Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

Consolidated Financial Statements
As at and for the Year Ended
31 December 2020
With Independent Auditors' Report

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bankpozitif Kredi ve Kalkınma Bankası A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bankpozitif Kredi ve Kalkınma Bankası A.Ş. ("the Bank") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Responsibilities of auditors in an audit file as follows:

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

Erdal Tıkmak
Partner

1 March 2021
Istanbul, Turkey

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Statement of Financial Position

As at 31 December 2020

(Currency - In thousands of Turkish Lira)

		Audited	Audited
		31 December 2020	**31 December 2019**
ASSETS			
Cash and balances with central banks	*10*	10	4
Due from banks and financial institutions	*10*	8,522	11,666
Interbank and other money market placements	*10*	100	50,531
Reserve deposits at central banks	*11*	73,142	67,503
Trading assets	*12*	16,724	10,365
Investment securities	*13*	33,326	64,044
Loaned securities	*13*	13,492	5,439
Loans and finance lease receivables, net	*14*	700,140	641,489
Tangible assets	*15*	10,021	9,744
Intangible assets	*16*	5,015	5,513
Deferred tax assets	*9*	2,317	3,626
Assets held for sale	*17*	48,400	46,861
Other assets	*18*	12,225	12,639
Total assets		**923,434**	**929,424**
LIABILITIES			
Money market deposits	*19*	12,954	5,275
Trading liabilities	*12*	9,825	5,995
Funds borrowed	*20*	560,504	543,189
Other liabilities	*21*	35,828	47,078
Provisions	*22*	17,431	16,872
Total liabilities		**636,542**	**618,409**
EQUITY			
Share capital and share premium	*23*	379,114	379,114
Legal reserves	*23*	16,168	16,168
Fair value reserve of debt instruments at fair value through other comprehensive income (FVOCI), net of tax	*23*	5,569	8,478
Accumulated losses		(113,959)	(92,745)
Total equity		**286,892**	**311,015**
Total equity and liabilities		**923,434**	**929,424**

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Statement of Profit or Loss
For the year ended 31 December 2020

(Currency - In thousands of Turkish Lira)

	Note	Audited 2020	Audited 2019
Interest income			
Interest income on loans and finance leases		71,554	67,116
Interest income on deposits with other banks and financial institutions		993	1,843
Interest income on investment securities		8,242	10,469
Interest income on interbank and other money market placements		1,224	1,309
Other interest income		1,993	20,284
Total interest income		**84,006**	**101,021**
Interest expense			
Interest expense on other money market deposits		(765)	(3,835)
Interest expense on funds borrowed		(18,985)	(26,961)
Other interest expense		(10,138)	(10,202)
Total interest expense		**(29,888)**	**(40,998)**
Net interest income		**54,118**	**60,023**
Fees and commission income	*4*	2,838	5,985
Fees and commission expense	*4*	(552)	(351)
Net fee and commission income	*4*	**2,286**	**5,634**
Net trading income/(loss) and foreign exchange gain/(loss), net	*5, 24*	3,739	3,100
Other operating income	*6*	3,469	2,084
Total operating income		**63,612**	**70,841**
Net impairment loss on financial assets	*14*	**(37,140)**	**(20,014)**
Personnel expenses	*7*	(19,319)	(23,009)
Depreciation and amortisation	*15, 16*	(3,673)	(3,757)
Administrative expenses	*8*	(16,770)	(19,833)
Taxes other than on income		(776)	(821)
Other expenses		(3,242)	(1,842)
Total operating expenses		**(43,780)**	**(49,262)**
Profit/(loss) before income tax		**(17,308)**	**1,565**
Income tax	*9*	(2,357)	921
Profit/(loss) for the year		**(19,665)**	**2,486**

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2020

(Currency - In thousands of Turkish Lira)

	Audited 2020	Audited 2019
Profit/(loss) for the year	**(19,665)**	**2,486**
Other comprehensive income		
Items that will never be reclassified to profit or loss		
Remeasurement of employee termination benefits	(1,833)	(1,000)
Related tax	284	220
	(1,549)	**(780)**
Items that are or may be reclassified to profit or loss		
Net change in fair value of financial assets measured at fair value through other comprehensive income (FVOCI)	(7,620)	(2,752)
Net amount reclassified to the statement of profit or loss on sale of debt instruments at FVOCI	3,947	1,388
Related tax	764	321
	(2,909)	**(1,043)**
Other comprehensive income for the year, net of income tax	**(4,458)**	**(1,823)**
Total comprehensive income/(loss) for the year	**(24,123)**	**663**

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Statement of Changes in Equity
For the year ended 31 December 2020

(Currency - In thousands of Turkish Lira)

	Note	Share capital	Share premium	Adjustments to share capital	Legal reserves	Fair value reserve of debt instruments at FVOCI, net of tax	Accumulated losses	Total
At 1 January 2019		**337,292**	**20,121**	**21,701**	**16,168**	**9,521**	**(94,451)**	**310,352**
Total comprehensive income for the year								
Profit/(loss) for the year		-	-	-	-	-	2,486	2,486
Other comprehensive income								
Re-measurements of employee termination benefit, net of tax	*22*	-	-	-	-	-	(780)	(780)
Net change in fair value of financial assets measured at fair value through other comprehensive income (FVOCI), net of tax	*23*	-	-	-	-	(1,043)	-	(1,043)
Total other comprehensive income		**-**	**-**	**-**	**-**	**(1,043)**	**(780)**	**(1,823)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(1,043)**	**1,706**	**663**
At 31 December 2019		**337,292**	**20,121**	**21,701**	**16,168**	**8,478**	**(92,745)**	**311,015**

	Note	Share capital	Share premium	Adjustments to share capital	Legal reserves	Fair value reserve of debt instruments at FVOCI, net of tax	Accumulated losses	Total
At 1 January 2020		**337,292**	**20,121**	**21,701**	**16,168**	**8,478**	**(92,745)**	**311,015**
Profit/(loss) for the year		**-**	**-**	**-**	**-**	**-**	**(19,665)**	**(19,665)**
Other comprehensive income								
Re-measurements of employee termination benefit, net of tax	*22*	-	-	-	-	-	(1,549)	(1,549)
Net change in fair value of financial assets measured at fair value through other comprehensive income (FVOCI), net of tax	*23*	-	-	-	-	(2,909)	-	(2,909)
Total other comprehensive income		**-**	**-**	**-**	**-**	**(2,909)**	**(1,549)**	**(4,458)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(2,909)**	**(21,214)**	**(24,123)**
At 31 December 2020		**337,292**	**20,121**	**21,701**	**16,168**	**5,569**	**(113,959)**	**286,892**

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

Consolidated Statement of Cash Flows
For the year ended 31 December 2020

(Currency - In thousands of Turkish Lira)

	Note	Audited 2020	Audited 2019
Cash flows from operating activities			
Interest received		55,722	85,042
Interest paid		(29,995)	(40,450)
Fees and commissions received		2,663	5,425
Fees and commissions paid		(552)	(351)
Trading income		6,873	5,531
Recoveries from non-performing loans	*14*	10,168	1,493
Cash payments to employees and other parties		(19,376)	(21,697)
Cash received from other operating activities		3,469	2,820
Cash paid to other operating activities		(21,346)	(40,570)
		7,626	**(2,757)**
Change in trading assets		2,289	785
Change in reserve deposits at central banks		(5,639)	4,488
Change in loans and finance lease receivables		56,592	90,507
Change in other assets		(949)	34
Change in customer deposits		-	(61)
Change in interbank and other money market deposits		7,682	4,686
Change in other liabilities		(12,628)	17,913
Net cash from operating activities		**54,973**	**115,656**
Cash flows from investing activities			
Purchases of investment securities	*13*	(35,293)	(13,302)
Proceeds from sale and redemption of investment securities	*13*	41,633	39,779
Purchases of tangible assets	*15*	(3,001)	(8,799)
Proceeds from the sale of premises and equipment	*15*	405	-
Purchases of intangible assets	*16*	(73)	(129)
Net cash generated from in investing activities		**3,671**	**17,549**
Cash flows from financing activities			
Proceeds from funds borrowed	*20*	4,947,792	1,140,905
Repayment of funds borrowed	*20*	(5,056,659)	(1,209,882)
Proceeds from debt securities issued		-	-
Repayment of debt securities issued		-	-
Payments due to lease liabilities		(3,163)	(3,032)
Net cash used in financing activities		**(112,030)**	**(72,009)**
Effect of net foreign exchange difference on cash and cash equivalents		(169)	(3,809)
Net increase/(decrease) in cash and cash equivalents		**(53,555)**	**57,387**
Cash and cash equivalents at 1 January	*10*	62,170	4,783
Cash and cash equivalents at 31 December	*10*	**8,615**	**62,170**

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

Notes to the consolidated financial statements

1. Corporate information

General

Bankpozitif Kredi ve Kalkınma Bankası A.Ş. ("BankPozitif" or "the Bank") was incorporated in Turkey on 9 April 1999 as Toprak Yatırım Bankası A.Ş. as a subsidiary of Toprakbank A.Ş. On 30 November 2001, Toprakbank A.Ş. (the previous parent company) was taken over by the Saving Deposit Insurance Fund ("SDIF"). As a result, SDIF became the controlling shareholder of Toprak Yatırım Bankası A.Ş., C Faktoring A.Ş. acquired 89.92% of the Bank's shares on 1 November 2002 in an auction from SDIF. Following the acquisition, the name of the Bank was changed as C Kredi ve Kalkınma Bankası A.Ş. C Faktoring A.Ş. and its nominees increased their shareholding to 100% by share capital increases and by purchasing other third party minority shareholders' shares.

Negotiations of the new shareholding structure of the Bank which began in 2005 were finalised and a final share subscription agreement was signed on 13 December 2005. Under this agreement, Bank Hapoalim B.M. ("Bank Hapoalim") acquired a 57.55% stake in BankPozitif by means of a capital injection to be made through Tarshish-Hapoalim Holdings and Investments Ltd. ("Tarshish"), a wholly-owned subsidiary of Bank Hapoalim. On 23 December 2005, the name of the Bank was changed as Bankpozitif Kredi ve Kalkınma Bankası A.Ş. Legal approvals concerning the new partnership have been obtained from Israeli and Turkish authorities in 2006 and extraordinary general assembly of the Bank was convened on 31 October 2006.

On 8 April 2008, Tarshish's share in BankPozitif increased to 65.00% by way of share capital increase. On 7 April 2009, Tarshish acquired 4.825% shares of BankPozitif from C Faktoring A.Ş. and Tarshish's share in BankPozitif increased to 69.83%.

As at 31 December 2020, 69.83% (31 December 2019 – 69.83%) of the shares of the Bank belong to Tarshish and are controlled by Bank Hapoalim and 30.17% (31 December 2019 – 30.17%) of the shares belong to C Faktoring A.Ş.

The registered head office address of the Bank is located at Rüzgarlıbahçe Mah. Kumlu Sok. No: 3 Yesa Blokları Kavacık 34805 Beykoz – Istanbul / Turkey.

(Currency - In thousands of Turkish Lira)

1. Corporate information *(continued)*

Nature of activities of the Bank / Group

The Bank carries out its activities as corporate and retail banking. The Bank's corporate services mainly include corporate lending, project finance, trade finance and financial leasing. In retail banking, the Bank mainly provides retail lending products such as consumer loans, home equity, mortgages, and vehicle to its customers. As a non-deposit taking bank, the Bank borrows funds from financial markets and from its counterparties.

The Bank, within the scope of its downsizing policy in its corporate and retail business line, continued to decrease its assets. While the Bank continued to support its clients and provide services, downsizing policy continued without any new loan disbursement while maintaining its asset quality.

C Bilişim Teknolojileri ve Telekomünikasyon Hizmetleri A.Ş. ("C Bilişim") is specialised in software development and provides other technological support services to the financial sector including the Bank.

As at 31 December 2020, the Bank provides services through its head office. As at 31 December 2020, the number of employees for the Bank and its consolidated subsidiary are 51 and 2, respectively (31 December 2019 – 56 and 2).

For the purposes of the consolidated financial statements, the Bank and its consolidated subsidiary are referred to as "the Group".

The subsidiary included in consolidation and effective shareholding percentages of the Group at 31 December 2020 and 31 December 2019 are as follows:

	Place of incorporation	Principal activities	Effective shareholding and voting rights	
			31 December 2020	31 December 2019
C Bilişim	Istanbul/Turkey	Software development and technology	100%	100%

2. Basis of preparation

2.1 Statement of compliance

These consolidated financial statements as of 31 December 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They were authorized for issuance by the management on 1 March 2020.

2. Basis of preparation *(continued)*

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following assets and liabilities are measured at fair value;

- derivative financial instruments
- trading assets
- financial assets at the fair value through profit or loss
- financial assets measured at fair value through other comprehensive income

2.3 Functional and presentation currency

These consolidated financial statements are presented in TL, which is the Bank's functional currency. Except as indicated, financial information presented in TL has been rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, 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 estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described as follows.

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 3.

Expected credit loss (ECL) approach is formed an impairment model having three stages based on the change in credit quality since initial recognition. The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

2.5 Changes in accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entity.

2.6 Other disclosures

The accounting policies and the valuation principles applied in the preparation of the accompanying consolidated financial statements are explained in Notes 3.1 to 3.23.

(Currency - In thousands of Turkish Lira)

3. Significant accounting policies

3.1 Basis of consolidation

i) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used for acquired businesses. The purchase method of accounting involves allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of Group's share of the identifiable net assets acquired is recorded as goodwill. There is no negative goodwill recognised by the Group. The financial statements of the subsidiary is prepared for the same reporting period as the parent Bank, using consistent accounting policies.

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments – fair value through other comprehensive income or a financial liability designated as a hedge of the net investment in a foreign operation.

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

	USD / TL (full)	**EUR / TL (full)**
31 December 2020	7.3405	9.0079
31 December 2019	5.9402	6.6506

3. Significant accounting policies *(continued)*

3.3 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest for investment securities – fair value through other comprehensive income calculated on an effective interest basis,
- interest income and expense arising from currency swaps, cross currency swaps, futures and interest rate cap/floor agreements which are presented as other interest income and expense in the accompanying consolidated financial statements.

3.4 Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan. Fees and commission arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

Fees for bank transfers and other banking transaction services are recorded as income when collected.

3.5 Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of non-qualifying derivatives, held for risk management purposes, are recorded as foreign exchange gain.

3.6 Dividends

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

3. Significant accounting policies *(continued)*

3.7 Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax losses can be utilised.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities

Recognition

The Group recognises a financial asset or financial liability in its statement of financial position when and only when it becomes a party to the contractual provisions of the instrument. It shall be recognised a financial asset or a financial liability in its statement of financial position when, and only when, an entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are recognized at the settlement date.

Assessment of the Business Model

As per IFRS 9, the business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation.

During assessment of the business model for management of financial assets, it must be considered all relevant evidence that is available at the date of the assessment. Such relevant evidence includes below:

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

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

If cash flows are realised in a way that is different from the expectations at the date that it is assessed the business model, that does not give rise to a prior period error in the financial statements nor does it change the classification of the remaining financial assets held in that business model as long as it is considered all relevant information that was available at the time that it made the business model assessment. However, when the business model is assessed for newly originated or newly purchased financial assets, it must be considered information about how cash flows were realised in the past, along with all other relevant information.

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

- A business model whose objective is to hold assets in order to collect contractual cash flows: a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortised cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Assessment of the Business Model *(continued)*

- A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: it may be held 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 recognized 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.
- Other business models: financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Classification Methodology

The financial assets included within the scope of IFRS 9 are determined and the SPPI test based on the financial assets and sub-products as well as the Business Model shall be determined on the basis of IFRS 9 standards.

Financial assets held by the Bank in line with the management model for the purpose of collecting contractual cash flows consisting of only the interest and principal should be recognized by using the amortized cost method if such contractual cash flows consist of only the interest and principal. The following criteria should be taken into consideration for the financial assets evaluated in this context:

(a) frequency and sales amount of sales made in previous periods,

(b) whether the sales were made close to the maturity date of the financial asset,

(c) causes of sales and future forecasts for sales.

Measurement Categories of Financial Assets and Liabilities

As of 1 January 2018, all financial assets are classified based on the business model for managing the financial assets. Accordingly, financial assets are classified in three main categories as listed below:

- Financial assets measured at amortized cost,
- Financial assets measured at fair value through other comprehensive income,
- Equity instruments measured at fair value through other comprehensive income,
- Financial assets measured at fair value through profit or loss.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Explanations on Financial Assets

The Group categorizes its financial assets as “Fair Value Through Profit/Loss”, “Fair Value Through Other Comprehensive Income” or “Measured at Amortized Cost”. Such financial assets are recognized or derecognized according to IFRS 9 - Financial Instruments. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than “Financial Assets at Fair Value Through Profit or Loss”, transaction costs are added to fair value or deducted from fair value. The Group recognizes a financial asset into financial statements when it becomes a party to the contractual terms of a financial instrument. During the first recognition of a financial asset into the financial statements, business model determined by Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Bank’s management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments is made to earnings, losses or interest that were previously recorded in the financial statements.

a) 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 remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

The fair value measurements of the financial assets at fair value through profit/loss are considered to include the negative effects Covid-19 pandemic.

b) 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 remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are recognized under the “Accumulated other comprehensive income or expense to be reclassified through profit or loss” under shareholders’ equity. Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. During initial recognition an entity may irrevocably elect to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Explanations on Financial Assets *(continued)*

c) Equity Instruments Measured at Fair Value Through Other Comprehensive Income: At initial recognition, it can be made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such election is made on an instrument by instrument basis.

Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the cumulative gain or loss shall be recycled to prior period's profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. IFRS 9 impairment requirements are not applicable for equity instruments.

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

e) Derivative Financial Assets: The major derivative instruments utilized by the Group are foreign currency and interest rate swaps, cross currency swaps, currency options and currency forwards. Derivative financial instruments of the Group are classified under IFRS 9, "Derivative Financial Assets Designated at Fair Value through Profit or Loss". Payables and receivables arising from the derivative instruments are recorded in the off-balance sheet accounts at their contractual values. Derivative transactions are valued at their fair values subsequent to their acquisition. In accordance with the classification of derivative financial instruments, if the fair value is positive, the amount is classified as "Derivative Financial Assets Designated at Fair Value Through Profit or Loss" or "Derivative Financial Assets Designated at Fair Value Through Other Comprehensive Income", if the fair value is negative, the amount is classified as "Derivative Financial Liabilities Designated at Fair Value Through Profit or Loss" or "Derivative Financial Liabilities Designated at Fair Value Through Other Comprehensive Income". The fair value differences of derivative financial instruments are recognized in the income statement under trading profit/loss line in profit/loss from derivative financial transactions.

f) Loans: 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". Group's loans are recognized under the "Measured at Amortized Cost" account.

Explanations on Financial Liabilities

Deposits, funds borrowed and debt securities issued: The Bank is not entitled to collect customer deposits. Money market deposits, funds borrowed and debt securities issued are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Derecognition of financial instruments

Derecognition of financial assets due to change in the contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a "new" financial asset.

When it is assessed the characteristics of the new contractual terms of the financial asset, it is also evaluated 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 recognised a modification gain or loss in profit or loss.

Derecognition of financial liabilities

Where all risks and rewards of ownership of the asset have not been transferred to another party and it is retained control of the asset, it is continued to be recognised the remaining portion of the asset and liabilities arising from such asset.

When it is retained substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognised in its entirety and the consideration received is recognised as a liability.

Derecognition of a financial asset without any change in the contractual terms

The asset is derecognised 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 FVOCI, 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 recognised in profit or loss.

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

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Reclassification of financial instruments

It shall be reclassified all affected financial assets based on classification principles of IFRS 9 when, and only when, it is changed the business model for managing financial assets.

It is fulfilled the requirements of reclassification during transition to IFRS 9 and such reclassification details are presented in transition disclosures.

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 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.

Explanations on Expected Credit Loss

The Group allocates impairment for expected loss on financial assets measured at amortized cost and measured at fair value through other comprehensive income. As of 1 January 2018, the Group recognizes provisions for impairment in accordance with IFRS 9 requirements.

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 the gradual increase in credit risk observed since their initial recognition:

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

Stage 2: 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.

Stage 3: Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

According to the default definition, an asset is considered as default, on objective default (more than 90 days past due) and subjective default (unlikely to pay) conditions. Therefore, the Group considers a financial instrument defaulted and therefore stage 3 (credit-impaired) on these two below conditions:

1. Objective Default Definition: It means debt having past due more than 90 days. Current definition of default in the Bank is based on a more than 90 days past due definition. If a loan is exactly 90 days past due, it will not be considered as default. Default status starts on the 91st day.

2. Subjective Default Definition: It means it is considered that a debt is unlikely to be paid. Whenever it is considered that an obligor is unlikely to pay its credit obligations, it should be considered as defaulted regardless of the existence of any past-due amount or of the number of days past due.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Forward Looking Information

Any macroeconomic expectations within the scope of the IFRS 9 directly affect the provisions (Expected Credit Loss). The Bank uses progressive macroeconomic information in its significant increase in credit risk assessment and the anticipated credit loss calculation.

In order to generate estimates based on macroeconomic reflections, the Bank uses speculative grade in global corporate average cumulative default rates published by S&P global rating. While calibrating the Bank's probability of default rates, Bayesian scaler approach is used together with the normal and worst scenario for speculative default rates together with portfolio average probability of default rate for cash and non-cash portfolio separately.

As a result, the provisions calculated may change considering the prospective macroeconomic expectations. The Bank regularly reviews the parameters and model it uses in its calculations and updates them when necessary.

Significant Increase in Credit Risk

In determining the significant increase in credit risk, the Bank performs qualitative and quantitative assessments.

<u>Quantitative Assessment</u>

In the event that any of the following conditions occur as a result of a qualitative assessment, the Bank classifies the financial asset as Stage 2 (Significant Increase in Credit Risk):

- receivables overdue for more than 30 days as of the reporting date,
- receivables that are monitored closely,
- any change in a payment plan due to refinancing, restructuring or a preferential agreement when the loan is considered not in default or not excluded from the financial statements as long as the change is not a result of any commercial reasons.

<u>Qualitative Assessment</u>

The quantitative reason explaining the significant increase in credit risk is based on the comparison of the credit rating of the borrower calculated at the opening of the loan and the credit rating assigned to the same loan at the reporting date.

The Bank classifies the credit receivable within the scope of close monitoring if there is a decrease in the borrower's predetermined level as a result of the quantitative evaluation.

Low Credit Risk

In accordance with IFRS 9, in case the risk of default of a financial instrument is low, the borrower has a strong structure to meet its contractual cash flow obligations in the short term and any negative changes in economic conditions and operating conditions in the longer term reduce the borrower's ability to fulfill its contractual cash-flow obligations only to a certain extent, the Bank considers the credit risk of such financial instrument to be low.

The Bank does not conclude that a financial instrument has a low credit risk if only the risk of loss related to such financial instrument is considered to be low due to the value of the collateral and the credit risk of the financial instrument is not considered low without such collateral. Additionally, the Bank does not assess any financial instruments as having a low credit risk only because such financial instruments are less risky compared to any other financial instruments of the Bank or the credit risk of the region where the business operates.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Low Credit Risk *(continued)*

The Bank assumes that the credit risk of a financial instrument does not increase significantly after the initial recognition of it in the financial statements if it is determined that a financial instrument has a low credit risk at the reporting date.

The Bank applies a low credit risk assessment only for its securities portfolio.

Measurement of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in Note 28 – fair value of financial and non-financial instruments.

A new type of coronavirus (COVID-19), which has emerged in China, was defined as a pandemic affecting various countries in the World by the World Health Organization on 11 March 2020. The effects of COVID-19 on economic conditions, businesses, consumers and many other issues remain uncertain. The effects of COVID-19 on capital adequacy, credit risk, operational risk, currency risk, interest rate risk, liquidity risk, leverage ratio, stock position risk arising from banking accounts and other risks and indicators are regularly monitored by the Group’s Management and Group’s Risk Management units. The Group has already restructured the loans of customers who are in liquidity need due to COVID-19 effects and continue to analyse further restructuring needs and negotiate with customers.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

As at 31 December 2020, the Group has assessed the effects of COVID-19 on estimates and judgements especially relating to expected credit losses in preparation of the consolidated financial statements. The Group increased the macroeconomic effect on the probability of default calculation by adding 20% to the S&P speculative rate for non-cash loans accordingly. The Group management will continue to reassess and revise the estimates and judgements, as appropriate, in the forthcoming periods.

Repurchase and resale transactions

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement (‘repos’), continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements (‘repos’) are reclassified in the consolidated financial statements as loaned securities when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

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

3.9 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

3.10 Tangible Assets

Recognition and measurement

Items of tangible assets are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent costs

The cost of replacing part of an item of tangible assets is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3. Significant accounting policies *(continued)*

3.10 Tangible Assets *(continued)*

Depreciation

Depreciation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are assigned accordance with the existing statutory tax law.

The estimated useful lives for the current and comparative periods are as follows:

- office equipment, furniture and fixtures 4-10 years
- motor vehicles 5-6 years

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3.11 Intangible assets

i) Goodwill

Goodwill arises on the acquisition of subsidiaries or businesses.

Goodwill represents the excess of the cost of the acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in consolidated statement of income.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

As of 31 December 2020, there are no goodwill (31 December 2019 – none).

ii) Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in consolidated statement of income on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful lives of software are three to fifteen years.

3.12 Assets held for sale

An asset (or a disposal group) classified as asset held for sale is measured at lower of carrying value or fair value less costs to sell. An asset (or a disposal group) is regarded as asset held for sale only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively marketed at a price consistent with its fair value.

3. Significant accounting policies *(continued)*

3.13 Investment property

Land and buildings that are held to earn rental income or for capital appreciation supply of goods or services, administrative purposes or sale in the ordinary course of business are classified as investment property and carried at fair value where the change in fair value is recognised in the statement of income.

As of 31 December 2020, there are no investment property (31 December 2019 – none).

3.14 Leases

Based on IFRS 16, at the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the alternative borrowing interest rate.

After the commencement date, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

After the commencement date, the lease liability is remeasured to reflect changes to the lease payments. The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset.

The lease liability is remeasured by discounting the revised lease payments using a revised discount rate, if either there is a change in the lease term or there is a change in the assessment of an option to purchase the underlying asset. However, if there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments or if there is a change in the amounts expected to be payable under a residual value guarantee, an unchanged discount rate is used.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the lease liability is remeasured by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the alternative borrowing interest rate at the effective date of the modification. The carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. Any gain or loss relating to the partial or full termination of the lease is recognised in profit or loss. A corresponding adjustment to the right-of-use asset is made for all other lease modifications.

Financial lease as lessee

Tangible assets acquired through financial leasing are recognized as assets and the related liabilities as lease payables in assets and liabilities, respectively. In the determination of the related asset and liability amounts, the lower of the fair value of the leased assets and the present value of leasing payments is considered. Financial costs on leasing agreements are distributed throughout the lease periods at fixed interest rates. Interest expenses and foreign exchange losses related with financial leasing are recognized in income statement.

In cases where leased assets are impaired or the expected future benefits of the assets are less than their book values, the book values of such leased assets are reduced to their net realizable values. Depreciation for assets acquired through financial leases is calculated consistently with the same principle as for the tangible assets.

Leases, in which the majority of risks and returns of the related asset belong to the lessor, are classified as operational lease. In operating leases, the rent payments are recognized as expense in income statement in equal amounts over the lease term.

3. Significant accounting policies *(continued)*

3.15 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. In the current year no impairment loss has been recognised for the goodwill.

3.16 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3. Significant accounting policies *(continued)*

3.17 Employee benefits

(i) Reserve for employee severance payments

In accordance with the existing social legislation in Turkey, the Group is required to make certain lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognised in the accompanying consolidated financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Group that may arise from the retirement of the employees.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) Other benefits

The bonus provision which was calculated on defined criteria and targets for the upper-management and employees presented as provision in the accompanying consolidated financial statements.

3.18 Fiduciary assets

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

3.19 Segment reporting

An operating segment is a component of the Group that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial statements is available.

3. Significant accounting policies *(continued)*

3.20 New standards and interpretations not yet adopted

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On 23 January 2020, IASB issued *Classification of Liabilities as Current or Non-Current* which amends IAS 1 *Presentation of Financial Statements* to clarify its requirements for the presentation of liabilities in the statement of financial position.

The amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current—that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

The amendments include:

(a) Specifying that an entity's right to defer settlement must exist at the end of the reporting period;

(b) Clarifying that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;

(c) Clarifying how lending conditions affect classification; and

(d) Clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

The Group shall apply retrospectively these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted. However, the amendment published on 15 July 2020, IASB decided to defer the effective date of IAS 1 until 1 January 2023.

The Group does not expect that application of these amendments to IAS 1 will have significant impact on its consolidated financial statements.

Covid-19 related rent concession (Amendments to IFRS 16)

In May 2020, IASB issued Covid-19 related rent concession which amends IFRS 16 Leases.

The amendments allow lessees not to account for rent concessions as lease modifications if they arise as a direct consequence of COVID-19.

The practical expedient will only apply if:

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021
- no other substantive changes have been made to the terms of the lease.

No practical expedient is provided for lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.

The Group shall apply these amendments for annual periods beginning on or after 1 June 2020 with earlier application permitted.

Reference to the Conceptual Framework (Amendments to IFRS 3)

In May 2020, IASB issued Reference to the Conceptual Framework, which made amendments to IFRS 3 Business Combinations.

The amendments updated IFRS 3 by replacing a reference to an old version of the Board's Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

3. Significant accounting policies *(continued)*

3.20 New standards and interpretations not yet adopted *(continued)*

Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

In May 2020, IASB issued Onerous Contracts—Cost of Fulfilling a Contract, which made amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

IASB developed amendments to IAS 37 to clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

Annual Improvements to IFRS Standards 2018–2020

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2018–2020 Cycle for applicable standards in May 2020. The amendments are effective as of 1 January 2022. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards

This amendment simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent – i.e. if a subsidiary adopts IFRS Standards later than its parent and applies IFRS 1.D16 (a), then a subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent’s date of transition to IFRS Standards. This amendment will ease transition to IFRS Standards for subsidiaries applying this optional exemption by i) reducing undue costs; and ii) avoiding the need to maintain parallel sets of accounting records.

IFRS 9 Financial Instruments

This amendment clarifies that – for the purpose of performing the ‘’10 per cent test’ for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

IFRS 16 Leases, Illustrative Example 13

The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive. It will help to remove the potential for confusion in identifying lease incentives in a common real estate fact pattern.

3. Significant accounting policies *(continued)*

3.20 New standards and interpretations not yet adopted *(continued)*

IBOR Reform and its Effects on Financial Reporting—Phase 2

In August 2020, IASB issued amendments that complement those issued in 2019 and focus on the effects of the interest rate benchmark reform on a company's financial statements that arise when, for example, an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark rate.

The Phase 2 amendments, Interest Rate Benchmark Reform—Phase 2, address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues). In 2019, the Board issued its initial amendments in Phase 1 of the project.

The objectives of the Phase 2 amendments are to assist companies in:

- applying IFRS Standards when changes are made to contractual cash flows or hedging relationships because of the interest rate benchmark reform; and
- providing useful information to users of financial statements.

In Phase 2 of its project, the Board amended requirements in IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities;
- hedge accounting; and
- disclosures.

The Phase 2 amendments apply only to changes required by the interest rate benchmark reform to financial instruments and hedging relationships.

Amendments are effective on 1 January 2020

Changes that have become effective and have been adopted for annual periods beginning on or after 1 January 2020 are as follows:

1-) The revised Conceptual Framework (Version 2018)

2-) Amendments to IFRS 3 - Definition of a Business

The application of the amendment to IFRS 3 did not have a significant impact on the consolidated financial statements of the Group.

3-) Amendments to IAS 1 and IAS 8 - Definition of Material

The application of the amendment to IAS 1 and IAS 8 is not expected to have a significant effect on the consolidated financial statements of the Group.

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

The application of this amendment did not have a significant impact on the consolidated financial statements of the Group.

(Currency - In thousands of Turkish Lira)

4. Net fee and commission income

	2020	2019
Fee and commission income		
Letters of guarantee, credit and other guarantees	2,240	4,209
Credit related fees and commissions	285	1,492
Other	313	284
Total fee and commission income	**2,838**	**5,985**
Fee and commission expense		
Corresponding bank fees	(155)	(133)
Others	(397)	(218)
Total fee and commission expense	**(552)**	**(351)**
Net fee and commission income	**2,286**	**5,634**

5. Net trading income and net foreign exchange gain

	2020	2019
Income from trading assets, net	(3,134)	5,008
Income from investment securities, net	783	523
Foreign exchange gains/losses, net	6,090	(2,431)
Total	**3,739**	**3,100**

6. Other operating income

	2020	2019
Gain on sales of assets held for sale	29	221
Other(*)	3,440	1,863
Total	**3,469**	**2,084**

(*) Rent income, income from the sale of tangible assets and other income.

(Currency - In thousands of Turkish Lira)

7. Personnel expenses

	2020	2019
Wages and salaries	15,645	18,064
Other fringe benefits	1,131	2,350
Compulsory social security obligations	2,543	2,595
Total	**19,319**	**23,009**

8. Administrative expenses

	2020	2019
Information technology expenses	6,373	6,092
Insurance expenses	2,110	1,712
Communication expenses	1,876	1,829
Consultancy expenses	1,589	2,403
Human resources intermediary expenses	1,573	1,274
Lightening expenses	1,341	1,257
Lawyers expenses	505	928
Operating lease expenses	469	429
Others	934	3,909
Total	**16,770**	**19,833**

(Currency - In thousands of Turkish Lira)

9. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%. Corporate tax rate is used as 20% in the deferred tax calculation as of 31 December 2020.

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 25th day of the fourth month following the year-end reporting date and taxes must be paid in one instalment by the end of the fourth month. In Turkey, the tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial position, has been calculated on a separate-entity basis.

Income tax recognised in the statement of profit or loss

The components of income tax expense as stated below:

	2020	**2019**
Current tax (expense) / income	-	-
Deferred tax (expense) / income	(2,357)	921
Income tax in the statement of profit or loss	**(2,357)**	**921**

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate for the years ended 31 December 2020 and 31 December 2019 is as follows:

	2020	**2019**
Profit/(loss) before income tax	(17,308)	1,565
Income tax using the domestic corporation tax rate 22%	3,808	(344)
Non-deductible expenses	(37)	(258)
Current year losses for which no deferred tax asset is recognized	(6,125)	(416)
Reversal of previously recognised tax losses	-	-
Unrecognised deductible temporary differences	(3)	1,939
Total income tax expense in the statement of profit or loss	**(2,357)**	**921**

(Currency - In thousands of Turkish Lira)

9. Taxation *(continued)*

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

The deferred tax included in the consolidated financial position and changes recognized in the income tax expense are as follows:

	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
	2020	**2020**	**2019**	**2019**
Derivative financial instruments	1,965	(2,497)	1,319	(1,061)
Liability for employee provision	1,892	-	1,680	-
Tangible assets	-	(1,124)	-	(991)
Tax losses	2,096	-	2,096	-
Assets held for sale	-	(1,073)	-	(888)
Others	1,138	(80)	1,528	(57)
Deferred tax asset / (liability)	**7,091**	**(4,774)**	**6,623**	**(2,997)**
Net off of tax	**(4,774)**	**4,774**	**(2,997)**	**2,997**
Net tax asset / (liability)	**2,317**	**-**	**3,626**	**-**

As at 31 December 2020, TL 2,096 of deferred tax assets are recognised for TL 10,482 of tax losses of the Group (31 December 2019: TL 2,096 of deferred tax assets and TL 10,482 of tax losses), unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. The related tax losses can be utilized until 31 December 2023.

Deferred tax assets have not been recognised in respect of the remaining tax losses are amounting to TL 99,497 (31 December 2019: TL 82,582).

Reflected as:

	2020	**2019**
Deferred tax assets	2,317	3,626

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

	2020	**2019**
Deferred tax assets, net at 1 January	3,626	2,164
Deferred tax recognised in the profit or loss	(2,357)	921
Deferred income tax recognised in other comprehensive income	1,048	541
Deferred tax assets, net at the end of the year	**2,317**	**3,626**

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

	2020	**2019**
Tax losses	99,497	82,582
	99,497	**82,582**

(Currency - In thousands of Turkish Lira)

9. Taxation *(continued)*

Unrecognised deferred tax assets

Due date breakdown of tax losses	**2020**	**2019**
2019	-	2,011
2020	41,991	41,991
2021	18,944	18,944
2023	7,262	17,744
2024	3,459	1,892
2025	27,841	-
	99,497	**82,582**

Tax losses carried forward

Recognised tax losses carried forward expire as follows.

	2020	**2019**
2023	10,482	10,482
	10,482	**10,482**

10. Cash and cash equivalents

	2020	**2019**
Cash and balances with central banks	10	4
- *Balances with central banks*	*10*	*4*
Due from banks and financial institutions	8,522	11,666
Interbank and other money market placements	100	50,531
Cash and cash equivalents in the statement of financial position	**8,632**	**62,201**
Less: Due from banks with original maturities of more than 3 months, restricted balance and accruals	(17)	(31)
Cash and cash equivalents in the statement of cash flows	**8,615**	**62,170**

As of 31 December 2020, the expected credit loss for cash and cash equivalents are amounting to TL 17 (31 December 2019 – 113).

11. Reserve deposits at central banks

	2020	**2019**
Turkish Lira	60	1,239
Foreign currency	73,082	66,264
	73,142	**67,503**

(Currency - In thousands of Turkish Lira)

12. Trading assets and liabilities

	2020	2019
Debt instruments		
Turkish government bonds-TL denominated_ FVPL	4,241	5,512
Derivative transactions		
Derivative financial assets	12,483	4,853
Total trading assets	**16,724**	**10,365**
Derivative transactions		
Derivative financial liabilities	9,825	5,995
Total trading liabilities	**9,825**	**5,995**

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments that include forwards, currency and interest rate swaps, futures, currency options and interest rate cap/floor agreements. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows the favourable (assets) and unfavourable (liabilities) fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period-end and are neither indicative of the market risk nor credit risk.

	2020		
	Fair value assets	**Fair value liabilities**	**Notional amount in TL equivalent**
Forward purchase contracts	-	-	315
Forward sale contracts	-	-	315
Futures purchase contracts	-	-	-
Futures sale contracts	-	-	-
Currency swap purchases	435	-	232,938
Currency swap sales	10,020	-	223,782
Interest rate swaps	2,028	9,825	156,997
Total derivative financial instruments	**12,483**	**9,825**	**614,347**

	2019		
	Fair value assets	**Fair value liabilities**	**Notional amount in TL equivalent**
Forward purchase contracts	-	-	53,462
Forward sale contracts	-	-	54,285
Futures purchase contracts	1	-	33,859
Futures sale contracts	-	172	34,340
Currency swap purchases	943	302	277,963
Currency swap sales	1,222	1,536	280,145
Interest rate swaps	2,687	3,985	150,152
Total derivative financial instruments	**4,853**	**5,995**	**884,206**

The Group undertakes all of its transactions in derivative financial instruments with banks and other financial institutions. Notional amounts and contractual maturity analysis of derivative transactions are disclosed in Note 26.

(Currency - In thousands of Turkish Lira)

13. Investment and loaned securities

	2020	2019
Investment securities - FVOCI(*)	33,166	63,884
Loaned securities - FVOCI	13,492	5,439
Equity instruments(**)	160	160
Total	**46,818**	**69,483**

(*) Investment securities consist of CPI indexed government bonds as at 31 December 2020 and 31 December 2019.

(**) Equity instruments correspond to 0.0377% share of Istanbul Stock Exchange Market.

Fair value through other comprehensive income- investment securities

	2020	2019
Fair value through other comprehensive income- investment securities		
Debt instruments		
Turkish government bonds – TL denominated	33,166	63,884
- *Gross amount*	33,166	*63,884*
Total investment securities - FVOCI	**33,166**	**63,884**

As at 31 December 2020, TL denominated investment securities – FVOCI comprise Turkish Government notes having a maturity range between January 2021 – June 2028.

As at 31 December 2020, investment securities – FVOCI with carrying value of TL 23,512 (31 December 2019, investment securities FVOCI with carrying value of TL 45,530) are kept in the Central Bank of Turkey and Istanbul Stock Exchange Clearing and Custody Incorporation for legal requirements and as a guarantee for possible stock exchange and money market operations although they are not pledged.

Loaned securities

Carrying value of securities – FVOCI given as collateral under repurchase agreements which are classified as loaned securities are as follows:

	2020	2019
Loaned securities from FVOCI	12,546	5,373
Loaned securities from trading securities	946	66
Total loaned securities	**13,492**	**5,439**

(Currency - In thousands of Turkish Lira)

13. Investment and loaned securities *(continued)*

The movement in investment securities - FVOCI (including loaned securities from fair value through other comprehensive income) is summarized as follows:

	2020	2019
Balance at 1 January	69,483	88,110
Additions	35,293	13,302
Disposals (sale and redemption)	(41,633)	(39,779)
Change in interest accruals	(16,325)	7,850
Balance at year end	**46,818**	**69,483**

14. Loans and finance lease receivables

31 December 2020	Turkish Lira	Foreign currency	Foreign currency indexed	Total
Corporate loans and finance lease receivables	118,710	505,890	-	624,600
Consumer loans	40	-	62	102
Total loans and finance lease receivables	**118,750**	**505,890**	**62**	**624,702**
Non-performing loans and finance lease receivables	185,231	17,181	-	202,412
Less: 12 month ECL (stage 1)	(31)	-	-	(31)
Less: Lifetime ECL significant increase in credit risk (stage 2)	(5,930)	-	-	(5,930)
Less: Lifetime ECL impaired credits (stage 3)	(118,213)	(2,800)	-	(121,013)
	179,807	**520,271**	**62**	**700,140**

31 December 2019	Turkish Lira	Foreign currency	Foreign currency indexed	Total
Corporate loans and finance lease receivables	102,915	460,058	-	562,973
Consumer loans	144	-	345	489
Total loans and finance lease receivables	**103,059**	**460,058**	**345**	**563,462**
Non-performing loans and finance lease receivables	166,476	-	-	166,476
Less: 12 month ECL (stage 1)	(1,645)	-	-	(1,645)
Less: Lifetime ECL significant increase in credit risk (stage 2)	(3,661)	-	-	(3,661)
Less: Lifetime ECL impaired credits (stage 3)	(83,143)	-	-	(83,143)
	181,086	**460,058**	**345**	**641,489**

As at 31 December 2020, loans and finance lease receivables with floating rates are TL 118,710 (31 December 2019 – TL 111,017) and fixed interest rates are TL 505,992 (31 December 2019 – TL 452,445).

(Currency - In thousands of Turkish Lira)

14. Loans and finance lease receivables *(continued)*

Movements in non-performing loans and finance lease receivables:

	31 December 2020	**31 December 2019**
Non-performing loans and finance lease receivables at 1 January	166,476	126,563
Additions to non-performing loans and finance lease receivables	46,104	41,406
Recoveries	(10,168)	(1,493)
Non-performing loans and finance lease receivables at the year end	**202,412**	**166,476**

The distribution of the cash and non-cash loans of the Bank according to credit ratings is as follows at 31 December 2020:

		Current Period	**Prior Period**
Grade	**Description**	**Weight**	
AA	Maximum Reliability	-	-
AA-	Maximum Reliability	-	-
A+	Very Good Firm	-	-
A	Very Good Firm	4.06	0.08
A-	Very Good Firm	-	-
BBB+	Reliable and Qualified	-	-
BBB	Reliable and Qualified	2.84	8.59
BBB-	Reliable and Qualified	-	-
BB+	Low Reliably and risky	-	-
BB	Low Reliably and risky	27.45	3.19
BB-	Low Reliably and risky	-	-
B+	Weak	8.65	29.90
B	Weak	15.23	28.16
CCC	Maximum Risk	17.93	7.64
CC	Maximum Risk	0.10	0.14
D	Bankruptcy	23.73	22.31

Movements in the expected credit losses for loans and finance lease receivables:

	31 December 2020	**31 December 2019**
Reserve at the beginning of the year	88,449	74,803
Provision net of recoveries	38,525	13,646
- Expected credit loss	*41,789*	*15,224*
- Recoveries	*(3,264)*	*(1,578)*
Reserve at the year end	**126,974**	**88,449**

(Currency - In thousands of Turkish Lira)

15. Tangible Assets

	Right-of-use asset	Office equipment, furniture and fixtures	Leasehold improvements	Motor vehicles	Total
Cost					
Balance at 1 January 2019	6,846	18,455	-	562	25,863
Additions	1,539	6,744	-	-	8,283
Disposals	-	(5,529)	-	-	(5,529)
Balance at 31 December 2019	**8,385**	**19,670**	**-**	**562**	**28,617**
Balance at 1 January 2020	8,385	19,670	-	562	28,617
Additions	619	3,001	-	-	3,620
Disposals	(1,798)	(1,416)	-	(562)	(3,776)
Balance at 31 December 2020	**7,206**	**21,255**	**-**	**-**	**28,461**
Depreciation					
Balance at 1 January 2019	402	16,284	-	378	17,064
Depreciation charge for the year	1,416	987	-	106	2,509
Disposals	-	(547)	-	(153)	(700)
Balance at 31 December 2019	**1,818**	**16,724**	**-**	**331**	**18,873**
Balance at 1 January 2020	1,818	16,724	-	331	18,873
Depreciation charge for the year	1,797	1,305	-	-	3,102
Disposals	(1,798)	(1,406)	-	(331)	(3,535)
Balance at 31 December 2020	**1,817**	**16,623**	**-**	**-**	**18,440**
Carrying amounts					
Balance at 1 January 2019	-	1,192	1,041	184	2,417
Balance at 31 December 2019	6,567	2,946	-	231	9,744
Balance at 31 December 2020	5,389	4,632	-	-	10,021

(Currency - In thousands of Turkish Lira)

16. Intangible assets

	Purchased software	Developed software	Total
Cost			
Balance at 1 January 2019	29,252	538	100,521
Additions	129	-	129
Disposals	-	-	-
Balance at 31 December 2019	**29,381**	**538**	**100,650**
Balance at 1 January 2020	29,381	538	100,650
Additions	73	-	73
Disposals	-	-	-
Balance at 31 December 2020	**29,454**	**538**	**100,723**
Amortisation and impairment losses			
Balance at 1 January 2019	23,246	305	94,282
Amortisation charge for the year	855	-	855
Disposals	-	-	-
Balance at 31 December 2019	**24,101**	**305**	**95,137**
Balance at 1 January 2020	24,101	305	95,137
Amortisation charge for the year	571	-	571
Disposals	-	-	-
Balance at 31 December 2020	**24,672**	**305**	**95,708**
Carrying amounts			
Balance at 31 December 2019	6,006	233	6,239
Balance at 31 December 2019	5,280	233	5,513
Balance at 31 December 2020	4,782	233	5,015

Intangible assets consist of purchased software and developed software.

(Currency - In thousands of Turkish Lira)

17. Assets held for sale

Assets held for sale	1 January – 31 December 2020	1 January – 31 December 2019
Balance at 1 January	46,861	855
Additions (*)	-	46,279
Change in fair value	1,680	441
Sale of the asset	(141)	(714)
Total	**48,400**	**46,861**

(*) The Group has classified the real estate amounting to TL 46,720 as assets held for sale as of 31 December 2019 which was earlier classified as investment property amounting to TL 46,279 as of 31 December 2018.

Asset held for sale is valued by an independent appraiser. According to the report prepared by a real estate appraisal company, which is included in the list to provide valuation service by the Capital Markets Board of Turkey ("CMB"), the fair value of hotel is determined as TL 48,400 for shares of the land and building owned by the Group determined according to the discounted cash flow projections approach.

18. Other assets

	2020(*)	2019(*)
Prepaid expenses	4,824	4,486
Collateral given for derivative and other transactions	4,839	4,469
Prepaid taxes	778	534
Advances given	-	13
Others	1,784	3,137
Total	**12,225**	**12,639**

As at 31 December 2020, the expected credit loss for other assets are amounting to TL 19 (31 December 2019 –25).

19. Other money market deposits

	2020		2019	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements	**12,954**	**-**	**5,275**	**-**
Central Bank of Turkey	-	-	-	-
BIST	*12,645*	-	*4,980*	-
Other	*309*	-	*295*	-
Total	**12,954**	**-**	**5,275**	**-**

As at 31 December 2020, other money market deposits of TL 12,954 (31 December 2019 – TL 5,275) have fixed interest rates.

(Currency - In thousands of Turkish Lira)

20. Funds borrowed

	2020		2019	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short-term[(1)]				
Fixed interest	-	23,027	-	60,211
Floating interest	-	220,763	-	208,795
Long-term[(1)]				
Fixed interest	-	180,537	-	274,183
Floating interest	-	136,177	-	-
Total	**-**	**560,504**	**-**	**543,189**

(1) Based on original maturities.

Repayments of long term borrowing are as follows:

	2020		2019	
	Floating rate	Fixed rate	Floating rate	Fixed rate
2021	-	-	-	40,026
2022	-	54,211	-	40,025
2023	-	54,211	-	-
Thereafter	136,177	72,115	-	194,134
Total	**136,177**	**180,537**	**-**	**274,183**

Floating rate borrowings have interest rate repricing periods of 1 to 6 months.

As at 31 December 2020 and 31 December 2019, funds borrowed are unsecured.

As at 31 December 2020 and 31 December 2019, the Group has not had any defaults of principal, interest or redemption amounts.

Reconciliation of movement of funds borrowed to cash flows from financing activities

	31 December 2019	Cash items	Foreign currency conversion adjustments	Other non-cash items	31 December 2020
Funds borrowed	543,189	(108,867)	126,303	(121)	560,504
Total	**543,189**	**(108,867)**	**126,303**	**(121)**	**560,504**

	31 December 2018	Cash items	Foreign currency conversion adjustments	Other non-cash items	31 December 2019
Funds borrowed	613,380	(96,131)	27,154	(1,214)	543,189
Total	**613,380**	**(96,131)**	**27,154**	**(1,214)**	**543,189**

(*) The group has USD and EUR funds borrowed whose interest rates are between 0.20% and 3.72% as of 31 December 2020 (31 December 2019: between 0.73% and 5.75%).

(Currency - In thousands of Turkish Lira)

21. Other liabilities

	2020	2019
Current accounts of loan customers	19,564	37,740
Collateral received for derivative transactions	7,931	-
Lease payables	6,212	6,967
Unearned commission income	803	1,092
Taxes and funds payables	540	608
Insurance payables	115	90
Others	663	581
Total	**35,828**	**47,078**

The following table summarises lease payables details:

	2020		2019	
	Gross	**Net**	**Gross**	**Net**
1 Year	2,002	846	2,682	1,474
1- 4 year	5,110	2,666	4,924	2,275
More than 4 years	3,237	2,700	4,261	3,218
Total	**10,349**	**6,212**	**11,867**	**6,967**

22. Provisions

	2020	2019
Employee termination benefits	6,438	4,420
Vacation pay liability	1,605	1,625
Bonus provision	792	1,207
Other [1]	8,596	9,620
Total	**17,431**	**16,872**

(1) The provision provided for legal cases amounting to TL 866 and general provision for noncash loans amounting to TL 7,698 (31 December 2019: TL 595 and TL 8,994) are recognized in other provisions.

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

	2020	2019
At 1 January	4,420	3,392
Charge / (reversal) during the year	185	28
Actuarial (gain)/loss [1]	1,833	1,000
At 31 December	**6,438**	**4,420**

(1) The actuarial loss amounting to TL 1,833 (31 December 2019: TL 1,000 loss) was recognized in retained earnings in 2020.

(Currency - In thousands of Turkish Lira)

22. Provisions *(continued)*

Employee termination benefits

In accordance with existing social legislation in Turkey, the Bank and its subsidiary incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as at 31 December 2020 and 31 December 2019, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the reporting date.

The principal actuarial assumptions used at the reporting dates are as follows:

	2020	**2019**
Discount rate	4.07%	4.07%
Expected rates of salary/limit increases	8.85%	10.50%

Actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognised in other comprehensive income.

Other provisions

Other provision includes upper-management and employees bonus and retention agreement provision which was calculated on defined criteria and targets.

23. Capital and reserves

	2020	**2019**
Number of common shares, TL 0.1 (in full TL), par value (Authorised and issued)	3.372.923.500	3.372.923.500

Share capital and share premium

As at 31 December 2020 and 31 December 2019, the composition of shareholders and their respective percentage of ownership are summarized as follows:

	31 December 2020		**31 December 2019**	
	Amount	**%**	**Amount**	**%**
Tarshish	235,515	69.83	235,515	69.83
C Faktoring A.Ş.	101,777	30.17	101,777	30.17
	337,292	**100.00**	**337,292**	**100.00**
Share premium	20,121		20,121	
Adjustment to share capital	21,701		21,701	
Share capital and share premium	**379,114**		**379,114**	

There are no rights, preferences and restrictions on the distribution of dividends and the repayment of capital.

23. Capital and reserves *(continued)*

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.

Other reserves

Financial assets measured at fair value through other comprehensive income (FVOCI) reserve

The financial assets measured at fair value through other comprehensive income (FVOCI) reserve includes the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income (FVOCI) investment securities until the investment is derecognised or impaired.

As at 31 December 2020, financial assets measured at fair value through other comprehensive income (FVOCI) reserve is TL 5,569 net of tax (31 December 2019 TL 8,478 net of tax).

Dividends

No dividend payments were made as at 31 December 2020 (31 December 2019: None). Since the General Assembly has not been made as of the announcement of the financial statement, the distribution of profit has not been decided yet.

24. Related parties

The Group is controlled by Bank Hapoalim and C Faktoring A.Ş. which owns 69.83% and 30.17% of ordinary shares, respectively (31 December 2019 – 69.83% and 30.17%, respectively). The ultimate controlling shareholder of the Group is Bank Hapoalim. For the purpose of these consolidated financial information, consolidated subsidiary, shareholders, and companies controlled by Bank Hapoalim and C Faktoring A.Ş. are referred to as related parties.

In the course of conducting its banking business, the Group conducted various business transactions with related parties. These include loans and finance lease receivables, customer accounts, funds borrowed and non-cash transactions. As of 31 December 2020, the Group is utilized 30,000 USD loan with maturity date 4 June 2021 and interest rate LIBOR+3.05%. These are all commercial transactions and realised on an arms-length basis.

As of 31 December 2020, there are no loans and finance lease receivables to related parties (31 December 2019 – none).

(Currency - In thousands of Turkish Lira)

24. Related parties *(continued)*

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

	Shareholders		Directors and key management personnel		Others	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Funds borrowed						
At 1 January	208,795	264,920	-	-	-	5,401
At end of the year[2]	220,763	208,795	-	-	-	-
Interest expense [1]	(8,783)	(12,016)	-	-	-	(539)

[1] Interest expense in the above tables for 2020 represents the balances as of 31 December 2020.

[2] There is 50,000 USD committed line from the main shareholder. 35,000 USD is used at 31 December 2020 whose maturity is 4 June 2021.

Other balances with related parties:

Related party		**Deposits**	**Other liabilities**	**Non-cash loans**	**Other interest expense**
Shareholders	31 December 2020	-	3	4,574	-
	31 December 2019	-	3	3,705	-
Directors and key management personnel	31 December 2020	-	-	-	-
	31 December 2019	-	-	-	-
Others	31 December 2020	-	292	6	-
	31 December 2019	-	7,254	6	-

Transactions with related parties:

Related party		**Foreign exchange trading gain/(loss)**	**Other interest income**	**Other interest expenses**	**Other operating income**	**Other operating expenses**
	2020	-	-	-	32	-
Shareholders	2019	-	-	-	3	-
	2020	-	-	-	-	-
Directors and key management personnel	2019	-	-	-	-	-
	2020	-	8	-	-	-
Others	2019	3	1	-	-	-

Compensation of key management personnel of the Group

The executive and non-executive members of Board of Directors and management received remuneration and fees amounted to TL 7,537 (31 December 2019 – TL 8,304) comprising salaries and other benefits.

25. Commitments and contingencies

In the normal course of business activities, the Bank and its subsidiary undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	2020	**2019**
Letters of guarantee	81,495	135,327
Other guarantees	-	16,436
Loss allowances (amounts arising from ECL)	(7,698)	(8,994)
Total non-cash loans	**73,797**	**142,769**

25. Commitments and contingencies *(continued)*

Explanation on Lawsuit

The counterpart of the Debt Liquidation and Right of Repurchase Agreement entered into by and between Gaziantep Çağlar and the Bank that was being kept in the land register was falsified by forgery of documents. This falsified document was unlawfully used in an enforcement proceeding with judgement. The Bank initiated the following three legal procedures regarding this fraud:

1. The Bank filed a complaint to the Enforcement Court of Gaziantep against the proceeding filed against the Bank claiming that the underlying document for the proceeding had not been appropriate for the said enforcement proceeding with judgement and the irregularities had occurred during proceeding filing transactions. The court accepted our objections and ruled for the cancellation of the proceeding. The Provisional Appeal Court and the Supreme Court of Appeals ratified the decision, and the decision to cancel the enforcement proceedings has been finalized.
2. Upon the rescission of the injunction decision taken by the Civil Court of Enforcement, the Bank filed another negative declaratory action before the Gaziantep Commercial Court of First Instance in order to re-stop the ongoing proceeding, and the Court dismissed the action. The justified decision did not clearly state as to why the action had been rejected, it only stated that the decision had been taken based on two Supreme Court decisions, both of which were used as examples but in fact they were not related to the subject matter of the action filed by the Bank. The Bank applied to the Provisional Appeal Court (the 1st degree appeal) against this decision. The Provisional Appeal Court did not review the action on merit due to the fact that the evidence indicated in the case file had not been gathered and accepted the appeal request, ruled on revoking the local court’s decision and decided to send the case file back to the local court for it to be re-reviewed. Although the Provisional Appeal Court accepted the Bank’s appeal request, Bank objected to this decision on the procedural grounds since we believe that after this decision of the Provisional Appeal Court, the case should be reviewed and decided by the Provisional Appeal Court, not the local court. Following the rejection of the Provisional Appeal Court of the Bank’s objection, the Bank applied to the Supreme Court of Appeal. The Supreme Court of Appeal rejected our application. In the meantime, after the Provisional Appeal Court’s decision, the Local Court continued to litigate the case and decided to wait for the Aggravated Felony Court to finalize its decision. During the hearing held on 18 June 2020, Bank’s request not to wait for the finalization of the Aggravated Felony Court’s decision was rejected and the and the hearing was postponed to be held on 25 March 2021.
3. The Bank filed a complaint with the Office of the Chief Public Prosecutor of Gaziantep about the persons attempted in fraud. At the end of the proceedings, all criminal files have been merged into a single High Criminal Court file. The Court ruled that some defendants should be sentenced for crimes such as Aggravated Fraud, Forgery on Special Documents and Wrongful Conduct. The Court has already written its justified decision and the Public Prosecutor’s Office and the Bank appealed the decision with the request that the related accused persons should be sentenced to heavier punishments. The Provisional Appeal Court’s litigation process is still ongoing.

26. Financial risk management

Strategy in using financial instruments

BankPozitif’s risk approach is to achieve sound and sustainable low risk profile on consolidated basis, through the identification, measurement and 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, to eliminate the market risk by not carrying positions and intelligent handling of operational risks supporting the group in achieving its strategic goals. With this understanding, the Group has given priority to create a risk aware culture in which all functions of the Group understand the risks being exposed; to have well-defined areas of responsibilities; to identify and map the risks and controls of each process and to have prudent procedures for the new products and applications.

26. Financial risk management *(continued)*

BankPozitif's basic risk classifications and policies can be summarised as follows:

- well managing the credit risk through a high standardised credit risk management,
- minimizing market risk with the avoidance of currency, interest rate and maturity positions,
- identifying, assessing, monitoring and controlling of the operational risks inherent in products, activities, systems and material processes.

In the credit risk management process of the Group, sound risk management practices are targeted in compliance with Basel recommendations.

In accordance with the BankPozitif's market risk management strategy; the Group aims not to carry market risk positions and intends to create matching assets and liabilities to eliminate asset liability management risks i.e. maturity risk and interest rate sensitivity risk.

Additionally, in order to minimise the market risk, marketable securities portfolio is limited proportional to the total assets size with a conservative trade limit and most of the securities are floating rate notes.

The Bank declares its risk appetite and tolerance levels for the primary risk areas on a Board approved policy since 2010.

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 both in Turkey and Israel. Board of Directors follows its duties not only by itself but also through audit committee, which is composed of two board members and responsible for the supervision of the efficiency and adequacy of BankPozitif's internal systems, namely internal control, risk management, internal audit and compliance. The audit committee also oversees the proper functioning of these systems and the accounting and reporting systems and is responsible for the integrity of the information produced.

All risk limits are set by the Board of Directors and reviewed on a regular basis.

The main functions and authority of the Board of Directors related to risk management activities are as follows;

- to define the risk policy of the Group, including its subsidiary, regarding exposure to various risks (credit risks, market risks, operational risks, liquidity risks and others),
- to manage and guide all the activities of internal systems directly/through committees,
- to approve new business lines, products or activities that would have a substantial effect on activities of the Group,

The Group manages its exposure to all types of risks through the asset and liability management committee ("ALCO") and executive committee, set by Board of Directors and comprising members of senior management, and a representative of main shareholder (board member/consultant of Board of Directors nominated by Bank Hapoalim) and also through limits set on the credit, treasury and asset liability management activities of the Group. These limits are approved and quarterly reviewed by Board of Directors and ALCO and executive committee supervise the compliance with the limits.

Permanent learning program for the Board of Directors is in place from the beginning of 2011 including the subjects risk management, corporate governance in general and corporate governance in the financial sector, Basel documentations, reporting standards (IFRS and Banking Regulation and Supervision Agency) and audit.

In summary, in order not to be exposed to liquidity, interest rate and foreign currency risk, the Group aims to 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 Group does not prefer to take speculative positions on currency, interest rate and maturity that might create risk to the Group due to changes in the prices or mismatch of assets and liabilities.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Strategy in using financial instruments

Credit risk

Credit risk refers to the risk that a contractual partner/the counterparty defaults on its contractual obligations or does not deliver in full accordance with the conditions of contract and cannot perform its obligations partially or completely on the terms set.

Although, the Bank has an asset decreasing strategy, the main focus is defined as credit activities, credits are the most significant part of its activities and thus managed meticulously. The Bank follows credit policy is reviewed and approved by Board of Directors at certain intervals and whenever necessary. The process for approving, amending and renewing is clearly regulated together with collateral requirements. All facilities are assessed prior to approval via a series of evaluation meetings to ensure that the strict criteria laid out in the Group is adhered to regarding the issues like sector, sub-sector, collateral, maturity, project type etc.

To avoid the default risks to the best possible extend, the Group applies a well-defined “credit allocation process” and afterwards monitoring of the portfolio is being executed using a number of precautionary actions by relevant functions.

31 December 2020	Loans and finance lease receivables	Due from banks and financial institutions	Investment securities and loaned securities	Non cash loans
Carrying amount				
12 month ECL (stage 1)	270,637	8,539	47,054	81,495
Lifetime ECL significant increase in credit risk (stage 2)	354,065	-	-	-
Lifetime ECL impaired credits (stage 3)	202,412	-	-	-
Allowance for impairment				
- 12 month ECL (stage 1)	(31)	(17)	(236)	(643)
- Lifetime ECL significant increase in credit risk (stage 2)	(5,930)	-	-	(7,055)
- Lifetime ECL impaired credits (stage 3)	(121,013)	-	-	-
	700,140	**8,522**	**46,818**	**73,797**

31 December 2019	Loans and finance lease receivables	Due from banks and financial institutions	Investment securities and loaned securities	Non cash loans
Carrying amount				
12 month ECL (stage 1)	324,304	11,779	69,776	151,763
Lifetime ECL significant increase in credit risk (stage 2)	239,158	-	-	-
Lifetime ECL impaired credits (stage 3)	166,476	-	-	-
Allowance for impairment				
- 12 month ECL (stage 1)	(1,645)	(113)	(293)	(1,916)
- Lifetime ECL significant increase in credit risk (stage 2)	(3,661)	-	-	(7,078)
- Lifetime ECL impaired credits (stage 3)	(83,143)	-	-	-
	641,489	**11,666**	**69,483**	**142,769**

26. Financial risk management *(continued)*

Credit risk *(continued)*

According to the default definition, an asset is considered as default, on objective default (more than 90 days past due) and subjective default (unlikely to pay) conditions. Therefore, the Group considers a financial instrument defaulted and therefore stage 3 (credit-impaired) on these two below conditions:

1. Objective Default Definition: It means debt having past due more than 90 days. Current definition of default in the Bank is based on a more than 90 days past due definition. If a loan is exactly 90 days past due, it will not be considered as default. Default status starts on the 91st day.

2. Subjective Default Definition: It means it is considered that a debt is unlikely to be paid. Whenever it is considered that an obligor is unlikely to pay its credit obligations, it should be considered as defaulted regardless of the existence of any past-due amount or of the number of days past due.

BankPozitif manages its credit portfolio as per following main principles;

Creating credit risk awareness throughout the Group

Senior management is responsible for putting the policies into practice approved by Board of Directors and identifying and managing of credit risk is the joint concern of all staff of the Bank.

The day-to-day management of credit risk is devolved to individual business units, such as the loans and risk monitoring departments of corporate and retail business, which perform regular appraisals of quantitative and qualitative information relating to counterparty credit with respect to their loan policies and procedures.

Having a reliable credit allocation function

Credit approval authorities and their approval limits are also decided by board based on a combination of “rating” and “being new/existing customers” pillars.

Credit approval processes for both retail and corporate loans are centralised. Retail and corporate loans and risk monitoring departments are organised independently from the sales and marketing departments. The retail and corporate loans and risk monitoring departments do not have any sales targets and are solely responsible for the evaluation and allocation of new loans and monitoring the performance of the loan portfolio. Loans and risk monitoring departments are not included in any phase of the pricing of loans.

All the credit marketing, allocation and follow up stages are defined in corporate and retail loan policies, which are approved and reviewed regularly by Board of Directors.

Within the light of “no exception policy” applied in the Group, the compliance of loan disbursements with internal and legal regulations are checked by internal control unit prior to disbursement.

Risk limits

There are risk limits, set by Board of Directors, describing relevant credit limits such as single borrower limit, group exposure limit, sectorial limit, credit approval authorities and their approval limits. Risk limits are determined by comparing Turkey and Israel legislations and the most conservative limitation is taken as benchmark while determining the internal limit.

Sectoral distribution of loans is monitored on a daily and monthly basis and sectoral analysis of those loans is made in accordance with their risk concentration every year. The Group set a limit on single sector concentration by 30% of total loan book.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

As at 31 December 2020, the share of the top 5 credit customers in its total corporate loan portfolio is 81% (31 December 2019 – 68%).

26. Financial risk management *(continued)*

Credit risk *(continued)*

The Bank uses two internally developed rating systems i.e. borrower rating system and facility rating system. Borrower rating is the measure of borrower's creditworthiness that is mapped by the bank to a risk grade and then to a PD (probability of default). Facility rating assesses the risk of a facility, taking into account associated collateral and guarantees and provides view for the recovery of the risk. Both systems have been validated by Bank Hapoalim's credit risk modelling department over a set of sample corporate financials/facilities.

Facility rating system was developed in 2008 and is being used for the corporate loan customers. This module, differently from the borrower rating module as explained above, rates the transaction instead of the corporate customer and reflects the expected loss amount in case of a default by taking into account collateral types which are subject to coefficients.

Expected loss of credit portfolio is calculated regularly by the Bank. In the calculation, PD values of Group for each rating category is determined by simulating PD's of an international rating institution to the Group's rating classes using "central tendency of the Group" since the Group is lacking such historical data.

Measuring risk

Central tendency factor is calculated by correlating sectoral non-performing loans ratios of banking sector to Group values. Both rating systems are being used in credit decisions, the first one giving the indications for borrower's repayment capacity, while the second one for facility's repayment capacity. Requirement of facility rating of BB or higher for the new credit clients is the main principle. Regarding retail business, decision trees developed internally (and validated by Experian Scorex) are being used to evaluate retail applicants. G3 scores of Credit Bureau is used in the classification of retail customers.

Monitoring the risk

At certain intervals, FX positions of credit customers are analysed using certain sensitivity scenarios and indirect credit risk assumed is measured. Risk management department controls structure of portfolio by product type, maturity, sector, geographical concentration, rating, currency, collateral and borrower/group of borrowers. The department also monitors concentration levels of the portfolio using internationally accepted criterion, makes recommendations and reports its findings at appropriate managerial levels. Additionally, it calculates sectorial diversification of the loan portfolio in accordance with Herfindahl-Herschman Concentration Index. The Bank's credit portfolio, either retail or corporate, is monitored through several analysis and stress tests by predetermined scenarios to measure profit or loss and results are reported at appropriate managerial levels.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Credit risk *(continued)*

Segment information by sectorial concentration for loans and finance lease receivables and non-cash loans is as follows:

31 December 2020	Cash loans	Non-cash loans	Total
Electric production and supply	201,423	6,303	207,726
Other commercial services	118,710	-	118,710
Food, beverage and tobacco industries	81,834	4	81,838
Holding companies	68,490	6	68,496
Public works and civil engineering	60,929	-	60,929
Transportation	55,290	220	55,510
Building contractor (general and special trade)	37,924	13,214	51,138
Personal other services	-	29,989	29,989
Other financial institutions	-	14,574	14,574
Electrical and electronic equipment	-	13,489	13,489
Machinery and equipment	-	1,847	1,847
Trade	-	1,819	1,819
Consumer loans	102	-	102
Textile and clothing	-	30	30
Total performing loans	**624,702**	**81,495**	**706,197**
Non-performing loans	202,412	-	202,412
Loss allowances (amounts arising from ECL)	(126,974)	(7,698)	(134,672)
Total loans	**700,140**	**73,797**	**773,937**

31 December 2019	Cash loans	Non-cash loans	Total
Electric production and supply	171,247	21,439	192,686
Other commercial services	130,601	-	130,601
Holding companies	64,351	6	64,357
Food, beverage and tobacco industries	63,872	4	63,876
Public works and civil engineering	50,337	10,088	60,425
Building contractor (general and special trade)	29,416	17,339	46,755
Personal other services	-	43,326	43,326
Transportation	41,582	178	41,760
Other financial institutions	-	33,706	33,706
Electrical and electronic equipment	-	13,251	13,251
Machinery and equipment	-	10,741	10,741
Trade	-	1,655	1,655
Consumer loans	489	-	489
Textile and clothing	-	30	30
Others	3,715	-	3,715
Total performing loans	**555,610**	**151,763**	**707,373**
Non-performing loans	174,328	-	174,328
Loss allowances (amounts arising from ECL)	(88,449)	(8,994)	(97,443)
Total loans	**641,489**	**142,769**	**784,258**

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Credit risk *(continued)*

Monitoring the risk (continued)

Total collateralisation coverage of cash loans 97.8%, non-cash loans are 64.82% as at 31 December 2020 (31 December 2019 – cash loans 99.73%, non-cash loans 78%).

The following table sets out the collateralisation of Bank's cash and non-cash loan portfolio, including finance lease receivables:

	31 December 2020	31 December 2019
Cash loans (including financial lease receivables) under loan in arrears		
Secured by mortgages	172,479	129,605
Secured by guarantee	11,743	9,717
Unsecured	18,190	27,154
Total	**202,412**	**166,476**
Cash loans (including financial lease receivables) under loan in arrears		
Secured by mortgages	354,087	239,493
Secured by assignment and cheques	136,995	159,410
Secured by pledge	132,919	109,039
Secured by guarantee	661	51,393
Secured by cash	-	4,009
Unsecured	40	118
Total	**624,702**	**563,462**
Non-cash loans		
Secured by guarantee	46,272	78,235
Unsecured	28,672	52,234
Secured by assignment and cheques	-	16,436
Secured by pledge	6,306	4,655
Secured by cash	245	203
Total	**81,495**	**151,763**

Liquidity risk

Liquidity risk is the probability of loss arising from a bank's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk includes (1) the inability to manage unplanned decreases or changes in funding sources (2) the failure to recognise or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The Board of Directors reviews the liquidity risk management policy and approves the liquidity and funding policies, ensures the effective of practice of policies and integrations with the Bank's risk management system. The Board of Directors determines the assumptions in liquidity risk measurement and monitoring. The Board of Directors establishes risk appetite of the Bank in liquidity risk management and identifies the risk limits in accordance with the risk appetite and reviews it regularly.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Liquidity risk *(continued)*

The Group manages liquidity risk by daily controls of financial planning and control department and treasury department; weekly ALCO meetings, comprising members of senior management of the Bank and through limits on the positions which can be taken by the Bank's Treasury and Financial Institutions Department.

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis, and maintains liquid assets, which it judges sufficient to meet its commitments. There are risk limits set for liquidity risks as; ratio of total assets maturing within one month to total liabilities maturing within one month cannot be lower than 100% (It is set as 80% for foreign currency assets to liabilities). ALCO closely monitors daily, weekly and monthly liquidity position of the bank and has the authority to take actions where necessary.

The Group uses various methods, including predictions of daily cash positions, and scenario analysis to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source. Risk management and treasury departments monitor daily liquidity gaps in all currencies.

Liquidity position of the Group is measured on monthly basis with three scenarios i.e. global scenario, local scenario and bank specific scenario which are run on TL positions, foreign currency positions and on a total basis. The scenarios aim to show the repayment capacity of the Group using only quasi cash assets against the liabilities of 1 month and 1 year periods. Since the Group has funding centered asset creating structure, the Group does not prefer to take any liquidity risk (monitored cumulatively) in any currency, in any point in any time as decided by the top management of the Group.

Generally, the Bank does not prefer to utilise liquidity from Interbank money markets and is in a net lender position in interbank money markets.

Although the bank does not have new loan disbursement in its business plan, as a result of the negative impact of the COVID-19 outbreak it is possible to postpone the maturity of the loans offered depending on the customer demand. The Bank maintains a liquidity buffer for possible liquidity issues, including the effects of COVID-19, by taking the committed credit limit of the mother company. The case of no cash inflows from credit repayments is analyzed in the Banks' internal liquidity scenarios and Bank is prepared for similar scenarios.

The table on the next two pages analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at reporting date to contractual maturity date.

31 December 2020	Carrying amount	Gross outflow	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 Years	Over 5 years
Interbank and other money market deposits	12,954	12,966	-	12,966	-	-	-	-
Funds borrowed	560,504	578,059	-	244,324	2,607	50,536	200,139	80,453
Current account of loan customers (1)	21,012	21,015	-	21,015	-	-	-	-
Lease Payables	6,212	7,035	-	66	155	730	4,433	1,651
	600,682	**619,075**	**-**	**278,371**	**2,762**	**51,266**	**204,572**	**82,104**

(1) Included in other liabilities.

31 December 2019	Carrying amount	Gross outflow	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interbank and other money market deposits	5,275	5,277	-	5,277	-	-	-	-
Funds borrowed	543,189	570,176	-	252,552	25,986	38,356	177,351	75,931
Current account of loan customers (1)	37,741	37,817	-	35,952	-	1,865	-	-
	586,205	**613,270**	**-**	**293,781**	**25,986**	**40,221**	**177,351**	**75,931**

(1) Included in other liabilities.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Liquidity risk *(continued)*

The table below analyses contractual maturities of derivative transactions:

31 December 2020	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Forward purchase contracts	315	-	-	-	-	-	315
Forward sale contracts	(315)	-	-	-	-	-	(315)
Currency swap purchases	93,765	-	15,313	123,860	-	-	232,938
Currency swap sales	(91,138)	-	(14,411)	(118,233)	-	-	(223,782)
Interest rate swaps	-	-	-	-	-	156,997	156,997
Futures purchase contracts	-	-	-	-	-	-	-
Futures sale contracts	-	-	-	-	-	-	-
	2,627	**-**	**902**	**5,627**	**-**	**156,997**	**166,153**

31 December 2019	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Forward purchase contracts	5,940	47,522	-	-	-	-	53,462
Forward sale contracts	(5,964)	(48,321)	-	-	-	-	(54,285)
Currency swap purchases	92,397	49,562	26,602	64,511	44,891	-	277,963
Currency swap sales	(93,466)	(48,511)	(26,673)	(65,290)	(46,205)	-	(280,145)
Interest rate swaps	-	-	-	-	-	150,152	150,152
Futures purchase contracts	16,038	17,821	-	-	-	-	33,859
Futures sale contracts	(16,197)	(18,143)	-	-	-	-	(34,340)
	(1,252)	**(70)**	**(71)**	**(779)**	**(1,314)**	**150,152**	**146,666**

Market risk

The Group has low risk appetite towards products which are subject to market risks. Market risks arise from open positions in interest rate, currency and equity/commodity prices, all of which are exposed to general and specific market movements.

The interest rate and exchange rate risks of the financial positions taken by the Bank related to financial position and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to value at risk (VaR) is taken into consideration by the standard method. As at 31 December 2020, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 24 (31 December 2019 – TL 52) for one day.

The Group has the principle not to carry equity/commodity portfolios which may cause losses based on the price changes.

The Group has a cautious approach towards derivatives transactions. In principle, derivatives are dealt only for the hedging of banking book. Trade or “market-making” in financial derivative instruments is not among the ordinary activities of the Group and possible only by specific authorisation of the Board of Directors and subject to VaR limits as well as stress scenarios.

The Board of Directors of the Bank determines the risk limits for primary risks carried by the Bank and quarterly revises these limits. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, create matching assets and liabilities and manage positive liquidity.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(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. The Group does not prefer to carry foreign currency risk and holds foreign currency asset and liability items together with derivatives in balance against the foreign currency risk.

The Group manages foreign currency risk by daily controls of financial planning and control department and treasury department; weekly ALCO meetings, comprising members of senior management of the Bank and through limits on the positions which can be taken by the Bank's treasury department.

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

31 December 2020	USD	EUR	Others	Total
Assets				
Due from banks and financial institutions	1,771	378	41	2,190
Fair value through comprehensive income	2,028	-	-	2,028
Reserve deposits at Central Banks	73,082	-	-	73,082
Loans and finance lease receivables	387,352	132,919	62	520,333
Other assets	4,229	-	-	4,229
Total assets	**468,462**	**133,297**	**103**	**601,862**
Liabilities				
Trading liabilities	9,825	-	-	9,825
Funds borrowed	234,776	325,728	-	560,504
Other liabilities	9,626	18,306	-	27,932
Total liabilities	**254,227**	**344,034**	**-**	**598,261**
Gross exposure	**214,235**	**(210,737)**	**103**	**3,601**
Off-balance sheet position				
Net notional amount of derivatives	(224,097)	210,740	-	(13,357)
Net exposure	**(9,862)**	**3**	**103**	**(9,756)**

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Currency risk *(continued)*

31 December 2019	USD	EUR	Others	Total
Assets				
Due from banks and financial institutions	2,050	3,414	38	5,502
Fair value through comprehensive income	2,687	-	-	2,687
Reserve deposits at central Banks	66,264	-	-	66,264
Loans and finance lease receivables	347,010	113,048	345	460,403
Other assets	329	-	-	329
Total assets	**418,340**	**116,462**	**383**	**535,185**
Liabilities				
Trading liabilities	3,985	-	-	3,985
Funds borrowed	269,006	274,183	-	543,189
Other liabilities	3,100	23,781	-	26,881
Total liabilities	**276,091**	**297,964**	**-**	**574,055**
Gross exposure	**142,249**	**(181,502)**	**383**	**(38,870)**
Off-balance sheet position				
Net notional amount of derivatives	(144,550)	181,460	(305)	36,605
Net exposure	**(2,301)**	**(42)**	**78**	**(2,265)**

Sensitivity analysis

A 10% weakening of TL against the foreign currencies at 31 December 2020 and 31 December 2019 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2020		**31 December 2019**	
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
USD	(986)	(986)	(230)	(230)
EUR	-	-	(4)	(4)
Other currencies	10	10	8	8
Total	**(976)**	**(976)**	**(226)**	**(226)**

A 10% strengthening of the TL against the foreign currencies at 31 December 2020 and 31 December 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

26. Financial risk management *(continued)*

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of change in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows.

The Group mainly funds its TL assets through its shareholders' equity and is not exposed to interest rate risk in TL assets and liabilities. Foreign currency assets of the Group give rise to interest rate risk as a result of mismatches or gaps in the amounts of foreign currency assets and liabilities and that mature or reprice in a given period. The Group prefers to protect itself from the effects created by the interest rate volatility and to have a match in interest rate risk. Interest rate sensitivity of the Bank is measured and monitored by duration analysis and PV01 analysis by risk management department accompanied by an interest sensitive gap representation to illustrate the negative and positive amounts of relevant time buckets.

The Group manages interest rate risk by the ALCO under the supervision of Board of Directors. The Group does not aim to generate income from the mismatch of interest rate sensitive assets and liabilities and nor make losses. Therefore the main objective of interest rate management is to eliminate interest rate sensitivity risk by creating matching assets and liabilities. In case of need, the Group utilises interest rate cap/floor agreements, interest rate swaps and setting limits on the positions, which can be taken by the Group's credit and treasury divisions to hedge the interest rate sensitivity of the Group.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Cash flow and fair value interest rate risk *(continued)*

The table below summarises the Group's exposure to interest rate risk on the basis of the remaining period at the reporting date to the repricing date:

31 December 2020	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non-interest bearing	Total
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	10	10
Due from banks and financial institutions	-	-	-	-	-	-	-	-	-	8,522	8,522
Interbank and other money market placements	100	-	-	-	-	-	-	-	-	-	100
Reserve deposits at central banks	-	-	-	-	-	-	-	-	-	73,142	73,142
Trading assets	3,567	2,028	4,295	6,834	-	-	-	-	-	-	16,724
Investment securities	4,719	10,023	18,424	-	-	-	-	-	-	160	33,326
Loan securities	2,049	7,372	4,071	-	-	-	-	-	-	-	13,492
Loans and finance lease receivables	40,818	239,471	9,716	44,170	102,481	40,169	38,948	38,948	70,129	75,290	700,140
Other assets	-	-	-	-	-	-	-	-	-	77,978	77,978
Total assets	**51,253**	**258,894**	**36,506**	**51,004**	**102,481**	**40,169**	**38,948**	**38,948**	**70,129**	**235,102**	**923,434**
Liabilities											
Money market deposits	12,954	-	-	-	-	-	-	-	-	-	12,954
Funds borrowed	245,255	109	136,177	-	-	-	-	-	178,963	-	560,504
Trading liabilities	-	9,825	-	-	-	-	-	-	-	-	9,825
Other liabilities [(1)]	1,137	-	-	-	429	5,781	-	-	-	45,912	53,259
Total liabilities	**259,346**	**9,934**	**136,177**	**-**	**429**	**5,781**	**-**	**-**	**178,963**	**45,912**	**636,542**
Financial position interest sensitivity gap	**(208,093)**	**248,960**	**(99,671)**	**51,004**	**102,052**	**34,388**	**38,948**	**38,948**	**(108,834)**	**189,190**	**286,892**
Off-balance sheet interest sensitivity gap, net	2,627	-	902	5,627	-	-	-	-	156,997	-	166,153
Total interest sensitivity gap	**(205,466)**	**248,960**	**(98,769)**	**56,631**	**102,052**	**34,388**	**38,948**	**38,948**	**48,163**	**189,190**	**453,045**

[(1)] Other liabilities comprise trading liabilities, other liabilities and provisions.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Cash flow and fair value interest rate risk *(continued)*

31 December 2019	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non interest bearing	Total
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	4	4
Due from banks and financial institutions	-	-	-	-	-	-	-	-	-	11,666	11,666
Interbank and other money market placements	50,531	-	-	-	-	-	-	-	-	-	50,531
Reserve deposits at central banks	67,396	-	-	-	-	-	-	-	-	107	67,503
Trading assets	645	3,168	5,762	445	345	-	-	-	-	-	10,365
Investment securities	17,561	17,305	29,018	-	-	-	-	-	-	160	64,044
Loan securities	235	-	5,204	-	-	-	-	-	-	-	5,439
Loans and finance lease receivables	14,067	17,498	49,944	38,723	143,265	48,738	35,052	133,041	83,134	78,027	641,489
Other assets	-	-	-	-	-	-	-	-	-	78,383	78,383
Total assets	**150,435**	**37,971**	**89,928**	**39,168**	**143,610**	**48,738**	**35,052**	**133,041**	**83,134**	**168,347**	**929,424**
Liabilities											
Money market deposits	5,275	-	-	-	-	-	-	-	-	-	5,275
Funds borrowed	246,383	23,917	977	-	-	-	-	124,699	147,213	-	543,189
Trading liabilities	1,692	4,289	-	-	14	-	-	-	-	-	5,995
Other liabilities [(1)]	11,456	25	1,893	774	-	665	-	-	5,472	43,665	63,950
Total liabilities	**264,806**	**28,231**	**2,870**	**774**	**14**	**665**	**-**	**124,699**	**152,685**	**43,665**	**618,409**
Financial position interest sensitivity gap	**(114,371)**	**9,740**	**87,058**	**38,394**	**143,596**	**48,073**	**35,052**	**8,342**	**(69,551)**	**124,682**	**311,015**
Off-balance sheet interest sensitivity gap, net	(1,092)	(231)	(71)	(779)	(1,313)	-	-	-	150,152	-	146,666
Total interest sensitivity gap	**(115,463)**	**9,509**	**86,987**	**37,615**	**142,283**	**48,073**	**35,052**	**8,342**	**80,601**	**124,682**	**457,681**

(1) Other liabilities comprise trading liabilities, other liabilities and provisions.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Cash flow and fair value interest rate risk *(continued)*

As at 31 December 2020 and 31 December 2019, the effective interest rate applied on balance sheet items summarised as follows:

31 December 2020 (%)	TL	USD	EUR	CHF
Due from banks and financial institutions	-	-	-	-
Interbank and other money market placements	19.80	-	-	-
Investment securities and loaned securities	5.33	-	-	-
Loans and finance lease receivables				
- Corporate loans	19.40	8.75	4.81	-
- Retail loans	18.42	-	-	7.44
Money market deposits	-	-	-	-
Funds borrowed	-	2.74	3.23	3.76
Current account of loan customers [1]	5.65	-	-	-

31 December 2019 (%)	TL	USD	EUR	CHF
Due from banks and financial institutions	-	-	-	-
Interbank and other money market placements	11.36	-	-	-
Marketable securities (Investment and trading)	6.98	-	-	-
Loans and finance lease receivables				
- Corporate loans	17.37	7.61	4.66	-
- Retail loans	18.36	-	-	7.22
Money market deposits	-	-	-	-
Funds borrowed	-	5.28	2.84	3.76
Current account of loan customers [1]	9.42	-	0.90	-

[1] Included in other liabilities.

The Bank’s value at market risks as of 31 December 2020 and as of 31 December 2019 calculated as per the statutory financial statements prepared for Banking Regulation and Supervision Agency (BRSA) reporting purposes within the scope of “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” published in Official Gazette no. 26333 dated 1 November 2006, are as follows:

	2020			2019		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	31,465	36,700	24,163	27,139	43,813	17,788
Counter party risk	-	-	-	-	-	-
Currency risk	7,080	15,075	788	6,326	31,425	838
Total value-at-risk	**38,545**	**51,775**	**24,951**	**33,465**	**75,238**	**18,626**

Capital Management

Internal capital adequacy assessment process

Within the risk management framework of the Bank, a comprehensive internal capital adequacy assessment process (“ICAAP”) is performed since 2009 which is reviewed and approved by Board of Directors.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Cash flow and fair value interest rate risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

Interest rate sensitivity of the banking book is calculated as the difference of discounted cash flows of assets and liabilities. With this method, the future changes of interest rates and their effects on the cash flow of asset and liabilities are simulated and the influence of these changes on the interest income and equity of the Bank is assessed. The exercise is subject to PV01 and worst case scenario limit which are (1) 100 bps parallel shift of yield curves and (2) worst case shifts of yield curves which refer to parallel and non-parallel (flattening and steepening) shift of TL (500 bps) and foreign currency (200 bps) yield curves. Limits are determined on ALCO and Board of Directors levels and subject to Board of Directors monthly review.

Change at portfolio value/Total equity (%)	31 December 2020	31 December 2019
Local TL interest rate		
+500 bps	(1.34)	(1.43)
-400 bps	2.51	2.62
Foreign currency interest rate		
+200 bps EUR	3.06	3.02
-200 bps EUR	0.75	0.24
+200 bps USD	(4.48)	(3.67)
-200 bps USD	0.73	3.47

Capital adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy (minimum 8% as required by Banking Law) by comparing the Group's eligible capital with its financial position assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The regulatory capital and the capital adequacy ratio declared by the Group as 31 December 2020 and 31 December 2019 is as follows:

	31 December 2020	31 December 2019
Amount subject to credit risk (I)	733,724	780,082
Amount subject to market risk (II)	29,050	36,713
Amount subject to operational risk (III)	108,181	107,332
Total risk-weighted assets, value at market risk and operational risk (IV) = (I+II+II)	**870,955**	**924,127**
Capital for the purpose of calculating the capital adequacy ratio	288,526	305,663
Capital adequacy ratio	**33.13%**	**33.08%**

(Currency - In thousands of Turkish Lira)

27. Classification of financial assets and financial liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2020	*Note*	FVPL	Loans and lease receivables at AC	FVOCI	Other amortised cost	Total carrying amount
Cash and balances with central banks	*10*	-	10	-	-	10
Due from banks and financial institutions	*10*	-	8,522	-	-	8,522
Interbank and other money market placements	*10*	-	100	-	-	100
Reserve deposits at central banks	*11*	-	73,142	-	-	73,142
Trading assets	*12*	16,724	-	-	-	16,724
Investment securities	*13*	-	-	33,326	-	33,326
Loaned securities	*13*	-	-	13,492	-	13,492
Loans and finance lease receivables	*14*	-	700,140	-	-	700,140
Total financial assets		**16,724**	**781,914**	**46,818**	**-**	**845,456**
Other money market deposits	*19*	-	-	-	12,954	12,954
Trading liabilities	*12*	9,825	-	-	-	9,825
Funds borrowed	*20*	-	-	-	560,504	560,504
Current accounts of loan customers[(1)]	*22*	-	-	-	35,828	35,828
Total financial liabilities		**9,825**	**-**	**-**	**609,286**	**619,111**

[(1)] Included in other liabilities.

31 December 2019	*Note*	FVPL	Loans and lease receivables at AC	FVOCI	Other amortised cost	Total carrying amount
Cash and balances with central banks	*10*	-	4	-	-	4
Due from banks and financial institutions	*10*	-	11,666	-	-	11,666
Interbank and other money market placements	*10*	-	50,531	-	-	50,531
Reserve deposits at central banks	*11*	-	67,503	-	-	67,503
Trading assets	*12*	10,365	-	-	-	10,365
Investment securities	*13*	-	-	64,044	-	64,044
Loaned securities	*13*	-	-	5,439	-	5,439
Loans and finance lease receivables	*14*	-	641,489	-	-	641,489
Total financial assets		**10,365**	**771,193**	**69,483**	**-**	**851,041**
Other money market deposits	*19*	-	-	-	5,275	5,275
Trading liabilities	*12*	5,995	-	-	-	5,995
Funds borrowed	*20*	-	-	-	543,189	543,189
Current accounts of loan customers[(1)]	*22*	-	-	-	47,078	47,078
Total financial liabilities		**5,995**	**-**	**-**	**595,542**	**601,537**

[(1)] Included in other liabilities.

(Currency - In thousands of Turkish Lira)

28. Fair value of financial and non-financial instruments

Valuation of assets measured at fair value

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. The amounts are based on the values recognised in the statement of financial position.

31 December 2020	Level 1	Level 2	Level 3	Total
Financial instruments				
Financial assets at fair value through profit or loss (FVPL)	4,241	12,483	-	16,724
Investment and loaned securities at FVOCI	46,818	-	-	46,818
	51,059	**12,483**		**63,542**
Financial instruments				
Financial liabilities at fair value through profit or loss (FVPL)	-	9,825	-	9,825
	-	**9,825**	**-**	**9,825**

31 December 2019	Level 1	Level 2	Level 3	Total
Financial instruments				
Financial assets at fair value through profit or loss (FVPL)	5,512	4,853	-	10,365
Investment and loaned securities at FVOCI	69,483	-	-	69,483
	74,995	**4,853**		**79,858**
Financial instruments				
Financial liabilities at fair value through profit or loss (FVPL)	-	5,995	-	5,995
	-	**5,995**	**-**	**5,995**

(Currency - In thousands of Turkish Lira)

28. Fair value of financial and non-financial instruments *(continued)*

Financial instruments not measured at fair value – fair value hierarchy

	31 December 2020		31 December 2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Reserve deposits at the Central Bank	73,142	73,135	67,503	67,421
Loans and finance lease receivables	700,140	741,166	641,489	720,225
Financial liabilities:				
Money market deposits	12,954	12,915	5,275	5,273
Other liabilities	35,828	35,827	47,078	49,089
Funds borrowed	560,504	591,921	543,189	570,176

Loans and finance lease receivables

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

Estimated fair value of lease contracts receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Other money market deposits, funds borrowed and current accounts of loan customers

The estimated fair value of other money market deposits and current accounts of loan customers without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

The estimated fair value of fixed interest bearing funds borrowed is based on discounted cash flows using interest rates for new debts with similar remaining maturity and the estimated fair value of floating interest bearing funds borrowed are equal to their carrying value.

Fair values of remaining financial assets and liabilities carried at amortised cost, including cash and balances with central banks, due from banks and financial institutions, interbank and other money market placements, reserve deposits at central banks, deposits from other banks are considered to approximate their respective carrying values due to their short-term nature.

(Currency - In thousands of Turkish Lira)

29. Operating segments

The Group has four reportable segments, namely headquarter and treasury, corporate banking, retail banking, and non-financial services (includes activities of C Bilişim), which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. The following table summarises the Group's operating segments details.

31 December 2020	**Asset management and treasury**	**Corporate banking**	**Retail banking**	**Non-financial services**	**Total**
Interest income	16,964	66,346	34	662	84,006
Interest expense	(29,043)	(845)	-	-	(29,888)
Internal transfer rate income/(expense)	52,964	(52,856)	(108)	-	-
Net interest income	**40,885**	**12,645**	**(74)**	**662**	**54,118**
Net fee and commission income/(expense)	(207)	2,492	1	-	2,286
Net trading income and foreign exchange gain, net	3,227	56	161	295	3,739
Other operating income	2,254	37	-	1,178	3,469
Total operating income	**46,159**	**15,230**	**88**	**2,135**	**63,612**
Net impairment loss on financial and non-financial assets	273	(37,424)	11	-	(37,140)
Total operating expenses	(29,885)	(11,729)	(538)	(1,628)	(43,780)
Profit/(loss) before income tax	**16,547**	**(33,923)**	**(439)**	**507**	**(17,308)**
Income tax	2,322	(4,619)	(60)	-	(2,357)
Net profit/(loss) for the year	**18,869**	**(38,542)**	**(499)**	**507**	**(19,665)**
Total assets	**212,747**	**703,069**	**541**	**7,077**	**923,434**
Total liabilities	**615,389**	**21,873**	**17**	**(737)**	**636,542**

(Currency - In thousands of Turkish Lira)

29. Operating segments *(continued)*

31 December 2019	**Asset management and treasury**	**Corporate banking**	**Retail banking**	**Non-financial services**	**Total**
Interest income	37,316	63,467	112	126	101,021
Interest expense	(39,402)	(1,596)	-	-	(40,998)
Internal transfer rate income/(expense)	47,711	(47,472)	(239)	-	-
Net interest income	**45,625**	**14,399**	**(127)**	**126**	**60,023**
Net fee and commission income/(expense)	(85)	5,665	54	-	5,634
Net trading income and foreign exchange gain, net	1,840	202	(1)	1,059	3,100
Other operating income	1,446	209	-	429	2,084
Total operating income	**48,826**	**20,475**	**(74)**	**1,614**	**70,841**
Net impairment loss on financial and non-financial assets	432	(20,433)	(13)	-	(20,014)
Total operating expenses	(31,098)	(16,507)	(634)	(1,023)	(49,262)
Profit/(loss) before income tax	**18,160**	**(16,465)**	**(721)**	**591**	**1,565**
Income tax	921	-	-	-	921
Net profit/(loss) for the year	**19,081**	**(16,465)**	**(721)**	**591**	**2,486**
Total assets 31.12.2019	**272,436**	**648,395**	**954**	**7,639**	**929,424**
Total liabilities 31.12.2019	**579,135**	**38,914**	**27**	**333**	**618,409**

30. Rating

None.

31. Events after the reporting period

The Group's shareholders Tarshish Hapoalim and Investments Ltd. and C Faktoring A.Ş. have reached an agreement with a buyer at 9 February 2021 for the sale of all of their shares in Bankpozitif Kredi ve Kalkınma Bankası A.Ş.

In order for the agreement to be valid, the approvals of the BRSA and the relevant Israeli authority must be obtained by the buyer and the main shareholder Tarshish until 30 June 2021.