 to 5 years	Over 5 year	Undistri-buted[1]	Total
Cash and cash equivalents	17,334	83,877	-	-	-	(26)	101,185
Amounts due from credit institutions	76,536	-	-	-	-	(54)	76,482
Financial assets at FVTPL	2,787	-	-	-	-	-	2,787
Derivative financial assets	-	1,309	938	-	-	-	2,247
Investment securities	76	229	18,338	50,456	-	(571)	68,528
Loans to customers	228,044	106,715	154,509	234,015	131,951	(14,956)	840,278
Other financial assets	22,445	-	-	-	-	-	22,445
Total financial assets	**347,222**	**192,130**	**173,785**	**284,471**	**131,951**	**(15,607)**	**1,113,952**
Amounts due to banks	106,831	183,879	170,338	-	-	-	461,048
Amounts due to customers	21,814	528	-	-	-	-	22,342
Money market deposits	-	-	-	-	-	-	-
Debt securities issued	30,049	26,609	7,507	254,327	-	-	318,492
Derivative financial liabilities	-	116	-	-	-	-	116
Other financial liabilities	22,161	-	-	-	-	-	22,161
Total financial liabilities	**180,855**	**211,132**	**177,845**	**254,327**	**-**	**-**	**824,159**
Net financial assets and liabilities	**166,367**	**(19,002)**	**(4,060)**	**30,144**	**131,951**	**(15,607)**	**289,793**

[1] Includes expected credit losses

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

25. Financial risk management *(continued)*

Liquidity risk *(continued)*

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations.

31 December 2019	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Total
Amounts due to banks	374,493	129,382	166,262	-	-	670,137
Amounts due to customers	14,972	-	-	-	-	14,972
Money market deposits	6,194	-	-	-	-	6,194
Debt securities issued	1,460	10,524	12,252	491,919	-	516,155
Other financial liabilities	13,694	13	52	76	-	13,835
Total undiscounted financial liabilities	**410,813**	**139,919**	**178,566**	**491,995**	**-**	**1,221,293**

31 December 2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Total
Amounts due to banks	107,096	184,821	172,195	-	-	464,112
Amounts due to customers	7,293	14,883	539	-		22,715
Money market deposits	-	-	-	-	-	-
Debt securities issued	30,225	27,290	7,723	290,075	-	355,313
Other financial liabilities	22,161	-	-	-	-	22,161
Total undiscounted financial liabilities	**166,775**	**226,994**	**180,457**	**290,075**	**-**	**864,301**

The table below shows the contractual expiry by maturity of the Bank's credit related commitments.

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Maturity Undefined	Total
31 December 2019	297	42,084	173,388	23,400	-	117,220	356,389
31 December 2018	-	267	98,674	182,754	21,209	119,749	422,653

The table below shows nominal amounts of the remaining maturities of derivative financial instruments at the balance sheet date.

31 December 2019	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Total
Currency forward agreements – purchase	-	11,737	-	-	-	11,737
Currency forward agreements – sell	-	(11,856)	-	-	-	(11,856)
Total	**-**	**(119)**	**-**	**-**	**-**	**(119)**

31 December 2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Total
Currency forward agreements – purchase	49,616	-	-	-	-	49,616
Currency forward agreements – sell	(49,030)	-	-	-	-	(49,030)
Total	**586**	**-**	**-**	**-**	**-**	**586**

The below tables are prepared in accordance with BRSA regulations representing the ratio of liquid assets to liabilities within certain time intervals for the last quarter of reporting periods.

	31 December 2019				**31 December 2019**			
	First Maturity Tranche (Weekly)		**Second Maturity Tranche (Monthly)**		**First Maturity Tranche (Weekly)**		**Second Maturity Tranche (Monthly)**	
	FC	**FC+LC**	**FC**	**FC+LC**	**FC**	**FC+LC**	**FC**	**FC+LC**
Average (%)	517	476	274	271	1,235	677	745	460
Maximum (%)	1,895	1,767	860	663	3,493	2,544	1,284	865
Minimum (%)	100	192	87	126	176	204	166	194

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

25. Financial risk management *(continued)*

Interest rate sensitivity risk

Interest rate risk is the risk that expresses the effects of fluctuations in the market interest rates on the value increase/decrease of the Bank's interest rate sensitive assets and liabilities.

The interest rate sensitivity of Assets, Liabilities and Off-balance sheet items is carefully followed up by the treasury department of the Bank. Assets and liabilities which are sensitive to interest are managed in such a way that minimizes the interest risk.

The interest rate risk of the banking items is measured legally in accordance with the "Regulation on Measurement and Assessment of Standard Shock Method on the interest rate risk arising from banking accounts", and this legal limit is monitored and reported monthly, based on this measurement.

Interest rate sensitivity of financial assets and liabilities based on repricing dates is as follows:

31 December 2019	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Non-interest bearing[1]	Total
Cash and cash equivalents	185,095	-	-	-	-	5,530	190,625
Amounts due from credit institutions	123,007	-	-	-	-	(110)	122,897
Financial assets at FVTPL	-	-	-	-	-	-	-
Derivative financial assets	-	132	-	-	-	-	132
Investment securities	3,035	2,628	30,385	53,092	-	6,993	96,133
Loans to customers	173,897	205,992	454,803	252,653	5,704	(47,989)	1,045,060
Other financial assets	-	-	-	-	-	9,398	9,398
Total financial assets	**485,034**	**208,752**	**485,188**	**305,745**	**5,704**	**(26,178)**	**1,464,245**
Amounts due to banks	374,023	128,633	163,999	-	-	80	666,735
Amounts due to customers	10,586	-	1,821	-	-	4,353	16,760
Money market deposits	6,192	-	-	-	-	-	6,192
Debt securities issued	1,107	8,038	-	466,819	-	-	475,964
Derivative financial liabilities	-	-	-	-	-	-	-
Other financial liabilities	6	13	52	76	-	13,688	13,835
Total financial liabilities	**391,914**	**136,684**	**165,872**	**466,895**	**-**	**18,121**	**1,179,486**
Net interest sensitivity gap	**93,120**	**72,068**	**319,316**	**-161,150**	**5,704**	**(44,299)**	**284,759**

[1] Includes expected credit losses

31 December 2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Non-interest bearing[1]	Total
Cash and cash equivalents	83,877	-	-	-	-	17,308	101,185
Amounts due from credit institutions	76,536	-	-	-	-	(54)	76,482
Financial assets at FVTPL	-	-	-	-	-	2,787	2,787
Derivative financial assets	1,309	938	-	-	-	-	2,247
Investment securities	76	229	18,338	49,466	990	(571)	68,528
Loans to customers	225,381	106,715	154,509	234,015	131,951	(12,293)	840,278
Other financial assets	-	-	-	-	-	22,445	22,445
Total financial assets	**387,179**	**107,882**	**172,847**	**283,481**	**132,941**	**29,622**	**1,113,952**
Amounts due to banks	106,831	183,879	170,338	-	-	-	461,048
Amounts due to customers	14,680	528	-	-	-	7,134	22,342
Money market deposits	-	-	-	-	-	-	-
Debt securities issued	30,049	26,609	7,507	254,327	-	-	318,492
Derivative financial liabilities	-	116	-	-	-	-	116
Other financial liabilities	-	-	-	-	-	22,161	22,161
Total financial liabilities	**151,560**	**211,132**	**177,845**	**254,327**	**-**	**29,295**	**824,159**
Net interest sensitivity gap	**235,619**	**(103,250)**	**(4,998)**	**29,154**	**132,941**	**327**	**289,793**

[1] Includes expected credit losses

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

25. Financial risk management *(continued)*

Interest rate sensitivity risk *(continued)*

The following table indicates the average interest rates by major currencies for the major accounts

	31 December 2019			31 December 2018		
	EUR (%)	**USD (%)**	**TL (%)**	**EUR (%)**	**USD (%)**	**TL (%)**
Cash and cash equivalents	0.01	1.67	14.47	-	4.00	26.42
Amounts due from credit institutions	-	1.00	-	-	0.97	-
Financial assets at FVTPL	-	-	-	-	-	-
Investment securities	-	8.05	16.79	-	8.19	22.56
Loans to customers	4.69	6.63	18.05	5.17	7.24	21.33
Other financial assets	-	-	-	-	-	-
Amounts due to banks	1.14	3.76	11.94	0.27	2.63	25.84
Amounts due to customers	-	1.93	11.69	-	2.5	21.80
Money market deposits	0.50	1.65	10.80	-	-	20.99
Debt securities issued	1.34	3.58	12.96	-	3.90	30.08
Other financial liabilities	-	-	-	-	-	-

The table below shows the economic value differences resulted from interest rate volatilities calculated according to regulation on measurement and evaluation of interest rate risk resulted from financial assets and liabilities:

31 December 2019	**Shocks Applied (+/- basis points)**	**Gains/(Losses)**	**Gains/Equity-(Losses)/Equity**
1. TL	(+) 500 bps	(7,007)	(1.28%)
2. TL	(-) 400 bps	6,247	1.14%
3. USD	(+) 200 bps	12,934	2.36%
4. USD	(-) 200 bps	(13,873)	(2.53%)
5. EURO	(+) 200 bps	(7,704)	(1.40%)
6. EURO	(-) 200 bps	-	-
Total (For negative shocks)		**(7,626)**	**(1.39%)**
Total (For positive shocks)		**(1,777)**	**(0.32%)**

31 December 2018	**Shocks Applied (+/- basis points)**	**Gains/(Losses)**	**Gains/Equity-(Losses) / Equity**
1. TL	(+) 500 bps	(3,086)	(0.59%)
2. TL	(-) 400 bps	2,631	0.51%
3. USD	(+) 200 bps	(5,584)	(1.07%)
4. USD	(-) 200 bps	6,712	1.29%
5. EURO	(+) 200 bps	(1,864)	(0.36%)
6. EURO	(-) 200 bps	-	-
Total (For negative shocks)		**9,343**	**1.80%**
Total (For positive shocks)		**(10,534)**	**(2.02%)**

Currency risk

The Bank's foreign currency position is managed within the limits set by legislation and the Bank. The basic principle in foreign currency risk management is not to be exposed to currency risk. Accordingly, the exchange-trading risk positions are not allocated to the limit, banking accounts as of the currency by creating a matched asset-liability structure is aimed to provide natural protection. The Bank uses derivative financial instruments such as forward foreign exchange contracts and currency swaps for hedging purposes in foreign currency denominated transactions. Bank's methodology of digitising the foreign currency position includes the use of standard method when calculating the capital adequacy ratio and application of internal stress tests/ sensitivity analysis.

As of 31 December 2019, the Bank's USD bid rate is 5.9400 and EUR bid rate is 6.6621.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

25. Financial risk management *(continued)*

Currency risk *(continued)*

The Bank had the following exposure to foreign currency exchange rate risk:

31 December 2019	**TRY**	**USD**	**EUR**	**AZN**	**Other**	**Total**
Cash and cash equivalents	151,440	38,515	636	33	1	190,625
Amounts due from credit institutions	(110)	123,007	-	-	-	122,897
Financial assets at FVTPL	-	-	-	-	-	-
Derivative financial assets	-	132	-	-	-	132
Investment securities	16,158	79,975	-	-	-	96,133
Loans to customers	201,035	500,939	343,086	-	-	1,045,060
Other financial assets	9,398	-	-	-	-	9,398
Total financial assets	**377,921**	**742,568**	**343,722**	**33**	**1**	**1,464,245**
The effect of derivatives	-	11,737	-	-	-	11,737
Amounts due to banks	69,278	275,434	322,023	-	-	666,735
Amounts due to customers	10,053	6,486	221	-	-	16,760
Money market deposits	6,192	-	-	-	-	6,192
Debt securities issued	7,815	446,784	21,365	-	-	475,964
Derivative financial liabilities	-	-	-	-	-	-
Other financial liabilities	13,832	-	-	3	-	13,835
Total financial liabilities	**107,170**	**728,704**	**343,609**	**3**	**-**	**1,179,486**
The effect of derivatives	11,856	-	-	-	-	11,856
Net position after the effect of derivatives	**258,895**	**25,601**	**113**	**30**	**1**	**284,640**

31 December 2018	**TRY**	**USD**	**EUR**	**AZN**	**Other**	**Total**
Cash and cash equivalents	68,646	30,842	1,688	9	-	101,185
Amounts due from credit institutions	(54)	61,171	15,365	-	-	76,482
Financial assets at FVTPL	1,250	1,537	-	-	-	2,787
Derivative financial assets	-	2,247	-	-	-	2,247
Investment securities	7,834	60,694	-	-	-	68,528
Loans to customers	351,913	350,255	138,110	-	-	840,278
Other financial assets	22,372	73	-	-	-	22,445
Total financial assets	**451,961**	**506,819**	**155,163**	**9**	**-**	**1,113,952**
The effect of derivatives	1,734	47,882	-	-	-	49,616
Amounts due to banks	34,935	272,042	154,071	-	-	461,048
Amounts due to customers	13,106	8,477	759	-	-	22,342
Money market deposits	-	-	-	-	-	-
Debt securities issued	54,104	264,388	-	-	-	318,492
Derivative financial liabilities	116	-	-	-	-	116
Other financial liabilities	21,435	537	189	-	-	22,161
Total financial liabilities	**123,696**	**545,444**	**155,019**	**-**	**-**	**824,159**
The effect of derivatives	47,446	1,584	-	-	-	49,030
Net position after the effect of derivatives	**282,553**	**7,673**	**144**	**9**	**-**	**290,379**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

25. Financial risk management *(continued)*

Currency risk *(continued)*

The following table details the Bank's sensitivity to increase and decrease in the USD, EUR and AZN against the TRY. The other variables, especially the interest rates, are assumed to be fixed in this analysis.

	USD/TRY		EUR/TRY		AZN/TRY	
Impact on profit before tax	**+10%**	**-10%**	**+10%**	**-10%**	**+10%**	**-10%**
31 December 2019	2,560	(2,560)	11	(11)	3	(3)
31 December 2018	767	(767)	14	(14)	1	(1)

Market risk

Market risk is followed under two headings: market risk arising from trading activities and market risk arising from banking transactions. The basic principle of market risk management is creating a compliant asset / liability structure and providing protection by averting differences with derivative instruments when necessary.

By the Board of Directors, market risk limits introduced by the minimization of the risks involved were targeted. Defined risk limits are reviewed by the Board of the Directors in 3 month period and updated if necessary. "Standard method" is used in the measurement of market risk in the extent of capital adequacy ratio. Value of the securities portfolio at risk is monitored and is reported to senior management on a monthly basis.

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

The below table represents the details of the market risk calculation in accordance with the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio", section three "Calculation of Market Risk with Standard Method" published by BRSA.

	31 December 2019			31 December 2018		
	Interest rate risk	**Currency risk**	**Total market risk**	**Interest rate risk**	**Currency risk**	**Total market risk**
Average	126	1,698	1,824	137	604	741
Maximum	228	2,470	2,698	413	4,143	4,556
Minimum	-	930	930	-	17	17

Counterparty risk

The Bank faces counterparty risk from the over-the-counter transactions and repurchase agreements in which it involves. Counterparty risk strategy has been defined according to counterparty's nature and product category. Counterparties may be sovereigns, banks, corporate and commercial customers. Products are grouped as derivative contracts such as currency forwards-futures-swaps, interest swaps and repurchase transactions.

Previous to the transactions regarding counterparty risk, the counterparty risk is analysed and subsequently the counterparty's credit risk is monitored periodically. In case the frequency of monitoring may be increased.

Except for the banks, the approvals related to loan granting are applied for the corporate counterparties. In case of worsened market conditions and credibility concerns of parties, limits may be revalued and revised. If needed approved limits may be blocked.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Fair value measurements

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Group's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy:

	Fair value measurement using			
31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Financial assets at FVTPL	-	-	-	-
Investment securities at FVOCI	16,824	-	-	16,824
Derivative financial assets	-	132	-	132
Assets for which fair values are disclosed				
Cash and cash equivalents	190,625	-	-	190,625
Amounts due from credit institutions	-	122,897	-	122,897
Investment securities measured at amortised cost	84,475	-	-	84,475
Loans to customers	-	-	1,046,550	1,046,550
Investment property	-	-	145,599	145,599
Other financial assets	-	-	9,398	9,398
Liabilities measured at fair value				
Derivative financial liabilities	-	-	-	-
Liabilities for which fair values are disclosed				
Amounts due to banks	-	-	666,482	666,482
Amounts due to customers	-	-	16,760	16,760
Money market deposits	-	-	6,192	6,192
Debt securities issued	-	-	481,385	481,385
Other financial liabilities	-	-	13,835	13,835

	Fair value measurement using			
31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Financial assets at FVTPL	2,787	-	-	2,787
Investment securities at FVOCI	8,314	-	-	8,314
Derivative financial assets	-	2,247	-	2,247
Assets for which fair values are disclosed				
Cash and cash equivalents	101,185	-	-	101,185
Amounts due from credit institutions	-	76,482	-	76,482
Investment securities measured at amortised cost	60,974	-	-	60,974
Loans to customers	-	-	847,585	847,585
Investment property	-	-	218,333	218,333
Other financial assets	-	-	22,445	22,445
Liabilities measured at fair value				
Derivative financial liabilities	-	116	-	116
Liabilities for which fair values are disclosed				
Amounts due to banks	-	-	461,189	461,189
Amounts due to customers	-	-	22,342	22,342
Money market deposits	-	-	-	-
Debt securities issued	-	-	320,970	320,970
Other financial liabilities	-	-	22,161	22,161

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Fair value measurements (continued)

Fair value hierarchy *(continued)*

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the statement of financial position at fair value.

	31 December 2019			31 December 2018		
	Carrying value	Fair value	Unrecognized gain / (loss)	Carrying value	Fair value	Unrecognized gain / (loss)
Financial assets						
Cash and cash equivalents	190,625	190,625	-	101,185	101,185	-
Amounts due from credit institutions	122,897	122,897	-	76,482	76,482	-
Investment securities measured at amortised cost	79,309	84,475	5,166	60,214	60,974	760
Loans to customers	1,045,060	1,046,550	1,490	855,234	847,585	(7,649)
Other financial assets	9,398	9,398	-	22,445	22,445	-
Financial liabilities						
Amounts due to banks	666,735	666,482	253	461,048	461,189	(141)
Amounts due to customers	16,760	16,760	-	22,342	22,342	-
Money market deposits	6,192	6,192	-	-	-	-
Debt securities issued	475,964	481,385	(5,421)	318,492	320,970	(2,478)
Other financial liabilities	13,835	13,835	-	22,161	22,161	-
Total unrecognised change in unrealised fair value			**1,488**			**(9,508)**

The following methods and assumptions were used to estimate the fair values of above financial instruments:

The fair value of loans and receivables are determined by calculating the discounted cash flows using the current market interest rates for the fixed loans with fixed interest rates. For the loans with floating interest rates, it is assumed that the carrying value reflects the fair value.

The fair values of debt securities issued are determined based on market prices or when this price is not available, using a discounted cash flow analysis based on current market rates of similar maturity debt securities.

The fair value of funds borrowed are determined by using discounted cash flows based on the current Bank's borrowing interest rates for similar types of borrowing arrangements.

The fair value of remaining financial assets and liabilities such as cash and cash equivalents, amounts due from credit institutions, amounts due to banks and money market deposits and amounts due to customers are estimated to be same with carrying amount due to their short-term maturity profile and non-interest earning/bearing characteristics.

Movements in level 3 assets and liabilities at fair value

Level 3 financial assets include corporate bonds with floating rates, which are valued using discounted cash flow techniques based on current rates available for debt instruments with similar terms and credit risk characteristics. The movement in the level 3 financial assets is as follows:

	31 December 2019	31 December 2018
Balance at the beginning of the year	**-**	**7,289**
Additions	-	-
Disposals	-	(7,289)
Gains/losses from changes in fair value	-	-
Foreign exchange differences	-	-
Balance at the end of the year	**-**	**-**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

27. Changes in liabilities arising from financing activities

	Note	Bonds issued	Subordinated loans	Total liabilities from financing activities
Carrying amount at 31 December 2017		**181,741**	**-**	**181,741**
Proceeds from issue		338,338	-	338,338
Redemption		(305,293)	-	(305,293)
Foreign currency translation		103,869	-	103,869
Other[1]		(163)	-	(163)
Carrying amount at 31 December 2018	**16**	**318,492**	**-**	**318,492**
Proceeds from issue		346,661	-	346,661
Redemption		(236,731)	-	(236,731)
Foreign currency translation		48,627	-	48,627
Other[1]		(1,085)	-	(1,085)
Carrying amount at 31 December 2019	**16**	**475,964**	**-**	**475,964**

[1] Includes the change of accrued but not yet paid interest on bonds issued and subordinated loans. The Bank classifies interest paid as cash flows from operating activities.

28. Segment Reporting

IFRS 8, Operating Segments, requires entities which issues securities, to disclose information about their operating segments, products and services. Operating segments are defined as activities which Bank earns revenue and incur expenses. The Bank's segmental reporting is based on the following operating segments: Corporate Banking and Treasury and Asset Liability Management.

Information on operational segments are as follows:

	Corporate banking	Treasury and asset liability management	Total
31 December 2019			
Total assets	1,044,394	681,109	1,725,503
Total liabilities	35,393	1,158,500	1,193,893
31 December 2019			
Net interest income	109,266	(12,206)	97,060
Provisions for loans and other credit risks, net	(33,521)	(270)	(33,791)
Net fee and commission income	4,224	(207)	4,017
Total non-interest income	(4)	(2,789)	(2,793)
Total non-interest expenses	-	(31,524)	(31,524)
Profit/(loss) before tax	**79,965**	**(46,996)**	**32,969**
Income tax expense	(17,652)	10,374	(7,278)
Net profit/loss for the year	**62,313**	**(36,622)**	**25,691**

	Corporate banking	Treasury and asset liability management	Total
31 December 2018			
Total assets	837,615	511,950	1,349,565
Total liabilities	23,000	820,908	843,908
31 December 2018			
Net interest income	110,575	(31,077)	79,498
Provisions for loans and other credit risks, net	(17,713)	50	(17,663)
Net fee and commission income	3,168	-	3,168
Total non-interest income	-	(204)	(204)
Total non-interest expenses	-	(69,095)	(69,095)
Profit/(loss) before tax	**96,030**	**(100,326)**	**(4,296)**
Income tax expense	(16,385)	17,118	733
Net profit/(loss) for the year	**79,645**	**(83,208)**	**(3,563)**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

29. Capital adequacy

The method used for risk measurement in determining capital adequacy standard ratio; Capital Adequacy Standard Ratio is calculated in accordance with Banking Regulation and Supervision Agency ("BRSA")'s "Communiqué on Measurement and Assessment of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques", "Communiqué on Calculation of Risk Weighted Amounts for Securitizations" published on 6 September 2014 and Official Gazette numbered 29111 and "Communiqué on Equities of Banks" published on 5 September 2013 in the Official Gazette numbered 28756. The Bank's capital adequacy ratio is 32.00% (31 December 2018 - 37.85%) in accordance with the related Communiqué as of 31 December 2019. The Bank has complied with the capital requirements throughout the year and previous year.

	31 December 2019	31 December 2018
Tier 1 capital	527,056	506,368
Tier 2 capital	21,424	17,296
Less: deductions from capital	-	-
Total regulatory capital	**548,480**	**523,664**
Risk-weighted assets	**1,713,935**	**1,383,663**
Capital adequacy ratio	**32.00%**	**37.85%**

30. Related party disclosures

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	31 December 2019					31 December 2018				
	Parent	Entities under common control	Key management personnel	Other	Total	Parent	Entities under common control	Key management personnel	Other	Total
Cash and cash equivalents	167	627	-	-	**794**	222	-	-	-	**222**
Loans at 1 January, gross	-	-	-	-	-	-	-	-	-	-
Loans issued	-	194,168	-	-	194,168	-	-	-	-	-
Loan repayments	-	-	-	-	-	-	-	-	-	-
Interest accrual	-	2,787	-	-	2,787	-	-	-	-	-
Foreign currency translation	-	5,695	-	-	5,695	-	-	-	-	-
Loans at 31 December, gross	**-**	**202,650**	**-**	**-**	**202,650**	**-**	**-**	**-**	**-**	**-**
Allowance for impairment	-	(2,854)	-	-	(2,854)	-	-	-	-	-
Loans at 31 December, net	**-**	**199,796**	**-**	**-**	**199,796**	**-**	**-**	**-**	**-**	**-**
Interest income on loans	-	2,962	-	-	**2,962**	-	-	-	-	-
Other assets	-	-	-	-	**-**	-	284	-	-	**284**
Amounts due to banks	25,520	36,894	-	-	**62,414**	10,596	26,880	-	-	**37,476**
Amounts due to customers	-	-	-	-	**-**	-	-	-	-	**-**
Money market deposits	-	6,192	-	-	**6,192**	-	-	-	-	**-**
Debt securities issued	298,107	132,548	-	-	**430,655**	132,204	126,632	-	-	**258,836**
Other liabilities	-	123	-	-	**123**	-	-	-	-	**-**
Guarantees issued	26,610	33,718	-	-	**60,328**	22,983	66	-	-	**23,049**
Letters of credit issued	-	-	-	-	**-**	-	-	-	-	**-**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

30. Related party disclosures *(continued)*

	31 December 2019					31 December 2018				
	Parent	**Entities under common control**	**Key management personnel**	**Other**	**Total**	**Parent**	**Entities under common control**	**Key management personnel**	**Other**	**Total**
Interest income except loans	-	144	-	-	**144**	-	-	-	-	**-**
Interest expense	(8,466)	(7,488)	-	-	**(15,954)**	(5,201)	(6,318)		-	**(11,519)**
Fees and commissions income	237	164	-	-	**401**	331	-	-	-	**331**
Fees and commissions expense	-	(74)	-	-	**(74)**	(27)	-	-	-	**(27)**
Non-Interest Income	-	-	-	-	**-**	-	-		-	**-**
Non-Interest Expenses	-	(886)	-	-	**(886)**	(33)	(1,542)	-	-	**(1,575)**

Compensation to members of key management personnel was comprised of the following:

	31 December 2019	**31 December 2018**
Salaries and other benefits	5,408	4,270
Social security costs	145	127
Total key management personnel compensation	**5,553**	**4,397**