

Nurol Yatırım Bankası
Anonim Şirketi and its subsidiary
Interim condensed consolidated financial
statements at September 30, 2020 together with
independent auditor's review report



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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of
Nurol Yatırım Bankası Anonim Şirketi

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Nurol Yatırım Bankası A.Ş. and its subsidiary (“the Group”) as of September 30, 2020 and the interim condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the nine-month period then ended, and explanatory notes. The Group management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

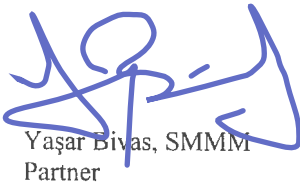
Scope of review

We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review of interim financial information is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and the objective of which is to express an opinion on the financial statements. Consequently, a review of the interim financial information does not provide assurance that the audit firm will be aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

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



Yaşar Bivas, SMMM
Partner

13 November 2020
İstanbul, Turkey

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NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 September 2020

(Currency - In thousands of Turkish Lira)

	Note	Reviewed 30 September 2020	Audited 31 December 2019
Assets			
Cash and cash equivalents	6	609,863	473,645
Reserve deposits at Central Bank	7	153,089	149,683
Derivative financial assets		19,219	11,937
Financial assets measured at fair value through other comprehensive income	8	297,294	198,356
Loans and advances to customers	9	2,763,182	2,159,206
Property and equipment		12,150	7,131
Investment property	10	280,017	223,545
Intangible assets		6,722	4,811
Current tax assets		-	-
Deferred tax assets	16	18,945	8,741
Other assets		22,376	16,895
Total assets		4,182,857	3,253,950
Liabilities			
Funds borrowed	11	1,346,883	904,639
Debt securities issued	12	644,200	763,268
Other liabilities	14	1,379,541	987,772
Derivative financial liabilities		67,114	43,444
Subordinated debts	13	116,356	90,305
Provisions	15	35,533	22,352
Current tax liability		6,378	5,828
Total liabilities		3,596,005	2,817,608
Equity			
Share capital	18	360,000	300,000
Reserves		114,890	54,997
Retained earnings		111,962	81,345
Total equity		586,852	436,342
Total liabilities and equity		4,182,857	3,253,950

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE NINE MONTH PERIOD THEN ENDED 30
SEPTEMBER 2020

(Currency - In thousands of Turkish Lira)

	Note	Reviewed 1 January- 30 September 2020	Reviewed 1 January- 30 September 2019
Interest income	19	283,408	347,524
Interest expense	19	(131,206)	(192,421)
Net interest income		152,202	155,103
Fee and commission income	20	25,837	45,720
Fee and commission expense	20	(6,974)	(6,536)
Net fee and commission income		18,863	39,184
Net trading income / (loss)	21	53,969	(58,372)
<i>Net gains/(losses) on financial assets/liabilities at fair value through profit or loss</i>		(21,125)	(52,862)
<i>Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income</i>		75,094	(5,510)
Dividend Income		89	69
Other operating income	22	5,320	9,865
		59,378	(48,438)
Operating income		230,443	145,849
Net impairment/recoveries on financial assets		(52,088)	(16,794)
Other provision expenses		(14,008)	(18,865)
Personnel expenses	23	(18,062)	(15,699)
Depreciation and amortization		(5,246)	(3,116)
Administrative expenses	24	(30,329)	(28,700)
Profit before income tax		110,710	62,675
Income tax expense	16	(17,011)	(13,180)
Profit for the period		93,699	49,495
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Financial assets measured at fair value through other comprehensive income			
Gain / (Loss) arising during the period		63,433	8,292
Income tax relating to components of other comprehensive income	16	(6,622)	(581)
Other comprehensive income (loss) for the period, net of income tax		56,811	7,711
Total comprehensive income for the period		150,510	57,206

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2020

(Currency - In thousands of Turkish Lira)

Reviewed	Note	Share capital	Fair value reserve of financial assets at fair value through other comprehensive income	Legal reserves	Retained earnings	Total equity
Balances at 1 January 2019		160,000	11,909	7,374	75,428	254,711
Transfer to reserves		-	-	2,595	(2,595)	-
Capital Increase		60,000	-	-	(60,000)	-
Internal Resources		60,000	-	-	(60,000)	-
Total comprehensive income for the period		-	-	-	-	-
- Profit for the period		-	-	-	49,495	49,495
- Other comprehensive income for the period, net of tax		-	7,711	-	-	7,711
Total comprehensive income for the period		-	7,711	-	49,495	57,206
Balance at 30 September 2019		220,000	19,620	9,969	62,328	311,917
Reviewed						
Balances at 1 January 2020		300,000	45,028	9,969	81,345	436,342
Transfer to reserves		-	-	3,082	(3,082)	-
Capital Increase		60,000	-	-	(60,000)	-
Internal Resources		60,000	-	-	(60,000)	-
Total comprehensive income for the period		-	-	-	-	-
- Profit for the period		-	-	-	93,699	93,699
- Other comprehensive income for the period, net of tax		-	56,811	-	-	56,811
Total comprehensive income for the period		-	56,811	-	93,699	150,510
Balance at 30 September 2020		360,000	101,839	13,051	111,962	586,852

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2020

(Currency - In thousands of Turkish Lira)

<i>Note</i>	Reviewed 1 January- 30 September 2020(*)	Reviewed 1 January- 30 September 2019(*)
Cash flows from operating activities		
	93,699	49,495
Net profit for the period		
Adjustments:		
	5,246	3,116
Depreciation and amortisation		
Current tax expense	33,837	19,804
Deferred tax (income)/expense	(16,826)	(6,624)
Provision for loan losses	49,283	16,794
Other provisions	17,574	18,865
Other accruals	(1,370)	(29,165)
Foreign exchange loss / (gain)	(41,782)	(9,657)
Fair value gain on investment property	-	(2,340)
	139,661	60,288
Changes in operating assets and liabilities		
Change in derivative financial assets	(7,282)	(574)
Change in loans and advances to customers	(830,842)	(63,154)
Change in reserve deposits	(3,309)	(195,380)
Change in other assets	(61,920)	(17,031)
Change in other liabilities	525,981	240,762
Change in derivative financial liabilities	23,670	12,429
Change in borrowings	467,798	80,125
Taxes paid	(36,873)	(14,075)
Net cash provided by / (used in) operating activities	77,223	43,103
Cash flows from investing activities		
Purchase of financial assets measured at fair value through other comprehensive income	(7,652,650)	(4,506,083)
Sale of financial assets measured at fair value through other comprehensive income	7,616,175	4,362,030
Purchase of property and equipment	(4,869)	(1,307)
Purchase of intangible assets	(3,886)	(3,879)
Net cash (used in) / provided by investing activities	(45,230)	(149,239)
Proceeds from debt securities issued	4,141,025	2,724,146
Repayment from debt securities issued	(4,216,166)	(2,710,347)
Proceeds from subordinated debts	-	-
Payment of lease liabilities	(2,077)	(1,170)
Net cash provided by / (used in) financing activities	(77,218)	(12,029)
Effect of foreign exchange rate change on cash and cash equivalents		
	41,782	9,657
Net increase in cash and cash equivalents		
	136,218	(24,162)
Cash and cash equivalents at 1 January	6 473,645	308,898
Cash and cash equivalents at 31 December	6 609,863	284,736

(*) Cash flows from interest received and paid disclosed together. Interest received is amounting to TL 309,122 (30 September 2019: 323,413) and interest paid is amounting to TL (157,679) (30 September 2019: (196,573)).

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF AND FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2020

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

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

Nurol Varlık Kiralama A.Ş. is established in 2017 to operate in asset leasing sector. Nurol Varlık Kiralama A.Ş. has been registered in trade register as of September 14, 2017 and published in Turkey Trade Registry Gazette numbered 9351 dated 20 September 2017. Nurol Varlık Kiralama A.Ş.’s paid in capital is amounting to TL 50 as of September 30, 2020.

Nature of Activities of the Group

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

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

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

Shareholders	Total nominal value of the shares	Share percentage (%)
Nurol Holding A,Ş,	284,337	78.98
Nurol İnşaat ve Tic. A,Ş,	60,134	16.70
Others	15,529	4.32

The Parent Bank have capital increase 60,000 TL during the current period (January 1- December 31, 2019: The Parent Bank’s paid in capital has been increased by TL 140,000 provided from internal resources).

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF AND FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2020

(Currency - In thousands of Turkish Lira)

2. The new standards, amendments and interpretations

The accounting policies adopted in preparation of the condensed consolidated financial statements as at 30 September 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 1 January 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 1 January 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 a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

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

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

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF AND FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2020

(Currency - In thousands of Turkish Lira)

2. The new standards, amendments and interpretations (continued)
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. The amendments did not have a significant impact on the financial position or performance of the Group.

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

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

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

The amendments did not have a significant impact on the financial position or performance of the Group.

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 September 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 September 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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF AND FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2020

(Currency - In thousands of Turkish Lira)

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 condensed consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the condensed consolidated financial statements and disclosures, when the new standards and interpretations become effective.

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

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

IFRS 17 - The new Standard for insurance contracts

The 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.

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 2022, 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 amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF AND FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2020

(Currency - In thousands of Turkish Lira)

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

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF AND FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2020

(Currency - In thousands of Turkish Lira)

3. Consolidation

3.1 Basis of Consolidation

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

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

4. Significant accounting policies

4.1 Statement of compliance

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

The Parent Bank maintains its book of account and prepares their statutory condensed consolidated financial statements in Turkish Lira (“TL”) in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency (“BRSA”), Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation. The accompanying condensed consolidated financial statements are derived from statutory condensed consolidated financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. The subsidiary maintains its books of accounts based on statutory rules and regulations applicable in its jurisdiction. The accompanying condensed consolidated financial statements are derived from statutory financial statements with adjustments and reclassifications For the purpose of fair presentation in accordance with IFRS. The condensed consolidated financial statements were authorised for issue by the Group’s management on 17 August 2020.

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 Turkey 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 Turkey and worldwide.

Since it is aimed to update the most recent financial information in the interim financial statements prepared as of September 30, 2020, considering the magnitude of the economic changes due to COVID-19, the Group made certain estimates in the calculation of expected credit losses in footnote numbered IX.

4.2 Basis of measurement

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

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF AND FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2020

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.3 Foreign currency transactions

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

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

	USD / TL (full)	EUR / TL (full)
30 September 2020	7,7522	9,0835
31 December 2019	5,9400	6,6621

4.4 Interest income and interest expense

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

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

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

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF AND FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2020

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.5 Fees and commission

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

4.6 Net trading income

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

4.7 Dividends

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

4.8 Taxation and deferred income taxes

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

Current tax

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

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4. Significant accounting policies (continued)

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

4.9 Financial instruments

Initial recognition of financial instruments

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

Initial measurement of financial instruments

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

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4. Significant accounting policies (continued)

Classification of financial instruments

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

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

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

Assessment of business model

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

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

This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Receivables from the Central Bank, Banks, Money Market Placements, investments under financial assets measured at amortized cost, loans, leasing receivables, factoring receivables and other receivables are assessed within this business model.

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

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

Other business models

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

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4. Significant accounting policies (continued)

4.9.1 Financial assets

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

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

Financial assets at the fair value through profit or loss

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

Financial Assets at Fair Value Through Other Comprehensive Income

In addition to Financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income. Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are measured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement.

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

Financial Assets Measured at Amortized Cost

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

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4. Significant accounting policies (continued)

Loans and Advances to Customers

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method".

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

Due from banks

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

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

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

Repossessed assets

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

Cash and cash equivalents

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

4.9.2 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the 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. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

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

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4. Significant accounting policies (continued)

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

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

Deposits, funds borrowed and debt securities issued

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

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

4.9.3 Derivative financial instruments

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

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

4.10 Expected Credit Loss

As of 30 September 2020, the Group recognizes a loss allowance for expected credit losses on financial assets and loans measured at amortized cost and fair value through other comprehensive income and loan commitments not measured at fair value through profit/loss based and non-cash loans on IFRS 9.

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

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

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4. Significant accounting policies (continued)

Stage 1:

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

Stage 2:

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

Stage 3:

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

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

Calculation of expected credit losses

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

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

The Parent bank calculated the average PD and LGD as 2.78% and 26.10%, respectively for cash financial assets, 0.37% and 40.78% for noncash loans as of 30 September 2020. 100% PD is applied for all financial assets in stage 3.

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4. Significant accounting policies (continued)

Probability of Default (“PD”)

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

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

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

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

Loss Given Default (“LGD”)

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

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

Exposure at Default (“EAD”)

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

Consideration of the Macroeconomic Factors

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

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4. Significant accounting policies (continued)

Consideration of the Macroeconomic Factors

Since the final process of the coronavirus outbreak is currently uncertain, its impact on the Bank can be reasonably unpredictable. However, the Bank has revised its macroeconomic expectations in the expected credit loss calculation for possible effects and In the light of these data, the calculation made by considering PD and LGD is reflected in the financial statements as of September 30, 2020.

This approach, which is preferred in reserve calculations third quarter of 2020, will be revised in the following reporting periods, taking into account the impact of the pandemic, portfolio and future expectations.

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

Calculating the Expected Loss Period

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

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4. Significant accounting policies (continued)

Significant increase in credit risk

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

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

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

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

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

4.11 Derecognition, reclassification and refinancing of financial instrument

Derecognition of financial assets due to change in contractual terms

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

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

Derecognition of financial assets without any change in contractual terms

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

Derecognition of financial liabilities

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

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4. Significant accounting policies (continued)

Reclassification of financial instruments

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

Restructuring and refinancing of financial instruments

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

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

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

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

- Subsequent to the thorough review of company's financial data and its owners' equity position, at circumstances when it is not anticipated that the owner of the company will face financial difficulties; and it is assessed that the restructured debt will be paid on time (starting from the date when the debt is restructured all due principal and interest payments are made on time)
- At least 2 years should pass over the date restructuring (or if it is later), the date of removal from non-performing loan category, at least 10% (or the ratio specified in the legislation) of the total principal amount at the time restructuring/refinancing shall be paid and no overdue amount (principal and interest) shall remain at the date of restructuring/refinancing.

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

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

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

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4. Significant accounting policies (continued)

4.12 Property and equipment

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

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

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

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

4.13 Intangible assets

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

Computer software

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

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

4.14 Investment properties

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

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

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4. Significant accounting policies (continued)

4.14 Investment properties (continued)

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

4.15 Leases

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

The Group as lessee

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

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

IFRS 16 standard removes the dual accounting model in the form of showing the balance sheet results of financial leasing transactions and operational leasing transactions. Instead of this, a singular accounting model based on balance sheet is introduced, similar to the existing financial leasing accounting. For lessors, accounting process have been an important feature, similar to existing practices. The Group has started to apply IFRS 16 Leases standard as of January 1, 2019. As of 30 September 2020, The Group recognized right of use asset classified under tangible assets and lease liability amounting to TL 4,714 and TL 4,909 respectively due to application of IFRS 16.

The Group as lessor

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

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4. Significant accounting policies (continued)

4.16 Provisions

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

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

4.17 Employee benefits

Termination and retirement benefits

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

Profit-sharing and bonus plans

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

4.18 Fiduciary assets

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

4.19 Use of estimates and judgments

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

4.20 Key sources of estimation uncertainty

Expected credit loss

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

Determining fair values

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

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5. Segment reporting

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

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

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

Major financial statement items according to business lines:

30 September 2020	Corporate banking	Other (*)	Total operations of the Group
Operating income	184,298	46,145	230,443
Other expenses	(119,733)	-	(119,733)
Profit before income tax	64,565	46,145	110,710
Income tax income/expense	-	-	(17,011)
Profit from continued operations	64,565	46,145	93,699
Profit for the period	47,554	46,145	93,699
Segment assets	4,182,821	36	4,182,857
Non-distributed Asset	-	-	-
Total assets	4,182,821	36	4,182,857
Segment liabilities	3,596,005	-	3,596,005
Shareholders' equity	-	586,852	586,852
Total liabilities	3,596,005	586,852	4,182,857

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

30 September 2019	Corporate banking	Other (*)	Total operations of the Group
Operating income	140,456	5,393	145,849
Other expenses	(83,174)	-	(83,174)
Profit before income tax	57,282	5,393	62,657
Income tax income/expense	-	-	(13,180)
Profit from continued operations	57,282	5,393	49,495
Profit for the period	44,102	5,393	49,495
Segment assets	3,098,865	5,751	3,104,616
Non-distributed Asset	-	-	-
Total assets	3,098,865	5,751	3,104,616
Segment liabilities	2,792,699	-	2,792,699
Shareholders' equity	-	311,917	311,917
Total liabilities	2,792,699	311,917	3,104,616

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

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6. Cash and cash equivalents

	30 September 2020	31 December 2019
Cash and balances with central banks	2,632	1,286
- Cash on hand	2,628	1,283
- Balances with central banks	4	3
Due from banks and financial institutions(*)	607,231	472,359
Placements at money markets	-	-
Cash and cash equivalents in the balance sheet	609,863	473,645

(*) Amount of TL 151 provision booked for due from banks and financial institutions as of September 30, 2020 (December 31, 2019: 101).

7. Reserve deposits at Central Bank

	30 September 2020	31 December 2019
Turkish Lira	14,057	20,186
Foreign currency	139,032	129,497
	153,089	149,683

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

	30 September 2020		31 December 2019	
	Amount	Effective interest rate	Amount	Effective interest rate
Financial assets measured at fair value through other comprehensive income				
Debt instruments ^(a)	100,268	10.68%	67,205	13.91%
Equity instruments – listed ^(b)	190,834		122,671	
Equity instruments – unlisted	6,414		9,176	
Financial assets measured at fair value through other comprehensive income	297,516		199,052	
Expected Credit Losses (-)^(c)	(222)		(114)	
Total FVTOCI	297,294		198,356	

(a) Financial assets measured at fair value through other comprehensive income include government bonds denominated in TL amounting to TL 6,969 (31 December 2019: TL 477), bank bonds amounting to TL 6,143 (31 December 2019: TL 6,134), private sector securities amounting to 1,018 TL (31 December 2019: TL 3,866), Private sector bonds amounting to TL 85,915 (31 December 2019: TL 56,032).

(b) The Group holds 9,43% of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş. ("Company")'s shares as of 30 September 2020 and the investment is accounted under fair value through other comprehensive income investments, as the Group has no significant influence on the Company, As of the balance sheet date the shares are accounted for using the market price and fair value reserve of TL 107,925 is accounted under equity (31 December 2019: TL 40,304).

(c) The Group calculates expected credit loss for financial assets measured at fair value through other comprehensive income in accordance with IFRS 9. As of 30 September 2020, the expected credit loss that is calculated for financial assets measured at fair value through other comprehensive income is TL 222 (December 31, 2019: 114).

9. Loans and advances to customers

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	30 September 2020		
	Amount		
	TL	Foreign currency	Total
Short-term loans	1,280,738	768,529	2,049,267
Medium and long-term loans	295,930	470,802	766,732
Total performing loans	1,576,668	1,239,331	2,815,999
Generic provisions for Stage 1 and Stage 2	(52,817)	-	(52,817)
Non-performing loans	32,626	-	32,626
Provisions for Stage 3	(32,626)	-	(32,626)
Total non-performing loans (net)	-	-	-
Total loans, net	1,523,851	1,239,331	2,763,182
	31 December 2019		
	Amount		
	TL	Foreign currency	Total
Short-term loans	1,105,257	328,073	1,433,330
Medium and long-term loans	187,411	413,004	600,415
Total performing loans	1,292,668	741,077	2,033,745
Generic provisions for Stage 1 and Stage 2	(8,730)	-	(8,730)
Non-performing loans	161,610	-	161,610
Provisions for Stage 3	(27,419)	-	(27,419)
Total non-performing loans (net)	134,191	-	134,191
Total loans, net	1,418,129	741,077	2,159,206

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9. Loans and advances to customers (continued)

Lending structure of the Group:

	30 September 2020	31 December 2019
Corporate Lending	2,515,909	1,721,502
SME Lending	4,034	55,113
Other Lending	328,682	418,740
Less: Allowance for ECL/impairment losses	(85,443)	(36,149)
Total	2,763,182	2,159,206

Expected Credit Loss Expense Movement of the Group:

	30 September 2020				31 December 2019			
	ECL allowance				ECL allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank)	50	-	-	50	96	-	-	96
Securities	108	-	-	108	15	-	-	15
Derivatives	-	-	-	-	-	-	-	-
Loans and advances to customers	550	43,527	5,207	49,284	(1,326)	923	25,055	24,652
Other financial assets	50	-	-	50	28	-	-	28
Guarantees	81	1,427	1,089	2,597	232	(303)	(676)	(747)
LCs and Acceptances	8	-	-	8	(15)	-	-	(15)
	847	44,954	6,296	52,097	(970)	620	24,379	24,029

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

	30 September 2020							
	Carrying Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank)	762,952	-	-	762,952	151	-	-	151
Securities	297,294	-	-	297,294	222	-	-	222
Derivatives	19,219	-	-	19,219	-	-	-	-
Loans and advances to customers	2,657,573	158,426	32,626	2,848,625	1,183	51,634	32,626	85,443
<i>of which : Large corporate clients</i>	2,324,857	158,426	32,626	2,515,909	1,095	51,634	32,626	85,355
<i>of which : SME clients</i>	4,034	-	-	4,034	-	-	-	-
<i>of which : Others</i>	328,682	-	-	328,682	88	-	-	88
Other financial assets	8,283	-	-	8,283	112	-	-	112
Total on-balance sheet financial assets in scope of ECL requirements	3,745,321	158,426	32,626	3,936,373	1,668	51,634	32,626	85,928

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9. Loans and advances to customers (continued)

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

	30 September 2020			
	Stage 1	Stage 2	Stage 3	Total
Impairment allowance for loans and advances to customers				
Internal rating grade				
Performing				
High grade	322	-	-	322
Standard grade	338	-	-	337
Sub-standard grade	522	51,634	-	52,157
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	32,626	32,626
	1,183	51,634	32,626	85,443

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

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10. Investment Property

As of 30 November 2015, the Parent Bank transferred the loan which is classified in the portfolio of The Pre-emption agreement on the real estate properties registered to the Serik District of Antalya Province which is owned by the Parent Bank account in "Other Assets" has not been realized due to the counterparty Vera Varlık Yönetim A.Ş. is not fullfulling the obligations and the legal process is ongoing aforementioned real estate properties have been removed from "Other Assets" and recognized to "Investment Properties" in TL Currency and reevaluated with and independent valuation report (appraisal value: TL 138,955). Similarly, the Right to repurchase agreement on the real estate properties registered to which is owned by the Parent Bank account in "Other Assets" has not been realized due to the counterparty Palmali International is not fullfulling the obligations and the legal process is ongoing aforementioned real estate properties have been removed from "Other Assets" and recognized to "Investment Properties" in TL Currency and reevaluated with and independent valuation report (appraisal value: TL 39,940). In the first quarter of 2020, Ressulla Turizm San.ve Tic. A.Ş., the real estates amounting to TL 63,792, which were purchased and deducted from receivables, have been accounted in the "Investment Properties" account.

Also, other investment properties accounted amounting to TL 37,330 in the account. As of 30 September 2020, the Group has investment property amounting to TL 280,017 (31 December 2019: 223,545).

11. Funds borrowed

	30 September 2020			31 December 2019		
	Foreign		Total	Foreign		Total
	TL	currency		TL	currency	
Funds borrowed	336,697	759,049	1,095,746	409,922	463,010	872,932
Obligations under repurchase agreements	162,097	89,040	251,137	3,538	28,169	31,707
	498,794	848,089	1,346,883	413,460	491,179	904,639

The effective interest rate for funds borrowed denominated in USD is 3.05% (31 December 2019 – 4.73%), in EUR is 2.12% (31 December 2019 – 1,75%) and in TL is 11.51% (31 December 2019 – 10.70%).

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as at 30 September 2020 (31 December 2019 – None).

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12. Debt securities issued

	30 September 2020			31 December 2019		
	Foreign		Total	Foreign		Total
	TL	Currency		TL	Currency	
Bonds	596,226	-	596,226	717,235	-	717,235
Bills	47,974	-	47,974	46,033	-	46,033
	644,200	-	644,200	763,268	-	763,268

Debt securities issued – Cash flow movement

	30 September 2020
Balance as at 1 January 2019	763,268
Proceed during the year	4,141,025
Repayments during the year	(4,216,166)
Other non-cash movements	(43,927)
Balance as at 30 September 2020	644,200

As of September 30, 2020, the list of the issued bills and bonds by the Parent Bank are shown below:

ISSUE TYPE	ISSUE DATE	MATURITY DATE	DAYS	NOMINAL VALUE (full TL)	INTEREST RATE
BOND	28.11.2019	26.11.2020	364	50,000,000	% 12.00
BOND	27.05.2020	26.05.2021	364	50,000,000	% 9.00
BILL	01.06.2020	01.06.2022	730	50,000,000	% 9.00
BILL	25.06.2020	27.06.2022	732	50,000,000	% 9.25
BOND	22.07.2020	06.11.2020	107	50,000,000	% 9.25
BOND	12.08.2020	03.12.2020	113	50,000,000	% 12.25
BOND	19.08.2020	18.11.2020	91	100,000,000	% 13.00
BOND	02.09.2020	16.12.2020	105	70,000,000	% 13.25
BOND	11.09.2020	24.12.2020	104	100,000,000	% 14.00
BILL	11.09.2020	13.09.2022	732	50,000,000	% 14.00
BOND	16.09.2020	13.01.2021	119	50,000,000	% 14.00
BOND	25.09.2020	28.01.2021	125	50,000,000	% 14.25
BOND	18.06.2020	11.12.2020	176	100,000,000	% 9.00
BOND	01.07.2020	18.12.2020	170	50,000,000	% 9.00

Nurol Varlık Kiralama Şirketi A.Ş. issued “Lease certificates” amounting to TL 150,000,000 (full TL) third quarter in 2020.

13. Subordinated debts

	30 September 2020			31 December 2019		
	Foreign		Total	Foreign		Total
	TL	Currency		TL	currency	
Bonds (*)	-	38,818	38,818	-	29,761	29,761
Loan (*)	-	77,538	77,538	-	60,544	60,544
	-	116,356	116,356	-	90,305	90,305

(*) The Parent Bank has issued Eurobond on March 30, 2016 with a nominal value of USD 10,000,000, 10 years maturity and fixed interest rate of 10%, having a coupon payments every six months and received a loan on December 27, 2016 from World Business Capital at an amount of USD 5,000,000 with an interest rate of 6.65%, 10 years maturity, floating rate and quarterly interest payment (31 December 2019 – USD 15,000,000).

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14. Other liabilities

	30 September 2020	31 December 2019
Cash collaterals (*)	1,352,512	963,645
Taxes and funds payable	5,601	7,461
Lease Liabilities	4,909	3,167
Others	16,519	13,499
	1,379,541	987,772

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

15. Provisions

	30 September 2020	31 December 2019
Provision for non - cash loans	4,926	2,321
Employee termination benefits	1,648	1,445
Bonus accrual	3,750	-
Unused vacation accrual	2,262	1,779
Provision for lawsuits	22,947	16,807
Other	-	-
	35,533	22,352

Employee termination benefits

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

The amount payable consists of one month's salary limited to a maximum of TL 7,117.17 for each period of service at 30 September 2020 (31 December 2019: TL 6,379.86).

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

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying condensed consolidated financial statements as at 30 September 2020, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated by using 8.00% (31 December 2019: 10.00%) annual inflation rate and 12.20% (31 December 2019: 15.00%) discount rate.

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15. Provision (continued)

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

30 September 2020								
Expected credit loss measurement	Carrying Amount				ECL Allowance(*)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Guarantees	836,486	20,820	4,410	861,716	710	2,917	1,285	4,912
LCs and Acceptances	28,914	-	-	28,914	14	-	-	14
Total	865,400	20,820	4,410	890,630	724	2,917	1,285	4,926

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

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

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

Impairment allowance for off-balance sheet financial assets:

30 September 2020				
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
High grade	23	-	-	23
Standart grade	469	-	-	469
Sub-standart grade	232	2,917	-	3,149
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	1,285	1,285
Total	724	2,917	1,285	4,926

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

30 September 2020				
	Financial guarantees	Letters of credit and acceptances	Other undrawn commitments	Total
At 1 January 2020	2,315	6	-	2,321
Charge for the year	2,597	8	-	2,605
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Unwind of transformed into cash	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
At 30 September 2020	4,912	14	-	4,926

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16. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. In Turkey, corporate tax rate is 22% (31 December 2019: 22%). The tax legislation provides for a temporary tax of 22% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

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

Income tax recognised in the income statement

The components of income tax expense as stated below:

	30 September 2020	30 September 2019
Current tax		
Current income tax	(33,837)	(19,804)
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	16,826	6,624
Income tax expense reported in the income statement	17,011	13,180

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16. Taxation (continued)

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate for the years ended 30 September 2020 and 30 September 2019 is as follows:

	30 September 2020	30 September 2019
Profit before income tax	110,710	62,675
Income tax using the domestic corporate tax rate	(24,356)	(13,789)
Other	7,345	(6,015)
Total income tax expense in the profit or loss	(17,011)	(19,804)

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

	30 September 2020	30 September 2019
Deferred tax assets / (liability), net at 1 January	8,741	2,032
Deferred tax recognised in the profit or loss	16,826	6,624
Deferred income tax recognised in other comprehensive income	(6,622)	(581)
Deferred tax assets/(liabilities), net at end of September	18,945	8,075

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	30 September 2020			31 December 2019		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Liability for employee benefits	860	-	860	709	-	709
Valuation of financial assets at FVOCI	-	(6,741)	(6,741)	-	118	118
Economic life property and equipment	(421)	-	(421)	(417)	-	(417)
Derivatives	10,537	-	10,537	6,433	-	6,433
Expected Loss Provision	12,531	-	12,531	-	-	-
Provision Reserved for Cases	5,049	-	5,049	-	-	-
Provision for Real Estate	(3,388)	-	(3,388)	-	-	-
Other	518	-	518	-	1,898	1,898
	25,686	(6,741)	18,945	6,725	2,016	8,741

17. Commitments and contingencies

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

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

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17. Commitments and contingencies (continued)

As at 30 September 2020; commitments and contingencies comprised the following:

	30 September 2020	31 December 2019
Letters of guarantee	861,716	891,944
Bank acceptance	-	-
Letters of credit	28,914	33,909
Other commitments	-	-
Total	890,630	925,853

18. Share capital and reserves

Share capital

As at 30 September 2020 and 30 September 2019, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	30 September 2020		31 December 2019	
	Amount	%	Amount	%
Nurol Holding A,Ş,	284,337	78.98	236,947	78.98
Nurol İnşaat ve Tic, A,Ş,	60,134	16.70	50,112	16.70
Others	15,529	4.32	12,941	4.32
Total	360,000		300,000	

As at 30 September 2020, the authorised share capital comprised of 360,000 ordinary shares having a par value of TL full 1,000 (As at 31 December 2019, the authorised share capital comprised of 300,000 ordinary shares having a par value of TL full 1,000). All issued shares are paid.

Due to the pandemic caused by Covid-19 virus, and in accordance with the Decision of the Ministry of Trade, the 2019 Ordinary General Meeting of the Parent Bank, which is planned to be held on March 25, 2020 and at 13.30, has been postponed to June 22, 2020 and based on ordinary general meeting, the paid-up capital of the Bank was increased to 360,000 TL by covering 60,000 TL from internal resources. The capital increase of the Ordinary General Assembly, the date July 1, 2020 and numbered 10109 Turkey has been announced in the Trade Registry Gazette.

Legal Reserves

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

As at 30 September 2020, the Group's legal reserves amounted to TL 13,051 (31 December 2019 – TL 9,969).

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19. Net interest income

	30 September 2020	30 September 2019
Interest income		
Loans and advances to customers	214,171	231,454
Deposits with banks and other financial institutions	11,793	24,235
Financial assets measured at fair value through profit/loss and financial assets measured at fair value through other comprehensive income	35,662	77,026
Financial leases	-	-
Other	21,782	14,809
	283,408	347,524
Interest expense		
Funds borrowed	(39,181)	57,901
Debt securities issued	(4,554)	110,530
Interbank funds borrowed	(65,432)	10,460
Financial leases	(596)	753
Other	(21,443)	12,777
	(131,206)	192,421
Net interest income	152,202	155,103

20. Net fee and commission income

	30 September 2020	30 September 2019
Fee and commission income		
Non-cash loans	12,695	15,129
Other	13,142	30,591
Total fee and commission income	25,837	45,720
Fee and commission expense		
Non-cash loans	(1,779)	1,382
Other	(5,195)	5,154
Total fee and commission expense	(6,974)	6,536
Net fee and commission income	18,863	39,184

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21. Net trading income/loss

	30 September 2020	30 September 2019
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	75,094	(5,510)
Net gains/(losses) on financial assets/liabilities at fair value through profit or loss	(21,125)	(52,862)
<i>Gain / (losses) from derivatives</i>	372	(49,601)
<i>Gain / (losses) from FX losses</i>	(21,497)	(3,261)
Total	53,969	(58,372)

22. Other operating income

	30 September 2020	30 September 2019
Rent income	4,664	2,820
Communication expenses reflected to the customers	98	152
Gain on sales of asset	1	20
Fair value gain on investment properties	-	2,340
Swift income	-	2,090
Other	557	2,443
	5,320	9,865

23. Personnel expenses

	30 September 2020	30 September 2019
Wages and salaries	15,501	13,390
Compulsory social security obligations	1,432	1,161
Other benefits	1,129	1,148
Total	18,062	15,699

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24. Administrative expenses

	30 September 2020	30 September 2019
Nurol Holding re-charges	4,973	4,432
Audit and Advisory expenses	4,217	7,634
Taxes and duties expenses	260	5,144
Rent expenses	3,587	145
Telecommunication expenses	1,819	1,384
Computer expenses	1,191	799
Hosting expenses	702	986
Maintenance expenses	230	248
Marketing expenses	-	-
Notary expenses	147	129
Advertising expenses	94	76
Seniority provision expenses	204	320
Other various administrative expenses	12,905	7,403
Total	30,329	28,700

25. Financial risk management objectives and policies

a) Introduction and overview

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

- credit risk
- market risks

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

Risk management framework

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

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

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

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25. Financial risk management objectives and policies (Continued)

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

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

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

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

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

b) Credit risk

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

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

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

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

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25. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Credit risk by risk groups

	Individual	Corporate	Total
30 September 2020			
Performing loans	36	2,657,554	2,657,590
Loans under close monitoring	-	158,426	158,426
Non-performing loans	-	32,609	32,609
Gross	36	2,848,589	2,848,625
Transferred asset	-	-	-
Specific provisions for Stage 3	-	(32,626)	(32,626)
Generic provisions for Stage 1 and Stage 2	-	(52,817)	(52,817)
Total	36	2,763,146	2,763,182
31 December 2019			
Performing loans	4,022	1,922,745	1,926,767
Loans under close monitoring	-	106,978	106,978
Non-performing loans	-	161,610	161,610
Gross	4,022	2,191,333	2,195,355
Transferred asset	-	-	-
Reserve for possible loan losses	-	(27,419)	(27,419)
Collective impairment	-	(8,730)	(8,730)
Total	4,022	2,155,184	2,159,206

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25. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk

	<i>Notes</i>	Due from banks		Loans and advances to customers	
		30 September 2020	31 December 2019	30 September 2020	31 December 2019
Carrying amount		607,385	472,460	2,763,182	2,159,206
Non-performing financial assets		-	-	32,609	161,593
Gross amount		-	-	32,609	161,593
Specific provision for Stage 3	9	-	-	32,609	(27,419)
Generic provision for Stage 1 and 2	9	(151)	(101)	-	(8,730)
Neither past due nor impaired		607,234	472,359	2,711,631	2,107,655
Carrying amount		607,234	472,359	2,711,631	2,107,655
Restructured and rescheduled loans and other receivables		-	-	51,551	51,551
Carrying amount		-	-	51,551	51,551
Carrying amount (amortised cost)		607,234	472,359	2,763,182	2,159,206

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25. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk (continued)

Write-off policy

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

Collateral policy

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

30 September 2020		Collaterals after rate of consideration								
Type of collateral or credit enhancement	Maximum exposure to credit risk	Securities (Cheques & Acts & Stock Share)		Property (Mortgages)	Assignment of receivables	Vehicle Pledge	Other	Total collateral	Net exposure	Associated ECLs
		Cash								
Financial assets										
Cash and cash equivalents (including reserves at Central Bank)	760,475	-	-	-	-	-	-	-	760,475	151
Loans and advances to customers	3,049,338	21,780	237,397	4,304	234,444	160,771	3,101	661,796	2,387,542	85,443
of which : Large corporate clients	2,714,030	21,780	170,956	619	234,444	160,771	3,101	591,671	2,122,360	85,354
of which : SME clients	4,004	-	315	3,685	-	-	-	4,000	4	-
of which : Others	331,304	-	66,125	-	-	-	-	66,125	265,178	88
Other financial assets	8,283	-	-	-	-	-	-	-	8,283	112
Derivative financial instruments	19,219	-	-	-	-	-	-	-	19,219	-
Securities at fair value through OCI	307,491	-	-	-	-	-	-	-	307,491	222
Guarantees (after Credit Conversion Factor)	13,946	7,723	13,759	19,526	8,821	1,124	-	50,954	37,008	4,913
LCs and Acceptances (after Credit Conversion Factor)	535,776	3	-	-	2,637	-	-	2,640	533,137	14

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25. Financial risk management objectives and policies (continued)

Fair value through profit or loss (FVTPL)

At 30 September 2020, the Parent Bank has derivative financial assets at FVTPL amounting to TL 19,219 (31 December 2019 – TL 11,937). An analysis of the credit quality of the maximum credit exposure is as follows:

	30 September 2020	31 December 2019
Derivative financial assets	19,219	11,937
Fair value and carrying amount	19,219	11,937

c) Capital management

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

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

- Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of Tier 1 capital.
- Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of financial assets measured at fair value through other comprehensive income and equity investments, subordinated loans received, free reserves set aside for contingencies and the fund for increase in the value of securities.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

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25. Financial risk management objectives and policies (continued)

c) Capital management (continued)

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

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

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

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

	30 September 2020	31 December 2019
Amount subject to credit risk (I)	3,738,265	3,189,103
Amount subject to market risk (II)	77,763	59,713
Amount subject to operational risk (III)	216,763	198,633
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+III)	4,032,791	3,447,449
Shareholders' equity:		
Tier 1 capital	589,938	438,876
Tier 2 capital	163,011	100,118
Total regulatory capital	752,949	538,994
Capital adequacy ratio	18.67%	15.64%

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25. Financial risk management objectives and policies (continued)

d) Fair values

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

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

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

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

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

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

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

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

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25. Financial risk management objectives and policies (continued)

d) Fair values (continued)

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

30 September 2020	<i>Note</i>	Level 1	Level 2	Level 3	Total
Derivative financial assets		19,219	-	-	19,219
Financial assets measured at fair value through other comprehensive income	8	297,294	-	-	297,294
Investment property		-	67,114	-	67,114
Derivative financial liabilities		-	280,017	-	280,017
31 December 2019	<i>Note</i>	Level 1	Level 2	Level 3	Total
Derivative financial assets		11,937	-	-	11,937
Financial assets measured at fair value through other comprehensive income	8	198,356	-	-	198,356
Investment property		-	223,545	-	223,545
Derivative financial liabilities		-	43,444	-	43,444

e) Market risk

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

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

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

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25. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Currency risk

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

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

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

	USD	Euro	Others	Total
2020				
Assets				
Cash and cash equivalents	189,159	280,447	21,433	491,039
Reserve deposits at Central Bank	63,739	75,294	-	139,033
Loans and advances to customers	423,863	815,468	-	1,239,331
Financial assets measured at fair value through other comprehensive income	85,915	-	-	85,915
Other assets	13	-	-	13
Total assets	762,689	1,171,209	21,433	1,955,331
Liabilities				
Funds borrowed	239,355	261,898	21,419	522,672
Subordinated debts	116,356	-	-	116,356
Other liabilities	288,133	1,340,116		1,628,249
Total liabilities	643,844	1,602,014	21,419	2,267,277
Gross exposure	118,845	(430,805)	14	(311,946)
Off-balance sheet position				
Net notional amount of derivatives	(118,953)	426,986	(150)	307,883
Net exposure	(108)	(3,819)	(136)	(4,063)

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25. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Currency risk (continued)

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

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25. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Interest rate risk

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

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

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

The following table indicates the periods in which financial assets and liabilities reprice as of 30 September 2020 and 31 December 2019:

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 30 September 2020							
Assets							
Cash and cash equivalents	228,447	-	-	-	-	381,416	609,863
Reserve deposits at Central Bank	139,032	-	-	-	-	14,057	153,089
FVTPL investments	17,099	2,120	-	-	-	-	19,219
Financial assets at fair value through other comprehensive income	16,407	24,998	58,641	-	-	197,248	297,294
Loans and advances to customers	1,791,556	193,767	386,035	354,117	37,707	-	2,763,182
Other assets	-	-	-	-	-	340,210	340,210
Total assets	2,192,541	220,885	444,676	354,117	37,707	932,931	4,182,857
Liabilities							
Funds borrowed ^(*)	392,012	237,340	220,144	8	65,770	470,427	,385,701
Debt securities issued ^(**)	-	482,357	113,753	48,090	77,538	-	721,738
Other liabilities ^(***)	1,095,805	261,755	4,909	-	-	712,949	2,075,418
Total liabilities	1,487,817	981,452	338,806	48,098	143,308	1,183,376	4,182,857
On balance sheet interest sensitivity gap	704,724	760,567	105,870	306,019	105,601	250,445	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	704,724	760,567	105,870	306,019	105,601	250,445	-

(*) Includes subordinated loans amounting to TL 38,818.

(**) Includes subordinated bonds amounting to TL 77,538.

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

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25. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Interest rate risk (continued)

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

(*) Includes subordinated loans amounting to TL 29,761.

(**) Includes subordinated bonds amounting to TL 60,544.

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

Summary of average interest rates

As at 30 September 2020 and 31 December 2019, the summary of average interest rates for different assets and liabilities are as follows:

	30 September 2020			31 December 2019		
	Euro	USD	TL	Euro	USD	TL
Assets						
Cash and balances with the Central Bank	-	-	5.00	-	1.50	5.00
Due from banks	0.02	0.58	8.61	0.03	2.39	18.23
FVTPL investments	-	-	-	-	-	-
Placements at money markets	-	-	8.66	-	-	24.04
FVTOCI investments	-	8.84	21.04	-	10.07	29.49
Loans and advances to customers	6.87	8.57	17.33	6.74	8.56	25.08
Other	-	-	-	-	-	-
Liabilities						
Money market borrowings	0.14	0.52	4.92	0.71	1.64	9.70
Funds borrowed	6.93	8.02	9.83	6.37	7.13	16.81
Debt securities issued	-	10.00	12.99	-	10.00	19.13
Funds from other financial institutions	1.39	0.57	8.65	3.78	3.96	21.83

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25. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Liquidity risk

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

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

As a result of COVID-19 pandemic, Against liquidity problems that could occur due to fluctuations in financial markets, the Bank has updated its Liquidity Emergency Action Plan and has prepared a Liquidity Action Plan to further increase its existing liquidity. The Parent Bank has designed separate measures for both its assets and liabilities, and has immediately initiated the necessary efforts to implement these measures.

Exposure to liquidity risk

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

30 September 2020	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	381,416	228,447	-	-	-	-	-	609,863
Reserve deposits at Central Bank	14,057	139,032	-	-	-	-	-	153,089
FVTPL investments	-	17,099	2,120	-	-	-	-	19,219
FVOCI investments	-	-	-	1,019	21,672	77,355	197,248	297,294
Loans and advances to customers	-	1,791,556	193,767	386,035	391,824	-	-	2,763,182
Other assets	21	41,300	-	-	-	-	298,889	340,210
Total assets	395,494	2,217,434	195,887	387,054	413,496	77,355	496,137	4,182,857
Funds borrowed (*)	470,427	392,012	237,340	220,144	8	65,770	-	1,385,701
Debt securities issued (**)	-	-	482,357	113,753	48,090	77,538	-	721,738
Other liabilities (***)	112,468	1,095,813	261,755	4,901	-	-	600,481	2,075,418
Total liabilities	582,895	1,487,825	981,452	338,798	48,098	143,308	600,481	4,182,857
Liquidity gap	(187,401)	729,609	(785,565)	48,256	365,398	(65,953)	(104,344)	-
Off Balance Sheet Position	-	(8,549)	(15,326)	(3,643)	(21,088)	-	-	(48,606)
Receivables from derivatives	-	2,221,917	269,862	-	35,340	-	-	2,527,119
Liabilities from derivatives	-	2,234,590	270,689	-	77,522	-	-	2,582,801
Non cash loans	-	2,700	12,871	166,094	24,465	684,500	-	890,630

(*) Includes subordinated loans amounting to TL 38,818.

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25. Financial risk management objectives and policies (continued)

e) Market risk (continued)

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

(*) Includes subordinated loans amounting to TL 29,761.

(**) Includes subordinated bonds amounting to TL 60,544.

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

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26. Related parties

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

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

30 September 2020	Balance	Percentage of the financial statement amount (%)
Cash loans	913,682	32%
Non-cash loans	22,079	2%
Borrower funds / Funds borrowed	167,497	12%
31 December 2019	Balance	Percentage of the financial statement amount (%)
Cash loans	331,465	15%
Non-cash loans	19,369	2%
Borrower funds / Funds borrowed	110,136	12%
30 September 2020	Balance	Percentage of the financial statement amount (%)
Interest income and commissions	70,014	25%
Other operating expense (-)	4,973	14%
30 September 2019	Balance	Percentage of the financial statement amount (%)
Interest income and commissions	46,892	13%
Other operating expense (-)	4,432	14%

As at 30 September 2020, no provisions have been recognised in respect of loans given to related parties (31 December 2019 – none).

Compensation of key management personnel of the Bank

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 8,312 comprising salaries and other benefits for the period 1 January-30 September 2020 (1 January - 30 September 2019: TL 6,475).

27. Events after balance sheet date

None.