QNB Finansbank Anonim Şirketi
And Subsidiaries

Consolidated Financial Statements
as at and for the Year Ended
December 31, 2020

Contents

Report on the Audit of the Consolidated Financial Statements

To the Shareholders of QNB Finansbank A.Ş.

Opinion

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

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

Basis for opinion

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

Key Audit Matter	*How the matter is addressed in our audit*
Recognition of impairment on financial assets within the scope of IFRS 9 "Financial Instruments" Standard and related significant disclosures	
As presented in Note 2.13 as the Group recognizes expected credit losses of financial assets in accordance with IFRS 9. We considered the impairment of financial assets as a key audit matter since: - Amount of on and off balance sheet items that are subject to expected credit loss calculation is material to the financial statements - There are complex and comprehensive requirements of IFRS 9 - Policies implemented by the Group management include compliance risk to the regulations and other practices. - Structured processes of IFRS 9 are advanced and complex. - Judgements and estimates used in expected credit loss calculation are complex and comprehensive. - Disclosure requirements of IFRS 9 are comprehensive and complex	Our audit procedures included among others include: - Evaluating the appropriateness of accounting policies as to the requirements of IFRS 9, Group's past experience, local and global practices. - Reviewing and testing of structured processes which are used to calculate expected credit losses by involving our Information technology and Process audit specialists. - Evaluating the reasonableness of management's key judgements, estimates and data sources used in expected credit loss calculations including responses to COVID and also considering the standard requirements, sectorial, local and global practices. - Assessing the appropriateness of definition of significant increase in credit risk, default criteria, modification, probability of default, loss given default, exposure at default and forward looking assumptions together with the significant judgements and estimates used in these calculations to regulations and group's past performance. Evaluating the alignment of those forward looking parameters to Group's internal processes where applicable. - Evaluation of the impact of the Covid-19 outbreak on macroeconomic variables used in credit staging and expected loan loss provision calculations, together with

	important forward-looking estimates and assumptions - Assessing the completeness and the accuracy of the data used for expected credit loss calculation - Testing the mathematical accuracy of expected credit loss calculation on sample basis - Evaluating the judgments and estimates used for the individually assessed financial assets
Hedge Accounting	
As explained Note 22, the Group enters into hedge relationships to manage exposures to interest rate, and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions that meet the specified criteria. The Group uses of derivatives and other hedge relationships to hedge the financial risk of its deposits, loans, financial assets at fair value through other comprehensive income, Finance lease receivables, bond issued and borrowings. The Group documents the hedge relationship between hedging instruments and hedged items at inception, as well as their risk management objectives and the strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the instruments that are used in hedging transactions are highly effective in offsetting changes in values of hedged items. The Group performs prospective and retrospective effective effectiveness tests and accounts the results in accordance with IFRS. There is a potential risk that hedge relationship is not eligible, effective, accounted correctly nor documentation and termination of hedge relationship including the effect of termination on the carrying amount of assets in accordance with IFRS.	In addition to general audit procedures our audit procedures include the re-calculation of fair values of derivative financial instruments, assessment of the financial risk components, documentation of all hedging relationships, examination of the effectiveness tests, the review of hedge accounting records, evaluating the appropriateness of the carrying amount of the asset in accordance with the relevant standards in case of a termination. Our procedures included, amongst others, recalculating fair value calculation, assessment of financial risk component, reviewing hedge documentation for all hedge relationships, effectiveness tests, hedge accounting entries, evaluating the appropriateness of the carrying amount of the asset in accordance with the relevant standards in case of a termination. and disclosures relating to derivative financial instruments and hedge accounting considering the requirements of IFRS.

Valuation of Derivative Financial Instruments	
Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps, interest rate futures, currency and interest rate options (both written and purchased), credit default swaps and other derivative financial instruments are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. There is a potential risk in fair valuation of derivative instruments in accordance with IFRS. Details of the related amounts are explained in Note 22. The fair value of derivative financial instruments is determined by selecting the most appropriate market data and applying valuation techniques for certain products. Due to the assumptions, estimates and subjectivity used in these applications, derivative financial instruments are considered as a key audit matter by us.	In addition to our auditing procedures, include reviewing the fair valuation policies as determined by the Group Management, checking the fair value calculations of the derivative financial instruments chosen by the sample as valuation experts, evaluating the assumptions and estimates used, operational evaluation and testing.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner who supervised and concluded this independent auditor's report is Hatice Dilek Çilingir Köstem.

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

Hatice Dilek Çilingir Köstem, SMMM
Partner

Istanbul, Turkey
February 25, 2021

Certification of the Board of Directors and Chief Financial Officer

We, the members of the Board of Directors of QNB Finansbank A.Ş. and Group CFO certify that to the best of our knowledge:

The financial statements for the annual period ended December 31, 2020 have been prepared in accordance with International Financial Reporting Standards – IFRS and present a true and fair view of the assets, liabilities, equity and results of operations of the Bank and of the consolidated companies included in the consolidation.

Ali Teoman Kerman

Member of the Board of Directors and Chairman of the Audit Committee

Temel Güzeloğlu

General Manager and Member of the Board of Directors

Adnan Menderes Yayla

Group CFO

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2020

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

		12 month period ended December 31,	
	Notes	**2020**	**2019**
Interest income	7	17,808,583	19,447,317
Interest expense	7	(10,815,585)	(12,980,227)
Net interest income		**6,992,998**	**6,467,090**
Fee and commission income	8	2,600,663	2,747,769
Fee and commission expense	8	(158,507)	(138,212)
Net fee and commission income		**2,442,156**	**2,609,557**
Dividend income		5,257	2,934
Net trading income and results from investment securities	9	544,216	223,003
Other operating income	10	85,331	175,199
Total operating income		**10,069,958**	**9,477,783**
Personnel expenses	11	(2,049,928)	(1,842,539)
General and administrative expenses	13	(1,494,603)	(1,690,033)
Depreciation, amortization and impairment charges	14	(569,505)	(518,797)
Impairment losses on loans and advances to customers, finance lease receivables, factoring receivables and other impairment charges	15	(2,549,994)	(2,006,832)
Share in the profit of joint ventures	28	98,158	89,429
Other provision expenses	16	(116,265)	(20,346)
Profit before tax		**3,387,821**	**3,488,665**
Income tax expense	17	(627,753)	(625,125)
Profit for the year		**2,760,068**	**2,863,540**
Attributable to:			
Equity holders of the Parent		2,759,220	2,862,992
Non-controlling interest		848	548
Earnings per share - Basic and Diluted (Full TL)	18	0.0824	0.0855

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

QNB FİNANSBANK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

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

		12 month period ended December 31,	
	Notes	**2020**	**2019**
Profit for the year		**2,760,068**	**2,863,540**
Items that may be recycled to profit or loss			
FVOCI investment securities reserve		**(245,822)**	**280,269**
Net change in fair value	26	(2,535)	304,935
Net amount transferred to profit or loss	41	(243,287)	(24,666)
Net gain on cash flow hedges		**(30,174)**	**(1,233,787)**
Net change in fair value	41	341,765	(1,093,633)
Net amount transferred to profit or loss	41	(371,939)	(140,154)
Items that will not be recycled to profit or loss			
Actuarial gains / (losses) related to employee benefits		**(44,122)**	**(31,089)**
Effect of changes in actuarial assumptions	12	(44,122)	(31,089)
FVOCI equity securities reserve		**-**	**60,293**
Net change in fair value		-	60,293
Income tax relating to components of other comprehensive income	**31**	**39,541**	**220,396**
Other comprehensive income for the year, net of tax		**(280,577)**	**(703,918)**
Total comprehensive income for the year		**2,479,491**	**2,159,622**
Total comprehensive income attributable to:		**2,479,491**	**2,159,622**
Equity holders of the Parent		2,478,643	2,159,074
Non-controlling interests		848	548

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

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

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Cash and balances with T.R. Central Bank (net)	19	27,403,087	18,748,252
Due from banks (net)	20	7,441,016	7,447,689
Financial assets at fair value through profit or loss	21	506,546	293,398
Hedging derivatives	22	4,658,040	4,186,871
Trading derivatives	22	4,571,116	3,752,438
Loans and advances to customers	23	137,336,828	109,445,928
Factoring receivables	24	2,127,916	1,630,527
Finance lease receivables	25	7,427,403	5,583,145
Investments measured at fair value through other comprehensive income (FVOCI)	26	15,204,138	12,352,278
of which pledged as colleteral		*1,223,252*	*841,193*
Investments measured at amortised cost	27	18,733,201	16,169,450
of which pledged as colleteral		*1,943,581*	*480,949*
Investments in joint ventures	28	218,587	199,384
Intangible assets	29	544,995	479,435
Property and equipment	30	3,520,512	3,408,352
Current tax assets		29,628	
Deferred tax assets (net)	31	1,036,556	448,047
Other assets	32	3,738,652	2,974,957
Total assets		**234,498,221**	**187,120,151**
LIABILITIES			
Due to banks	33	23,893,346	18,322,139
Customer deposits	34	125,684,224	100,101,599
Hedging derivatives	22	1,670,987	1,570,416
Trading derivatives	22	6,485,475	3,565,077
Debt securities issued	35	14,713,256	14,346,112
Funds borrowed	36	32,541,124	24,799,107
Current tax liabilities	17	1,077,742	207,492
Retirement benefit obligations	12	316,801	256,263
Other provisions	37	502,983	330,639
Other liabilities	38	8,343,468	6,831,983
Lease liability		436,461	*442,926*
Total liabilities		**215,229,406**	**170,330,827**
EQUITY			
Share capital issued	40	3,350,000	3,350,000
Share premium		714	714
Financial assets at FVOCI reserve, net of tax	41	(475,308)	(169,391)
Actuarial losses, net of tax		(117,564)	(80,348)
Cash flow hedging reserve, net of tax	41	(604,217)	(564,969)
Reserves and retained earnings	41,42	17,107,265	14,246,241
Equity attributable to owners of the Group		**19,260,890**	**16,782,247**
Non-controlling interest		7,925	7,077
Total equity		**19,268,815**	**16,789,324**
Total equity and liabilities		**234,498,221**	**187,120,151**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

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

				Other Comprehensive Income/Expense Items							
				to be Recycled to Profit or Loss		not to be Recycled to Profit or Loss					
	Notes	Share Capital	Share Premium	FVOCI investment securities reserve,net of tax	Net gains/(losses) on cash flow hedges,net of tax	Pension reserve,net of tax	FVOCI equity securities reserve,net of tax	Reserves and Retained Earnings	Equity attributable to Finansbank shareholders	Minority interest	Total
Balance at January 1, 2019		**3,350,000**	**714**	**(496,576)**	**397,059**	**(55,799)**	**44,526**	**11,383,249**	**14,623,173**	**6,529**	**14,629,702**
Profit for the year		-	-	-	-	-	-	2,862,992	2,862,992	548	2,863,540
Other comprehensive income for the year, net of tax		-	-	225,381	(962,028)	(24,549)	57,278	-	(703,918)	-	(703,918)
Total comprehensive income for the year, net of tax		**-**	**-**	**225,381**	**(962,028)**	**(24,549)**	**57,278**	**2,862,992**	**2,159,074**	**548**	**2,159,622**
Issue of share capital (Note 42)		-	-	-	-	-	-	-	-	-	-
Dividends paid (Note 40,42)		-	-	-	-	-	-	-	-	-	-
Changes in consolidation structure due to acquisition of the shares from non-controlling interest in subsidiaries		-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2019		**3,350,000**	**714**	**(271,195)**	**(564,969)**	**(80,348)**	**101,804**	**14,246,241**	**16,782,247**	**7,077**	**16,789,324**
Impact of TMS 8		**-**	**-**	**-**	**-**	**-**	**(101,804)**	**101,804**	**-**	**-**	**-**
Balance at January 1, 2020		**3,350,000**	**714**	**(271,195)**	**(564,969)**	**(80,348)**	**-**	**14,348,045**	**16,782,247**	**7,077**	**16,789,324**
Profit for the year		-	-	-	-	-	-	2,759,220	2,759,220	848	2,760,068
Other comprehensive income for the year, net of tax		-	-	(204,113)	(39,248)	(37,216)	-	-	(280,577)	-	(280,577)
Total comprehensive income for the year, net of tax		**-**	**-**	**(204,113)**	**(39,248)**	**(37,216)**	**-**	**2,759,220**	**2,478,643**	**848**	**2,479,491**
Issue of share capital		-	-	-	-	-	-	-	-	-	-
Dividends paid (Note 42)		-	-	-	-	-	-	-	-	-	-
Changes in consolidation structure due to acquisition of the shares from non-controlling interest in subsidiaries		-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2020		**3,350,000**	**714**	**(475,308)**	**(604,217)**	**(117,564)**	**-**	**17,107,265**	**19,260,890**	**7,925**	**19,268,815**

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

QNB FİNANSBANK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

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

	Note	12 month period ended December 31, 2020	2019
Cash flows from operating activities			
Interest received		16,262,121	18,923,480
Interest paid		(10,336,803)	(13,035,594)
Income from associates and dividends received		5,257	2,934
Fee and commission received		2,619,515	2,753,754
Trading gain / (loss)		6,238,225	4,806,656
Recoveries of loans previously written off and impaired loans		1,581,512	1,523,298
Fee and commission paid		(158,507)	(138,212)
Cash payments to employees and suppliers		(1,996,117)	(2,752,286)
Cash received from other operating activities		85,331	175,199
Cash paid for other operating activities		(2,365,998)	(254,380)
Income and other taxes paid		59,968	(768,678)
Cash flows from operating activities before changes in operating assets and liabilities		**11,994,504**	**11,236,171**
Changes in operating assets and liabilities			
Due from banks		(7,259,619)	1,885,300
Financial assets at fair value through profit or loss		(213,924)	(247,659)
Loans and advances to customers		(17,641,532)	(15,181,617)
Factoring receivables		(497,389)	(421,643)
Finance lease receivables		(762,252)	51,262
Other assets		(1,265,011)	(1,390,328)
Due to other banks		4,510,626	2,723,211
Customer deposits		12,804,098	12,444,766
Other liabilities		358,227	452,685
Net cash used in/provided by operating activities		**2,027,728**	**11,552,148**
Cash flows from investing activities			
Purchases of FVOCI investments	26	(12,034,225)	(6,525,366)
Proceeds from sale and redemption of FVOCI investments	26	11,248,882	3,797,849
Purchase of amortised cost investment securities	27	(2,335,154)	(2,628,259)
Redemption of amortised cost investment securities	27	2,260,925	1,496,516
Acquisitions of property and equipment		(483,705)	(256,805)
Proceeds from the disposal of property and equipment		35,913	32,144
Acquisitions of intangible assets	29	(220,406)	(185,854)
Dividend received from investment in joint ventures	28	78,955	48,425
Net cash used in investing activities		**(1,448,815)**	**(4,221,350)**
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities		23,327,507	6,649,631
Payments of funds borrowed and debt securities		(21,826,889)	(8,467,901)
Dividends paid to equity holders of the parent		-	-
Other		(59,040)	(196,394)
Net cash used in provided by financing activities		**1,441,578**	**(2,014,664)**
Effect of net foreign exchange differences on cash and cash equivalents		(615,145)	356,419
Net increase in cash and cash equivalents		1,405,346	5,672,553
Cash and cash equivalents at the beginning of the year	43	14,890,668	9,218,115
Cash and cash equivalents at the end of the year	**43**	**16,296,014**	**14,890,668**

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

1 General information

QNB Finansbank Anonim Şirketi (hereinafter the "Bank" or " QNB Finansbank") was incorporated in Istanbul on September 23, 1987, by the Fiba Group ("Fiba"). The Bank was listed on the Istanbul Stock Exchange on February 3, 1990. Currently the Bank only has a free float of 0.19% of its shares. The registered address of the Bank is at Kristal Kule, Büyükdere Caddesi, No 215, Şişli 34394 Istanbul, Turkey.

A share sales agreement has been concluded between National Bank of Greece S.A. (NBG) and Qatar National Bank ("QNB") at a price of EUR 2.750 million as of December 21, 2015. Necessary permissions related to share transfer have been completed on May 4, 2016. After receipt of permission from Competition Board on May 4, 2016 for the Bank, related permissions from regulatory bodies for the subsidiaries were completed on May 12, 2016, consequently share transfer of the Bank has been completed on June 15, 2016.

99.88% of shares of QNB Finansbank A.Ş. are controlled by Qatar National Bank as of December 31, 2020 and remaining 0.12% of related shares are public shares.

50% of QNB shares, the first commercial bank of Qatar was founded in 1964 and has been traded on the Qatar Stock Exchange since 1997, are owned by Qatar Investment Authority while 50% of related shares are public shares. QNB is operating over 30 countries mainly in the Middle East and North Africa

Regions as well as being the biggest bank of Qatar. Also with respect to total assets, total credits and total deposits QNB is the biggest bank of Middle East and North Africa.

The Bank has decided to change the logo and the name of the company within the scope of the main shareholder change and brand strategies and the new logo of the Parent Bank has started to be used as "QNB FİNANSBANK" as of October 20, 2016. According to the decision dated January 17, 2018 which was taken by the General Assembly, "The Bank's trade name is changed from FİNANS BANK A.Ş to QNB FİNANSBANK A.Ş as of January 19, 2018.

The accompanying consolidated financial statements of the Bank for the year ended December 31, 2020 comprise the Bank and its subsidiaries (together referred to as the "Group") listed in Note 45.

Nature of Activities of the Bank / Group

The Group's activities include trade finance, corporate and commercial banking, treasury, retail banking and credit card operations. The Bank operates through a total of 475 branches, of which 473 are domestic branches, 2 in the İstanbul Atatürk Airport Free Trade Zone, and an off-shore banking branch in Bahrain.

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

1.1 Information About the Chairman and Members of Board of Directors, Members of Audit Committee, Managing Director and Executive Vice Presidents; Any Changes, and the Information About the Parent Bank Shares They Hold and Their Responsibilities

Name	Title	Date of Appointment	Education
Dr. Ömer A. Aras	Chairman	April 16, 2010	PhD
Sinan Şahinbaş	Vice Chairman	April 16, 2010	Masters
Ali Teoman Kerman	Board Member and Chairman of the Audit Committee	April 16, 2013	Masters
Ramzi T. A. Mari	Board Member and Audit Committee Member	June 16, 2016	Masters
Fatma Abdulla S.S. Al-Suwaidi	Board Member	June 16, 2016	Masters
Durmuş Ali Kuzu	Board Member and Audit Committee Member	August 25, 2016	PhD
Temel Güzeloğlu	Board Member and General Manager	April 16, 2010	Masters
Yousef Mahmoud H N Al-Neama	Board Member	May 28, 2019	Graduate
Assoc. Prof. Dr. Osman Reha Yolalan	Board Member	June 16, 2016	PhD
Adel Ali M A Al-Malki	Board Member	May 28, 2019	Graduate
Noor Mohd J. A. Al-Naimi	Board Member and Audit Committee Member	June 22, 2017	Graduate
Adnan Menderes Yayla	Executive Vice President	May 20, 2008	Masters
Köksal Çoban	Executive Vice President	August 19, 2008	Masters
Dr. Mehmet Kürşad Demirkol	Executive Vice President	October 8, 2010	PhD
Erkin Aydın	Executive Vice President	May 16, 2011	Masters
Ömür Tan	Executive Vice President	October 28, 2011	Masters
Halim Ersun Bilgici	Executive Vice President	March 15, 2013	Masters
Enis Kurtoğlu	Executive Vice President	May 14, 2015	Masters
Murat Koraş	Executive Vice President	May 14, 2015	Masters
Engin Turhan	Executive Vice President	June 14, 2016	Masters
Cumhur Türkmen	Executive Vice President	June 11, 2018	Graduate
Cenk Akıncılar	Executive Vice President	January 21,2019	Graduate
Burçin Dündar Tüzün	Executive Vice President	December 1, 2019	Masters
Zeynep Kulalar	Executive Vice President	December 1, 2019	Graduate
Derya Düner	Executive Vice President	January 1, 2020	Graduate
Ali Yılmaz	Executive Vice President	January 1, 2020	Masters
Ahmet Erzengin	Head of the Department of Internal Control and Compliance	September 12, 2012	Graduate
Ersin Emir	Head of Internal Audit	February 18, 2011	Masters
Zeynep Aydın Demirkıran	Head of the Department of Risk Management	September 16, 2011	Masters

These financial statements have been approved for issue by the Bank’s Board of Directors on February 25, 2021.

2 Summary of significant accounting policies

2.1 Basis of preparation

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

The consolidated 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 and financial assets at fair value through other comprehensive income (OCI). The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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

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 November 1, 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by Public Oversight Accounting and Auditing Standards Authority "POAASA" and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA") and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations.

The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdictions. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of presentation in accordance with IFRS.

The 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.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

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

Since it is aimed to update the most recent financial information in the interim financial statements prepared as of December 31, 2020, considering the magnitude of the economic changes due to COVID-19, the Bank made certain estimates in the calculation of expected credit losses. In the upcoming periods, the Bank will update its relevant assumptions as necessary and revise the realizations of past estimates and disclosed them in footnote numbered 2.13 "Explanations on Expected Credit Losses".

2.2 Adoption of International Financial Reporting Standards (IFRS)

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2020 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2020. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at January 1, 2020 are as follows:

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether an acquired set of activities assets is a business or not.

The amendments:

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

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. The amendments did not have a significant impact on the financial position or performance of the Group.

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

The amendments issued to IFRS 9 and IAS 39 which are effective for periods beginning on or after 1 January 2020 provide reliefs which enable hedge accounting to continue. For these reliefs, it is assumed that the benchmark on which the cash flows of hedged risk or item are based and/or, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform. in connection with interest rate benchmark reform.

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

According to this; the Group's portfolio that will be affected by this reform consists of loans, other financial assets measured at amortized cost and derivative financial instruments together with other borrowings received, and as of 31 December 2020, the portfolio size is approximately amounted full TL 107 billion.

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

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

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020.

2.2 Adoption of International Financial Reporting Standards (IFRS) (continued)

Amendments to IFRS 16 – Covid-19 Rent Related Concessions

In May 2020, the IASB issued amendments to IFRS 16 Leases to provide relief to lessees from applying IFRS 16 guidance on lease modifications to rent concessions arising a direct consequence of the Covid-19 pandemic. A lessee that makes this election accounts for any change in lease payments related rent concession the same way it would account for the change under the standard, if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021
- There is no substantive change to other terms and conditions of the lease.

A lessee will apply the amendment for annual reporting periods beginning on or after 1 June 2020. Early application of the amendments is permitted. The amendments did not have a significant impact on the financial position or performance of the Group.

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

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

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

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

IFRS 17 - The new Standard for insurance contracts

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

2.2 Adoption of International Financial Reporting Standards (IFRS) (continued)

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

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

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

Amendments to IFRS 3 – Reference to the Conceptual Framework

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

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

Amendments to IAS 16 – Proceeds before intended use

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

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

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

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

2.2 Adoption of International Financial Reporting Standards (IFRS) (continued)

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

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

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

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Under this practical expedient, if the interest rates applicable to financial instruments change as a result of the IBOR reform, the situation is not considered as a derecognition or contract modification; instead, this would be determined by recalculating the carrying amount of the financial instrument using the original effective interest rate to discount the revised contractual cash flows.

The practical expedient is required for entities applying IFRS 4 Insurance Contracts that are using the exemption from IFRS 9 Financial Instruments (and, therefore, apply IAS 39 Financial Instruments: Classification and Measurement) and for IFRS 16 Leases, to lease modifications required by IBOR reform.

Relief from discontinuing hedging relationships

- The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.

- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR.

- For the IAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero.

The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued.

- As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform.

Separately identifiable risk components

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

2.2 Adoption of International Financial Reporting Standards (IFRS) (continued)

Additional disclosures

Amendments need additional IFRS 7 Financial Instruments disclosures such as; How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform, quantitative information about financial instruments that have yet to transition to RFRs and if IBOR reform has given rise to changes in the entity's risk management strategy, a description of these changes.

The amendments are mandatory, with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

Within the scope of the reform, a committee is formed within the Group to coordinate issues such as contract management, information technology, infrastructure development and product design regarding the transition process. It is foreseen that the necessary studies will be completed in 2021. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

iii) Annual Improvements – 2018–2020 Cycle

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

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter: The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported by the parent. The amendment is also applied to an associate or joint venture.

- IFRS 9 Financial Instruments – Fees in the "10 per cent test" for derecognition of financial liabilities: The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either borrower or lender on the other's behalf.

- IAS 41 Agriculture – Taxation in fair value measurements: The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring fair value of assets within the scope of IAS 41.

Improvements are effective for annual reporting periods beginning on or after 1 January 2022.Earlier application is permitted for all. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

2.3 Consolidation

2.3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (including special purpose entities), which are entities controlled by the Bank. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Income and expenses and other comprehensive income of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and in the consolidated statement of other comprehensive income, respectively, from the effective date of acquisition and up to the effective date of disposal, as appropriate. Profit for the period and total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Group.

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

2.3.2 Non-controlling interests

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.3.3 Changes in the Group's ownership interests in subsidiaries that do not result in loss of control

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

2.3.4 Loss of control

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Assets of the subsidiary carried at fair value with the related cumulative gain or loss recognized in other comprehensive income, the amount previously recognized in other comprehensive income are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to the statement of profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

2.3 Consolidation (continued)

2.3.5 Joint Ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of a joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of a joint venture. An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture.

On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IFRS 9 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9.

The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

2.3 Consolidation (continued)

2.3.5 Joint Ventures (continued)

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

2.4 Business combinations

2.4.1 Acquisition method

Acquisitions of businesses are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree.

Acquisition-related costs are expensed as incurred and included in the statement of profit or loss under general and administrative expenses.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; And

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

2.4.2 Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the statement of profit or loss.

2.4 Business combinations (continued)

2.4.3 Contingent consideration

From January 1, 2010, when the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Other contingent consideration that:

(i) is within the scope of IFRS 9 is measured at fair value at each reporting date and changes in fair value are recognised in profit or loss in accordance with that IFRS;

(ii) is not within the scope of IFRS 9 is measured at fair value at each reporting date and changes in fair value are recognised in profit or loss.

For acquisitions before January 1, 2010, contingent consideration was recorded when its amount becomes probable and reliably measurable.

2.4.4 Business combination achieved in stages

From January 1, 2010, when a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in the statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to the statement of profit or loss where such treatment would be appropriate if that interest were disposed of.

2.5 Foreign currency transactions

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements of the Group are presented in thousands of TL, which is the functional currency of the Bank.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss. Translation differences on debt securities and other monetary financial assets re-measured at fair value are included in net trading income and results from investment securities. Translation differences on non-monetary financial assets are a component of the change in their fair value and are recognized in the statement of profit or loss for equity securities held for trading, or in other comprehensive income for equity securities classified as fair value through OCI investment securities. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

2.5 Foreign currency transactions (continued)

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Foreign currency translation rates used by the Group as of December 31, 2020 and 2019 are as follows:

	EUR / TL	**USD / TL**
December 31, 2020	9.0079	7.3405
December 31, 2019	6.6506	5.9402

2.6 Regular way purchases and sales

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. All regular way purchases and sales of financial assets are recognized on the settlement date apart from financial assets at fair value through profit or loss and investment securities and derivative instruments, which are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset.

2.7 Derivative financial instruments and hedge accounting

Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps, interest rate futures, currency and interest rate options (both written and purchased), credit default swaps and other derivative financial instruments are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Derivatives are presented in assets when favorable to the Group and in liabilities when unfavorable to the Group. Financial assets or liabilities at fair value through profit or loss are initially recognized and subsequently re-measured at fair value. All related realized and unrealized fair value gains and losses are included in net trading income. Interest earned or paid whilst holding financial assets or liabilities at fair value through profit or loss is reported as interest income or expense.

A derivative may be embedded in another financial instrument, known as “host contract”. In such cases, the derivative instrument is separated from the host contract and treated as a separate derivative, provided that its risks and economic characteristics are not closely related to those of the host contract, the embedded derivative actually meets the definition of a derivative and the host contract is not carried at fair value with unrealized gains and losses reported in the statement of profit or loss.

Derivative instruments held for trading and derivative instruments hedging purpose are classified, measured and accounted in accordance with "TFRS 9" and IAS 39 “Financial Instruments: Recognition and Measurement”, respectively.

2.7 Derivative financial instruments and hedge accounting (continued)

The Group also uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The Group applies fair value or cash flow hedge accounting when transactions meet the specified criteria to obtain hedge accounting treatment. The Group's criteria for a derivative instrument to be accounted for as a hedge include:

- at inception of the hedge, there is formal designation and documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the hedging period. A hedge is considered to be highly effective when the Group achieves offsetting changes in fair value between 80 percent and 125 percent for the risk being hedged;
- the hedge is highly effective on an ongoing basis; and
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

2.7.1 Fair value hedges

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognized in the statement of profit or loss along with the corresponding change in the fair value of the hedged item that is attributable to that specific hedged risk. For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the income statement in net trading income. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the income statement in net trading income.

In FV hedges of fixed rate Eurobond and government bonds classified as fair value through other comprehensive income (FVOCI) financial assets, fair value changes which have already been booked in other comprehensive income (OCI) are reclassified from OCI to net trading income in profit or loss statement.

If the hedge relationship no longer meets the criteria for hedge accounting, for reasons other than the de-recognition of the hedged item, or the hedging designation is revoked, the cumulative adjustment to the carrying amount of the hedged item, is, in the case of interest bearing financial instruments, amortized to the statement of profit or loss over the remaining term of the original hedged item using a recalculated effective interest rate , or in the case of a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and only in such a hedge), using a straight-line method. In other cases, adjustments to the hedged asset or liability arising from the application of hedge accounting are dealt with in accordance with the normal accounting treatment for that item. If the hedged item has been derecognized, e.g. sold or repaid, the unamortized fair value adjustment is recognized immediately in the statement of profit or loss.

As of September 30, 2018, the Bank terminated the hedge accounting for the fair value hedge of the fair value risk arising from the changes in the exchange rates for the real estates purchased in previous periods in foreign currency and the fair value of which is in foreign currency in the market. Fair value exchange difference adjustment amounting to TL 1,945,441 which is shown in tangible assets in the balance sheet, is amortized over the economic life of the property subject to hedging.

2.7 Derivative financial instruments and hedge accounting (continued)

In cases where fair value hedge operations cannot be effectively performed as described in IAS 39, fair value hedge accounting is ceased. The fair value differences reflected to income statement prior to discontinuation of hedge accounting are amortized through equity until the maturity of related hedged securities. The fair value differences of related portfolio securities sold prior to maturity are immediately realized in the income statement.

2.7.2 Cash flow hedges

Fair value gains or losses associated with the effective portion of a derivative designated as a cash flow hedge are recognized initially in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in net trading income in the statement of profit or loss.

When the cash flows that the derivative is hedging (including cash flows from transactions that were only forecast when the derivative hedge was effected) materialize, resulting in income or expense, then the associated gain or loss on the hedging derivative is simultaneously transferred from other comprehensive income to corresponding income or expense line item.

If a cash flow hedge for a forecast transaction is deemed to be no longer effective, or the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative previously reported in other comprehensive income is transferred to the statement of profit or loss when the committed or forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the statement of profit or loss.

2.7.3 Hedge effectiveness testing

To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective test), and demonstrate actual effectiveness (retrospective test) on an ongoing basis.

The documentation of each hedging relationship sets out how the hedge effectiveness is assessed. The method the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

Hedge ineffectiveness is recognized in the statement of profit or loss.

2.8 Offsetting

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

2.9 Interest income and expenses

Interest income is recorded according to the effective interest rate method (Rate equal to net present value of future cash flows of financial assets or liabilities) defined in the IFRS 9 "Financial Instruments" standard by applying the effective interest rate to the gross carrying amount of a financial asset except for purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. When applying the effective interest rate method, the Group identifies fees that are an integral part of the effective interest rate of a financial instrument. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognized in profit or loss.

2.10 Fees and commissions

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate in accordance with IFRS 9. Other fees and commission income, including account maintenance fees, investment management fees, sales commissions, placement fees and syndication fees, are recognized as the related services are performed in accordance with IFRS 15 Revenue from contracts with customers. Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

2.11 Financial Instruments

2.11.1 Initial measurement of financial instruments

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

2.11.2 Classification of financial instruments

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

As per IFRS 9, the Group classifies a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Group tested all financial assets whether their "contractual cash-flows solely represent payments of principal and interest" and assessed the asset classification within the business model. If any financial asset does not meet the "contractual cash-flows solely represent payments of principal and interest" criteria of IFRS 9 then it is classified as financial assets at fair value through profit/loss.

2.11 Financial Instruments (continued)

2.11.3 Assessment of business model

As per IFRS 9, the Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Group's business models are divided into three categories.

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

This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Cash and balances with T.R. central bank, due from banks, financial assets at amortised cost, loans and advances to customers, factoring receivables, finance lease receivables and other receivables are assessed within this business model.

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

This is a model whose objective is achieved by both collecting contractual cash flows and selling financial assets: the Group may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at fair value through other comprehensive income are assessed in this business model.

Other business models:

Financial assets are at fair value through profit or loss when they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial assets at fair value through profit/loss are assessed in this business model.

2.11.4 Measurement categories of financial assets and liabilities

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

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

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.

2.11 Financial Instruments (continued)

fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and measured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

Interest income earned on financial asset and the difference between their acquisition costs and amortized costs are recorded as interest income in the statement of profit or loss. The differences between the amortized costs and the fair values of such assets are recorded under trading account income/losses in the statement of profit or loss. In cases where such assets are sold before their maturities, the gains/losses on such sales are recorded under trading account income/losses.

Financial assets at fair value through profit and loss, which are recognized in accordance with the Group's business model, have loans, stocks, bonds and bills.

As of 31 December 2020, due to the adverse effects of the COVID-19 outbreak, the Bank has reviewed the valuation of its financial assets and liabilities which are measured at fair value through profit or loss, and deemed that no change is required in the fair valuation measurement as of the reporting date.

Financial Assets at Fair Value Through Other Comprehensive Income:

Financial assets within a business model that aims to hold to collect contractual cash flows and sell, then they are classified as fair value through other comprehensive income as long as the cash flows of the financial asset are 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 reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are measured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement.

"Unrealized gains and losses" arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and are accounted under the "Other comprehensive income/expense items to be recycled to profit/loss" under shareholders' equity. Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment. According to IFRS 9 principles "Unrealized gains and losses" arising from equity securities are accounted under the "Other comprehensive income/expense items not be recycled to profit/loss" under shareholders' equity.

As of 31 December 2020, due to adverse effects of the COVID-19 outbreak, the Bank has reviewed the valuation of its financial assets whose fair value difference is reflected in other comprehensive income, and deemed that no change is required in the fair valuation measurement as of the reporting date.

Financial Assets at Amortized Cost:

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets at amortized cost. Financial assets at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets at amortized cost is accounted in income statement.

2.12 Loans and Advances to Customers

Loans and advances to customers include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, and the Group does not intend to sell immediately or in the near term. Loans and advances to customers include those classified as loans and receivables and those measured at fair value though profit or loss.

Loans originated by the Group are recognized when cash is advanced to borrowers. Loans and advances to customers are initially recorded at fair value, which is usually the net amount disbursed at inception including directly attributable origination costs and certain types of fees or commission (syndication commission, commitment fees and handling charges) that are regarded as an adjustment to the effective interest rate of the loan, and are subsequently measured at amortized cost using the effective interest rate method, unless they are measured at “fair value through profit or loss” or “fair value through other comprehensive income” (see Note 2.11.4).

2.12.1 Explanations on write-off policy

The Parent Bank’s general policy for write-offs of loans and receivables under follow-up is to write of such loans and receivables that are proven to be uncollectible in legal follow-up process.

2.13 Explanations on Expected Credit Losses

Beginning from January 1, 2018, the Group recognizes a loss allowance for expected credit losses on financial assets and loans measured at amortized cost, financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts not measured at fair value through profit/loss based on IFRS 9. At each reporting date, the Group shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. The Group 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 that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of expected credit losses on the 12-month default risk. It is calculated 12-month expected credit loss based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate.

Stage 2:

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

Stage 3:

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

2.13 Explanations on Expected Credit Losses (continued)

• Delay of over 90 days;

• Impairment of credit worthiness;

• Collateral and / or equity of debtor is inadequate cover the payment of receivables on the maturity; and

• If it is convinced that will be delayed by more than 90 days for recovery of receivables due to macroeconomic, sector-specific or customer-specific reasons.

2.13.1 Calculation of expected credit losses

The Bank measured expected credit losses with the reasonable, objective and supportable information based on a probability-weighted including estimations about time value of money, past events, current conditions and future economic conditions as of the reporting date, without undue cost or effort. The calculation of expected credit losses consists of three main parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD). PDs and LGDs used in the ECL calculation are point in time ("PIT") - based for key portfolios and consider both current conditions and expected cyclical changes.

While the expected credit loss is estimated, three scenarios (baseline scenario, adverse scenario, New Economic Plan) are evaluated. Each of these scenarios was associated with the different PD and LGD.

In addition, a certain portion of commercial and corporate loans is assessed individually in accordance with the internal policies in the calculation of the expected credit losses based on IFRS 9. Such calculations are made by discounting the expected cash flows from the individual financial instrument to its present value using the effective interest rate.

When measuring expected credit losses, it shall be considered the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low. Such assessment is made by reflecting the estimate of expected credit loss which is unbiased and probability-weighted determined by evaluating a range of possible outcomes.

2.13.2 Probability of Default ("PD")

The PD represents the likelihood of a default over a specified time period. A 12-month PD represents the likelihood of default determined for the next 12 months and a lifetime PD represents the probability of default over the remaining lifetime of the instrument. The lifetime PD calculation is based on a series of 12-month PIT PDs that are derived from through the cycle (TTC) PDs and scenario forecasts.

It is used internal rating systems for both retail and commercial portfolios to measure risk level. The internal rating models used for the commercial portfolio include customer financial information and qualitative survey responses. Whereas behavioral and application scorecards used in the retail portfolio include; the behavioral data of the customer and the product in the Bank, the demographic information of the customer, and the behavioral data of the customer in the sector. Probability of default calculation has been carried out based on past information, current conditions and forward looking macroeconomic parameters.

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

2.13 Explanations on Expected Credit Losses (continued)

2.13.3 Loss Given Default ("LGD")

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

LGD calculations are performed using historical data which best reflects current conditions, by formation of segments based on certain risk factors that are deemed important for each portfolio and inclusion of forward-looking information and macroeconomic expectations. LGD summarizes all cash flows from customers subsequent to default. It covers all costs and collections that occur during the collection cycle, including collections from collaterals. It also includes the "time value of money"

calculated by means of deducting costs and additional losses from the present value of collections. The Bank bases its estimates on models for collateralized portfolios and on previous experience for unsecured parties, except for corporate loans that are assigned by the Basel Committee individually or as designated by the Basel Committee.

2.13.4 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. While the expected credit loss is estimated, three scenarios (baseline scenario, adverse scenario, New Economic Plan) are evaluated. Each of these scenarios was associated with the probability of different default and loss in default.

2.13.5 Consideration of the Macroeconomic Factors

Loss given default and probability of default parameters are determined by considering macroeconomic factors. The macroeconomic variables used in the calculation of the expected loss are as follows:

- Five year credit risk of Turkey;
- Real GDP growth;
- Unemployment rate;
- European Region inflation rate
- Five year government bond interest rate of Turkey.

Forward-looking aspect is included in the ECL calculation process through scenarios linked to macroeconomic parameters. Interdependency exists between macroeconomic parameters as well as risk drivers for a range of scenarios. Bank considers multiple scenarios in ECL assessment in order to diversify the loss expectation properly. The table below shows the weighted scenario macroeconomic parameters used in ECL calculations as of Decemeber 31, 2020;

Parameters/Years	2021	2022	2023
TR GDP Growth (%)	1.9	1.4	1.4
TR Inflation (%)	12.1	10.6	10.1
TR 5 YR Govt. Bond Rate (%)	15.1	13.9	13.1
TR 5 YR CDS Premium (bps)	550	510	470

2.13 Explanations on Expected Credit Losses (continued)

Stages were determined through the models created using internal information for the Bank, the simplified method has been applied for other financial institutions.

As of December 31, 2020, the Group has reflected the possible effects of the COVID-19 outbreak to the estimates and judgments used in the calculation of expected credit losses by using the data that is received with the maximum effort with the best estimation method. Compared to December 31, 2019, the weight of the worst-case scenario was increased by 20 points, and the weight of the base case scenario was reduced by 20 points. Within the light of the aforementioned data, the Group revised its macroeconomic expectations and weights in the expected credit loss calculation and the calculation which is made by taking into consideration the changes in PD and LGD is reflected in the financial statements as of December 31, 2020. As of December 31, 2020, there is not any parameter updates made as the actual situation is reflected. The model effects are tardily reflected to the financial statements due to the nature of the events that cause change and the effects of the events occur at different times.

Therefore, the Bank has booked additional provisions for the sector and customers who are considered to have a high impact by performing individual assessments to eliminate the timing difference.

2.13.6 Calculating the Expected Loss Period

Lifetime ECL is calculated by taking into account maturity extensions, repayment options and the period during which the 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. Behavioral maturity analysis has been performed on credit cards and overdraft accounts. With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless there is the legal right to call it earlier.

2.13.7 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. In this context, the Group has calculated thresholds at which point the relative change is a significant deterioration. In the quantitative evaluation of the significant increase in credit risk, the Bank considers the absolute thresholds as well as the relative thresholds as an additional layer. Receivables below the absolute threshold value of default are not included in the relative threshold value comparison.

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

- Loans overdue more than 30 days as of the reporting date;

- Loans classified as watch-list of the Bank; and

- When there is a change in the payment plan due to restructuring.

2.14 Sale and repurchase agreements

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to repurchase agreements (‘repos’), continue to be recognized on the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. The counterparty liability for amounts received under these agreements is included within securities sold under agreements to repurchase in due to other banks or customer deposits, as appropriate. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a fixed rate at a specified future date (‘reverse repos’) are not recognized on the statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in due from banks. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

2.15 Securities borrowing and lending

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in net trading income.

Respectively, securities lent and securities provided as collateral under securities borrowing transactions are not derecognized from the financial statements unless control of the contractual rights that comprise these securities transferred is relinquished.

The Group monitors the market value of the securities borrowed and lent on a regular basis and provides or requests additional collateral in accordance with the underlying agreements. Fees and interest received or paid are recorded as interest income or interest expense, on an accrual basis.

2.16 Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

2.17 Derecognition

2.17.1 Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. The Group shall assess the characteristics of the new contractual terms of the financial asset based on quantitative and qualitative criteria. 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 in case a significant change is determined, it is 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 it is retained control of the asset, it is continued to recognize the remaining portion of the asset and liabilities arising from such asset. When it is retained substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognised in its entirety and the consideration received is recognised as a liability.

2.17.2 Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss.

2.18 Fair value of financial instruments

The Group measures the fair value of its financial instruments based on a framework for measuring fair value that categorizes financial instruments based on a three-level hierarchy of the inputs to the valuation technique, as discussed below.

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

Level 2: Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, as well as debt securities without quoted prices and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and corporate debt securities with prices in markets that are not active and certain OTC derivative contracts.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

2.19 Property and equipment

Property and equipment include land and buildings, leasehold improvements and transportation and other equipment, held by the Group for use in the supply of services or for administrative purposes. Property and equipment are initially recorded at cost, which includes all costs that are required to bring an asset into operating condition. Subsequent to initial recognition, property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs incurred subsequent to the acquisition of an asset, which is classified as property and equipment are capitalised, only when it is probable that they will result in future economic benefits to the Group beyond those originally anticipated for the asset, otherwise they are expensed as incurred.

Depreciation of an item of property and equipment begins when it is available for use and ceases only when the asset is derecognized. Therefore, the depreciation of an item of property and equipment that is retired from active use does not cease unless it is fully depreciated, but its useful life is reassessed. Depreciation on property and equipment is calculated using the straight-line method over their estimated useful lives as follows:

Land	No depreciation
Buildings and land improvements	Up to 50 years
Furniture and fixtures	5-12 years
Machinery and equipment	4-5 years
Vehicles	4-7 years
Leasehold improvements	Over the term of respective leases

Expenses for repairs and maintenance are charged to expenses as incurred.

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end.

At each reporting date the Group assesses whether there is any indication that an item of property and equipment may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of the fair value less costs to sell and value in use. Impairment losses are recognized in the statement of profit or loss.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year the asset is derecognized.

Foreclosed assets, which consist mainly of properties acquired through foreclosure in full or partial satisfaction of a related loan, are initially measured at fair value less estimated costs to sell, which includes transaction costs, and reported under other assets. After initial recognition foreclosed assets are re-measured at the lower of their carrying amount and fair value less estimated costs to sell.

Subsequent gains may be recognized up to the amount of previous write-downs. Any gains or losses on liquidation or re-measurement of foreclosed assets are included in other operating income/ (expenses).

2.20 Intangible assets

Intangible assets include goodwill, purchased software and internally generated software.

Goodwill

Subsequent to initial recognition, goodwill is stated at cost, as established at the date of acquisition (see Note 29) less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

The Group assesses goodwill for possible impairment annually or more frequently if there are indications for impairment. The assessment involves estimating whether the carrying amount of the goodwill remains fully recoverable. When making this assessment the Group compares the carrying value of the CGU to which the goodwill is allocated to its recoverable amount, which is the higher of fair value less cost to sell and value in use. Fair value is estimated by reference to market value, if available, or is determined by a qualified evaluator or pricing model. Determination of a fair value and value in use requires management to make assumptions and use estimates. If the recoverable amount is less than the carrying amount, an irreversible impairment loss is recognized, and the goodwill is written down by the excess of the carrying amount of the unit over its recoverable amount.

Internally generated software

The amount initially recognized for internally generated software is the total expenditure incurred from the date when the internally generated software first meets the recognition criteria. Where no internally generated software can be recognized, development expenditure is charged to the statement of profit or loss in the period in which it is incurred.

Research costs are expensed as incurred. An internally generated software arising from development expenditure incurred on an individual project is recognized only when the Group can demonstrate:

- the technical feasibility of completing the internally generated software so that it will be available for use;
- its intention to complete and use the asset;
- the ability to use the asset;
- how the asset will generate future economic benefits;
- the ability of adequate technical, financial and other resources to complete the development and use the asset; and
- the ability to measure reliably the expenditure during development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and impairment losses.

2.20 Intangible assets (continued)

Purchased software

Software includes costs that are directly associated with identifiable and unique software products controlled by the Group that are anticipated to generate future economic benefits exceeding costs beyond one year. Expenditure, which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of software. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any impairment losses.

Measurement

Software costs recognized as assets are amortized using the straight-line method over their useful lives, for internal generated software the useful life is 5 years whereas for purchased software the useful life is 3 years.

The carrying value of intangible assets is reviewed for impairment annually or more frequently when an indication of impairment arises during the reporting year.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

2.21 Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

2.21.1 The Group as a lessee

Finance leases: Leases where the Group has substantially all the risks and rewards of ownership of the asset are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The outstanding rental obligations, net of finance charges, are included in other liabilities. The interest element of the finance cost is charged to the statement of profit or loss over the lease period. All assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Operating leases: Group; It records the lease payments made in accordance with the operating lease agreements in equal amounts during the lease period. The Bank has operating lease agreements for some branches and ATM machines. The lease agreements are amortized during the lease period by measuring the lease obligation at the present value of the lease payments (lease obligation) that has not been paid at that date and by recording the relevant usage right as of the same date. Lease payments are discounted using this rate if the implicit interest rate in the lease can be easily determined. If the tenant cannot easily determine this rate, he uses the alternative borrowing interest rate. The tenant separately records the interest expense on the rental obligation and the depreciation expense of the right to use asset.

2.21 Leases (continued)

2.21.2 The Group as a lessor

Finance leases: When assets are leased out under a finance lease, the present value of the minimum lease payments is recognized as a receivable. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Finance leases are presented in finance lease receivables.

Impairment losses on finance lease receivables

The Group assesses expected losses at each reporting date according to IFRS 9 guidance in a similar way to the loans and advances to customers as described in 2.13.

Operating leases: Assets leased out under operating leases are included in the statement of financial position based on the nature of the asset. They are depreciated over their useful lives on a basis consistent with similar owned property. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the lease term.

2.22 Factoring receivables

Factoring receivables are measured at amortized cost using the effective interest rate method after deducting unearned interest income and when specific provisions for impairment are provided under IFRS 9 requirements.

2.23 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, unrestricted balances held with central banks, amounts due from other banks and highly liquid financial assets with original maturities of less than three months from the date of acquisition such as treasury bills and other eligible bills, investment and trading securities which are subject to insignificant risk of changes to fair value and are used by the Group in the management of its short-term commitments.

2.24 Provisions

Provisions are recognized when the Group 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement recognized.

2.25 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract, other than those assessed as insurance contracts, is recognized initially at their fair value and subsequently measured at the higher of: (a) the unamortized balance of the related fees received and deferred, and (b) the best estimate of the amount required to settle the guarantee at the reporting date.

2.26 Employee benefits

The Group has defined benefit plans as described below:

A defined benefit plan is a post-employment benefit plan that defines an amount of benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. For defined benefit plans, the liability is the present value of the defined benefit obligation as at the reporting date minus the fair value of the plan assets (if any), including any adjustments for unrecognized actuarial gains/losses and past service cost.

In accordance with existing Turkish Labor Law, the Group is required to make lump-sum severance indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

The Group has reflected the retirement pay liability amount, which was calculated by an independent actuary, using the projected unit credit method in the accompanying financial statements.

Remeasurements, comprising of actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Net interest expense and service costs related to the defined benefit plans are recognized in personnel expenses in the statement of profit or loss.

Short-term emloyee benefits - The Group provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19, “Employee Benefits”.

Defined contribution plans - The Group has to pay contributions to the Social Security Institution on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. These contributions are recognized as an employee benefit expense when they are accrued.

2.27 Income taxes

Tax charge (benefit) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

a. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. In accordance with the Corporate Tax Law No. 5520 published in the Official Gazette No: 26205 dated June 21, 2006, statutory income is subject to corporate tax at 20%. However, according to temporary article 10 added to the Corporate Income Tax Law, the rate of 20% shall be applied as 22% for the corporate earnings of the taxation periods of the companies in 2018, 2019 and 2020 (accounting periods starting within the relevant year for companies appointed for the special accounting period).

b. Deferred tax

Deferred tax is fully provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date. Since the applicable tax rate has been changed to 22% for the 3 years beginning from January 1, 2018, 22% tax rate is used in the deferred tax calculation of December 31, 2019 for the temporary differences expected to be realized/closed within 2 years (for the years 2019 and 2020). However, since the corporate tax rate after 2020 is 20%, 20% tax rate is used for the temporary differences expected to be realized/closed after 2020.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to items which are recognized in other comprehensive income is also recognized in other comprehensive income. Such deferred tax is subsequently recognized in the statement of profit or loss together with the deferred gain or loss. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

2.28 Interest bearing deposits and borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. Interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the amortization process.

2.29 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 and its subsidiaries.

2.30 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors as its chief operating decision makers.

All transactions between business segments are conducted on an arm´s length basis, with inter-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

2.31 Related party transactions

Related parties include entities, which the Group has the ability to exercise significant influence in making financial and operating decisions. Related parties include, directors, shareholders, close members of their families, companies owned or controlled by them and companies over which they can influence the financial and operating policies.

2.32 Fiduciary and trust activities

The Group 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 Group receives fee income for providing these services. Trust assets held by the Group 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 Group. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

2.33 Earnings per share

The basic earnings per share (EPS) ratio is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share ratio is computed using the same method as for basic EPS, but the determinants are adjusted to reflect the potential dilution that could occur if convertible debt securities, options, warrants or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

3 Critical judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. The Group believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate given the factual circumstances as of December 31, 2020.

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

The most significant areas, for which judgments, estimates and assumptions are required in applying the Group's accounting policies, are the following:

3.1 Expected credit losses for loans and advances to customers, finance lease and factoring receivables

The amount of the allowance for impairment of loans and advances to customers, finance lease receivables and factoring receivables is based upon IFRS 9 principles as described in Note 2.13.

Applying this methodology requires management to make estimates regarding the amount and timing of the cash flows, which are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral or guarantees in favor of the Group. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently reviewed.

In assessing the need for expected credit loss allowances, management considers factors such as time value of money, past events, current conditions and future economic conditions as of the reporting date. In order to estimate the required allowance, assumptions are made both to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances and provisions depends on the model assumptions and parameters used in determining loss allowances. In addition, a certain portion of commercial and corporate loans is assessed individually in accordance with the internal policies in the calculation of the expected credit losses based on IFRS 9. While this necessarily involves judgment, management believes that the allowances and provisions are reasonable and supportable.

The amount of the allowance for impairment of loans and advances to customers, finance lease receivables and factoring receivables are described in Note 23,25,24.

3 Critical judgments and estimates (continued)

3.1 Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These include present value methods and other models based mainly on observable input parameters and to a small extent to non-observable input parameters.

All valuation models are validated before they are used as a basis for financial reporting, and periodically reviewed thereafter, by qualified personnel independent of the area that created the model.

The Group applies the models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. Management therefore establishes valuation adjustments to cover the risk associated with the estimation of unobservable input parameters and the assumptions within the models themselves.

Although a significant degree of judgment is, in some cases, required in establishing fair values, management believes the fair values recorded in the statement of financial position and the changes in fair value recorded in the statement of profit or loss are prudent and reflective of the underlying economics, based on the controls and procedural safeguards employed.

The Bank has assessed the effects of the COVID-19 outbreak with respect to its financial instruments which are classified in Level 3 as inputs for these instruments are highly dependent on estimates and judgments and deemed that no change is required as of the reporting date.

4 Other Matters

The Parent Bank classified the amounts related to gains / losses on the shares of investments valued by equity method recognized in other comprehensive income in the previous period financial statements, in accordance with Accounting Policies, International Accounting Standards ("IAS 8") Regarding Changes and Errors in Accounting Estimates. The effect of the related adjustments is presented in the second section, Changes in Equity Table for the dates of 31 December 2020. The related classification has no effect on the consolidated statement of profit or loss and consolidated statement of other comprehensive income in current and previous periods.

5 Financial risk management

5.1 Financial risk management

The Group's Risk Management Department is responsible for monitoring and managing all potential risks for the Group in a centralized and efficiently coordinated manner. The primary goal of the Group's Risk Management Department is to provide business lines with appropriate capital allocation (economic capital) for risks they are exposed to.

The Group aims to adopt practices regarding risk management governance, taking into account all relevant guidelines and regulatory requirements, as set by the Basel Committee, BRSA and the Capital Markets Board ("CMB"), as well as any decisions of the competent authorities supervising the Group entities.

Risk management governance at the Group starts with the Board of Directors. The Board Risk Committee ("BRC"), Asset Liability Committee ("ALCO"), Corporate and Retail Credit Policy Committee ("CPC"), Operational Risk Committee ("ORC") and the Risk Management Department are the important bodies of the risk management structure. The Board of Directors determines the general risk policy and the risk appetite of the Bank. The BRC defines risk policies and strategies, reviews the types of risks the Bank is exposed to in its monthly meetings, monitors the implementation of the risk management strategies and brings the important risk issues to the attention of the Board.

5 Financial risk management (continued)

5.1 Financial risk management (continued)

The ALCO, meeting bi-weekly, is responsible for monitoring and managing the structural asset liability mismatches of the Bank, as well as monitoring and controlling liquidity risk and foreign currency exchange risk. The CPC meets monthly and is responsible for monitoring and evaluating the Bank's lending portfolio and determining principles and policies regarding the credit risk management processes such as loan approval, limit setting, rating, monitoring and problem management. The ORC meets every three months and is responsible for reviewing operational risk issues of the Bank and defining the necessary actions to be taken to minimize these risks.

The Risk Management Department, working independently from the executive functions and reporting to the Board of Directors, is organized under four groups as market risk, credit risk, operational risk and model validation, each having responsibility for identifying, measuring, monitoring, controlling and managing the relevant risks as well as for model validation, assessing the predictive ability of risk estimates and the use of ratings in credit processes.

The Internal Audit Division, which reports directly to the Board of Directors through the Audit Committee, complements the risk management framework and acts as an independent reviewer, focusing on the effectiveness of the risk management framework and control environment.

5.1.1 Board Risk Committee

The Group's risk management policies are approved by the BRC, the members of which are the Chairman of the Board of Directors, and three members of the Board of Directors. According to its internal regulation, the BRC is responsible for all strategic risk management decisions including, for example, the approval and review of risk strategy, policies and capital adequacy and allocation as well as oversight of the CPC and the ORC.

5.1.2 Group Risk Management Department

The department seeks to protect the Group against unforeseen losses and to maintain earnings stability through the independent identification and assessment of risks. It uses a framework for evaluating risks as the basis for organizing the Group structure. Its role in maximizing the Bank's earnings potential involves measuring performance on a risk-adjusted basis and allocating capital accordingly.

In addition, it is responsible for providing the BRC and the Executive Committee with data and analysis required for measuring, monitoring and managing risks and for supporting the implementation of risk management decisions. Group risk management policies are approved by the BRC.

The department undertakes to do the following:

- Analyze, measure, monitor, control, mitigate and report to management all significant on- and off-balance sheet risks undertaken at the Bank and the Group level;
- Adopt risk management policies with regard to significant credit, market, operational and other risks undertaken by the Bank and the Group;
- Evaluate the internal capital that is required in respect of all aforementioned risks and estimate all relevant capital ratios of the Bank and the Group;
- Establish a framework for undertaking risk applicable to all levels of management and collective bodies of the Bank and the Group;
- Establish early warning systems and perform stress tests on a regular basis;

5.1 Financial risk management (continued)

- Guide decision making processes at the Group level by providing the necessary risk management related evaluation;
- Develop forecasting models/approaches for the measurement/monitoring of portfolio credit risk through Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD); and
- Implement risk based "Credit Classification" and "Expected Credit Loss" calculations under IFRS 9, determine credit risk measurement framework, develop and implement the relevant models / approaches.

5.1.3 Asset and liability management

The ALCO propose asset and liability management procedures and policies to the Board of Directors. The ALCO is responsible for executing these policies and managing structural interest rate risk within the limits defined by the Board of Directors. The ALCO meets on a monthly basis. At these meetings, the ALCO reviews the critical issues and determines the strategies for asset and liability management.

5.1.4 Internal Audit Division

Internal Audit Division ("IAD") in the Group has objective of conducting assurance and consulting activities designed to add value and improve operations.

5.1.5 Management of specific risks

The Bank's risk management processes distinguish among the types of risks set out below.

5.2 Credit risk

Credit risk represents the risk arising from the counterparty not fulfilling its responsibilities stated in the agreement either partially or totally. The Credit Risk Committees and Credit Divisions are responsible for managing credit risk of the Group.

The total limit amount which is imposed on debtors individually or as a group is determined according to the size of the exposure and the assessment of different loan allocation parties in the Bank. Beside total limit, product base limits also exist.

The creditworthiness of the Group's debtors is continuously monitored as long as the credit relation exists. Updated financial statements and intelligence is periodically collected by credit departments. The limits of the loan customers are revised periodically and the Group analyses the creditworthiness of the customers and requires collaterals within the framework of its credit policies.

The Group establishes limits over the positions of forward transactions, options and other similar agreements. The credit risk arising from these instruments is managed together with the risks resulting from market fluctuations. The Group monitors regularly risks of forward transactions, options and other similar agreements and reduces the risk if necessary by obtaining margin deposits or entering into netting agreements.

The restructured and rescheduled loans are monitored by the Bank according to its Credit Risk Policy. According to the Credit Risk Policy, the Bank could restructure or reschedule a loan in order to strengthen the liquidity of the loan customer and to increase the collectability of the loan. After evaluation of the loan, the loan is either restructured by issuing an additional loan to the customer or rescheduled by modifying the payment amount or payment plan. The customer's financial position and commercial activities are continuously analyzed and the principal and interest payments of rescheduled loans are monitored by the credit department.

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

5.2 Credit risk (continued)

Grades for companies having restructured and rescheduled loans are updated based on the analysis and credit performance of the company.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the financial statements, without taking account of any collateral held or other credit enhancements attached. For on balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position.

Gross maximum exposure	**December 31, 2020**	**December 31, 2019**
T.R. Central Bank	25,176,948	17,103,687
Due from banks (net)	7,441,016	7,447,689
Investments measured at FVTPL	291,611	226,164
Derivative financial assets	9,229,156	7,939,309
Investments measured at FVOCI	15,173,415	12,153,644
Investments measured at amortised cost	18,733,201	16,169,450
Loans and advances to customers	137,336,828	109,445,928
Factoring receivables	2,127,916	1,630,527
Finance lease receivables	7,427,403	5,583,145
Other assets	1,102,693	865,050
Total	**224,040,187**	**178,564,593**
Financial guarantees and lending commitments	33,124,941	28,503,244
Credit card limits	35,578,598	28,852,687
Other commitments	71,890,465	54,623,054
Total	**140,594,004**	**111,978,985**
Total credit risk exposure	**364,634,191**	**290,543,578**

5.2.1 Credit rating system

The Bank aims to manage its loan portfolio based on international best practices. In this respect, the Bank has formed internal scoring and rating systems, based on statistical methods to monitor the credibility of its clients. These systems classify 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. The Bank uses rating and scoring systems for corporate customers in order to assess the creditworthiness of a customer applying for a loan, and behavioral scoring systems for existing customers in order to calculate the default probability in a certain period of time. These systems are revised periodically based on international best practices and methodologies and calibrated if necessary.

5.2 Credit risk (continued)

The Bank utilizes behaviour scorecards in order to monitor retail loans (mortgage loans, consumer credits, credit cards) portfolio. Behaviour scorecards are developed and validated in-house. There are different behaviour scorecards for each product group as well as delinquency status (there are different scorecards for current credits and delinquent credits for each credit type). Behaviour scores are calculated with every installment/statement starting at 3rd month for credit cards and retail loans using payment behaviour of the customer. The scorecards measure the probability that the loan will become non-performing in the following months. All of the scorecards are monitored on a quarterly basis and, if needed, necessary actions are taken to update them. In application and collection stages, the scorecards are utilized heavily in strategies. Behavior scores are also used for selecting target groups for cross-selling and other marketing campaigns.

The most common practice used by the Group to mitigate credit risk is the taking of security for funds advances. The Group implements guidelines on the acceptability of specific classes of collateral. The principal collateral types for loans and advances to customers are:

- Collaterals for mortgages over residential and commercial properties;
- Charges over business assets such as premises, ships, vehicles, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Cash collaterals;
- Bank or personal guarantees.

Revolving credit facilities to individuals and debt securities, treasury and other eligible bills are generally unsecured.

5.2.2 Loans and advances to customers and finance lease receivables restructured

Restructuring activities include extended and/or rescheduled payment arrangements, approved external management plans, arrangement of terms of loan such as modification and deferral of payments, interest rate, currency, collateral structure, granting additional loan sale of collaterals, sale of debts, or sale of company.

If restructuring is entered into for non-performing loans, such loans will be reported as non-performing for a minimum of one year and may be reported as performing if IFRS 9 requirements are met. However as a conservative practice, The Bank continues to classify such loans under non-performing loans. As of December 31, 2020, the total amount of restructured loans included in non performing loans are TL 201,345 (December 31, 2019: TL 70,697).

As of December 31, 2020, the total amount of restructured finance lease receivables included in non performing loans are TL 198,158 (December 31, 2019: TL 142,469).

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

5.2 Credit risk (continued)

5.2.3 Credit risk by industry sector

An industry sector analysis of the Group's loans and advances to customers are as follows:

Industry sector	**December 31, 2020**	**December 31, 2019**
Private individuals	48,832,464	38,774,332
Trade and services (excl. tourism)	25,458,261	21,047,866
Industry & mining	26,700,505	19,622,460
Construction and real estate development	13,749,025	11,286,730
Transportation and telecommunications	14,255,246	11,044,183
Tourism	4,322,913	3,859,387
Small scale industry	2,309,577	2,378,781
Factoring	650,346	398,313
Leasing	1,054,953	906,677
Other	3,538	127,199
Total	**137,336,828**	**109,445,928**

An industry sector analysis of the Group's finance lease receivables are as follows:

Industry sector	**December 31, 2020**	**December 31, 2019**
Small scale industry	6,275,603	4,766,683
Industry and mining	670,324	481,552
Construction and real estate development	31,860	24,606
Transportation and telecommunications	211,017	126,444
Tourism	48,179	34,886
Trade and services (excl. tourism)	26,312	20,021
Other	164,108	128,953
Total	**7,427,403**	**5,583,145**

An industry sector analysis of the Group's factoring receivables are as follows:

Industry sector	**December 31, 2020**	**December 31, 2019**
Industry and mining	530,037	425,161
Construction and real estate development	445,351	310,001
Transportation and telecommunications	138,588	163,845
Trade and services (excl. tourism)	323,144	176,397
Tourism	30,020	36,744
Shipping	1,863	6,888
Small scale industry	29,450	19,985
Factoring	139,512	140,802
Other	489,951	350,704
Total	**2,127,916**	**1,630,527**

5.2 Credit risk (continued)

5.2.4 Counterparty risk

The Group faces counterparty risk from the over-the-counter transactions and the repurchase agreements in which it is involved. Counterparty risk is the risk arising from an obligor's failure to meet its contractual obligations. For the efficient management of counterparty risk, the Bank has established a framework of counterparty limits. The financial institution department is responsible for setting and monitoring the limits.

Counterparty limits are set based on the credit ratings of the financial institutions. The credit ratings are provided by internationally recognized ratings agencies, in particular by Moody's and Standard & Poor's. According to the Bank's policy, if agencies disagree on the creditworthiness of a financial institution, only the lowest rating will be taken into consideration. In cases where a financial institution is not rated by the above agencies, its rating is given by the Bank's internal rating model.

The counterparty limits apply to all financial instruments which the Treasury department actively trades in the interbank market. The limits framework is revised according to the business needs of the Bank and prevailing conditions in international financial markets. A similar limit structure for the management of counterparty risk is enforced across all of the Group's subsidiaries.

The Group seeks to reduce counterparty risk by standardizing relationships with counterparties through International Swaps and Derivatives Association ("ISDA"), Global Master Repurchase Agreement ("GMRA") and Global Master Securities Lending Agreement ("GMSLA") contracts that respectively include all necessary closeout netting clauses and margining agreements. Additionally, for the most active counterparties in over-the-counter derivatives, credit support annexes have been put in effect so that on the basis of daily valuations, net current exposures are managed through margin accounts where cash collaterals can be reciprocally posted.

The Bank avoids taking positions in derivative contracts where the values of the underlying assets are highly correlated with the credit quality of the counterparty.

To calculate capital requirements, the Bank measures the exposure amount by applying a methodology that includes:

- data gathering via risk management systems;
- performance of quantitative and qualitative checks; and
- application of the fair value methodology according to the BRSA.

5.3 Market risk

Market risk arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity and bond prices and foreign exchange rates) and their levels of volatility. In recent years, the Group has expanded its trading activities to include a wide variety of financial products in order to enhance its profitability and its service to customers. These trading activities require the Bank to assume market risk, which the Group seeks to identify, estimate, monitor and manage effectively through a framework of principles, measurement processes and a valid set of limits that apply to all of the Group's transactions. The capital required for General Market Risk and Specific Risk is calculated and reported monthly in accordance with the Standard Method defined in the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" issued by the BRSA. The most significant types of market risk for the Group are interest rate risk and foreign exchange risk.

Interest rate risk is the risk related to the potential loss on the Group's portfolio due to adverse movements in the interest rates. Interest rate risk is the risk that the fair value or future cash flows of Group's portfolio will fluctuate because of changes in market interest rates. A principal source of interest rate risk exposure arises from the Group's financial assets at fair value through profit or loss and fair value through OCI bond portfolios, floating rate assets and liabilities carried at amortized cost, and its interest rate exchange traded and OTC transactions.

The Group has to manage the interest rate risk that derives from the positions it retains in Turkish government bonds, denominated mostly in TL. In addition, the Group enters into swap transactions either for hedging purposes, or for proprietary reasons. As a means of hedging, the Group enters into swap transactions in order to hedge the interest rate risk of its Eurobond portfolio, which consists of Turkish government bonds denominated in foreign currency.

The Group also obtains liquidity in US dollars and Euro which are then converted into TL through cross currency interest rate swaps in order to offer loans to its customers. Furthermore, these cross currency interest rate swaps act as a hedge to the interest rate risk that derives from the Group's loan portfolio.

Equity risk is the risk related to the potential loss that might occur due to adverse movements in the prices of stocks and equity indices. The Group holds a limited portfolio of stocks, the majority of which are traded on the Istanbul Stock Exchange, and also retains positions in stock and equity index derivatives traded in the Turkish and international exchanges.

Foreign exchange risk is the risk related to the potential loss due to adverse movements in foreign exchange rates. The foreign exchange risk derives from the Group's Open Currency Position ("OCP").

The Group trades in all major currencies holding mainly short-term positions for trading purposes and for servicing its institutional, corporate, domestic and international clients. According to the Bank's strategy, the end of day OCP should comply with the regulatory limits.

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

5.3 Market risk (continued)

5.3.1 Market risk on fair value through profit or loss (FVPL) portfolio

Market Risk arises due to positions in the trading book, including trading securities, open currency position and all derivatives excluding transactions done for hedging purposes, taken by the Bank with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices or interest rate variations. Trading book mainly composed of FVPL portfolio align with Basel Committee Trading Book standards. The Bank estimates the market risk of its Trading Book by applying a Value-at-Risk ("VaR") methodology. In particular, the Bank has adopted a historical simulation methodology with a 99% confidence interval and a one day holding period. Bank Risk Tolerance and VaR limits for each risk factor are determined in order to manage the market risk efficiently and to keep the market risk within the desired limits. The Group Risk Management Department monitors VaR balances daily for compliance with the limits. Periodic stress tests and scenario analyses are used to support the results of VaR.

The VaR limits have been determined by reference to worldwide best practices; they refer not only to specific types of market risk, such as interest rate and foreign exchange, but also to the overall market risk of the Bank's Trading Book portfolios.

The tables below present the Bank's VaR for 2020 and 2019, VaR has risen YoY mainly due to volatility increase stemmed from COVID-19 outbreak;

	Total VaR	Interest Rate VaR	Foreign Exchange Risk VaR
As of December 31, 2020	**7,039**	**6,728**	**212**
As of December 31, 2019	**5,586**	**5,020**	**212**

In addition, the Bank performs back testing in order to verify the predictive power of its VaR model. The calculations involve the comparison of "hypothetical" daily gains and losses with the respective estimates of the VaR model used for regulatory purposes.

Stress test analysis is also performed by the Bank on its trading book portfolios on a monthly basis. The scenarios refer to extreme movements of interest rates and foreign exchange prices and are based on the latest financial crises which have taken place in Turkey.

5.3.2 Limitations of the VaR model

The VaR model is based on certain theoretical assumptions, which under extreme market conditions might not capture the maximum loss the Bank will suffer. The restrictions of the Bank's methodology are summarized as follows:

- The use of historical data series as predictive measures for the behaviour of risk factors in the future might prove insufficient in periods of intense volatility in financial markets;

5.3 Market risk (continued)

5.3.2 Limitations of the VaR model

- The one-day holding period for VaR calculations (or ten days for regulatory purposes) implies that the Bank will be able to liquidate all its trading assets within this length of time. This assumption might underestimate market risk in periods of insufficient liquidity in financial markets or in cases where certain assets in the Bank's portfolio cannot be easily liquidated;
- VaR refers to the plausible loss on the Bank's portfolio for a 99% confidence interval, not taking into account any losses beyond that level;
- All calculations are based on the Bank's positions at the end of each business day, ignoring the intra-day exposures and any realized losses that might have been incurred; and
- VaR estimates rely on small changes in the prices of risk factors. For bigger movements, the methodology would not fully capture the effect on the value of the portfolio.

5.3.3 Interest rate risk in the banking book and interest rate sensitivity

The interest rate risk resulting from the banking book comprises of maturity mismatch risk, yield-curve risk, base risk and option risk. Within the scope of the interest rate risk, the Bank analyzes all these risks periodically, and considering market conditions, manages all aspects of interest rate risk on the banking book effectively in accordance with the Bank's strategy. The Group believes that it maintains adequate measurement, monitoring, and control functions for interest rate risk in the banking book, including:

- measurement systems for interest rate risk that capture all material sources of interest rate risk and that assess the effect of interest rate changes in ways that are consistent with the scope of the Group's activities;
- measurement of vulnerability to loss under stressful market conditions;
- processes and information systems for measuring, monitoring, controlling, and reporting interest rate risk exposures in the banking book; and
- a documented policy regarding the management of interest rate risk in the banking book.

Interest rate risk that would arise from the changes in interest rates depending on the Group's position is managed by the ALCO of the Bank.

Interest rate sensitivity of assets, liabilities and off balance sheet items is analyzed by top management in the ALCO meetings held every month by taking the market developments into consideration.

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

In addition to customer deposits and bond issuance, the Bank funds its long term fixed interest rate TL installment loan portfolio with long term (up to 10 years) floating interest rate foreign currency funds obtained from international markets. The Bank swaps the foreign currency liquidity obtained from the international markets to TL liquidity with long term swap transactions (fixed TL interest rate and floating foreign currency interest rate).

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

5.3 Market risk (continued)

5.3.3 Interest rate risk in the banking book and interest rate sensitivity

Even though the Bank is exposed to structural interest rate risk on its statement of financial position due to the nature of its existing activities, the Bank's policy aims to ensure that this risk stays within the pre-defined limits. The ALCO aims to protect the economic value of equity, while sustaining a stable earnings profile. Duration/GAP analyses, which rely on calculations of net discounted future cash flows of interest rate sensitive balance sheet items, are conducted to manage this risk.

The Bank runs net economic value sensitivity scenarios with changes in interest rates and interest rate margins, so as to calculate their impact on net economic value. Standard interest shocks are determined in accordance with the Basel regulation. Moreover, various historical crisis financial turmoil scenarios including reverse stress test, are simulated in order to measure the Bank's sustainability against to severe interest rate shocks.

The interest rate risk on banking book is measured legally as per the "Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method" published by BRSA on August 23, 2011, and the legal limit as per this measurement is monitored and reported monthly to the Asset and Liability Committee, the Board Risk Committee and the Board of Directors. Interest rate risk increase due to loan growth, loan demands are increased within the effects of COVID-19 outbreak.

Type of Currency	Shocks Applied (+/- x basis points)	Gains/ (Losses)	Gains/Equity-(Losses) /Equity
1. TL	(+) 500	(2,342,565)	(8.30)%
	(-) 400	2,157,475	7.65%
2. EUR	(+) 200	(213,528)	(0.76)%
	(-) 200	263,348	0.93%
3. USD	(+) 200	(14,062)	(0.05)%
	(-) 200	63,239	0.22%
Total (of negative shocks)		**2,484,062**	**%8.81**
Total (of positive shocks)		**(2,570,155)**	**%(9.11)**

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

5.3 Market risk (continued)

5.3.3 Interest rate risk in the banking book and interest rate sensitivity

The following table indicates the periods in which financial assets and liabilities re-price as of December 31, 2020:

December 31, 2020

ASSETS	Up to 1 Month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with T.R. Central Bank	6,502,002	-	-	-	-	20,901,085	27,403,087
Due from banks	739,632	-	-	-	-	6,701,384	7,441,016
Financial assets at FVTPL	1,357	167,660	20,010	78,520	22,847	216,152	506,546
Derivative financial assets	-	-	-	-	-	9,229,156	9,229,156
Loans and advances to customers	28,876,967	20,127,152	50,730,005	31,901,120	3,464,761	2,236,823	137,336,828
Factoring receivables	1,104,793	643,869	367,723	-	-	11,531	2,127,916
Finance lease receivables	854,409	367,318	1,652,888	4,373,314	134,219	45,255	7,427,403
Financial assets at FVOCI	1,807,231	1,277,032	3,165,778	3,839,136	4,728,569	386,392	15,204,138
Financial assets at amortised cost	3,072,701	2,305,967	4,811,742	3,274,171	4,668,299	600,321	18,733,201
Other assets	-	-	-	-	-	9,088,930	9,088,930
Total assets	**42,959,092**	**24,888,998**	**60,748,146**	**43,466,261**	**13,018,695**	**49,417,029**	**234,498,221**
LIABILITIES							
Due to other banks	15,857,755	6,099,044	1,664,310	149,268	-	122,969	23,893,346
Customer deposits	55,021,425	16,154,783	4,175,747	339,333	201	49,992,735	125,684,224
Derivative financial liabilities	-	-	-	-	-	8,156,462	8,156,462
Debt securities issued	1,067,207	1,453,422	1,075,335	11,117,292	-	-	14,713,256
Funds borrowed	2,192,365	15,917,191	10,558,975	3,859,839	11,266	1,488	32,541,124
Other liabilities and equity	1,553	2,524	9,339	12,573	-	29,483,820	29,509,809
Total liabilities	**74,140,305**	**39,626,964**	**17,483,706**	**15,478,305**	**11,467**	**87,757,474**	**234,498,221**
On balance sheet sensitivity gap	**(31,181,213)**	**(14,737,966)**	**43,264,440**	**27,987,956**	**13,007,228**	**(38,340,445)**	**-**
Off-balance sheet sensitivity gap	**4,654,568**	**10,976,595**	**(362,930)**	**(2,137,413)**	**(9,188,318)**	**(3,942,502)**	**-**
Total interest sensitivity gap	**(26,526,645)**	**(3,761,371)**	**42,901,510**	**25,850,543**	**3,818,910**	**(42,282,947)**	**-**

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

5.3 Market risk (continued)

The following table indicates the periods in which financial assets and liabilities re-price as of December 31, 2019:

December 31, 2019

ASSETS	Up to 1 Month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with T.R. Central Bank	5,273,844	-	-	-	-	13,474,408	18,748,252
Due from banks	3,753,802	94,582	-	-	-	3,599,305	7,447,689
Financial assets at FVTPL	114,899	7,350	13,993	86,489	10,889	59,778	293,398
Derivative financial assets	-	-	-	-	-	7,939,309	7,939,309
Loans and advances to customers	26,322,559	13,031,437	39,207,110	25,648,716	2,905,404	2,330,702	109,445,928
Factoring receivables	875,103	409,956	308,749	28,154	-	8,565	1,630,527
Finance lease receivables	453,733	296,501	1,216,341	3,331,631	172,566	112,373	5,583,145
Financial assets at FVOCI	888,910	951,296	3,187,056	3,129,517	3,756,216	439,283	12,352,278
Financial assets at amortised cost	2,102,380	2,924,348	3,936,398	2,689,458	4,240,488	276,378	16,169,450
Other assets	-	-	-	-	-	7,510,175	7,510,175
Total assets	**39,785,230**	**17,715,470**	**47,869,647**	**34,913,965**	**11,085,563**	**35,750,276**	**187,120,151**
LIABILITIES							
Due to other banks	10,289,739	5,000,974	2,695,406	47,281	94,459	194,280	18,322,139
Customer deposits	56,644,110	14,368,541	3,505,154	253,342	149	25,330,303	100,101,599
Derivative financial liabilities	-	-	-	-	-	5,135,493	5,135,493
Debt securities issued	1,573,004	3,021,032	579,328	9,172,748	-	-	14,346,112
Funds borrowed	3,660,296	9,396,528	6,636,235	1,717,694	3,385,579	2,775	24,799,107
Other liabilities and equity	1,597	2,592	8,969	9,035	-	24,393,508	24,415,701
Total liabilities	**72,168,746**	**31,789,667**	**13,425,092**	**11,200,100**	**3,480,187**	**55,056,359**	**187,120,151**
On balance sheet sensitivity gap	**(32,383,516)**	**(14,074,197)**	**34,444,555**	**23,713,865**	**7,605,376**	**(19,306,083)**	-
Off-balance sheet sensitivity gap	**5,271,880**	**21,627,288**	**1,917,808**	**(15,205,275)**	**(7,384,089)**	**(6,227,612)**	-
Total interest sensitivity gap	**(27,111,636)**	**7,553,091**	**36,362,363**	**8,508,590**	**221,287**	**(23,533,695)**	-

5.3.4 Foreign exchange risk

The Group evaluates its exposure for the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group enters into foreign currency forward transactions and swap transactions to decrease foreign currency position risk. The Group also engages in foreign currency and Eurobond buy-sell option transactions.

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

Consolidated subsidiaries and associates determine position limit related with currency risk as determined by local regulatory bodies. Branches established abroad conduct their operations in local currencies of the countries they are incorporated in.

As of December 31, 2020, the Group's net foreign currency position, after including the off-balance sheet position (notional values of derivatives) is TL 493,131 short (December 31, 2019: TL 47,569 short).

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

5.3 Market risk (continued)

5.3.4 Foreign exchange risk

The table summarizes the Group's assets and liabilities and equity at carrying amounts and derivatives at notional amounts categorized by currency.

December 31, 2020

ASSETS	**TL**	**USD**	**EUR**	**Other**	**Total**
Cash and balances with T.R. Central Bank(*)	2,502,370	13,011,260	10,655,063	1,234,394	27,403,087
Due from banks	1,041,549	3,158,742	3,089,308	151,417	7,441,016
Financial assets at FVTPL	290,301	184,720	31,525	-	506,546
Derivative financial assets	6,859,658	1,650,675	718,309	514	9,229,156
Loans and advances to customers	91,790,409	17,051,558	28,334,219	160,642	137,336,828
Factoring receivables	1,793,218	138,509	196,166	23	2,127,916
Finance lease receivables	2,439,285	1,162,168	3,825,950	-	7,427,403
Financial assets at fair value through other comprehensive income	5,816,589	7,426,922	1,960,627	-	15,204,138
Financial assets at amortised cost	9,549,478	7,565,888	1,617,835	-	18,733,201
Investments in joint ventures	218,587	-	-	-	218,587
Intangible assets	544,995	-	-	-	544,995
Property and equipment	3,520,457	-	37	18	3,520,512
Deferred tax assets	1,036,556	-	-	-	1,036,556
Current tax assets	29,628	-	-	-	29,628
Other assets	3,585,291	127,221	23,315	2,825	3,738,652
Total assets	**131,018,371**	**51,477,663**	**50,452,354**	**1,549,833**	**234,498,221**
LIABILITIES					
Due to other banks	5,282,033	14,262,642	4,140,220	208,451	23,893,346
Customer deposits (**)	47,858,512	44,552,875	16,132,684	17,140,153	125,684,224
Derivative financial liabilities	4,834,991	2,688,998	632,473	-	8,156,462
Debt securities issued	2,761,835	11,228,075	-	723,346	14,713,256
Funds borrowed	2,838,094	18,506,290	11,196,727	13	32,541,124
Retirement benefit obligations	316,801	-	-	-	316,801
Current income taxes	1,077,742	-	-	-	1,077,742
Other liabilities and equity	28,517,359	(715,152)	305,073	7,986	28,115,266
Total	**93,487,367**	**90,523,728**	**32,407,177**	**18,079,949**	**234,498,221**
Net on balance sheet position	**37,531,004**	**(39,046,065)**	**18,045,177**	**(16,530,116)**	**-**
Net off-balance sheet position	**(37,037,873)**	**38,578,070**	**(18,063,554)**	**16,523,357**	**-**
Net position including TL	**493,131**	**(467,995)**	**(18,377)**	**(6,759)**	**-**

(*)Cash and Balances with T. R. Central Bank Other include TL 1,160,921 (December 31, 2019: TL 737,276) of precious metal deposit account.

(**)Customer Deposits include TL 15,484,501 (December 31, 2019– TL 3,700,363) of precious metal deposit account

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

5.3 Market risk (continued)

5.3.4 Foreign exchange risk

As of December 31, 2019, the Group's net foreign currency position, after including the off-balance sheet position (notional values of derivatives) is TL 47,569 short.

December 31, 2019

ASSETS	TL	USD	EUR	Other	Total
Cash and balances with T.R. Central Bank(*)	1,125,268	10,095,007	6,753,925	774,052	18,748,252
Due from banks	3,631,137	1,722,921	2,055,748	37,883	7,447,689
Financial assets at FVTPL	276,303	11,836	5,259	-	293,398
Derivative financial assets	6,820,665	677,961	440,377	306	7,939,309
Loans and advances to customers	73,247,487	15,159,245	20,829,317	209,879	109,445,928
Factoring receivables	1,411,074	69,948	142,975	6,530	1,630,527
Finance lease receivables	1,421,595	1,136,768	3,014,342	10,440	5,583,145
Financial assets at fair value through other comprehensive income	4,793,718	5,211,057	2,347,503	-	12,352,278
Financial assets at amortised cost	8,576,939	5,727,814	1,864,697	-	16,169,450
Investments in joint ventures	199,384	-	-	-	199,384
Intangible assets	479,435	-	-	-	479,435
Property and equipment	3,408,076	-	236	40	3,408,352
Deferred tax assets	448,047	-	-	-	448,047
Other assets	2,922,230	16,743	33,882	2,102	2,974,957
Total assets	**108,761,358**	**39,829,300**	**37,488,261**	**1,041,232**	**187,120,151**
LIABILITIES					
Due to other banks	563,088	10,343,174	7,045,090	370,787	18,322,139
Customer deposits (**)	46,547,147	38,066,717	10,714,700	4,773,035	100,101,599
Derivative financial liabilities	3,714,007	1,059,948	361,503	35	5,135,493
Debt securities issued	5,065,658	9,163,041	-	117,413	14,346,112
Funds borrowed	2,019,625	14,176,214	8,196,443	406,825	24,799,107
Retirement benefit obligations	256,263	-	-	-	256,263
Current income taxes	207,492	-	-	-	207,492
Other liabilities and equity	24,021,631	(406,692)	322,847	14,160	23,951,946
Total	**82,394,911**	**72,402,402**	**26,640,583**	**5,682,255**	**187,120,151**
Net on balance sheet position	**26,366,447**	**(32,573,102)**	**10,847,678**	**(4,641,023)**	**-**
Net off-balance sheet position	**(26,318,878)**	**32,393,436**	**(10,734,773)**	**4,660,215**	**-**
Net position including TL	**47,569**	**(179,666)**	**112,905**	**19,192**	**-**

(*)Cash and Balances with T. R. Central Bank Other include TL 737,276 (December 31, 2018: TL 2,020,547) of precious metal deposit account.

(**)Customer Deposits include TL 3,700,363 (December 31, 2018– TL 1,862,513) of precious metal deposit account

Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

The following table details the Group's sensitivity to a 10% appreciation and depreciation in the TL against USD and EUR. The 10% rate is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

	Change in currency rate	Effect on net profit or loss		Effect on equity(*)	
		2020	**2019**	**2020**	**2019**
USD	10% increase	(10,787)	(13,503)	(115,883)	(67,403)
USD	10% decrease	10,787	13,503	115,883	67,403
EUR	10% increase	(1,887)	92	(4,807)	(479)
EUR	10% decrease	1,887	(92)	4,807	479

(*)Effect on equity also includes the effect of the change in foreign currency rates on the statement of profit or loss.

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

5.4 Liquidity risk

Liquidity risk arises in the general funding of the Bank's financing and trading activities and in the management of investment positions. It includes the risk of increases in funding costs and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

It reflects the potential mismatch of payment obligation to incoming payments, taking into account unexpected delays in repayments (term liquidity risk) or unexpectedly high payment outflows (withdrawal/ call risk). Liquidity risk involves both the risk of unexpected increases in the cost of the funding the portfolio of asset at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

The primary objectives of the Bank's asset and liability management are to ensure that sufficient liquidity is available to meet the Bank's commitments to its customers in respect of repayment of deposits and ATM transactions, to satisfy the Bank's other liquidity needs and to ensure compliance with capital adequacy and other applicable Central Bank regulations.

The ALCO is responsible for forming and overseeing the implementation of the asset and liability management strategy of the Bank. The objective of the Bank's asset and liability management strategy is to structure the Bank's balance sheet in view of liquidity risk, maturity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has adequate capital and is using capital to maximize net interest income.

The Bank applies the following liquidity metrics in order to monitor and manage liquidity risk:

1- The basic tool for measuring, monitoring, and evaluating liquidity needs and liquidity sources is the liquidity gap report. Liquidity gap reports reflect the liquidity provided by cash inflows and the liquidity needed to fund cash outflows. They incorporate cash flows associated with assets and liabilities into time buckets.

2- Liquidity Coverage Ratio (LCR) is a short term quantitative liquidity standard which has been developed by the Basel Committee as part of Basel III. The Bank maintains an adequate level of unencumbered, high-quality liquid assets (HQLA) that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress test scenario. As a result of the financial uncertainty caused by the COVID-19 outbreak, conservative liquidity management has been the major priority of the Bank. The Bank managed LCR over the limit during 2020 by keeping high quality liquid assets at a sufficient level.

Liquidity Coverage Ratio	**FX**	**FX+TL**
December 31, 2020	196.69%	114.17%
Average (%)	198.18%	114.34%
Maximum (%)	232.48%	123.94%
Minimum (%)	164.00%	102.91%
Limit (%)	80.00%	100.00%

The ALCO sets the Bank's policies for interest rate levels and terms for loans and deposits and makes decisions regarding maturities and pricing of loans and deposits. In addition, members of the treasury department, including the group managers, managers, assistant managers and fixed income and foreign exchange traders, meet on a daily basis to monitor the risk exposure of the Bank, particularly the Banks's net foreign currency short position and the daily interest rate gap and duration.

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

5.4 Liquidity risk (continued)

The Banks's treasury department is responsible for managing and implementing the Banks's asset and liability positions on a day-to-day basis and ensuring the availability of funds for all of the Banks's products and services distributed through the Banks's branch network. The Treasury department measures and evaluates on a daily basis the Banks's risk exposure and unfavorable changes in market conditions and regularly monitors the short-term mismatches between assets and liabilities.

The following table indicates the periods in which financial assets and liabilities remaining maturities as of December 31, 2020:

December 31, 2020	Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 yrs	Over 5 years	Undistributed	Total
Cash and balances with T.R. Central Bank	13,922,022	13,484,464	-	-	-	-	(3,399)	27,403,087
Due from banks	1,469,910	5,981,295	-	-	-	-	(10,189)	7,441,016
Financial assets at FVTPL	214,934	1,408	2,411	20,076	244,653	23,064	-	506,546
Derivative financial assets	-	464,496	803,683	2,193,254	4,395,763	1,371,960	-	9,229,156
Loans and advances to customers	-	24,056,906	15,121,227	41,118,115	40,953,519	13,849,238	2,237,823	137,336,828
Factoring Recaivables	-	653,040	860,699	589,196	13,450	-	11,531	2,127,916
Finance lease receivables	-	854,409	367,318	1,652,888	4,373,314	134,219	45,255	7,427,403
Financial assets at FVOCI	8,590	894,058	429,419	753,006	6,206,987	6,898,052	14,026	15,204,138
Financial assets at amortised cost	-	920,449	160,562	1,176,682	9,937,017	6,548,647	(10,156)	18,733,201
Other assets	-	2,367,458	4,051	18,765	1,536,470	3,921	5,158,265	9,088,930
Total assets	**15,615,456**	**49,677,983**	**17,749,370**	**47,521,982**	**67,661,173**	**28,829,101**	**7,443,156**	**234,498,221**
Due to banks	123,020	15,493,257	3,674,981	786,083	2,672,117	1,143,888	-	23,893,346
Customer Deposits	49,918,940	55,095,759	16,154,783	4,175,747	338,794	201	-	125,684,224
Derivative financial liabilities	27,269	6,062,202	1,342,653	724,338	-	-	-	8,156,462
Debt securities issued	-	1,069,682	1,450,667	1,075,596	11,117,311	-	-	14,713,256
Funds Borrowed	-	1,863,654	1,844,967	12,888,535	10,142,584	1,945,654	3,855,730	32,541,124
Other liabilities	69,727	3,847,051	11,773	37,689	2,358,389	2,760,133	20,425,047	29,509,809
Total liabilities	**50,138,956**	**83,431,605**	**24,479,824**	**19,687,988**	**26,629,195**	**5,849,876**	**24,280,777**	**234,498,221**
Liquidity Excess / Gap	**(34,523,500)**	**(33,753,622)**	**(6,730,454)**	**27,833,994**	**41,031,978**	**22,979,225**	**(16,837,621)**	**-**
Net Off- Balance Sheet Position	**-**	**(1,156,689)**	**(915,308)**	**1,260,404**	**1,906,623**	**27,800**	**-**	**1,122,830**
Receivables from financial derivative instruments	-	42,886,011	26,710,279	14,308,819	40,026,017	32,234,805	-	156,165,931
Liabilities from derivative financial instruments	-	44,042,700	27,625,587	13,048,415	38,119,394	32,207,005	-	155,043,101
Non Cash Loans	**-**	**2,300,896**	**3,178,517**	**14,212,232**	**4,524,946**	**565,058**	**8,343,292**	**33,124,941**
December 31, 2019								
Total Assets	11,333,569	38,994,482	12,714,765	38,493,978	56,197,913	22,286,689	7,098,755	187,120,151
Total Liabilities	25,623,207	77,521,177	23,554,238	13,307,655	24,210,990	6,636,572	16,266,312	187,120,151
Liquidity Excess / Gap	**(14,289,638)**	**(38,526,695)**	**(10,839,473)**	**25,186,323**	**31,986,923**	**15,650,117**	**(9,167,557)**	**-**
Net Off- Balance Sheet Position	**-**	**128,075**	**660,565**	**1,577,261**	**1,094,394**	**73,885**	**-**	**3,534,180**
Receivables from financial derivative instruments	-	27,996,638	11,389,515	19,110,747	42,730,763	25,436,082	-	126,663,745
Liabilities from derivative financial instruments	-	27,868,563	10,728,950	17,533,486	41,636,369	25,362,197	-	123,129,565
Non Cash Loans	**-**	**1,444,446**	**3,429,954**	**10,398,162**	**5,527,961**	**574,047**	**7,128,674**	**28,503,244**

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

5.4 Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below show the Group's maturity distribution of certain financial liabilities, other than derivatives. The tables below are prepared by considering the contractual undiscounted cash flows expected on the nearest cash flow dates. The interest which will be paid at the maturity date is included in these tables. Interest payable for floating rate liabilities are determined by taking the latest rate and applying the same rate for all the future payments. All deposits in remaining maturities table of the contractual liabilities are in callable status.

December 31, 2020

	Carrying Amount	Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 yrs	Over 5 years	Total
Due to other banks	23,893,346	123,020	15,613,054	3,710,704	859,271	2,760,161	1,150,776	24,216,986
Customer deposits	125,684,224	49,918,940	55,257,083	16,283,058	4,220,636	342,026	365	126,022,108
Debt securities issued	14,713,256	-	1,100,671	1,665,937	1,484,980	11,846,108	-	16,097,696
Funds borrowed	32,541,124	-	1,869,303	1,886,530	12,981,992	10,225,274	5,819,571	32,782,670
Financial guarantees and lending commitments(*)	33,124,941	8,343,292	2,300,899	3,178,517	14,212,233	4,524,946	565,054	33,124,941
Total	**229,956,891**	**58,385,252**	**76,141,010**	**26,724,746**	**33,759,112**	**29,698,515**	**7,535,766**	**232,244,401**

December 31, 2019

	Carrying Amount	Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 yrs	Over 5 years	Total
Due to other banks	18,322,139	3,961,106	6,572,028	4,357,087	1,513,629	1,260,339	973,950	18,638,139
Customer deposits	100,101,599	25,250,471	56,674,998	14,317,711	3,599,000	279,039	181	100,121,400
Debt securities issued	14,346,112	-	1,729,841	2,876,258	1,330,969	10,441,452	-	16,378,520
Funds borrowed	24,799,107	4,565	2,499,933	1,372,146	5,733,059	11,157,600	4,444,848	25,212,151
Financial guarantees and lending commitments(*)	28,503,244	7,128,674	1,444,447	3,429,954	10,398,162	5,527,961	574,046	28,503,244
Total	**186,072,201**	**36,344,816**	**68,921,247**	**26,353,156**	**22,574,819**	**28,666,391**	**5,993,025**	**188,853,454**

(*) Amounts related to letters of guarantee represent maturities based on contract and amounts per these maturities and the amounts have the nature to be withdrawn on demand optionally.

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

5.4 Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The tables below show the remaining maturities of derivatives:

December 31, 2020	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Total
Forward Contracts Buy	3,675,446	1,690,279	1,866,574	708,839	-	7,941,138
Forward Contracts Sell	(3,672,565)	(1,653,033)	(1,785,519)	(747,655)	-	(7,858,772)
Swap Contracts Buy(*)	40,724,015	24,456,156	7,163,843	40,813,660	32,332,669	145,490,343
Swap Contracts Sell(*)	(41,867,501)	(25,325,611)	(11,108,379)	(38,060,766)	(32,304,876)	(148,667,133)
Futures Buy	324,076	609,122	122,178	-	-	1,055,376
Futures Sell	(345,798)	(630,696)	(132,877)	-	-	(1,109,371)
Options Buy	812,899	353,367	372,689	-	-	1,538,955
Options Sell	(789,738)	(332,023)	(308,209)	-	-	(1,429,970)
Other	-	-	146,810	807,455	-	954,265
Total	**(1,139,166)**	**(832,439)**	**(3,662,890)**	**3,521,533**	**27,793**	**(2,085,169)**

December 31, 2019	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Total
Forward Contracts Buy	2,621,190	1,096,480	2,056,001	903,893	-	6,677,564
Forward Contracts Sell	(2,617,307)	(1,110,362)	(1,973,468)	(1,018,211)	-	(6,719,348)
Swap Contracts Buy(*)	24,641,301	9,641,592	14,820,993	41,392,757	25,436,083	115,932,726
Swap Contracts Sell(*)	(24,466,810)	(8,886,217)	(13,009,461)	(39,411,822)	(25,362,196)	(111,136,506)
Futures Buy	-	94,641	4,557	-	-	99,198
Futures Sell	-	(93,475)	(4,437)	-	-	(97,912)
Options Buy	2,594,100	1,120,796	2,455,702	434,110	-	6,604,708
Options Sell	(2,619,785)	(1,123,475)	(2,460,779)	(434,110)	-	(6,638,149)
Other	-	118,804	326,711	772,226	-	1,217,741
Total	**152,689**	**858,784**	**2,215,819**	**2,638,843**	**73,887**	**5,940,022**

(*)Interest rate swap transactions are settled in net amounts.

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

5.5 Fair values of financial assets and liabilities

a. Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's statement of financial position at fair value and for which the fair value is different from the carrying amount.

	December 31, 2020				
Financial assets	**Carrying amount**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Loans and advances to customers (Note 23)	137,336,828	-	133,994,051	-	133,994,051
Finance lease receivables	7,427,403	-	7,407,138	-	7,407,138
Financial assets at amortised cost	18,733,201	18,411,185	793,124	-	19,204,309

	December 31, 2020				
Financial liabilities	**Carrying amount**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Customer deposits	125,684,224	53,231,298	72,498,143	-	125,729,441
Debt securities issued	14,713,256	-	14,238,955	-	14,238,955
Funds borrowed	32,541,124	-	32,713,147	-	32,713,147

	December 31, 2019				
Financial assets	**Carrying amount**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Loans and advances to customers (Note 23)	109,445,928	-	109,266,119	-	109,266,119
Finance lease receivables	5,583,145	-	5,818,906	-	5,818,906
Financial assets at amortised cost	16,169,450	15,234,741	880,548	-	16,115,289

	December 31, 2019				
Financial liabilities	**Carrying amount**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Customer deposits	100,101,599	27,891,794	72,188,830	-	100,080,624
Debt securities issued	14,346,112	-	14,189,700	-	14,189,700
Funds borrowed	24,799,107	-	24,755,375	-	24,755,375

The following methods and assumptions were used to estimate the fair values of the above financial instruments at December 31, 2020 and 2019:

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

5.5 Fair values of financial assets and liabilities (continued)

a. Financial instruments not measured at fair value (continued)

Loans and advances to customers and finance lease receivables: The fair value of loans and advances to customers and finance lease receivables with fixed interest rates is estimated using discounted cash flow models. The discount rates are based on current market interest rates offered for instruments with similar terms to the same borrowers or borrowers of similar credit quality. The carrying amount of floating rate loans is considered to approximate their fair values.

Customer deposits: The fair value of demand deposits is the payable amount at customer intention for withdrawal. The fair value of floating rated placements and the overnight deposits approximates their carrying amount. The fair value of fixed rate time deposits is calculated by discounting the expected future cash flows using the interest rate prevailing in the market.

Debt securities issued: Fair value is estimated using market prices, or if such are not available, using a discounted cash flow analysis, based on current market rates of similar maturity debt securities.

Funds borrowed: Fair value is estimated using market prices, or if such are not available, discounted cash flow analysis based on the Group's current incremental borrowing rates for similar types of borrowing arrangements is used.

Amortized cost investments: Fair value is calculated using market prices.

b. Financial instruments measured at fair value

The tables below present the fair values of those financial assets and liabilities presented on the Group's statement of financial position at fair value by fair value measurement level at December 31, 2020 and 2019, as described in Note 2.18.

	December 31, 2020			
Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL	367,738	128,831	9,977	506,546
Derivative financial assets	102	9,229,054	-	9,229,156
Loans and advances to customers designated at FVTPL (Note 23)	-	-	116,829	116,829
Financial assets at fair value through other comprehensive income	15,173,415	30,723	-	15,204,138
Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial liabilities	2,924	8,153,538	-	8,156,462

	December 31, 2019			
Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL	293,398	-	-	293,398
Derivative financial assets	1,372	7,937,937	-	7,939,309
Loans and advances to customers designated at FVTPL (Note 23)	-	-	86,838	86,838
Financial assets at fair value through other comprehensive income	11,971,520	380,758	-	12,352,278
Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial liabilities	212	5,135,281	-	5,135,493

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

5.5 Fair values of financial assets and liabilities (continued)

b. Financial instruments measured at fair value (continued)

Level 3 Financial Instruments:

Level 3 financial instruments at December 31, 2020 include loans and advances to customers which are carried at fair value through profit or loss and which are valued using discounted cash flow valuation techniques incorporating unobservable credit spreads. The Bank conducts a review of fair value hierarchy classification on a quarterly basis.

Reconciliation of fair value measurements in Level 3 is presented below:

	2020	**2019**
	Loans and advances to customers designated at FVTPL	**Loans and advances to customers designated at FVTPL**
Balance at January 1	**86,838**	**110,032**
Transfer into / (out of) level 3	-	(47,455)
Gain / (losses) included in statement of profit or loss	29,991	24,261
Gain / (losses) included in OCI	-	-
Purchases	9,977	-
Sales	-	-
Settlements	-	-
Balance at December 31	**126,806**	**86,838**

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

5.6 Capital adequacy and credit ratings

The Group's capital base includes all types of regulatory eligible Own Funds, as these are defined by the BRSA, which differs from the total equity under IFRS. Among others, the Group's regulatory own funds include the share capital, the share premium account, the reserves, retained earnings, and subordinated debt issues.

The Group manages actively its capital base by taking advantage of the contemporary means for raising capital, with the objective to sustain its capital adequacy ratios well above the minimum regulatory levels and at the same time to improve the weighted average cost of capital to the benefit of its shareholders. In this framework, both the calculation of the capital requirements and the dynamic management of the capital base are embedded in the business plan and the annual budgeting processes, in accordance with the capital adequacy targets that have been set in the Group's Risk Strategy.

The Group's total capital ratio is calculated by dividing its Tier 1 capital, which comprises general provisions per its statutory financial statements and evaluation surplus, by the aggregate of its risk-weighted assets, risk-weighted off-balance sheet exposures, market and other risk provisions. In accordance with the BRSA guidelines the Group must, in general, maintain a total capital ratio in excess of 8%; however, if operations include activities in offshore regions, as is the case with the Bank, the BRSA imposes 12%.

With the regulations published in the Official Gazette dated June 28, 2012, the BRSA has introduced a Basel II based method for the Banking system. The Group's consolidated capital adequacy ratio is 15.78% calculated as in accordance with the related Communique as of December 31, 2020 (December 31, 2019: 15.23%).

The capital adequacy of the Group in accordance with the BRSA guidelines is as follows:

	December 31, 2020	**December 31, 2019**
Tier I capital	23,537,305	20,386,260
Tier II capital	4,826,353	4,084,692
Total capital	28,363,658	24,470,952
Deductions	(47,793)	(28,525)
Net total capital	28,315,865	24,442,427
Risk-weighted assets (including market & operational risk)	179,427,043	160,490,548
Capital adequacy ratios		
Tier I ratio	13.12%	12.70%
Total capital ratio	15.78%	15.23%

Credit ratings

The table below sets forth the credit ratings that have been assigned to the Bank by Moody's Investors Service Limited (referred to below as ''Moody's'') and Fitch Ratings Ltd. (referred to below as ''Fitch''). All credit ratings have been affirmed and/or upgraded as follows.

	Fitch September 2020	***Moody's December 2020***
Long-term foreign currency	B+	B2
Short-term foreign currency	B	NP
Long-term local currency deposit	BB-	B1
Short-term local currency deposit	B	NP
National long-term national rating	AA(tur)	-
Support	4	-
Bank financial strength	B+	-
Outlook	-	Negative

6 Segment reporting

6.1 Operating segment

The Group has identified operating segments in a manner consistent with the internal reporting provided to the chief operating decision maker, the Board of Directors. The Group manages its business through the following business segments:

Retail banking

Retail banking includes individuals and micro enterprises. The Banks's retail banking activities consist primarily of mortgages, consumer lending, credit and debit card services, deposits and investments and insurance products.

Corporate and commercial banking

Corporate and commercial banking includes lending to all large and medium-sized companies. The Banks's corporate and commercial banking activities include trade finance, traditional lending, SME banking, project finance, cash management, corporate syndication and secondary market transactions, deposits and the issuance of certificated debt instruments. The Banks's SME banking activities consist primarily of revolving credit lines, installment loans, overdrafts, business housing loans and deposits.

Treasury and head office

The Bank also serves in financial assets at fair value through profit or loss and treasury operations. The main function of Treasury Segment is managing the liquidity of the Bank and interest and foreign currency risks resulting from market conditions.

The segment information related to the above segments are presented on the basis used by the Board of Directors to evaluate performance. The Board of Directors reviews discrete financial information for each of its segments, including measures of operating results. The segments are managed primarily on the basis of their results, which are measured on a basis which is broadly consistent with the Summary of Significant Accounting Policies described in Note 2, with the exception of certain adjustments. Management considers that this information provides the most appropriate way of reviewing the performance of the business. The adjustments are as follows:

- **Fee income and expense:** Fees received and paid which are considered an integral part of the effective interest rate calculation are presented as 'Net fee and commission income' instead of "Net interest income" as under IFRS.
- **Recoveries on loans and advances to customers previously written-off:** The subsequent recovery on loan amounts previously written off are reported in "net other income" instead of as a reduction of the provision for loan losses as under IFRS.
- **Operating expenses:** Represents operating expenses which can not be attributed to the segment results of operations.
- **Other:** Adjustments included in other represent the unwinding of interest, which is not included in the provision for impairment losses in the segment results of operations, and other individually insignificant reclassifications.

Transactions between the business segments are on normal commercial terms and conditions.

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

6.1 Operating segment (continued)

Breakdown by business segment	Retail Banking	Corporate and Commercial Banking	Treasury and Head Office	Total	Reconciling Items	Total
12 month period ended December 31, 2020						
External operating income	5,096,061	3,492,744	1,816,418	10,405,223	(335,265)	10,069,958
Net interest income	3,328,958	2,789,265	4,157,227	10,275,450	(3,282,452)	6,992,998
Net fee and commission income	1,720,225	687,318	193,499	2,601,042	(158,886)	2,442,156
Net other income	46,878	16,161	(2,534,308)	(2,471,269)	3,106,073	634,804
Total operating income	**5,096,061**	**3,492,744**	**1,816,418**	**10,405,223**	**(335,265)**	**10,069,958**
Total operating expenses	(2,267,170)	(1,734,368)	(547,225)	(4,548,763)	416,620	(4,132,143)
Impairment losses on loans and advances to customers, finance lease receivables and factoring receivables	(761,235)	(1,761,390)	(149,655)	(2,672,280)	122,286	(2,549,994)
Profit before tax	**2,067,656**	**(3,014)**	**1,119,538**	**3,184,180**	**203,641**	**3,387,821**
Total Assets	47,855,623	98,466,811	71,220,907	217,543,341	16,954,880	234,498,221
Total Liabilities	88,937,401	36,754,071	66,903,198	192,594,670	41,903,551	234,498,221
Other Segment items	**955,982**	**704,979**	**(58,858)**	**1,602,103**	**(262,710)**	**1,339,393**
Capital expenditure	615,635	453,994	(37,992)	1,031,637	(261,749)	769,888
Depreciation and amortization	340,347	250,985	(20,866)	570,466	(961)	569,505

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

6.1 Operating segment (continued)

Breakdown by business segment	**Retail Banking**	**Corporate and Commercial Banking**	**Treasury and Head Office**	**Total**	**Reconciling Items**	**Total**
12 month period ended December 31, 2019						
External operating income	4,686,216	3,492,427	1,312,402	9,491,045	(13,262)	9,477,783
Net interest income	2,547,694	2,765,721	2,526,684	7,840,099	(1,373,009)	6,467,090
Net fee and commission income	2,023,007	716,756	83,777	2,823,540	(213,983)	2,609,557
Net other income	115,515	9,950	(1,298,059)	(1,172,594)	1,573,730	401,136
Total operating income	**4,686,216**	**3,492,427**	**1,312,402**	**9,491,045**	**(13,262)**	**9,477,783**
Total operating expenses	(2,207,194)	(1,552,648)	(427,041)	(4,186,883)	204,597	(3,982,286)
Impairment losses on loans and advances to customers, finance lease receivables and factoring receivables	(397,012)	(1,584,209)	(12,457)	(1,993,678)	(13,154)	(2,006,832)
Profit before tax	**2,082,010**	**355,570**	**872,904**	**3,310,484**	**178,181**	**3,488,665**
Total Assets	39,764,608	76,885,580	58,283,739	174,933,927	12,186,224	187,120,151
Total Liabilities	68,846,852	31,246,986	53,758,767	153,852,605	33,267,546	187,120,151
Other Segment items	**458,631**	**242,203**	**(143,667)**	**557,167**	**594,980**	**1,152,147**
Capital expenditure	25,693	13,569	(2,042)	37,220	596,130	633,350
Depreciation and amortization	432,938	228,634	(141,625)	519,947	(1,150)	518,797

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

6.2 Geographical information

The Bank and its subsidiaries operate principally in Turkey and Bahrain. As the operation results outside of Turkey are quite negligible in the consolidated results, no further geographical segment information is presented.

7 Net interest income

	12 month period ended December 31,	
	2020	**2019**
Interest earned on:		
Loans and advances to customers	13,831,946	15,451,715
Securities	2,802,664	2,418,407
Financial assets at FVPL	13,628	11,452
Financial assets at FVOCI	1,118,543	1,088,038
Financial assets at amortised cost	1,670,493	1,318,917
Finance lease receivables	560,212	505,876
Factoring receivables	216,682	253,979
Due from banks	397,079	817,340
Interest income	**17,808,583**	**19,447,317**
Interest payable on:		
Customer deposits	(4,148,463)	(7,780,693)
Debt securities issued and funds borrowed	(5,785,903)	(4,674,531)
Due to other banks	(881,219)	(525,003)
Interest expense	**(10,815,585)**	**(12,980,227)**
Net interest income	**6,992,998**	**6,467,090**

8 Net fee and commission income

	12 month period ended December 31,	
	2020	**2019**
Fee and commission income		
Banking	2,235,798	2,603,702
Brokerage and fund management	279,262	64,137
Other	85,603	79,930
Total	**2,600,663**	**2,747,769**
Fee and commission expense		
Banking	(103,857)	(98,133)
Other	(54,650)	(40,079)
Total	**(158,507)**	**(138,212)**
Net fee and commission income	**2,442,156**	**2,609,557**

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

9 Net trading income and results from investment securities

	12 month period ended December 31,	
	2020	**2019**
Gains on foreign exchange	384,970	183,067
(Un)realized gains on interest rate instruments	(172,540)	(25,167)
Realized losses on equity shares under FVTPL	924	1,253
Realized gains from investment securities	330,862	63,850
Total	**544,216**	**223,003**

10 Other operating income

Other operating income mainly consists of gain on liquidation of foreclosed assets, rental income and other operating income. Legally non-performing loan receivables amounted TL 959,700 have been sold for TL 88,200 and expenses of the portfolio sold in previous periods and the collections made during the sales process TL 41,182 booked under other operating income in 2019, sale of non-performing loan receivables is none in 2020.

11 Personnel expenses

	12 month period ended December 31,	
	2020	**2019**
Wages and salaries	1,242,328	1,123,312
Bonuses and other fringe benefits	223,025	229,383
Social security costs	212,159	187,995
Pension costs: defined benefit plans (Note 12)	85,752	65,411
Other personnel related benefits	286,664	236,438
Total	**2,049,928**	**1,842,539**

The average number of employees of the Group during the year 2020 and 2019 was 12,973 and 13,498, respectively. Other personnel related benefits include the cost of various benefits such as health insurance, transportation, food and training costs.

12 Retirement benefit obligations

Defined benefit plans

In accordance with Turkish Labor Law, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 7,117.17 (full TL) as of December 31, 2020, (TL 6,379.86 (full TL) as of December 31, 2019) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2020, the Group reflected a liability calculated 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 pay and discounted by using the current market yield on government bonds at the reporting date. As of December 31, 2020, retirement pay liability of the Bank and local subsidiaries are accounted for based on the actuarial calculations performed by an independent actuary. The plan is unfunded and hence, there are no plan assets disclosed.

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

12 Retirement benefit obligations (continued)

Amount recognized in the statement of profit or loss:

	12 month period ended December 31,	
	2019	**2019**
Current service cost	32,140	24,218
Interest cost on obligation	30,926	30,447
Settlement / curtailment / termination loss	22,686	10,746
Total charge	**85,752**	**65,411**

Defined benefit obligation in the statement of financial position:

	December 31, 2020	**December 31, 2019**
Present value of unfunded obligations	316,801	256,263
Total	**316,801**	**256,263**

Reconciliation of defined benefit obligation:

	2020	**2019**
Defined benefit obligation at January 1	256,263	193,133
Current service cost	32,140	24,218
Interest cost on obligation	30,926	30,447
Benefits paid directly by the Group	(69,336)	(33,369)
Settlement/ curtailment losses	22,686	10,745
Actuarial losses / (gains)	44,122	31,089
Defined benefit obligation at December 31	**316,801**	**256,263**

Remeasurements	**December 31, 2020**	**December 31, 2019**
Liability gain/(loss) due to changes in financial assumptions	(27,018)	(9,600)
Liability experience loss arising during the year	(17,104)	(21,489)
Total actuarial gain/(loss) recognised in OCI	**(44,122)**	**(31,089)**

The weighted average assumptions used to determine the net periodic pension costs for the year ended December 31, 2019 and 2018 are:

	December 31, 2020	**December 31, 2019**
Discount rate	12.80%	12.10%
Rate of compensation increase	10.50%	9.20%
Plan duration	15.9	15.4
Inflation rate	9.50%	8.20%

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

13 General and administrative expenses

	12 month period ended December 31,	
	2020	**2019**
Utilities	416,483	384,342
Promotion and advertisement expenses	256,446	274,961
Credit card expenses	161,207	183,780
Other administrative expenses	232,027	385,908
Duties and taxes other than on income	115,305	104,631
Legal expenses	68,233	56,868
Third-party remuneration expenses and fees	55,014	51,380
Withholding taxes and duties on loans granted	54,415	89,311
Audit, consulting and other services	48,419	62,682
Stationery and other consumables	41,651	40,942
Research expenses	24,366	20,197
Traveling expenses	6,400	16,898
Rent expenses	7,326	10,537
Subscriptions and contributions	7,311	7,596
Total	**1,494,603**	**1,690,033**

14 Depreciation, amortization and impairment charges

	12 month period ended December 31,	
	2020	**2019**
Intangible assets (Note 29)	154,846	139,025
Property and equipment (Note 30)	190,389	160,246
Impairment charge (Note 30)	-	-
Right of use (Note 30)	224,270	219,526
Total	**569,505**	**518,797**

15 Impairment losses on loans and advances to customers, finance lease receivables, factoring receivables and other impairment charges

	12 month period ended December 31,	
	2020	**2019**
Impairment losses on loans and advances to customers (Note 23)	2,358,342	1,863,631
Impairment losses on finance lease receivables (Note 25)	133,600	88,994
Impairment losses on factoring receivables (Note 24)	(1,407)	8,948
Other impairment charges(*)	60,391	46,249
Recovery (**)	(932)	(990)
Total	**2,549,994**	**2,006,832**

(*) Includes non-cash provisions.
(**) Includes proceeds from NPL sales.

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

15 Impairment losses on loans and advances to customers, finance lease receivables, factoring receivables and other impairment charges (continued)

	2020	**2019**
Stage 1	1,853,872	774,421
Stage 2	1,569,312	1,459,324
Stage 3	(903,538)	(295,323)
Other impairment charges	30,348	68,410
Total	**2,549,994**	**2,006,832**

16 Other provision expenses

	12 month period ended December 31,	
	2020	**2019**
Other provision expenses(*)	116,265	20,346
Total	**116,265**	**20,346**

(*) Includes mainly legal provision loss.

17 Income tax expense

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group’s results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return.

Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis. Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

50% of gain from the sale of real estate which are held more than two years in the assets of the Bank and 75% of gain on disposal of subsidiary shares which are held for more than two years in the assets of the Bank are exemption from tax according to Corporate Tax Law in condition with adding these gains into equity or allocating into a specific fund account in the Bank’s liabilities for five years.

Companies calculate their advance tax at the rate of 20% (22% for taxation periods of 2018, 2019 and 2020) on their quarterly financial profits, declare until the 14th day of the second month following that period and pay until the evening of the seventeenth day. The advance tax paid belongs that year and is offset from the corporation tax that will be calculated on the tax declaration of the companies to be given in the following year. If the advance tax paid amount remains after offsetting, this amount could be either returned as cash or offset.

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

17 Income tax expense (continued)

According to the Corporate Tax Law, financial losses in the declaration can be deducted from the corporate tax base of the period not exceeding 5 years. Declarations and related accounting records can be examined within five years by the tax office. On the other hand, if document subjects to stamp duty and the statute of limitations of tax and penalty is used after the expiry of the time limit, the taxable income of document is regenerated.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between April 1-25 following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

The details of income tax expense are as follows:

	12 month period ended December 31,	
	2020	**2019**
Current tax	(1,176,722)	(239,008)
Deferred tax benefit (Note 31)	548,969	(386,117)
Total	**(627,753)**	**(625,125)**
Profit before tax	**3,387,821**	**3,488,665**
Tax calculated based on the current tax rate of 22% (*)	(745,321)	(767,506)
Effect of income not subject to taxation	127,681	150,887
Effect of expenses not deductible for tax purposes	(10,113)	(8,506)
Income tax expense	**(627,753)**	**(625,125)**

(*)The corporate income tax rate applied in 2020 and 2019 are 22% and 22% respectively. The deferred tax rate applied in 2020 and 2019 are 20% and 22% respectively

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for Turkish resident companies receiving dividends from who are also Turkish residents or Turkish branches of foreign companies. Income withholding tax applied between April 24, 2003 –July 22, 2006 is 10% and commencing from July 23, 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not ssubject to income withholding tax.

The Group offsets current tax assets and current tax liabilities separately for each entity considering the legally enforceable right to set off the recognized amounts. As of December 31, 2020, the corporate tax payables is TL 1,077,742 and corporate tax receivable is TL 29,628 (December 31, 2019, corporate tax payable amounting to TL 207,492) in the accompanying consolidated financial statements.

The advance corporate income tax rate applied in 2020 and 2019 are 22% and 22% respectively.

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

18 Earnings per share

	December 31, 2020	December 31, 2019
Net profit attributable to equity holders of the parent	2,759,220	2,862,992
Net profit attributable to QNB Finansbank ordinary shareholders	2,759,220	2,862,992
Adjusted weighted average number of ordinary shares outstanding	33,500,000,000	33,500,000,000
Basic and diluted earnings per share	0.0824	0.0855

The Bank decided to increase its share capital through a bonus issue by way of the capitalization of its extraordinary reserves in 2019 and 2018.

19 Cash and balances with T.R. Central Bank

	December 31, 2020	December 31, 2019
Cash on hand	2,226,139	1,644,565
Balances with T.R. Central Bank – Unblocked	11,692,508	8,944,178
Balances with T.R. Central Bank – Blocked	13,484,440	8,159,509
Total	**27,403,087**	**18,748,252**

As of December 31, 2020 an amount of TL 3,399 (December 31, 2019 – TL 2,309) ECL was provided for the account T.R. Central Bank due to the adoption of IFRS 9.

As of December 31, 2020, the reserve rates for the reserve deposits at the Central Bank of Turkey for Turkish Lira are implemented within an interval from 1% to 6% depending on the maturity of the deposits (December 31, 2019 – 1% to 2%) and the reserve rates for the foreign currency liabilities are within an interval from 5% to 21% depending on the maturity of the deposits (December 31, 2019 – 5% to 21%).

20 Due from banks

	December 31, 2020	December 31, 2019
Time deposits with banks	5,639,354	3,946,390
Demand deposit with banks	1,458,897	460,337
Securities purchased under agreements to resell	342,765	3,040,962
Total	**7,441,016**	**7,447,689**

The Group does not have any past due or impaired balances due from banks.

The amount of collaterals given for derivative transactions, which are included above, as of December 31, 2020 and 2019 are TL 5,181,988 and TL 3,124,126, respectively.

As of December 31, 2020, an amount of TL 10,189 (December 31, 2019 – TL 5,498) ECL was provided for the account due from banks due to the adoption of IFRS 9.

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

20 Due from banks (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification.

	December 31, 2020			
Internal Rating Grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High grade	7,451,184	-	-	7,451,184
Standard grade	-	-	-	-
Sub-Standard grade	-	-	-	-
Past due but not impared	-	-	-	-
Non-performing	-	-	-	-
Individually impaired	-	-	-	-
Total	**7,451,184**	**-**	**-**	**7,451,184**

	December 31, 2019			
Internal Rating Grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High grade	7,453,187	-	-	7,453,187
Standard grade	-	-	-	-
Sub-Standard grade	-	-	-	-
Past due but not impared	-	-	-	-
Non-performing	-	-	-	-
Individually impaired	-	-	-	-
Total	**7,453,187**	**-**	**-**	**7,453,187**

The table below shows the changes in the gross carrying amount and the corresponding ECL allowances.

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as January 1, 2020	7,453,187	-	-	7,453,187
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid (excluding write offs)	(2,003)	-	-	(2,003)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	**7,451,184**	**-**	**-**	**7,451,184**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as January 1, 2019	3,881,323	-	-	3,881,323
New assets originated or purchased	3,571,864	-	-	3,571,864
Assets derecognised or repaid (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	**7,453,187**	**-**	**-**	**7,453,187**

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

20 Due from banks (continued)

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at January 1, 2020	5,498	-	-	5,498
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment allowance for the period, net	4,670			4,670
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	**10,168**	**-**	**-**	**10,168**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at January 1, 2019	445	-	-	445
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment allowance for the period, net	5,053	-	-	5,053
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	**5,498**	**-**	**-**	**5,498**

21 Investments measured at fair value through profit or loss

	December 31, 2020	**December 31, 2019**
Turkish corporate bonds held for trading	6,203	-
Turkish government bonds held for trading	285,408	226,164
Equity shares held for trading	190,447	50,389
Mutual funds held for trading	24,488	16,845
Total	**506,546**	**293,398**

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

22 Derivative financial instruments

December 31, 2020	**Notional**	**Assets**	**Liabilities**
Derivatives held for trading:			
Interest rate derivatives	220,617,280	4,259,384	(6,342,309)
Foreign exchange derivatives	18,768,833	311,732	(143,166)
Other types of derivatives	3,119,012	-	-
Fair value hedging derivatives:			
Interest rate derivatives	28,179,228	3,257,354	(764,324)
Foreign Exchange derivatives	-	-	-
Cash flow hedging derivatives:			
Interest rate derivatives	45,360,970	1,400,686	(906,663)
Total	**316,045,323**	**9,229,156**	**(8,156,462)**

December 31, 2019	**Notional**	**Assets**	**Liabilities**
Derivatives held for trading:			
Interest rate derivatives	142,475,456	3,532,954	(3,420,064)
Foreign exchange derivatives	26,158,715	219,484	(145,013)
Other types of derivatives	1,414,852	-	-
Fair value hedging derivatives:			
Interest rate derivatives	30,105,102	2,827,028	(689,242)
Foreign Exchange derivatives	-	-	-
Cash flow hedging derivatives:			
Interest rate derivatives	50,106,695	1,359,843	(881,174)
Total	**250,260,820**	**7,939,309**	**(5,135,493)**

The Group's derivative financial instruments mostly comprise of OTC derivatives.

Cash flow hedge accounting:

Loans:

The Parent Bank applies cash flow hedge accounting using interest rate swaps in order to hedge itself from long term floating interest rate loans from changes in market interest rates. The Parent Bank implements efficiency tests at the balance sheet dates for hedging purposes; the effective portions are accounted for under equity "Hedging Funds", whereas the ineffective portions are accounted for at income statement as defined in IFRS 9. As at balance sheet date, swaps amounting to USD 875 Million (December 31, 2019 – USD 875 Million) are subject to hedge accounting as hedging instruments. As a result of the mentioned hedge accounting, in the current period, fair value gain before taxes amounting to TL 222,484 (December 31, 2019 – TL 20,790) are accounted for under equity during the current period.

22 Derivative financial instruments (continued)

Deposits:

The Parent Bank applies cash flow hedge accounting using interest rate swaps in order to hedge itself from the interest rate changes of deposits that have an average maturity of 3 months. The Bank implements cash flow hedge accounting with interest rate swaps. The Parent Bank implements efficiency tests at the balance sheet dates for hedging purposes; the effective portions are accounted for under equity "Hedging Funds", whereas the ineffective portions are accounted for at income statement as defined in IFRS 9. As at the balance sheet date, swaps amounting to TL 150,000 are subject to hedge accounting as hedging instruments (December 31, 2019 – TL 1,600,000). As a result of the mentioned hedge accounting, fair value gain before taxes amounting to TL 61,956 are accounted for under equity during the current period (December 31, 2019 – TL 247,973 loss). There is no balance for the ineffective portion of revenues in the the income statement (December 31, 2019 – TL 182 gain).

As of the balance sheet date, swaps with a nominal amount of USD 1,708 million (December 31, 2019 – USD 2,529 Million) have been subject to hedge accounting with USD deposits and swaps with a nominal amount of EUR 74 million (December 31, 2019 – EUR 104 million) have been subject to hedge accounting with Euro deposits. As a result of above mentioned hedge accounting, fair value loss before taxes amounting to TL 187,599 are accounted under equity during the current period (December 31, 2019 – TL 790,817 loss). The loss amounting to TL 1,247 (December 31 2019 – TL 1,525 loss) relating to the ineffective portion is accounted under at the income statement.

When the fair value hedge accounting cannot be effectively continued as stated in IFRS 9, the fair value hedge accounting is ceased. Effective parts classified under equity due to hedge accounting are amortized through the income statement until the maturity of swaps in case of ineffectiveness at periods when the expected cash flows subject to hedge accounting affect profit or loss (as in periods when interest income or expense is recognized). In the current period there is loss of TL 56,022 transferred amount from equity to income statement due to ineffectiveness or matured swaps (December 31, 2018 – TL 20,045 gain).

Subordinated Loans:

The Parent Bank applies cash flow hedge accounting using interest rate swaps in order to hedge its subordinated loans which have floating interest payment. The Bank implements efficiency tests at the balance sheet dates for hedging purposes; the effective portions are accounted for under equity "Hedging Funds", whereas the ineffective portions are accounted for at income statement as defined in IFRS 9. As at the balance sheet date, swaps amounting to USD 485 million are subject to hedge accounting as hedging instruments (December 31, 2019 – USD 485 million). As a result of the mentioned hedge accounting, fair value loss before taxes amounting to TL 112,418 are accounted for under equity during the current period (December 31, 2019 – TL 94,034 loss).

On the other hand; accounting application is terminated when cash flow hedge accounting is not effectively maintained as defined in IAS 39. The effective amounts classified under equity due to hedge accounting are reclassified into profit or loss as the reclassification adjustments during periods or periods when the estimated cash flows subject to hedging in case of deterioration of the event affect profit or loss (such as the periods when interest income or expense is accounted for). In this context; In the current year, the Bank ended the hedge accounting practice of the USD 325 million subordinated loan it used for the purpose of hedging cash flow due to the change in the contract conditions. Due to hedge accounting practices terminated in the current year, a gain amounting to TL 14,038 (December 31, 2019 – TL 4,568) was transferred from the equity to the income statement

As of December 31, 2020, the above mentioned cash flow hedge transactions were effective.

22 Derivative financial instruments (continued)

Funds Borrowed:

Subsidiary QNB Finans Finansal Kiralama A.Ş. applies cash flow hedge accounting through interest rate swaps to hedge its interest rate fluctuations on floating rate foreign currency denominated loans. The Company applies efficiency tests for hedge accounting at each balance sheet date and the effective portions are accounted for under the "Interest Protection Funds" account item under equity under the financial statements as defined in IAS 39 and the amount related to the ineffective portion is associated with the income statement. As of the balance sheet date, there is no any swap (December 31, 2019 – TL 419,434) subject to risk protection accounting as a hedge of risk.

The measurements as of December 31, 2020, hedge of cash flow transactions stated above are determined as effective.

Fair value hedge accounting:

Loans:

The Parent Bank enters into swap transactions in order to hedge itself from the changes in the fair value due to the changes in market interest rates of a certain portion of its long-term loans and applies fair value hedge accounting as per IFRS 9. As of the balance sheet date; the mortgage loans amounting to TL 4,324,987 (December 31, 2019 – TL 8,127,097) were subject to hedge accounting by swaps with a nominal of TL 4,770,807 (December 31, 2019 – TL 6,608,353). On December 31, 2020 the net market valuation difference gain amounting to TL 9,518 (December 31,2019 – TL 55,574 gain) due to the gain from the loans amounting to TL 308,501 (December 31, 2019 – TL 919,613 gain) and loss from swaps amounting to TL 318,039 (December 31, 2019 – TL 864,039 loss) is accounted for under "gain / (loss) from financial derivatives transactions" line in the accompanying financial statements.

Subsidiary QNB Finans Finansal Kiralama A.Ş. applies fair value hedge accounting through interest rate swaps in order to protect itself from interest rate changes in relation to its fixed rate foreign currency lease transactions. As of the balance sheet date, swaps amounting to TL 118,461 have been subject to hedge accounting as hedging instruments. As a result of the mentioned hedge accounting, in the current period, the net market valuation difference expense amounting to TL 525 before tax was recognized in the financial statements as "Profit / Loss from Derivative Financial Transactions".

When the fair value hedge accounting cannot be effectively continued as stated in IFRS 9, the fair value hedge accounting is ceased. The fair value differences of the hedged loans are amortized through the income statement until the maturity of the hedged loans. The Bank has booked the valuation effect amounting to TL 77,019 (December 31, 2019 – TL 136,590 loss) related to the loans that are ineffective for hedge accounting under "gain / (loss) from financial derivatives transactions" as loss during the current period.

22 Derivative financial instruments (continued)

Investment securities FVOCI:

The Parent Bank applies fair value hedge accounting to hedge itself against the changes in the interest rates related to long term foreign currency Eurobonds with fixed coupon held by the Parent Bank using swaps as hedging instruments. As at the balance sheet date; Eurobonds with a nominal of USD 320,759 million and EUR 49,8 million (December 31, 2019 – USD 373,663 million and EUR 49.8 million) were subject to hedge accounting by interest rate swaps with the same nominal value. On December 31, 2020, the net market valuation difference gain amounting to TL 283 due to gain from Eurobonds amounting to TL 294,155 (December 31, 2019 – TL 215,945 loss) and loss from swaps amounting to TL 294,438 (December 31, 2019 – TL 215,250 loss) is accounted for under “gain / (loss) from financial derivatives transactions” line in the accompanying financial statements.

Bonds issued:

The Parent Bank applies fair value hedge accounting to hedge itself against the changes in the interest rates related to the foreign currency bonds issued using interest rate swaps as hedging instruments. As of the balance sheet date, bonds with nominal amount of USD 730 million (December 31, 2019 – USD 780 Million) have been subject to hedge accounting with the same nominal amount of swaps. As of December 31, 2020, TL 2,416 net fair valuation difference gain, net of TL 183,021 (December 31, 2019 – TL 69,763 loss) loss from issued bonds and TL 180,605 (December 31, 2019 – TL 69,801 gain) gain from swaps, have been recorded under “Gain / (loss) from financial derivatives transactions” on accompanying financial statements.

Borrowings:

The Parent Bank implements fair value hedge accounting through interest swaps aiming to provide hedging from changes in interest rates related to fixed rate foreign exchange credits used. Credit at an amount of EUR 30 million (December 31, 2019- EUR 30 million) is subjected to hedge accounting with a swap having the same amount. Accounting application is terminated when fair value hedge accounting is not effectively maintained as defined in TAS 39. According to this; The valuation effects created by the fair value hedge accounting applied on hedged loans are reflected in the income statement throughout the life of the loans. Regarding the said hedge accounting practice whose effectiveness has deteriorated, the Bank has recognized the valuation effect amounting to TL 1,628 (December 31, 2019 - None) in the income statement as income in the “Profit / Loss from Derivative Financial Transactions” account. At each balance sheet date, the Bank conducts efficiency tests for hedging accounting, and the active parts are accounted in “hedging funds” under equity in the financial statements as defined in TAS 39, while the amount related to the inactive part is associated with the income statement.

Subsidiary QNB Finans Finansal Kiralama A.Ş. applies fair value hedge accounting through interest and currency swaps in order to protect itself from changes in interest rates in relation to fixed interest rate TL loans. As of the balance sheet date, swaps amounting to TL 251,852 were subject to hedge accounting as hedging instruments. As a result of the mentioned hedge accounting, in the current period, the net market valuation difference income amounting to TL 1 before tax was recognized in the financial statements as “Profit / Loss from Derivative Financial Transactions”.

Subsidiary QNB Finans Finansal Kiralama A.Ş. applies fair value hedge accounting through swaps in order to protect itself from changes in interest rates with respect to TL and foreign currency loans and securities. As of the transaction date, a loan amounting to TL 438,497 has been subject to hedge accounting with the same consistent swaps. As of December 31, 2020, net expense of valuation of TL 36, including TL 306 of income from loans and TL 342 of loss from swaps, was accounted in the “Profit / Loss from Derivative Financial Transactions” account in the attached financial statements.

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

22 Derivative financial instruments (continued)

Subsidiary QNB Finans Finansal Kiralama A.Ş. applies fair value hedge accounting through swaps in order to protect itself from changes in interest rates with respect to TL and foreign currency loans and securities. At each balance sheet date, the Bank conducts efficiency tests for hedging accounting, and the active parts are accounted in "hedging funds" under equity in the financial statements as defined in TAS 39, while the amount related to the inactive part is associated with the income statement. As at the balance sheet date, there is not any swap transactions subject to hedge accounting as hedging instruments.

23 Loans and advances to customers

	December 31, 2020	December 31, 2019
Loans and advances to customers at FVTPL	116,829	86,838
Loans and advances to customers at amortized cost	137,219,999	109,359,090
Total	**137,336,828**	**109,445,928**

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

23 Loans and advances to customers (continued)

December 31, 2020	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Loans and advances to customers - Stage 1	77,787,711	23,651,945	18,858,105	3,680,043	123,977,804
Loans and advances to customers - Stage 2	10,781,161	1,479,262	1,581,408	216,263	14,058,094
Loans and advances to customers - Stage 3	6,896,155	1,472,875	1,641,318	46,653	10,057,001
Total Gross	**95,465,027**	**26,604,082**	**22,080,831**	**3,942,959**	**148,092,899**
Expected credit loss on loans and advances to customers	(7,199,661)	(1,785,756)	(1,757,104)	(13,550)	(10,756,071)
Loans and advances to customers	**88,265,366**	**24,818,326**	**20,323,727**	**3,929,409**	**137,336,828**

December 31, 2019	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Loans and advances to customers - Stage 1	61,310,419	16,687,133	14,835,816	4,488,508	97,321,876
Loans and advances to customers - Stage 2	8,459,954	1,723,471	1,750,768	275,108	12,209,301
Loans and advances to customers - Stage 3	5,600,240	1,311,497	1,368,450	32,293	8,312,480
Total Gross	**75,370,613**	**19,722,101**	**17,955,034**	**4,795,909**	**117,843,657**
Expected credit loss on loans and advances to customers	(5,587,338)	(1,323,929)	(1,475,342)	(11,120)	(8,397,729)
Loans and advances to customers	**69,783,275**	**18,398,172**	**16,479,692**	**4,784,789**	**109,445,928**

December 31, 2020	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Neither past due nor impaired	86,182,724	23,388,597	18,935,402	3,526,420	132,033,143
Past due not impaired	2,386,148	1,742,610	1,504,111	369,886	6,002,755
Impaired	6,896,155	1,472,875	1,641,318	46,653	10,057,001
Total Gross	**95,465,027**	**26,604,082**	**22,080,831**	**3,942,959**	**148,092,899**
Expected credit loss on loans and advances to customers	(7,199,661)	(1,785,756)	(1,757,104)	(13,550)	(10,756,071)
Loans and advances to customers	**88,265,366**	**24,818,326**	**20,323,727**	**3,929,409**	**137,336,828**

December 31, 2019	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Neither past due nor impaired	67,036,978	16,881,641	15,110,430	4,283,531	103,312,580
Past due not impaired	2,733,375	1,528,963	1,476,174	480,085	6,218,597
Impaired	5,600,240	1,311,497	1,368,450	32,293	8,312,480
Total Gross	**75,370,593**	**19,722,101**	**17,955,054**	**4,795,909**	**117,843,657**
Expected credit loss on loans and advances to customers	(5,587,338)	(1,323,929)	(1,475,342)	(11,120)	(8,397,729)
Loans and advances to customers	**69,783,255**	**18,398,172**	**16,479,712**	**4,784,789**	**109,445,928**

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

23 Loans and advances to customers (continued)

Movements in the allowance for impairment on loans and advances to customers are as follows:

2020	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Balance at December 31, 2019	**5,587,338**	**1,323,929**	**1,475,342**	**11,120**	**8,397,729**
Impairment losses on loans and advances to customers	1,613,810	463,386	283,583	2,430	2,363,209
Loans written off / Sales	(1,487)	(1,559)	(1,821)	-	(4,867)
Balance at December 31, 2020	**7,199,661**	**1,785,756**	**1,757,104**	**13,550**	**10,756,071**

2019	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Balance at December 31, 2018	**4,573,093**	**1,263,332**	**1,604,776**	**11,415**	**7,452,616**
Impairment losses on loans and advances to customers	1,363,259	298,221	213,174	(295)	1,874,359
Loans written off / Sales	(349,014)	(237,624)	(342,608)	-	(929,246)
Balance at December 31, 2019	**5,587,338**	**1,323,929**	**1,475,342**	**11,120**	**8,397,729**

The write-offs and recoveries by categories are as follows:

	12 month period ended December 31,	
	2020	**2019**
Write-offs(*)		
Credit cards	1,821	342,608
Mortgage and consumer loans	1,559	237,624
Corporate loans(**)	1,487	349,014
Total write-offs	**4,867**	**929,246**
Recoveries		
Credit cards	146	73
Mortgage and consumer loans	136	175
Corporate loans	650	742
Total recoveries made from loans that were written-off	**932**	**990**

(*)The Bank sold TL 959,700 of its NPL portfolio for TL 88,200. TL 41,182 of the sold amount of consists of the expenses of the portfolio sold in previous periods and the collections made during the sales process in 2019, sale of non- performing loan receivables is none in 2020.

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

23 Loans and advances to customers (continued)

Aging analysis of past due but not impaired loans and advances to customers per class of customers:

December 31, 2020	Less than 30 days	31-60 days	61-90 days	Total
Corporate	946,024	559,210	880,914	2,386,148
Consumer	1,011,920	386,860	343,830	1,742,610
Credit cards	1,021,209	233,883	249,019	1,504,111
Mortgage	227,930	93,167	48,789	369,886
Total	**3,207,083**	**1,273,120**	**1,522,552**	**6,002,755**

December 31, 2019	Less than 30 days	31-60 days	61-90 days	Total
Corporate	1,220,031	733,447	779,895	2,733,373
Consumer	1,176,265	284,810	67,888	1,528,963
Credit cards	1,208,296	200,934	66,945	1,476,175
Mortgage	314,156	116,927	49,003	480,086
Total	**3,918,748**	**1,336,118**	**963,731**	**6,218,597**

The table below shows the credit quality and the maximum exposure to credit risk based on the internal credit rating system and year-end stage classification.

	December 31, 2020			
Internal Rating Grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High grade	1,159,032	4,311	-	1,163,343
Standard grade	2,324,534	13,824	-	2,338,358
Sub-Standard grade	118,627,673	9,903,769	-	128,531,442
Past due but not impared	1,866,565	4,136,190	-	6,002,755
Non-performing	-	-	10,057,001	10,057,001
Total	**123,977,804**	**14,058,094**	**10,057,001**	**148,092,899**

	December 31, 2019			
Internal Rating Grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High grade	1,796,328	5,594	-	1,801,922
Standard grade	2,867,830	10,100	-	2,877,930
Sub-Standard grade	90,640,300	7,992,428	-	98,632,728
Past due but not impared	2,017,418	4,201,179	-	6,218,597
Non-performing	-	-	8,312,480	8,312,480
Total	**97,321,876**	**12,209,301**	**8,312,480**	**117,843,657**

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

23 Loans and advances to customers (continued)

The table below shows the changes in the gross carrying amount and the corresponding ECL allowances.

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as January 1, 2020	97,321,876	12,209,301	8,312,480	117,843,657
New assets originated or purchased	80,161,381	320,266	-	80,481,647
Assets derecognised or repaid (excluding write offs)	(49,546,121)	(6,172,359)	(608,337)	(56,326,817)
Transfers to Stage 1	864,889	(864,889)	-	-
Transfers to Stage 2	(10,039,719)	10,039,719	-	-
Transfers to Stage 3	-	(2,347,991)	2,347,991	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	106,680	-	106,680
Amounts written off	-	-	4,867	4,867
Foreign exchange adjustments	5,215,498	767,367	-	5,982,865
Total	**123,977,804**	**14,058,094**	**10,057,001**	**148,092,899**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as January 1, 2019	84,685,952	10,040,638	6,193,551	100,920,141
New assets originated or purchased	47,384,753	305,367	-	47,690,120
Assets derecognised or repaid (excluding write offs)	(29,422,880)	(876,808)	(2,238,988)	(32,538,676)
Transfers to Stage 1	1,335,268	(1,335,268)	-	-
Transfers to Stage 2	(9,006,856)	9,006,856	-	-
Transfers to Stage 3	-	(5,287,163)	5,287,163	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	(929,246)	(929,246)
Foreign exchange adjustments	2,345,639	355,679	-	2,701,318
Total	**97,321,876**	**12,209,301**	**8,312,480**	**117,843,657**

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at January 1, 2020	907,539	1,526,661	5,963,529	8,397,729
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(1,698,820)	1,698,820	-	-
Transfers to Stage 3	-	(2,455,972)	2,455,972	-
Impairment allowance for the period, net	1,795,996	1,361,013	(975,270)	2,181,739
Amounts written off	-	-	(4,867)	(4,867)
Foreign exchange adjustments	33,280	148,190	-	181,470
Total	**1,037,995**	**2,278,712**	**7,439,364**	**10,756,071**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at January 1, 2019	1,064,926	1,628,659	4,759,031	7,452,616
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(931,820)	931,820	-	-
Transfers to Stage 3	-	(2,453,489)	2,453,489	-
Impairment allowance for the period, net	749,088	1,354,162	(319,745)	1,783,505
Amounts written off	-	-	(929,246)	(929,246)
Foreign exchange adjustments	25,345	65,509	-	90,854
Total	**907,539**	**1,526,661**	**5,963,529**	**8,397,729**

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

23 Loans and advances to customers (continued)

The following tables provide a summary of the Group's forborne assets as of December 31, 2020.

		Stage 2				Stage 3					
	Gross carrying amount	**Temporary Modification to T&Cs**	**Permanent Modification to T&Cs**	**Refinancing(*)**	**Total performing forborne loans**	**Temporary Modification to T&Cs**	**Permanent Modification to T&Cs**	**Refinancing**	**Total non-performing forborne loans**	**Total forborne loans**	**Forbearance ratio**
Corporate lending	95,465,027	-	249,409	6,683,993	6,933,402	-	-	201,345	201,345	7,134,747	7.47%
Consumer lending	26,604,082	-	28,516	681,422	709,938	-	-	-	-	709,938	2.67%
Credit Cards	22,080,831	-	-	260,472	260,472	-	-	-	-	260,472	1.18%
Residential mortgages	3,942,959	-	-	45,926	45,926	-	-	-	-	45,926	1.16%
Total	**148,092,899**	**-**	**277,925**	**7,671,813**	**7,949,738**	**-**	**-**	**201,345**	**201,345**	**8,151,083**	**5.50%**

(*)Includes changes to contractual cash flows due to modification amounted TL106,680.

	Gross amount of forborne loans			ECLs of forborne loans				
	Stage 2	**Stage 3**	**Total**	**Stage 2 Individual**	**Stage 2 Collective**	**Stage 3 Individual**	**Stage 3 Collective**	**Total**
Corporate lending	6,933,402	201,345	7,134,747	1,680,531	-	129,641	-	1,810,172
Consumer lending	709,938	-	709,938	136,563	-	-	-	136,563
Credit Cards	260,472	-	260,472	43,728	-	-	-	43,728
Residential mortgages	45,926	-	45,926	318	-	-	-	318
Total	**7,949,738**	**201,345**	**8,151,083**	**1,861,140**	**-**	**129,641**	**-**	**1,990,781**

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

23 Loans and advances to customers (continued)

The following tables provide a summary of the Group's forborne assets as of December 31, 2019.

		Stage 2				Stage 3					
	Gross carrying amount	Temporary Modification to T&Cs	Permanent Modification to T&Cs	Refinancing	Total performing forborne loans	Temporary Modification to T&Cs	Permanent Modification to T&Cs	Refinancing	Total non-performing forborne loans	Total forborne loans	Forbearance ratio
Corporate lending	75,370,593	-	263,755	5,518,264	5,782,019	-	-	70,697	70,697	5,852,716	7.77%
Consumer lending	19,722,101	-	275,408	802,985	1,078,393	-	-	-	-	1,078,393	5.47%
Credit Cards	17,955,054		-	788,448	788,448	-	-	-	-	788,448	4.39%
Residential mortgages	4,795,909	-	628	38,101	38,729	-	-	-	-	38,729	0.81%
Total	**117,843,657**	**-**	**539,791**	**7,147,798**	**7,687,589**	**-**	**-**	**70,697**	**70,697**	**7,758,286**	**6.58%**

	Gross amount of forborne loans			ECLs of forborne loans				
	Stage 2	Stage 3	Total	Stage 2 Individual	Stage 2 Collective	Stage 3 Individual	Stage 3 Collective	Total
Corporate lending	5,782,019	70,697	5,852,716	1,016,432	-	39,921	-	1,056,353
Consumer lending	1,078,393	-	1,078,393	83,361	-	-	-	83,361
Credit Cards	788,448	-	788,448	71,742	-	-	-	71,742
Residential mortgages	38,729	-	38,729	186	-	-	-	186
	-	-	-	-	-	-	-	-
Total	**7,687,589**	**70,697**	**7,758,286**	**1,171,721**	**-**	**39,921**	**-**	**1,211,642**

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

23 Loans and advances to customers (continued)

The table below shows the type of collateral.

December 31, 2020	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Cash and securities	8,315,177	1,121,027	-	-	9,436,204
Mortgages	32,475,328	354,043	-	3,942,959	36,772,330
Other tangible collaterals	18,506,293	5,477	-	-	18,511,770
Unsecured	36,168,229	25,123,535	22,080,831	-	83,372,595
Total	**95,465,027**	**26,604,082**	**22,080,831**	**3,942,959**	**148,092,899**

December 31, 2019	**Corporate**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Cash and securities	6,973,573	523,738	-	-	7,497,311
Mortgages	29,032,482	100,495	-	4,795,909	33,928,886
Other tangible collaterals	15,530,644	5,617	-	-	15,536,261
Unsecured	23,833,894	19,092,251	17,955,054	-	60,881,199
Total	**75,370,593**	**19,722,101**	**17,955,054**	**4,795,909**	**117,843,657**

Loans and advances to customers at fair value through profit or loss

Loans and advances to customers of the retail banking business have been designated at fair value through profit or loss, as the Group manages these loans and advances to customers on a fair value basis in accordance with its investment strategy. Internal reporting and performance measurement of these loans and advances to customers are on a fair value basis.

The cumulative change in the fair value of these loans and advances to customers is set out below:

	December 31, 2020	**December 31, 2019**
Loans and advances at FVTPL	29,991	23,194

24 Factoring receivables

	December 31, 2020	**December 31, 2019**
Not later than 1 year	2,117,077	1,608,316
Later than 1 year	93,370	106,149
Factoring receivables, gross	2,210,447	1,714,465
Less: Impairment losses on factoring receivables	(82,531)	(83,938)
Total	**2,127,916**	**1,630,527**

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

24 Factoring receivables (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the internal credit rating system and year-end stage classification.

	December 31, 2020			
Internal Rating Grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High grade	2,045,869	76,092	-	2,121,961
Standard grade	-	-	-	-
Sub-Standard grade	-	-	-	-
Past due but not impared	-	8,677	-	8,677
Non-performing	-	-	79,809	79,809
Individually impaired	-	-	-	-
Total	**2,045,869**	**84,769**	**79,809**	**2,210,447**

	December 31, 2019			
Internal Rating Grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High grade	1,557,183	79,130	-	1,636,313
Standard grade	-	-	-	-
Sub-Standard grade	-	-	-	-
Past due but not impared	-	617	-	617
Non-performing	-	-	77,535	77,535
Individually impaired	-	-	-	-
Total	**1,557,183**	**79,747**	**77,535**	**1,714,465**

The table below shows the changes in the gross carrying amount and the corresponding ECL allowances.

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as January 1, 2020	1,557,183	79,747	77,535	1,714,465
New assets originated or purchased	5,509,749	-	-	5,509,749
Assets derecognised or repaid (excluding write offs)	(4,982,051)	(24,699)	(12,667)	(5,019,417)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(24,733)	24,733	-	-
Transfers to Stage 3	(14,279)	(662)	14,941	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	5,650	-	5,650
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	**2,045,869**	**84,769**	**79,809**	**2,210,447**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as January 1, 2019	1,102,358	105,867	75,642	1,283,867
New assets originated or purchased	4,783,595	-	-	4,783,595
Assets derecognised or repaid (excluding write offs)	(4,238,349)	(100,836)	(22,716)	(4,361,901)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(87,999)	87,999	-	-
Transfers to Stage 3	(2,422)	(22,187)	24,609	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	8,904	-	8,904
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	**1,557,183**	**79,747**	**77,535**	**1,714,465**

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

24 Factoring receivables (continued)

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at January 1, 2020	7,529	7,439	68,970	83,938
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(146)	146	-	-
Transfers to Stage 3	(196)	(741)	937	-
Impairment allowance for the period, net	(1,201)	1,426	(2,383)	(2,158)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	751	751
Total	**5,986**	**8,270**	**68,275**	**82,531**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at January 1, 2019	4,758	2,768	67,464	74,990
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(257)	257	-	-
Transfers to Stage 3	(10)	(741)	751	-
Impairment allowance for the period, net	3,038	5,155	755	8,948
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	**7,529**	**7,439**	**68,970**	**83,938**

25 Finance lease receivables

	December 31, 2020	**December 31, 2019**
Not later than 1 year	2,784,095	2,492,021
Later than 1 year but not later than 5 years	6,078,540	4,155,844
Later than 5 years	148,106	199,119
Finance lease receivables, gross	**9,010,741**	**6,846,984**
Unearned future finance income on finance leases	(1,269,051)	(1,039,506)
Net investment in finance leases	**7,741,690**	**5,807,478**
Less: expected credit losses on finance lease receivables	(314,287)	(224,333)
Finance lease receivables	**7,427,403**	**5,583,145**

The net investment in finance lease receivables is analyzed as follows:

	December 31, 2020	**December 31, 2019**
Not later than 1 year	2,218,326	2,023,918
Later than 1 year but not later than 5 years	5,389,140	3,598,975
Later than 5 years	134,224	184,585
Total	**7,741,690**	**5,807,478**

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

25 Finance lease receivables (continued)

The Movements in expected credit losses on finance lease receivables are as follows:

	December 31, 2020	December 31, 2019
Balance at January 1	**(224,333)**	**(180,220)**
Expected credit losses on finance lease receivables (Note 15)	(133,600)	(88,994)
Receivables written off(*)	43,646	44,881
Balance at December 31	**(314,287)**	**(224,333)**

(*) The Company has sold its finance lease receivables amounting to TL 43,646 to an asset management company. Therefore such receivables were written off in the accompanying financial statements (December 31, 2019: TL 44,881).

Finance lease receivables

	December 31, 2020	December 31, 2019
Neither past due nor impaired	7,028,111	4,928,969
Past due not impaired	348,904	537,024
Impaired	364,675	341,485
Total Gross	**7,741,690**	**5,807,478**
Less: impairment losses on finance lease receivables	(314,287)	(224,333)
Finance lease receivables	**7,427,403**	**5,583,145**

As of December 31, 2020 and 2019, the aging analysis of past due but not impaired finance lease receivables are as follows:

	December 31, 2020	December 31, 2019
Between 1-30 days	68,841	237,913
Between 1-3 months	280,063	299,111
Between 3-12 months	-	-
Between 1-5 years	-	-
Total	**348,904**	**537,024**

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

25 Finance lease receivables (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the internal credit rating system and year-end stage classification.

	December 31, 2020			
Internal Rating Grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High grade	520,254	-	-	520,254
Standard grade	2,717,498	-	-	2,717,498
Sub-Standard grade	3,553,454	236,905	-	3,790,359
Past due but not impared	128,049	220,855	-	348,904
Non-performing	-	-	364,675	364,675
Total	**6,919,255**	**457,760**	**364,675**	**7,741,690**

	December 31, 2019			
Internal Rating Grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High grade	145,049	-	-	145,049
Standard grade	1,520,208	-	-	1,520,208
Sub-Standard grade	2,999,695	264,017	-	3,263,712
Past due but not impared	179,082	357,942	-	537,024
Non-performing	-	-	341,485	341,485
Total	**4,844,034**	**621,959**	**341,485**	**5,807,478**

The table below shows the changes in the gross carrying amount and the corresponding ECL allowances.

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as January 1, 2020	4,844,034	621,959	341,485	5,807,478
New assets originated or purchased	1,690,875	-	-	1,690,875
Assets derecognised or repaid (excluding write offs)	(309,963)	(53,676)	(41,895)	(405,534)
Transfers to Stage 1	186,834	(180,606)	(6,228)	-
Transfers to Stage 2	(136,747)	159,080	(22,333)	-
Transfers to Stage 3	(5,810)	(102,558)	108,368	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	(43,646)	(43,646)
Foreign exchange adjustments	650,032	13,561	28,924	692,517
Total	**6,919,255**	**457,760**	**364,675**	**7,741,690**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as January 1, 2019	4,716,790	639,436	345,070	5,701,296
New assets originated or purchased	1,002,003	-	-	1,002,003
Assets derecognised or repaid (excluding write offs)	(256,560)	(41,498)	(5,223)	(303,281)
Transfers to Stage 1	151,786	(108,524)	(43,262)	-
Transfers to Stage 2	(267,002)	271,862	(4,860)	-
Transfers to Stage 3	(35,584)	(81,181)	116,765	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	(44,881)	(44,881)
Foreign exchange adjustments	(467,399)	(58,136)	(22,124)	(547,659)
Total	**4,844,034**	**621,959**	**341,485**	**5,807,478**

25 Finance lease receivabes (continued)

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

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at January 1, 2020	11,889	64,617	147,827	224,333
Transfers to Stage 1	15,774	(14,831)	(943)	-
Transfers to Stage 2	(1,663)	7,367	(5,704)	-
Transfers to Stage 3	(1,079)	(6,091)	7,170	-
Impairment allowance for the period, net	(19,787)	43,859	84,870	108,942
Amounts written off	-	-	(43,646)	(43,646)
Foreign exchange adjustments	4,800	8,405	11,453	24,658
Total	**9,934**	**103,326**	**201,027**	**314,287**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at January 1, 2019	6,070	63,474	110,676	180,220
Transfers to Stage 1	5,604	(5,575)	(29)	-
Transfers to Stage 2	(844)	1,447	(603)	-
Transfers to Stage 3	(187)	(12,675)	12,862	-
Impairment allowance for the period, net	626	16,301	67,685	84,612
Amounts written off	-	-	(44,881)	(44,881)
Foreign exchange adjustments	620	1,645	2,117	4,382
Total	**11,889**	**64,617**	**147,827**	**224,333**

26 Investments measured at fair value through other comprehensive income (FVOCI)

	December 31, 2020	**December 31, 2019**
Financial assets at FVOCI:		
Turkish government bonds and treasury bills	15,046,755	12,129,453
Corporate bonds	126,660	24,191
Debt securities	**15,173,415**	**12,153,644**
Equity shares	30,723	198,634
Total Financial assets at FVOCI	**15,204,138**	**12,352,278**

The movements of FVOCI investments are summarized as follows:

	2020	**2019**
Balance at January 1	**12,352,278**	**8,451,754**
Additions within the year	12,034,225	6,525,366
Foreign exchange differences	1,806,319	686,929
Disposals (sale and redemption) within the year	(11,248,882)	(3,797,849)
Amortisation of premiums/discounts	247,774	142,963
Gains / (losses) from changes in fair value	(2,535)	304,935
Accrual	14,959	38,180
Balance at December 31	**15,204,138**	**12,352,278**

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

27 Investments measured at amortized cost

	December 31, 2020	December 31, 2019
Investments at amortised cost:		
Turkish government bonds and treasury bills	17,971,120	15,314,036
Corporate bonds	762,081	855,414
Debt securities	**18,733,201**	**16,169,450**
Total financial assets at amortised cost	**18,733,201**	**16,169,450**

As of December 31, 2020, an amount of TL 10,156 (December 31, 2019– TL 11,852) provision was provided for the investments measured at amortized cost investments due to the adoption of IFRS 9.

The movements in the amortized cost investments are summarized as follows:

	2020	2019
Balance at January 1	**16,169,450**	**12,895,116**
Additions during the year	2,335,154	2,628,259
Foreign exchange differences	1,745,497	790,412
Disposals (redemption) during the year	(2,260,925)	(1,496,516)
Amortisation of premiums/discounts	421,780	1,273,176
Accruals	322,245	79,003
Balance at December 31	**18,733,201**	**16,169,450**

The table below shows the fair value of the Group’s debt instruments measured at FVOCI and amortised cost by credit risk, based on the Group’s internal credit rating system and year-end stage classification.

	December 31, 2020			
Internal Rating Grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High grade	33,947,495	-	-	33,947,495
Standard grade	-	-	-	-
Sub-Standard grade	-	-	-	-
Past due but not impared	-	-	-	-
Non-performing	-	-	-	-
Individually impaired	-	-	-	-
Total	**33,947,495**	**-**	**-**	**33,947,495**

	December 31, 2019			
Internal Rating Grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High grade	28,533,581	-	-	28,533,581
Standard grade	-	-	-	-
Sub-Standard grade	-	-	-	-
Past due but not impared	-	-	-	-
Non-performing	-	-	-	-
Individually impaired	-	-	-	-
Total	**28,533,581**	**-**	**-**	**28,533,581**

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

27 Investments measured at amortized cost (continued)

The table below shows the changes in the gross carrying amount and the corresponding ECL allowances.

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as January 1, 2020	28,533,581	-	-	28,533,581
New assets originated or purchased	8,828,160	-	-	8,828,160
Assets derecognised or repaid (excluding write offs)	(3,414,246)	-	-	(3,414,246)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	**33,947,495**	**-**	**-**	**33,947,495**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as January 1, 2019	21,383,947	-	-	21,383,947
New assets originated or purchased	8,828,160	-	-	8,828,160
Assets derecognised or repaid (excluding write offs)	(1,678,526)	-	-	(1,678,526)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	**28,533,581**	**-**	**-**	**28,533,581**

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at January 1, 2020	13,810	-	-	13,810
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment allowance for the period, net	(1,572)	-	-	(1,572)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	**12,238**	**-**	**-**	**12,238**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at January 1, 2019	56,569	-	-	56,569
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impairment allowance for the period, net	(42,759)	-	-	(42,759)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	**13,810**	**-**	**-**	**13,810**

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

28 Investments in joint ventures

	2020	**2019**
Balance at January 1	**199,384**	**158,380**
Additions	-	-
Group's share of profit/(loss) of joint ventures	98,158	89,429
Dividends received	(78,955)	(48,425)
Balance at December 31	**218,587**	**199,384**

The Group's joint ventures are as follows:

			% of participation	
Name of joint ventures	**Principal activity**	**Place of incorporation and operation**	**December 31, 2020**	**December 31, 2019**
Bantaş Nakit ve Kıymetli Mal Taşıma ve Güvenlik Hizmetleri A.Ş.	Security Services	Turkey	33.33%	33.33%
Cigna Finans Pension Fund (Cigna Finans)	Pension Fund	Turkey	49.00%	49.00%

The above joint ventures are accounted for using the equity method in these consolidated financial statements.

Summarised financial information in respect of the Group's material joint venture Cigna Finans is set out below:

	December 31,	
Cigna Finans	**2020**	**2019**
Current Assets	824,388	679,580
Non-current assets	41,695	31,358
Current liabilities	281,924	236,956
Non-current liabilities	296,688	223,047
Equity	287,471	250,935

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	650,607	569,981

	2020	**2019**
Revenue	919,609	737,677
Profit for the year	192,952	165,698
Other comprehensive income for the year	(2,597)	(1,036)
Total comprehensive income for the year	190,355	164,662
Dividends received from the joint venture during the year	78,141	48,425

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

28 Investments in joint ventures (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	December 31, 2020	December 31, 2019
Net assets of the joint venture	287,471	250,935
Proportion of the Group's ownership interest in the joint venture	142,340	124,021
Purchase Price Allocation	160,813	160,813
Impairment	(38,322)	(38,322)
Amortization of Purchase Price Allocation	(81,776)	(75,797)
Carrying amount of the Group's interest in the joint venture	**183,055**	**170,715**

Aggregate information of joint ventures that are not individually material:

Bantaş Nakit ve Kıymetli Mal Taşıma ve Güvenlik Hizmetleri A.Ş	2020	2019
Balance at January 1	28,669	18,577
The Group's share of profit for the year	6,863	10,092
Aggregate carrying amount of the Group's interest in the joint venture	**35,532**	**28,669**

The Group has no share of any contingent liabilities or capital commitments as at December 31, 2020 and 2019.

In accordance with partnership agreement signed between the Bank and Cigna Nederland Gamma BV, the parent of Cigna Sağlık, Hayat ve Emeklilik A.Ş., on July 12, 2012 in case the ownership structure of the Bank changes, Cigna Nederland Gamma BV has the right to purchase the shares owned by the Bank. If subject transfer is actualized share transfer will be based on fair value of the shares. As of the report date, there is no official request received from Cigna Nederland Gamma BV in regards to purchase of the shares.

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

29 Intangible assets

Cost	Purchased software	Internally generated software	Total
December 31, 2019	**390,949**	**1,023,018**	**1,413,967**
Additions	5,370	215,036	**220,406**
Disposals and write offs	-	-	-
December 31, 2020	**396,319**	**1,238,054**	**1,634,373**
Accumulated amortization and impairment			
December 31, 2019	**(263,214)**	**(671,318)**	**(934,532)**
Amortization charge for the year	(23,937)	(130,909)	(154,846)
Disposals and write offs	-	-	-
Impairment charge for the period	-	-	-
December 31, 2020	**(287,151)**	**(802,227)**	**(1,089,378)**
Net book value as of December 31, 2020	**109,168**	**435,827**	**544,995**

There was no indication of impairment for the intangible assets.

Cost	Purchased software	Internally generated software	Total
December 31, 2018	**380,802**	**847,320**	**1,228,122**
Additions	10,156	175,698	185,854
Disposals and write offs	(9)	-	(9)
December 31, 2019	**390,949**	**1,023,018**	**1,413,967**
Accumulated amortization and impairment			
December 31, 2018	**(233,992)**	**(560,241)**	**(794,233)**
Amortization charge for the year	(29,229)	(109,796)	(139,025)
Disposals and write offs	7	-	7
Impairment charge for the period	-	(1,281)	(1,281)
December 31, 2019	**(263,214)**	**(671,318)**	**(934,532)**
Net book value as of December 31, 2019	**127,735**	**351,700**	**479,435**

30 Property and equipment

Cost	Land & Buildings	Vehicles	Other	Right of use assets(*)	Total
December 31, 2019	**2,427,056**	**4,509**	**2,074,991**	**675,042**	**5,181,598**
Additions	13,334	33,654	305,851	196,643	549,482
Fair value adjustment(**)	(25,424)	-	-	-	(25,424)
Disposals and write offs	(4,914)	(635)	(17,496)	(121,546)	(144,591)
At December 31, 2020	**2,410,052**	**37,528**	**2,363,346**	**750,139**	**5,561,065**
Accumulated depreciation and impairment					
December 31, 2019	**(92,769)**	**(2,557)**	**(1,465,173)**	**(212,747)**	**(1,773,246)**
Depreciation charge for the year	(12,687)	(524)	(177,178)	(224,270)	(414,659)
Disposals and write offs	5	41	17,076	130,230	147,352
Impairment charge	-	-	-	-	-
December 31, 2020	**(105,451)**	**(3,040)**	**(1,625,275)**	**(306,787)**	**(2,040,553)**
Net book value as of December 31, 2020	**2,304,601**	**34,488**	**738,071**	**443,352**	**3,520,512**

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

30 Property and equipment (continued)

Cost	Land & Buildings	Vehicles	Other	Right of use assets(*)	Total
December 31, 2018	**2,443,055**	**4,224**	**1,862,595**	**487,709**	**4,797,583**
Additions	27,433	559	228,813	195,978	452,783
Fair value adjustment(**)	(27,979)	-	-	-	(27,979)
Disposals and write offs	(15,453)	(274)	(16,417)	(8,645)	(40,789)
At December 31, 2019	**2,427,056**	**4,509**	**2,074,991**	**675,042**	**5,181,598**
Accumulated depreciation and impairment					
December 31, 2018	**(71,310)**	**(1,976)**	**(1,343,137)**	**-**	**(1,416,423)**
Depreciation charge for the year	(21,528)	(774)	(137,944)	(219,526)	(379,772)
Disposals and write offs	69	193	15,908	6,779	22,949
Impairment charge	-	-	-	-	-
December 31, 2019	**(92,769)**	**(2,557)**	**(1,465,173)**	**(212,747)**	**(1,773,246)**
Net book value as of December 31, 2019	**2,334,287**	**1,952**	**609,818**	**462,295**	**3,408,352**

(*) Includes IFRS 16 effects adopted in year 2019.

(**)The fair value currency difference income amounting to TL 27,761 (December 31, 2019– TL 27,685) (the amortized) that belongs to the real estate, which is subjected to fair value hedge accounting by the Parent Bank, is shown in the "Impairment" line of the Financial Fixed Assets movement table.

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

31 Deferred tax assets and liabilities

	December 31, 2020	
	Deferred tax	
	Assets	Liabilities
Loans and advances to customers	872,481	-
Deferred commission income	80,508	-
Plastic card bonus provisions	820	-
Employee termination benefits	59,097	-
Vacation pay liability and bonus accrual	67,238	-
Securities and derivatives	-	(10,641)
Economic life of property and equipment	-	(75,366)
Hedge accounting	-	-
Other temporary differences	42,419	-
Total deferred tax assets/(liabilities)	**1,122,563**	**(86,007)**

The Group has offset the deferred tax assets and deferred tax liabilities on an entity by entity basis where there is a legally enforceable right to set off the recognized amounts i.e. where a taxpayer may offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The movements in the net deferred tax asset / (liability) are presented as follows:

	2020
Deferred tax asset / (liability) at January 1	**448,047**
Loans and advances to customers	354,933
Deferred commission income	22,592
Plastic card bonus provisions	(2,403)
Employee termination benefits	307
Vacation pay liability and bonus accrual	(6,246)
Securities and derivatives	167,243
Economic life of property and equipment	(14,323)
Other temporary differences	26,865
Deferred tax recognized in statement of profit or loss (Note 17)	**548,969**
Deferred tax recognized in other comprehensive income	39,541
Deferred tax asset at December 31	**1,036,556**

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

31 Deferred tax assets and liabilities (continued)

Since the applicable tax rate has been changed to 22% for the 3 years beginning from January 1, 2018, 22% tax rate is used in the deferred tax calculation of December 31, 2017, 2018 and 2019 for the temporary differences expected to be realized/closed within 3 years (for the years 2018, 2019 and 2020).

Deferred tax recognized in other comprehensive income are as follows:

	December 31, 2020
Arising on income and expenses recognized in other comprehensive income:	
Fair value measurement of financial assets at FVOCI (Note 41)	41,708
Fair value measurement of cash flow hedges (Note 41)	(9,074)
Actuarial gains / (losses) related to employee benefits	6,907
Arising on income and expenses reclassified from equity to profit or loss:	
Relating to financial assets at FVOCI (Note 41)	-
Relating to cash flow hedges	-
Total deferred income tax recognized in other comprehensive income	**39,541**

32 Other assets

	December 31, 2020	December 31, 2019
Prepaid expenses	962,133	740,804
Checks clearance account	625,096	506,612
Assets acquired through foreclosure proceedings	1,561,377	1,359,332
Trade receivables	477,597	358,438
VAT and other recoverable taxes	34,551	4,603
Other	77,898	5,168
Total other assets	**3,738,652**	**2,974,957**

33 Due to other banks

	December 31, 2020	December 31, 2019
Time deposits due to credit institutions	4,460,324	5,212,098
Securities sold under agreements to repurchase	18,804,776	2,708,678
Interbank deposits	505,276	10,207,081
Demand deposits due to credit institutions	122,970	194,282
Total due to other banks	**23,893,346**	**18,322,139**

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

34 Customer deposits

	December 31, 2020	December 31, 2019
Deposits:		
Individuals	113,116,349	86,565,933
Corporate	12,280,186	13,094,383
Government and agencies	266,453	415,993
Total deposits	**125,662,988**	**100,076,309**
Securities sold to customers under agreements to repurchase	21,236	25,290
Total customer deposits	**125,684,224**	**100,101,599**

35 Debt securities issued

	December 31, 2020	December 31, 2019
Corporate bonds - fixed rate	12,476,461	13,903,525
Corporate bonds - floating rate	2,236,795	442,587
Total debt securities issued	**14,713,256**	**14,346,112**

	December 31, 2020		December 31, 2019	
	TL	FC	TL	FC
Debt securities issued	2,761,835	11,951,421	5,065,232	9,280,880
	2,761,835	**11,951,421**	**5,065,232**	**9,280,880**

	December 31, 2020	December 31, 2019
Opening balance	**14,346,112**	**11,791,532**
Proceeds during the year	13,272,065	26,950,136
Repayments during the year	(14,964,107)	(24,988,823)
Other non-cash movements	2,059,185	593,267
Total debt securities issued	**14,713,256**	**14,346,112**

36 Funds borrowed

	December 31, 2020	December 31, 2019
Subordinated loans - floating rate	6,704,294	5,432,553
Other	25,836,830	19,366,554
Total funds borrowed	**32,541,124**	**24,799,107**

The Bank has USD 910 million subdordinated loans from parent QNB. In 2019, the conversion of US$525 million in tier 2 subordinated loans (of which US$200 million was in Basel II-compliant format and the balance was in Basel III-compliant format) held by QNB into additional Tier 1 debt (with a fixed rate that resets every five years) and the conversion of a US$125 million subordinated loan held by QNB into Basel III-compliant tier 2 debt.

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

37 Other provisions

The movements in other provisions are summarized as follows:

2020	Provision for guarantees	Other	Total
Balance at January 1	**155,522**	**175,117**	**330,639**
Charge for the year	62,704	116,265	178,969
Utilized	(36,692)	30,067	(6,625)
Balance at December 31	**181,534**	**321,449**	**502,983**

2019	Provision for guarantees	Other	Total
Balance at January 1	**140,969**	**179,529**	**320,498**
Charge for the year	19,055	20,346	39,401
Utilized	(4,502)	(24,758)	(29,260)
Balance at December 31	**155,522**	**175,117**	**330,639**

Other provisions include provisions for legal cases against the Group and tax provisions as of December 31, 2020.

38 Other liabilities

	December 31, 2020	December 31, 2019
Payables for credit card settlements	3,600,114	2,999,330
Creditors and suppliers	698,561	428,531
Cheques payable	668,849	614,499
Payroll related accruals	636,434	543,525
Cheque clearing accounts	634,497	532,593
Accrued expenses and deferred income	513,270	415,973
Lease liabilities	436,461	442,926
Taxes payable - other than income taxes	239,040	260,157
Other	916,242	594,449
Total other liabilities	**8,343,468**	**6,831,983**

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

39 Contingent liabilities and commitments

a. Pending tax inspections

The tax authorities have not yet audited the Group for certain financial years and accordingly their tax obligations for those years may not be considered final. Additional taxes and penalties may be imposed as a result of such tax audits. Although the amount cannot be determined at present, it is not expected to have a material effect on the Group’s net assets.

b. Credit commitments

In the normal course of business, the Group 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 commitments to extend credit, commercial letters of credit and standby letters of credit and guarantees. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the conditions established in the contract. Commercial letters of credit ensure payment by a bank to a third party for a customer’s foreign or domestic trade transactions, generally to finance a commercial contract for the shipment of goods. Standby letters of credit and financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. All of these arrangements are related to the normal lending activities of the Group. The Group’s exposure to credit loss in the events of non-performance by the other party to the financial instrument for commitments to extend credit and commercial and standby letters of credit is represented by the contractual notional amount of those instruments.

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

	December 31, 2020	**December 31, 2019**
Letters of guarantee	22,667,406	20,013,405
Acceptance credits	6,838,598	5,822,343
Letters of credit	3,618,937	2,667,496
Total non-cash loans	**33,124,941**	**28,503,244**
Other commitments	71,890,465	54,623,054
Credit card limits	35,578,598	28,852,687
Total non-cash loans and commitments	**140,594,004**	**111,978,985**

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

39 Contingent liabilities and commitments (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification.

	December 31, 2020			
Internal Rating Grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High grade	-	-	-	-
Standard grade	1,947,849	5,378	-	1,953,227
Sub-standard grade	137,533,827	746,320	-	138,280,147
Past due but not impared	-	-	-	-
Non-performing	-	-	360,630	360,630
Individually impaired	-	-	-	-
Total	**139,481,676**	**751,698**	**360,630**	**140,594,004**

	December 31, 2019			
Internal Rating Grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
High grade	-	-	-	-
Standard grade	1,150,776	1,055	-	1,151,831
Sub-standard grade	109,751,155	697,361	-	110,448,516
Past due but not impared	-	-	-	-
Non-performing	-	-	378,639	378,639
Individually impaired	-	-	-	-
Total	**110,901,931**	**698,416**	**378,639**	**111,978,986**

The table below shows the changes in the gross carrying amount and the corresponding ECL allowances.

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as January 1, 2020	110,901,931	698,416	378,639	111,978,986
New assets originated or purchased	24,744,614	3,511	-	24,748,125
Assets derecognised or repaid (excluding write offs)	3,664,220	(9,004)	(301,742)	3,353,474
Transfers to Stage 1	47,715	(47,715)	-	-
Transfers to Stage 2	(381,486)	381,486	-	-
Transfers to Stage 3	-	(279,071)	279,071	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	504,682	4,075	4,662	513,419
Total	**139,481,676**	**751,698**	**360,630**	**140,594,004**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as January 1, 2019	88,361,031	504,016	368,136	89,233,183
New assets originated or purchased	24,744,614	3,511	-	24,748,125
Assets derecognised or repaid (excluding write offs)	(2,374,625)	132,114	(273,230)	(2,515,741)
Transfers to Stage 1	47,715	(47,715)	-	-
Transfers to Stage 2	(381,486)	381,486	-	-
Transfers to Stage 3	-	(279,071)	279,071	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	504,682	4,075	4,662	513,419
Total	**110,901,931**	**698,416**	**378,639**	**111,978,986**

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

39 Contingent liabilities and commitments (continued)

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at January 1, 2020	92,437	17,471	45,614	155,522
Transfers to Stage 1	(351)	351	-	-
Transfers to Stage 2	(10,028)	10,028	-	-
Transfers to Stage 3	-	(20,765)	20,765	-
Impairment allowance for the period, net	36,238	6,377	(19,683)	22,932
Amounts written off	-	-	-	-
Foreign exchange adjustments	1,448	44	1,588	3,080
Total	**119,744**	**13,506**	**48,284**	**181,534**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at January 1, 2019	74,422	16,430	50,116	140,968
Transfers to Stage 1	(247)	247	-	-
Transfers to Stage 2	(15,148)	15,148	-	-
Transfers to Stage 3	-	(30,906)	30,906	-
Impairment allowance for the period, net	32,832	16,474	(35,918)	13,388
Amounts written off	-	-	-	-
Foreign exchange adjustments	578	78	510	1,166
Total	**92,437**	**17,471**	**45,614**	**155,522**

c. Assets pledged as collaterals

	December 31, 2020	**December 31, 2019**
Reserve deposits with T.R. Central Bank	25,176,948	17,103,687
Securities given as collateral	3,183,765	1,328,369
Blocked placements at foreign banks	28,627	4,905
Total	**28,389,340**	**18,436,961**

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

39 Contingent liabilities and commitments (continued)

d. Offsetting financial assets and financial liabilities

	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Effect of remaining rights of set-off		Net exposure
				Financial instruments	Fair value of financial collateral	
Financial assets recognised at December 31, 2020						
Derivatives	9,229,156	-	9,229,156	4,336,215	4,336,215	4,892,941
Repurchase agreements and similar arrangements	250,154	-	250,154	250,154	250,154	-
Other	-	-	-	-	-	-
Total	**9,479,310**	**-**	**9,479,310**	**4,586,369**	**4,586,369**	**4,892,941**
Financial liabilities recognised at December 31, 2020						
Derivatives	8,156,462	-	8,156,462	4,932,568	4,932,568	3,223,894
Repurchase agreements and similar arrangements	14,994,670	-	14,994,670	18,700,773	18,700,773	(3,706,103)
Other	-	-	-	-	-	-
Total	**23,151,132**	**-**	**23,151,132**	**23,633,341**	**23,633,341**	**(482,209)**
Financial assets recognised at December 31, 2019						
Derivatives	7,939,310	-	7,939,310	3,792,110	3,792,110	4,147,200
Repurchase agreements and similar arrangements	3,128,856	-	3,128,856	3,128,856	3,128,856	-
Other	-	-	-	-	-	-
Total	**11,068,166**	**-**	**11,068,166**	**6,920,966**	**6,920,966**	**4,147,200**
Financial liabilities recognised at December 31, 2019						
Derivatives	5,135,493	-	5,135,493	3,123,657	3,123,657	2,011,836
Repurchase agreements and similar arrangements	9,064,854	-	9,064,854	11,992,093	11,992,093	(2,927,239)
Other	-	-	-	-	-	-
Total	**14,200,347**	**-**	**14,200,347**	**15,115,750**	**15,115,750**	**(915,403)**

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

39 Contingent liabilities and commitments (continued)

e. Operating lease commitments

	December 31, 2020	December 31, 2019
Not later than 1 year	191,905	187,854
Later than 1 year but not later than 5 years	487,647	476,364
Later than 5 years	153,040	167,229
Total operating lease commitments	**832,592**	**831,447**

f. Transferred financial assets

As at December 31, 2019, the carrying amount of transferred financial assets, which have been transferred but are subject to continued recognition in full and the associated recognized liabilities are presented in the table below:

	December 31, 2020	
	Carrying amount of transferred assets	Carrying amount of associated liabilities
Securities sold under agreements to repurchase	18,700,773	14,489,394
Total	**18,700,773**	**14,489,394**

	December 31, 2019	
	Carrying amount of transferred assets	Carrying amount of associated liabilities
Securities sold under agreements to repurchase	11,992,093	9,064,854
Total	**11,992,093**	**9,064,854**

As at December 31, 2020 carrying amount of financial assets at FVOCI, FVPL and those measured at amortized cost sold under agreements to repurchase are TL 7,654,584 (December 31, 2019: TL 5,475,062), none (December 31, 2019: None) and TL 11,046,189 (December 31, 2019: TL 6,517,031) respectively.

g. Assets under Management

The Group manages four exchange traded funds (December 31, 2019: four) with total fund value of TL 1,261,032 (December 31, 2019: TL 292,051), seven mutual funds (December 31, 2019: seven) with total fund value of TL 2,543,856 (December 31, 2019: TL 3,203,155), three hedge fund (December 31, 2019: one) with total fund value of TL 438,766 (December 31, 2019: TL 113,645), six private hedge fund (December 31, 2019: four) with total value of TL 128,136 (December 31, 2019: TL 147,901) and 23 pension funds (December 31, 2018: twenty two) with total fund value of TL 1,141,497 (December 31, 2019: TL 1,008,296). In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

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

40 Share capital issued

Share capital	Number of shares	Amount TL
January 1, 2019	**33,500,000,000**	**3,350,000**
Increase of share capital	-	-
December 31, 2019	**33,500,000,000**	**3,350,000**
Increase of share capital	-	-
December 31, 2020	**33,500,000,000**	**3,350,000**

41 Reserves and retained earnings

2020	Legal Reserves	Other Capital Reserves and Retained Earnings	Total
Balance at January 1, 2019	**728,490**	**13,517,751**	**14,246,241**
Effect of correction	-	101,804	101,804
Restated Balance at January 1, 2020	**728,490**	**13,619,555**	**14,348,045**
Issue of share capital	-	-	-
Transfer from retained earnings	7,745	(7,745)	-
Changes in consolidation structure due to acquisition of the shares from non-controlling interest in subsidiaries	-	-	-
Dividends paid	-	-	-
Profit for the year	-	2,759,220	2,759,220
Balance at December 31, 2020	**736,235**	**16,371,030**	**17,107,265**

2019	Legal Reserves	Other Capital Reserves and Retained Earnings	Total
Balance at January 1, 2019	**640,211**	**10,743,038**	**11,383,249**
Issue of share capital	-	-	-
Transfer from retained earnings	88,279	(88,279)	-
Changes in consolidation structure due to acquisition of the shares from non-controlling interest in subsidiaries	-	-	-
Dividends paid	-	-	-
Profit for the year	-	2,862,992	2,862,992
Balance at December 31, 2019	**728,490**	**13,517,751**	**14,246,241**

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.

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

41 Reserves and retained earnings (continued)

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 profit at the rate of 5%, until the total reserve reaches a maximum of 20% of the Bank'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.

Movements of unrealized gains/losses on FVOCI investments, net of tax

	2020	**2019**
Balance at January 1	**(169,391)**	**(452,050)**
Net amount transferred to retained earnings	(101,804)	-
Net change in fair value	(2,535)	349,660
Net amount transferred to profit or loss	(243,287)	(9,099)
Tax effect of net gains/losses on FVOCI (Note 31)	41,709	(57,902)
Total	**(475,308)**	**(169,391)**

Movements of Cash Flow Hedges, Net of Tax

	2020	**2019**
Balance at January 1	**(564,969)**	**397,059**
Net change in fair value	341,765	(1,093,633)
Net amount transferred to profit or loss	(371,939)	(140,154)
Tax effect of net gains/losses on cash flow hedges	(9,074)	271,759
Total	**(604,217)**	**(564,969)**

42 Dividends

The dividends declared and paid by the Group, on its shares with respect to the profits for the prior periods indicated are as follows:

	2020	**2019**
Dividends paid in cash	-	-

Amount was distributed in the subsequent period.

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

43 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of the following balances:

	December 31, 2020	December 31, 2019
Cash and balances with T.R. Central Bank	13,918,647	10,594,183
Balances with T.R Central Bank	11,692,508	8,949,618
Cash on hand	2,226,139	1,644,565
Due from banks with original maturities of less than three months	2,377,367	4,296,485
Total cash and cash equivalents	**16,296,014**	**14,890,668**

44 Related - party balances and transactions

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2020 and 2019 are presented below.

a. Balances and transactions with members of the Board of Directors and the key management of the Group

The Group entered into banking transactions with members of the Board of Directors and key management of the Bank and other Group companies, as well as with the close members of family and entities controlled or jointly controlled by those persons, in the normal course of business. The list of the members of the Board of Directors of the Bank is shown under Note 1 General Information.

	December 31, 2020	December 31, 2019
Assets		
Loans and advances to customers	1,804	362
Liabilities		
Customer deposits	266,126	173,579

	12 month period ended December 31	
	2020	**2019**
Statement of profit or loss		
Interest income	115	75
Fee and commission income	15	8
Interest expense	6,424	7,223

Compensation of the members of the Board of Directors and the key management of the Group

The members of the Board of Directors and management received remuneration and benefits totaling approximately TL 165,446 as of December 31, 2020, (December 31, 2019 – TL 133,128) comprising mainly of salaries and other short-term benefits.

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

44 Related - party balances and transactions (continued)

b. Balances and transactions with shareholders

	December 31, 2020	December 31, 2019
Assets		
Due from banks	-	-
Derivative financial assets(*)	-	-
Liabilities		
Due to other banks	82,707	36,131
Derivative financial liabilities(*)	-	-
Funds borrowed- Subordinated loans	6,704,294	5,432,826
Funds borrowed-Other	249,066	485,717
Off-Balance		
Non-cash loans	45,878	37,126

	12 month period ended December 31	
	2020	2019
Statement of profit or loss		
Interest income	-	-
Fee and commission income	-	-
Interest expense	211	16,179
Fee and commission expense	-	-
Net trading income and results from investment securities	-	-

(*) The amounts refer to fair values of the derivative transactions presented at the consolidated statement of financial position as of the balance sheet date.

The Group has not pledged any guarantees for the above transactions.

c. Other related party (other companies of QNB Group) balances and transactions

The Group has given loan to a QNB Group company amounting to TL 360 as of December 31, 2020, (December 31, 2019 – TL 1,139).

d. Balances and transactions with subsidiaries

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank have been eliminated on consolidation and are not disclosed in this note.

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

45 Group consolidated companies

	% Participation		
Name	**Place of Incorporation**	**December 31, 2020**	**December 31, 2019**
QNB Finans Faktoring Hizmetleri A.Ş. (Finans Factoring)	Turkey	100.00%	100.00%
QNB Finans Yatırım Menkul Degerler A.Ş. (Finans Invest)	Turkey	100.00%	100.00%
QNB Finans Varlık Kiralama Şirketi A.Ş.	Turkey	100.00%	100.00%
QNB Finans Portfoy Yonetimi A.Ş. (Finans Portfolio Asset Management)	Turkey	100.00%	100.00%
QNB Finans Finansal Kiralama A.Ş. (Finans Leasing)	Turkey	99.40%	99.40%
Hemenal Finansman A.Ş. (Consumer Financing)	Turkey	100.00%	100.00%
Ibtech Uluslararası Bilişim ve İletişim Teknolojileri Araştırma, Geliştirme, Danışmanlık, Destek San. ve Tic. A.Ş. (IBTech)	Turkey	99.99%	99.99%
E-Finans Elektronik Ticaret ve Bilişim Hizmetleri A.Ş.	Turkey	100.00%	100.00%
Bosphorus Financial Services(*)	Cayman Islands	100.00%	100.00%
Finance Capital Finance Limited(*)	Cayman Islands	100.00%	100.00%
QNBeyond Ventures B.V.(*)	Netherlands	100.00%	100.00%

(*) Structured Entity.

46 Disposal of Subsidiaries

None.

47 Acquisition of Subsidiaries

None.

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

48 Subsequent events

a. The table below shows the bond issuances:

Value Date	Currency	Nominal Value	Interest Rate	Maturity
08/01/2021	TRY	75,030	Floating	112
15/01/2021	TRY	131,600	Floating	126
29/01/2021	TRY	135,400	18.49%	182
05/02/2021	TRY	59,900	18.27%	182
12/02/2021	TRY	222,330	18.54%	182
16/02/2021	USD	10,000	0.85%	90
18/02/2021	TRY	87,900	18.37%	183