Türkiye Garanti Bankası Anonim Şirketi
And Its Subsidiaries

Interim Condensed Consolidated Financial Statements

For the six month period ended

30 June 2020

With Independent Auditors' Report on Review of Interim Condensed Consolidated Financial Information

Türkiye Garanti Bankası Anonim Şirketi
And Its Subsidiaries

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KPMG Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
İş Kuleleri Kule 3 Kat:2-9
Levent 34330 İstanbul
Tel +90 212 316 6000
Fax +90 212 316 6060
www.kpmg.com.tr

Independent Auditor's Report on Review of Interim Condensed Consolidated Financial Statements

To the Board of Directors of Türkiye Garanti Bankası Anonim Şirketi,

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Türkiye Garanti Bankası Anonim Şirketi ("the Bank") and its subsidiaries (together "the Group") as at 30 June 2020, the interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to interim financial information ("the interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these interim consolidated condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

Basis for Qualified Conclusion

As stated in Note 22, the accompanying interim condensed consolidated financial statements as at 30 June 2020 include a general reserve of total TL 3,100,000 thousands, of which TL 600,000 thousands was recognized as expense in the current period and TL 2,500,000 thousands had been recognized as expense in prior periods, which does not meet the recognition criteria of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". This general reserve is provided by the Bank management for the possible effects of the negative circumstances which may arise in economy or market conditions.

Qualified Conclusion

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements as at and for the six month period ended 30 June 2020 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Murat Alsan
Partner

14 August 2020
İstanbul, Turkey

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Interim Condensed Consolidated Statement of Financial Position
At 30 June 2020

(Currency: Thousands of Turkish Lira (TL))

	Notes	30 June 2020	31 December 2019
Assets			
Cash and balances with central banks	3	51,681,232	48,441,269
Financial assets at fair value through profit or loss	4	7,554,611	5,152,560
Derivative financial assets	5	3,696,723	2,999,557
Loans and advances to banks	6	26,977,918	30,205,189
Loans and advances to customers	7,25	311,311,474	266,292,916
Investment securities	8,24	64,338,123	55,861,610
Equity investments	9	502,043	422,113
Assets held for sale	10	1,162,807	1,452,258
Investment properties		333,260	335,539
Tangible and intangible assets		7,665,573	7,680,866
Goodwill, net	11	32,948	32,948
Deferred tax asset	21	2,830,358	1,894,441
Other assets	12	9,033,523	8,424,716
Total Assets		**487,120,593**	**429,195,982**
Liabilities			
Deposits from banks	13	2,248,639	2,668,751
Deposits from customers	14	304,505,344	274,470,218
Loans and advances from banks and other institutions	15	26,964,366	26,739,820
Obligations under repurchase agreements and money market fundings	16	16,730,289	1,786,861
Debt securities issued	17	22,432,179	21,026,537
Financial liabilities at fair value through profit or loss	18	14,453,088	14,342,293
Derivative financial liabilities	19	6,458,593	4,239,665
Subordinated liabilities	20	6,171,355	4,729,707
Current tax liability	21	1,432,042	685,143
Deferred tax liability	21	98,864	73,104
Provisions	22	7,810,755	6,561,425
Other liabilities and accrued expenses	23	19,255,112	17,786,228
Total Liabilities		**428,560,626**	**375,109,752**
Equity attributable to owners of the bank			
Share capital	24	5,146,371	5,146,371
Share premium	24	11,880	11,880
Legal reserves	24	1,611,304	1,603,555
Other reserves	8,24	4,363,058	3,382,570
Retained earnings	24	47,115,837	43,667,933
		58,248,450	**53,812,309**
Non-controlling interests	24	**311,517**	**273,921**
Total Equity		**58,559,967**	**54,086,230**
Total Liabilities and Equity		**487,120,593**	**429,195,982**
Commitments and Contingencies	25	**67,863,531**	**62,757,095**

The notes on pages 5 to 77 are an integral part of these interim condensed consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For The Six-Month Period Ended 30 June 2020

(Currency: Thousands of Turkish Lira (TL))

	Notes	1 January 2020-30 June 2020	1 April 2020-30 June 2020	1 January 2019-30 June 2019	1 April 2019-30 June 2019
Statement of Profit or Loss:					
Interest income:					
Interest on loans		14,946,081	7,331,624	17,216,149	8,751,094
Interest on securities		2,646,522	1,261,130	3,264,180	1,619,937
Interest on lease business		242,571	113,473	264,632	341,801
Interest on deposits at banks		217,849	89,447	522,841	132,755
Interest on factoring business		127,470	65,124	212,742	96,401
Interest on reserve deposits		511	234	259,694	86,475
Others		128,816	49,920	125,292	53,925
		18,309,820	8,910,952	21,865,530	11,082,388
Interest expense:					
Interest on saving, commercial and public deposits		(4,112,061)	(1,907,848)	(9,375,829)	(4,687,638)
Interest on borrowings, obligations under repurchase agreements,money market and swap fundings		(2,254,821)	(965,177)	(2,625,084)	(1,341,354)
Interest on debt securities issued		(678,504)	(242,439)	(1,329,492)	(717,811)
Interest on subordinated liabilities		(439,806)	(332,884)	(142,177)	(101,662)
Interest on lease business		(82,865)	(36,803)	(93,041)	(45,204)
Interest on bank deposits		(41,604)	(24,214)	(57,778)	(24,811)
Others		(252,414)	(124,246)	(62,857)	(14,854)
		(7,862,075)	(3,633,611)	(13,686,258)	(6,933,334)
Net interest income before provisions for loans and other credit risks		**10,447,745**	**5,277,341**	**8,179,272**	**4,149,054**
Provisions for loans and other credit risks, net	3,6,7,8,12,22	**(3,761,637)**	**(1,411,500)**	**(2,400,074)**	**(1,051,911)**
Net interest income after provisions for loans and other credit risks		**6,686,108**	**3,865,841**	**5,779,198**	**3,097,143**
Fees and commissions income		3,907,443	1,738,912	4,132,725	2,097,694
Fees and commissions expense		(745,614)	(341,011)	(1,170,825)	(624,203)
Net fees and commissions income		**3,161,829**	**1,397,901**	**2,961,900**	**1,473,491**
Net trading income/(expense)	27	**(649,235)**	**(1,226,816)**	**(698,839)**	**(2,751,068)**
Foreign exchange gains/(losses), net		**1,137,186**	**1,302,463**	**588,877**	**2,364,802**
Insurance business income		716,253	322,190	404,977	209,983
Insurance business expense		(289,437)	(117,080)	(116,549)	(62,472)
Net insurance business income		**426,816**	**205,110**	**288,428**	**147,511**
Gain on sale of assets		157,669	62,228	92,888	55,808
Other operating income	28	274,737	154,919	572,227	475,979
Other operating income		**432,406**	**217,147**	**665,115**	**531,787**
Total operating Income		**11,195,110**	**5,761,646**	**9,584,679**	**4,863,666**
Salaries and wages		(1,564,858)	(841,220)	(1,438,602)	(740,657)
Impairment losses, net	10,22	(1,121,867)	(713,302)	(244,687)	(134,078)
Credit card reward and promotion expenses		(903,137)	(441,177)	(700,267)	(400,089)
Employee benefits	22	(712,580)	(323,475)	(756,013)	(368,719)
Depreciation and amortisation		(451,557)	(225,912)	(439,286)	(220,728)
Taxes and duties other than income		(230,715)	(42,387)	(235,590)	(66,017)
Communication expenses		(136,587)	(74,545)	(118,370)	(59,890)
Other operating expenses	29	(1,287,035)	(632,560)	(950,155)	(436,610)
Total operating expenses		**(6,408,336)**	**(3,294,578)**	**(4,882,970)**	**(2,426,788)**
Profit/(loss) before tax		**4,786,774**	**2,467,068**	**4,701,709**	**2,436,878**
Taxation charge	21	(1,302,901)	(761,128)	(1,006,033)	(512,860)
Net profit/(loss) for the period		**3,483,873**	**1,705,940**	**3,695,676**	**1,924,018**
Other Comprehensive Income:					
(items to be recycled subsequently to profit or loss)					
Foreign currency translation, net of tax	24	769,281	401,824	413,063	202,731
Fair value change on debt instruments measured at fair value through other comprehensive income, net of tax:					
Net change in fair values	24	396,944	1,101,501	(267,574)	234,518
Net amount reclassified to profit/loss	24	(40,447)	14,927	52,690	26,678
Cash flow hedges, net of tax:					
Effective portion of changes in hedge reserve	24	(104,790)	(169,827)	11,802	(130,818)
Net amount reclassified to profit/loss	24	141,783	248,192	(153,141)	(87,760)
Net investment hedge for foreign operations, net of tax	24	(323,448)	(145,574)	(158,059)	(74,357)
		839,323	**1,451,043**	**(101,219)**	**170,992**
(items not to be recycled subsequently to profit or loss)					
Fair value change on equity investments measured at fair value through other comprehensive income, net of tax:					
Net change in fair values	24	49,282	81,046	76,098	31,844
Net amount recycled to profit/loss	24	-	-	-	-
Change on revaluation surplus on tangible and intangible assets, net of tax		93,725	87,581	6,290	2,042
		143,007	**168,627**	**82,388**	**33,886**
Other comprehensive income for the period, net of tax		**982,330**	**1,619,670**	**(18,831)**	**204,878**
Total Comprehensive Income for the Period		**4,466,203**	**3,325,610**	**3,676,845**	**2,128,896**
Net profit/(loss) attributable to:					
Equity holders of the Bank		3,448,119	1,687,590	3,655,291	1,904,516
Non-controlling interests		35,754	18,350	40,385	19,502
		3,483,873	**1,705,940**	**3,695,676**	**1,924,018**
Total comprehensive income attributable to:					
Equity holders of the Bank		4,428,607	3,305,232	3,636,341	2,109,275
Non-controlling interests		37,596	20,378	40,504	19,621
		4,466,203	**3,325,610**	**3,676,845**	**2,128,896**
Weighted average number of shares with a face value of Kr 1 each	24	**420 billions**	**420 billions**	**420 billions**	**420 billions**
Basic and diluted earnings per share (full TL amount per TL 1 face value each)		**0.821**	**0.402**	**0.870**	**0.453**

The notes on pages 5 to 77 are an integral part of these interim condensed consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Interim Condensed Consolidated Statement of Changes in Equity
For The Period Ended 30 June 2020

(Currency: Thousands of Turkish Lira (TL))

	Share Capital	Share Premium	Legal Reserves	Other Reserves – to be recycled to profit or loss: Fair Value Change on Debt Instruments	Hedge Reserve	Foreign Currency Translation Reserve	Other Reserves – not to be recycled to profit or loss: Fair Value Change on Equity Investments	Actuarial Gain/(Loss)	Revaluation Surplus on Tangible Assets	Retained Earnings	Non-Controlling Interests	Total Equity
Balances at 31 December 2018	**5,146,371**	**11,880**	**1,585,920**	**(1,140,137)**	**(1,126,584)**	**3,056,188**	**101,217**	**(160,773)**	**1,721,799**	**37,501,985**	**197,557**	**46,895,423**
Net unrealized losses from debt instruments measured at fair value through other comprehensive income	-	-	-	(267,693)	-	-	-	-		-	119	(267,574)
Net unrealized gains from equity investments measured at fair value through other comprehensive income	-	-	-	-	-	-	76,098	-	-	-	-	76,098
Net realized gains on debt instruments measured at fair value through other comprehensive income recycled to statement of profit or loss at disposal	-	-	-	52,690	-	-	-	-	-	-	-	52,690
Foreign currency translation	-	-	-	886	563	411,614	-	-	-	-	-	413,063
Net change on revaluation surplus on tangible and intangible assets	-	-	-	-	-	-	-	-	6,290	-	-	6,290
Net losses on cash flow hedges	-	-	-	-	(141,339)	-	-	-	-	-	-	(141,339)
Net change on net investment hedge for foreign operations	-	-	-	-	(158,059)	-	-	-	-	-	-	(158,059)
Net profit/loss for six-month period	-	-	-	-	-	-	-	-	-	3,655,291	40,385	3,695,676
Total comprehensive income for the period	**-**	**-**	**-**	**(214,117)**	**(298,835)**	**411,614**	**76,098**	**-**	**6,290**	**3,655,291**	**40,504**	**3,676,845**
Transfer to legal reserves	-	-	5,582	-	-	-	-	-	-	(5,582)	-	-
Foreign currency translation for legal reserves	-	-	2,897	-	-	-	-	-	-	-	-	2,897
Dividends paid	-	-	-	-	-	-	-	-	-	-	(680)	(680)
Balances at 30 June 2019	**5,146,371**	**11,880**	**1,594,399**	**(1,354,254)**	**(1,425,419)**	**3,467,802**	**177,315**	**(160,773)**	**1,728,089**	**41,151,694**	**237,381**	**50,574,485**
Balances at 31 December 2019	**5,146,371**	**11,880**	**1,603,555**	**(105,338)**	**(1,840,473)**	**3,531,944**	**218,950**	**(171,269)**	**1,748,756**	**43,667,933**	**273,921**	**54,086,230**
Net unrealized gains from debt instruments measured at fair value through other comprehensive income	-	-	-	395,102	-	-	-	-	-	-	1,842	396,944
Net unrealized gains from equity investments measured at fair value through other comprehensive income	-	-	-	-	-	-	49,282	-	-	-	-	49,282
Net realized losses on debt instruments measured at fair value through other comprehensive income recycled to statement of profit or loss at disposal	-	-	-	(40,447)	-	-	-	-	-	-	-	(40,447)
Foreign currency translation	-	-	-	10,976	(1,623)	759,928	-	-	-	-	-	769,281
Net change on revaluation surplus on tangible and intangible assets	-	-	-	-	-	-	-	-	93,725	-	-	93,725
Net gains on cash flow hedges	-	-	-	-	36,993	-	-	-	-	-	-	36,993
Net change on net investment hedge for foreign operations	-	-	-	-	(323,448)	-	-	-	-	-	-	(323,448)
Net profit/loss for six-month period	-	-	-	-	-	-	-	-	-	3,448,119	35,754	3,483,873
Total comprehensive income for the period	**-**	**-**	**-**	**365,631**	**(288,078)**	**759,928**	**49,282**	**-**	**93,725**	**3,448,119**	**37,596**	**4,466,203**
Transfer to legal reserves	-	-	215	-	-	-	-	-	-	(215)	-	-
Foreign currency translation for legal reserves	-	-	7,534	-	-	-	-	-	-	-	-	7,534
Balances at 30 June 2020	**5,146,371**	**11,880**	**1,611,304**	**260,293**	**(2,128,551)**	**4,291,872**	**268,232**	**(171,269)**	**1,842,481**	**47,115,837**	**311,517**	**58,559,967**

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Interim Condensed Consolidated Statement of Cash Flows
For The Six-Month Period Ended 30 June 2020

(Currency: Thousands of Turkish Lira (TL))

	Notes	1 January 2020- 30 June 2020	1 January 2019- 30 June 2019
Cash flows from operating activities:-			
Interests and commissions received		19,019,111	22,061,450
Interests and commissions paid		(8,786,671)	(14,494,142)
Other operating activities, net		4,145,854	3,772,820
Cash payments to employees and suppliers		(5,111,390)	(4,136,810)
		9,266,904	7,203,318
(Increase)/decrease in operating assets:-			
Loans and advances to banks		1,136,364	(10,272,949)
Balances with central banks		(3,813,871)	(969,001)
Financial assets at fair value through profit or loss		(2,871,551)	(115,620)
Loans and advances to customers		(50,446,953)	(11,789,270)
Other assets		(9,901,172)	214,722
Increase/(decrease) in operating liabilities:-			
Deposits from banks		(419,752)	(2,655,257)
Deposits from customers		30,003,222	17,567,288
Obligations under repurchase agreements and money market fundings		14,903,451	(632,502)
Other liabilities		(258,551)	(1,413,635)
Net cash inflows from operating activities before taxes and duties paid		**(12,401,909)**	**(2,862,906)**
Income taxes and other duties paid		**(1,752,549)**	**(682,791)**
Net cash inflows/(outflows) from operating activities		**(14,154,458)**	**(3,545,697)**
Cash flows from investing activities:-			
Net decrease/(increase) in investment securities		(8,810,091)	(1,805,582)
Interest received for investment securities		5,094,919	1,780,309
Increase in equity investments		(3,588)	-
Dividends received		18,661	9,022
Proceeds from sale of tangible and intangible assets		255,363	332,682
Purchase of tangible and intangible assets		(239,462)	(320,288)
Net cash inflows from investing activities		**(3,684,198)**	**(3,857)**
Cash flows from financing activities:-			
Increase in loans and advances from banks and other institutions, net		2,181,866	(1,780,705)
Cash obtained from debt securities issued		13,811,784	12,633,796
Cash used for repayment of debt securities issued		(11,513,092)	(7,560,300)
Payments for leases		(206,409)	(184,293)
Dividends paid		-	(680)
Net cash (outflows)/inflows from financing activities		**4,274,149**	**3,107,818**
Effect of exchange rate changes		**1,611,240**	**1,115,018**
Net increase in cash and cash equivalents		**(11,953,267)**	**673,282**
Cash and cash equivalents at the beginning of the period		47,246,020	35,952,532
Cash and cash equivalents at the end of the period	2	**35,292,753**	**36,625,814**

The notes on pages 5 to 77 are an integral part of these interim condensed consolidated financial statements.

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The interim condensed consolidated financial statements of the Bank as of and for the six-month period ended 30 June 2020 comprise the Bank and its subsidiaries (the Subsidiaries) (collectively referred as “the Group”).

(a) Brief History

The foundation of the Bank was approved by the decree of the Council of Ministers numbered 3/4010 dated 11 April 1946 and its “Articles of Association” was published in the official gazette dated 25 April 1946. The Bank provides retail, commercial, corporate and small and medium size enterprises (SME) banking, leasing, insurance, asset management and factoring services through a network of 901 domestic branches, 8 foreign branches, 2 representative offices abroad (31 December 2019: 904 domestic branches, 8 foreign branches, 2 representative offices abroad). In addition to its branches, the Bank has 100% ownership in two banks each of which is located in Amsterdam and Bucharest. The Bank and its subsidiaries in total have 21,964 employees (31 December 2019: 22,284). The Bank’s head office is located at Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 Istanbul, Turkey.

(b) Ownership

As of 30 June 2020, group of companies under Banco Bilbao Vizcaya Argentaria SA (“BBVA”) that currently owns 49.85% shares of the Bank, is named the BBVA Group (the Group) and it is the main shareholder.

Summary of significant accounting policies

(a) Basis of preparation

These interim condensed consolidated financial statements for the period ended 30 June 2020 have been prepared in accordance with IAS 34, “Interim Financial Reporting”. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2019. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual financial statements

The accompanying interim condensed consolidated financial statements are presented in thousands of TL, which is the Bank’s functional currency.

(b) Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements as at 30 June 2020 are consistent with those followed in the preparation of the consolidated financial statements of the prior year, except for the adoption of new standards effective as of 1 January 2020. Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

(c) Standards issued but not yet effective and not early adopted

A number of new standards, interpretations of and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Group has not early adopted are as follows.

Summary of significant accounting policies (continued)

IFRS 17 Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly international standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2023 but companies can apply it earlier.

The Group is assessing the potential impact on its interim condensed consolidated financial statements resulting from the application of IFRS 17.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 4 has been amended by IASB to reduce the impact of the differing effective dates of the new insurance contracts standard and IFRS 9. These amendments to IFRS 4 provide two optional solutions for insurers to reduce concerns about implementations: i) when applying IFRS 9 by insurers to its financial assets, an insurer will be permitted to reclassify the difference between profit or loss and other comprehensive income and the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39; or ii) an optional temporary exemption from applying IFRS 9 for companies whose activities are predominantly connected with insurance before 1 January 2021. These companies will be permitted to continue to apply existing requirements for financial instruments in IAS 39.

The Group is assessing the potential impact on its interim condensed consolidated financial statements resulting from the application of the amendments to IFRS 4.

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.

Summary of significant accounting policies (continued)

The Group does not expect that application of these amendments to IAS 1 will have significant impact on its interim condensed 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:

a) the revised consideration is substantially the same or less than the original consideration;
b) the reduction in lease payments relates to payments due on or before 30 June 2021
c) 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.

The Group does not expect that application of these amendments to IFRS 3 will have significant impact on its interim condensed consolidated financial statements.

Property, Plant and Equipment—Proceeds before Intended Use (Amendments to IAS 16)

In May 2020, IASB issued Property, Plant and Equipment—Proceeds before Intended Use, which made amendments to IAS 16 Property, Plant and Equipment. The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

The amendments improve transparency and consistency by clarifying the accounting requirements—specifically, the amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Summary of significant accounting policies (continued)

The Group does not expect that application of these amendments to IAS 16 will have significant impact on its interim condensed consolidated financial statements.

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.

The Group does not expect that application of these amendments to IAS 37 will have significant impact on its interim condensed consolidated financial statements.

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 interim condensed 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

Summary of significant accounting policies (continued)

incentive. It will help to remove the potential for confusion in identifying lease incentives in a common real estate fact pattern.

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 interim condensed 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 interim condensed consolidated financial statements of the Group.

(d) Critical accounting estimates and judgements in applying accounting policies

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

In preparing these interim condensed consolidated financial statements, the significant judgements made by the management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2019, except for the significant judgements related to COVID-19 outbreak impact, which are described in the footnotes (e) and (f).

(e) Potential impacts of COVID-19 on the interim condensed consolidated financial statements

A new type of coronavirus (COVID-19), first emerging in China, has been classified by the World Health Organization as an epidemic affecting countries globally. The COVID-19 outbreak not only affects economic conditions both regionally and globally, as it causes disruptions in operations, especially in countries that are exposed to the epidemic. The effects of COVID-19 on the Group's financial statements are regularly monitored by the risk units and the Group's Management.

While preparing the interim financial statements dated 30 June 2020, the Group reflected the possible effects of the COVID-19 outbreak on the estimates and judgments used in the preparation of the financial statements.

Summary of significant accounting policies (continued)

The Bank has reviewed the expected credit losses including the estimations and judgements used in the calculations together with the fair value measurements within the scope of IFRS 13 Fair Value Measurement standard. The estimates and judgements used in the calculating expected credit losses explained in footnote (g).

As of 30 June 2020, the Bank has no assets or liabilities that would require any adjustment in the fair value hierarchy.

(f) ***Financial instruments***

Measurement categories of financial assets and liabilities

All financial assets are classified based on the business model for managing the financial assets. Accordingly, financial assets are classified in four main categories as listed below:

-Financial instruments measured at amortised cost,
-Financial instruments measured at FVOCI, with gains or losses recycled to profit or loss on derecognition,
-Equity instruments measured at FVOCI, with no recycling of gains or losses to profit or loss on derecognition, and
-Financial instruments measured at FVPL.

Financial instruments measured at amortised cost

Financial assets are classified as measured at amortised cost if both of the following conditions are met.
-the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
-the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt securities measured at amortised cost: subsequent to the initial recognition, debt securities are measured at amortised cost by using the effective interest rate method.

Loans and advances measured at amortised cost: financial assets other than those held for trading in short term or generated through providing money, commodity and services to debtors. Loans are financial assets with fixed or determinable payments and not quoted in an active market.

These financial assets are recognised at cost and also measured at amortised cost by using the effective interest method.

All financial liabilities are classified as subsequently measured at amortised cost except for financial liabilities at FVPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, and contingent consideration recognised by an acquirer in a business combination.

Summary of significant accounting policies (continued)

Financial instruments measured at FVOCI

Financial investments are classified as measured at FVOCI if both of the following conditions are met.

-the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
-the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at FVOCI shall be recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. If the financial asset is reclassified, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Financial assets measured at FVOCI are measured at their fair values subsequently. Unrecognised gain/losses derived from the difference between their fair value and the discounted values are recorded in accumulated other comprehensive income or expense to be reclassified to profit or loss under the shareholders' equity. In case of sales, the gain/losses arising from fair value measurement accumulated under shareholders' equity are recognised in statement of profit or loss and other comprehensive income.

Interests calculated and/or earned by using the effective interest method during holding of financial assets measured at FVOCI are recorded primarily in interest income. On derecognition of such financial assets, the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Bank owns consumer price indexed government bonds (CPI) portfolio. CPI's are valued and accounted according to the effective interest rate method which is calculated according to the real coupon rate and the reference inflation index on the issue date. As it is mentioned in the Undersecretariat of Treasury's Investor Guide of CPI, the reference index used during the calculation of the actual coupon payment amount is the previous two months CPI's. The Bank determines its expected inflation rates in compliance with this guide. The estimated inflation rate according to the Central Bank of Turkey and the Bank's expectations is updated during the year when it is considered necessary.

As of 30 June 2020, due to adverse effects of the COVID-19 outbreak, the Bank has reviewed the valuation of its financial assets whose fair value difference is reflected in other comprehensive income, and deemed that no change is required in the fair value measurement as of the reporting date.

Equity instruments measured at FVOCI

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.

Summary of significant accounting policies (continued)

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.

As of 30 June 2020, due to adverse effects of the COVID-19 outbreak, the Bank has reviewed the valuation of its financial assets whose fair value difference is reflected in other comprehensive income, and deemed that no change is required in the fair value measurement as of the reporting date.

Financial assets and liabilities measured at FVPL

Financial assets at FVPL are valued at their fair values and gain/loss arising on those assets is recorded in the statement of profit or loss and other comprehensive income. Interest income earned on these assets and the difference between their acquisition costs and amortised costs are recorded as interest income in the statement of profit or loss and other comprehensive income excluding loans and receivables. The differences between the amortised costs and the fair values of such assets are recorded under net trading income/(expense) in the statement of profit or loss and other comprehensive income. In cases where such assets are sold before their maturities, the gains/losses on such sales are recorded under net trading income/(expense).

It is designated irrevocably certain loans and securities issued at initial recognition, as financial assets/liabilities at FVPL as permitted by IFRS 9.

Besides, as detailed in the relevant accounting policy sections, the original contractual terms or a counterparty of a loan might change in certain circumstances and the existing financial asset is derecognised. The characteristics of new contractual terms of a loan are assessed and when they are exposed to the risks which are not consistent with the basic lending agreement leading to variability of cashflows, the relevant financial asset is measured at FVPL.

The interest income/expense earned and the difference between the acquisition costs and the amortised costs of financial liabilities are recorded under interest income/(expense) in statement of profit or loss and other comprehensive income, the difference between the amortised costs and the fair values of financial liabilities are recorded under net trading income/(expense) in statement of profit or loss and other comprehensive income. The amount of change in the fair value of the financial liability at FVPL that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income unless it creates accounting mismatch or increase the accounting mismatch. Excluding the change in credit risk of the liability, the remaining amount of change in the fair value of the liability shall be presented in profit or loss.

As of 30 June 2020, due to the adverse effects of the COVID-19 outbreak, the Bank has reviewed the valuation of its financial assets and liabilities which are measured at fair value through profit or loss, and deemed that no change is required in the fair value measurement as of the reporting date.

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

Summary of significant accounting policies (continued)

(g) Impairment

Financial and non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

Impairment of financial assets

It is recognised a loss allowance for expected credit losses on financial assets and loans measured at amortised cost, financial assets measured at FVOCI, loan commitments and financial guarantee contracts not measured at FVPL based on IFRS 9 which came into force starting from 1 January 2018. IFRS 9 impairment requirements are not applicable for equity instruments.

At each reporting date, it shall be assessed whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, it shall be used the change in the risk of a default occurring for the financial instrument.

As of the reporting date, if the credit risk on a financial instrument has not increased significantly since initial recognition, it shall be measured the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. However, if there is a significant increase in credit risk of a financial instrument since initial recognition, loss allowance regarding such instrument is measured at an amount equal to lifetime expected credit losses.

The expected credit loss is calculated on a collective basis by means of grouping the financial assets having common credit risk features or on an individual basis.

It is constituted a policy in order to make an assessment whether the credit risk on a financial instrument has increased significantly since initial recognition by taking into consideration change in the risk of a default occurring over the expected life of the financial instrument. The aforementioned policy is presented in this note.

The impairment model having three stages based on the change in credit quality since initial recognition based on IFRS 9 is explained below:

Calculation of expected credit losses

It is calculated expected credit losses based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Probability of Default (PD): PD refers to the likelihood that a loan will default, which is usually set at 12 months, given certain characteristics. Based on IFRS 9, it is used two different PDs in order to calculate expected credit losses:

- 12-month PD: as the estimated probability of default occurring within the next 12 months.
- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

Summary of significant accounting policies (continued)

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

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

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

Exposure at Default (EAD): For cash loans, it corresponds to the amount of loan granted as of the reporting date. For non-cash loans and commitments, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor which adjusts the potential increase of the exposure between the current date and the default date.

When expected credit losses are estimated, it is considered three scenarios (base scenario, bad scenario, good scenario). Each of these three scenarios is associated with different probability of default, loss given default and exposure at default. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless there is the legal right to call it earlier.

Stage 1: 12-month expected credit loss represents the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date and calculated as the portion of lifetime expected credit losses. It is calculated 12-month expected credit loss based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate. Such calculation is performed for each of three scenarios explained above.

Stage 2: When a loan has shown a significant increase in credit risk since origination, it is calculated an allowance for the lifetime expected credit losses. Including multiple scenario usage, it is similar to descriptions above, but probability of default and loss given default rates are estimated through the life of the instrument. Estimated cash shortfalls are discounted by using the original effective interest rate.

Stage 3: For the loans considered as impaired, it is accounted lifetime expected credit losses. The methodology is similar to stage 2 and the probability of default is taken into account as 100%.

Summary of significant accounting policies (continued)

For the purpose of determining significant increases in credit risk and recognising a loss allowance on a collective basis, financial instruments are grouped on the basis of shared credit risk characteristics. In this context, the methodology developed for the estimation of expected credit losses should include the risk features which meet the criteria for carrying the same credit risk characteristics. Examples of the common credit risk characteristics include, but are not limited to, the following:

- Customer type (retail or corporate / commercial)
- Product type
- Credit risk rating notes /scores
- Sector / market segmentation
- Collateral type
- Loan to value ratio
- Duration since origination of a loan
- Remaining time to maturity
- Exposure at default

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

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

As of 30 June 2020, the Bank has revised the cash flow expectations and scenario weights for its commercial and corporate loans, due to the negative effects of the COVID-19 outbreak and reflected the related effects in its expected credit losses with the best estimation approach.

In accordance with the Bank's internal policies, IFRS 9 models are updated once a year. The related model update was made in the 4th quarter of 2019 and the Bank continues to calculate expected credit losses provision based on the mentioned updated model during 2020.

Forward-looking macroeconomic information

Forward-looking macroeconomic information is incorporated into credit risk parameters during assessment of significant increase in credit risk and expected credit loss calculation. The incorporation of forward-looking information into the credit risk parameters consists of the following steps:

Step 1: It is made specifications and estimates of econometric models that reveal past relationships between credit risk parameters and macroeconomic variables in order to be able to generate estimates based on macroeconomic information. Macroeconomic variable prevailing during these estimates is mainly the Gross Domestic Product (GDP).

Step 2: Where macroeconomic scenarios do not include longer maturity, a process called "convergence to the mean" is applied.

Summary of significant accounting policies (continued)

Step 3: In order to estimate the ultimate parameters to be used in the calculation of the expected credit losses, it is applied the methods of credit risk parameters reflection and forward-looking impact inclusion into the parameters.

The Bank updates its macroeconomic parameters incorporated into significant increase in credit risk and expected credit loss assessments in every three months, in February, May, August and November. The Bank has assessed the adverse impacts of the COVID-19 outbreak in its models by updating the macroeconomic parameters as of 31 March 2020 in addition to the February period.

After March, the Bank is carried out its quarterly routine procedure and the Bank has assessed the adverse impacts of COVID-19 outbreak in its models by updating the macroeconomic parameters for the second quarter. The macroeconomic deterioration expectations are incorporated in the significant increase in credit risk assessments and expected credit loss calculations as of 30 June 2020.

Loan commitments and non-cash loans

The expected credit losses on a loan commitment shall be discounted using the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment. This is because for the purpose of applying the impairment requirements, a financial asset that is recognised following a draw down on a loan commitment shall be treated as a continuation of that commitment instead of as a new financial instrument. The expected credit losses on the financial asset shall therefore be measured considering the initial credit risk of the loan commitment from the date when becoming a party to the irrevocable commitment.

Expected credit losses on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined shall be discounted by applying a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Debt instruments measured at FVOCI

It shall be applied the impairment requirements for the recognition and measurement of an expected credit loss for financial assets that are measured at FVOCI. However, the expected credit loss shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position. The expected credit loss is reflected in other comprehensive income and accounted in profit or loss. The expected credit loss is reflected in other comprehensive income and the accumulated amount is recycled to statement of profit/loss following the derecognition of related financial asset.

Summary of significant accounting policies (continued)

Financial risk management disclosures

This section provides a summary of the Bank and its subsidiaries' exposure to risk and describes the methods used by management to control risk and should be read in conjunction with the Group's annual consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 2019. The most important types of financial risk to which the Bank and its subsidiaries are exposed, are credit risk, liquidity risk, market risk and operational risk.

(a) Risk management framework

Risk Management Department ensures that; risk management policies and principles are applied and adopted throughout the Bank and its consolidated subsidiaries and that risk management system is maintained and improved which pursues risk-return relationship, and measures all risks together and which is in compliance with applicable regulation, bank strategies and policies and where limits determined in connection with the risk appetite approved by the Board of Directors are not breached. Risk Management Department also ensures that activities to define, measure, report, monitor and control risks are conducted thoroughly and timely; to monitor the results.

Policies and procedures regarding risk management are established for consolidated subsidiaries. Policies and procedures are prepared in compliance with applicable legislations that the subsidiaries are subject to and the Bank's risk management strategy. They are reviewed regularly and revised if necessary. The Bank ensures that risk management system is applied in subsidiaries where risks are defined, measured, monitored and controlled.

Risk management activities are structured under the responsibility of the Board of Directors. Management of various risks that the Bank may be exposed to, including oversight of corporate risk management policies and practices, capital adequacy, planning and liquidity adequacy, is the responsibility of the Risk Committee, which consists of members of the Board of Directors. Accordingly, the Risk Management, which performs risk management functions, reports to the Board of Directors via the Risk Committee, whereas the Internal Audit Department, performing internal audit functions, the Internal Control Unit, performing internal control functions, and the Compliance Department, which implements compliance controls and performs activities to prevent laundering proceeds of crime, and financing of terrorism, report directly to the Board of Directors.

Senior management's responsibility is to report to Board of Directors about the significant risk the Bank encounters, ensure the compliance with the risk management about own duties, eliminate the risks, deficiencies and errors occurring in the units responsible or take the necessary measures, participate in design and implementation of internal capital adequacy assessment process (ICAAP); participate in process of assessing the adequacy and appropriateness of the underlying assumptions, data sources and principles used to measure the assumptions and risks associated with the models.

The Bank's main approach for the implementation of risk management model is establishing risk culture throughout the Bank, and aims that the importance of risk management for maintaining business operations is understood and risk awareness and sensitivity is ensured for decision making and implementation mechanisms process by all employees.

Compliant with legislation, the Bank measures and monitors risks that are exposed to, considering methods suitable with international standards. Risk measuring and reporting are performed via advanced methods and risk management softwares. Risk based detailed reports are prepared for management of significant risks, in order to determine strategies and take decisions, in this scope, reports are prepared for Board of Directors, relevant committees and senior management.

Financial risk management disclosures (continued)

The Bank's risk appetite framework determines the risk level that the Board of Directors is prepared to accept in order to accomplish the goals and strategies with the consideration of the capacity of the institution to safely absorb those risks and the Bank monitors regularly risk appetite metrics regarding capital, liquidity, income recurrence and risk based limits. Risks that the Bank is exposed to are managed by providing effective control environment and following closely within limits.

Unmitigated risks are either accepted with current risk levels or decreasing/ terminating the activity that causes the risk.

The Risk Management Department conducts the ICAAP report, to be sent to the Banking Regulation and Supervision Authority (BRSA) by coordinating relevant parties. Stress test report is also reported to the BRSA, which evaluates how adverse effects on macroeconomic parameters, in the scope of determined scenarios, affect the Bank's three year budget plan and results, and certain ratios, including capital adequacy.

Training programs for employees, risk reports to the Board of Directors, senior management and committees, risk appetite framework established by the Bank and ICAAP generate significant inputs to ensure that risk management culture is widely embraced.

(b) Market risk

Market Risk is defined as the losses that the trading portfolio of the Bank may incur due to the risks caused by market price changes (interest rate, equities, foreign exchange and commodity prices), the correlations between market prices and the uncertainty in the volatility levels.

All trading instruments are subject to market risk. The instruments are recognised at fair value, and all changes in market conditions directly affect net trading income/(expense).

The Bank and its subsidiaries manage its use of trading instruments in response to changing market conditions.

The Board of Directors monitors the effectiveness of risk management systems through audit committee, related other committees and top management, and in the light of various risk reports and the assessments made by the audit committee.

The risk policies and application procedures have been approved by the Board of Directors and regularly revisited. The market risk is also managed by risk mitigations through hedging transactions beside measuring the risks in compliance with the international standards, limiting such risk and allocating capital accordingly.

Market risks arising from trading portfolios are measured by the Bank as per "standard" and "value at risk (VaR)" methods. The measurements as per the standard method are performed on a monthly basis, and taken into consideration in the calculation of capital adequacy. Whereas, the measurements as per VaR method are performed on a daily basis. The Bank takes the historical VaR results as the basis for the internal management of market risk and limit setting.

In the VaR calculation, two years historical market data set is used, and 99% confidence interval and one-day holding period (10 days for regulatory capital calculation) are taken into account. In order to test the reliability of the VaR model, back tests are performed. Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations. VaR model has been validated yearly in the periodic validation framework.

Financial risk management disclosures (continued)

Beside the VaR limit, sensitivity limits on risk factors, economic capital and stop-loss limits approved by the Board of Directors for trading portfolio are also applied in order to limit the market risks.

The capital requirement for general market risk and specific risks is calculated using the standard method defined by the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" as set out by the BRSA and reported monthly.

Interest rate risk

Interest rate risk in the banking book is evaluated considering the repricing risk, yield curve risk, basis risk and optionality, measured in compliance with the international standards and managed by risk mitigation techniques through limits and hedging.

The interest rate risk resulted from balance sheet maturity mismatch presents the possible losses that may arise due to the changes in interest rates of interest sensitive assets and liabilities in the on and off-balance sheet. Interest rate sensitivity of assets, liabilities and off-balance sheet items is evaluated during the Weekly Assessment Committee and Asset and Liability Committee meetings taking into consideration the developments in market conditions.

The Bank's interest rate risk is measured by using economic value, economic capital, net interest income, earnings at risk, economic value sensitivity of securities portfolio, duration-gap and credit spread risk sensitivity analysis.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of interest rate sensivity of monetary assets and liabilities of the consolidated entities into relevant maturity groupings:

	30 June 2020						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing(*)*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	10,403,902	-	-	-	-	41,277,330	51,681,232
Financial assets at fair value through profit or loss	116,299	106,107	5,808,136	622,331	113,245	788,493	7,554,611
Loans and advances to banks	1,644,809	1,046,870	2,420,246	-	41,718	21,824,275	26,977,918
Loans and advances to customers	78,928,253	30,527,877	100,685,523	83,397,739	14,032,158	3,739,924	311,311,474
Other assets	10,909,693	-	135,452	-	-	4,515,459	15,560,604
Investment securities	5,505,825	7,391,678	14,984,091	16,820,081	10,650,401	8,986,047	64,338,123
Total Monetary Assets	107,508,781	39,072,532	124,033,448	100,840,151	24,837,522	81,131,528	477,423,962
MONETARY LIABILITIES							
Deposits	131,703,680	24,277,968	15,216,607	2,227,380	163,473	133,164,875	306,753,983
Obligations under repurchase agreements and money market fundings	13,750,366	2,798,645	52,500	82,263	-	46,515	16,730,289
Loans and advances from banks and other institutions	5,397,452	2,652,922	12,207,240	2,935,365	1,622,815	2,148,572	26,964,366
Debt securities issued	8,677,345	218,641	4,087,289	8,996,080	153,284	299,540	22,432,179
Subordinated liabilities	252,880	750,000	-	-	5,120,850	47,625	6,171,355
Financial liabilities at fair value through profit or loss	14,160,840	-	-	-	-	292,248	14,453,088
Other liabilities	-	-	-	-	-	35,055,366	35,055,366
Total Monetary Liabilities	173,942,563	30,698,176	31,563,636	14,241,088	7,060,422	171,054,741	428,560,626

	31 December 2019						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	13,452,095	-	-	-	-	34,989,174	48,441,269
Financial assets at fair value through profit or loss	162,932	2,122	4,545,392	115,734	47,443	278,937	5,152,560
Loans and advances to banks	12,000,784	418,657	1,839,846	64,063	64,785	15,817,054	30,205,189
Loans and advances to customers	68,117,777	30,387,972	82,806,483	74,533,731	13,080,364	(2,633,411)	266,292,916
Other assets	10,958,458	-	121,637	-	-	2,238,619	13,318,714
Investment securities	3,542,122	10,301,381	12,958,015	5,534,225	11,880,192	11,645,675	55,861,610
Total Monetary Assets	108,234,168	41,110,132	102,271,373	80,247,753	25,072,784	62,336,048	419,272,258
MONETARY LIABILITIES							
Deposits	153,385,708	22,081,580	19,182,036	3,062,930	153,616	79,273,099	277,138,969
Obligations under repurchase agreements and money market fundings	356,594	480,547	475,017	388,149	80,041	6,513	1,786,861
Loans and advances from banks and other institutions	7,766,278	6,404,637	10,788,599	1,586,117	172,652	21,537	26,739,820
Debt securities issued	6,597,342	2,785,827	444,060	10,772,346	132,831	294,131	21,026,537
Subordinated liabilities	252,880	-	-	-	4,440,600	36,227	4,729,707
Financial liabilities at fair value through profit or loss	14,145,418	-	-	-	-	196,875	14,342,293
Other liabilities	-	-	-	-	-	29,345,565	29,345,565
Total Monetary Liabilities	182,504,220	31,752,591	30,889,712	15,809,542	4,979,740	109,173,947	375,109,752

(*) Includes expected credit losses.

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for the first half of 2020 and the year 2019:

	30 June 2020			
	US$ %	**EUR %**	**TL %**	**Other Currencies%**
Assets				
Loans and advances to banks	1-5	(0.46)-4	5-11	-
Debt and other fixed or floating income	3-12	1-5	12-15	2-6
Loans and advances to customers	1-15	1-15	10-33	1-31
Liabilities				
Deposits:				
- Foreign currency deposits	1-4	1-5	-	1-5
- Bank deposits	2	(0.01)-1	6-8	2
- Saving deposits	-	1-9	8	1-2
- Commercial deposits	-	-	5-13	-
- Public and other deposits	-	-	8	-
Obligations under repurchase agreements and money market fundings	3	(0.50)	4-12	-
Loans and advances from banks and other institutions	1-6	1-5	5-20	1-5
Debt securities issued (*)	6	5	7-11	-

	31 December 2019			
	US$ %	**EUR %**	**TL %**	**Other Currencies%**
Assets				
Loans and advances to banks	2-7	1-5	7-31	2-3
Debt and other fixed or floating income	3-12	1-12	12-24	2-6
Loans and advances to customers	2-15	1-15	1-33	1-10
Liabilities				
Deposits:				
- Foreign currency deposits-	1-4	1-11	-	1-5
- Bank deposits-	2-3	(0.46)	8-26	2
- Saving deposits	-	1	8-22	1-2
- Commercial deposits	-	-	7-22	-
- Public and other deposits	-	-	11	-
Obligations under repurchase agreements and money market fundings	3-4	1	7-22	-
Loans and advances from banks and other institutions	2-5	1-6	11-30	2-6
Debt securities issued (*)	6	5	12	-

(*) Includes subordinated liabilities.

Financial risk management disclosures (continued)

Currency risk

Currency risk arises from the potential impact of adverse exchange rate fluctuations on the capital ratio and net profit, when the Bank has a significant activity in currencies other than the local currency of the balance sheet or when it holds exposure to protect its equity.

The Bank and its subsidiaries are exposed to currency risk through transactions in foreign currencies and through investments in foreign operations. The Bank and its subsidiaries' main foreign operations are in the Netherlands and Romania. The measurement currencies of its operations are Euro and Romanian Leu. As the currency in which the Bank presents its consolidated financial statements is TL, the consolidated financial statements are affected by currency exchange rate fluctuations against TL. The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. FX swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved. The Bank and its subsidiaries' transactional exposures give rise to foreign currency gains and losses that are recognised in the consolidated statement of profit or loss and other comprehensive income. These exposures comprise of monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved.

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

These exposures are as follows:

	30 June 2020			
	US$	EUR	Other Currencies	Total
Assets				
Cash and balances with central banks	13,946,362	22,556,874	7,769,401	44,272,637
Financial assets at fair value through profit or loss	4,885,231	199,155	1,108,872	6,193,258
Loans and advances to banks	20,399,548	4,558,586	910,949	25,869,083
Loans and advances to customers	53,660,596	62,498,819	9,066,204	125,225,619
Investment securities	15,624,412	3,889,463	1,714,724	21,228,599
Equity investments	403,366	10,346	-	413,712
Tangible and intangible assets	276	287,370	281,863	569,509
Deferred tax asset	-	18,858	6,717	25,575
Other assets	1,690,270	929,646	1,483,165	4,103,081
Total Assets	110,610,061	94,949,117	22,341,895	227,901,073
Liabilities				
Deposits	91,103,633	61,678,825	25,188,366	177,970,824
Obligations under repurchase agreements and money market fundings	93,691	996,861	301,329	1,391,881
Loans and advances from banks and other institutions	11,525,838	12,907,474	247,154	24,680,466
Debt securities issued	14,804,843	1,443,128	-	16,247,971
Financial liabilities at fair value through profit or loss	14,453,088	-	-	14,453,088
Subordinated liabilities	5,152,711	-	-	5,152,711
Current and deferred tax liability	-	53,466	7,497	60,963
Other liabilities, accrued expenses and provisions	5,936,172	2,001,331	566,811	8,504,314
Total Liabilities	143,069,976	79,081,085	26,311,157	248,462,218
Net Statement of Financial Position	(32,459,915)	15,868,032	(3,969,262)	(20,561,145)
Net Off Balance Sheet Position	35,648,263	(13,927,915)	6,055,966	27,776,314
Net Long/(Short) Position	3,188,348	1,940,117	2,086,704	7,215,169

	31 December 2019			
	US$	EUR	Other Currencies	Total
Total Assets	*92,721,991*	*86,156,474*	*23,085,767*	*201,964,232*
Total Liabilities	*134,686,512*	*75,353,387*	*17,836,142*	*227,876,041*
Net Statement of Financial Position	*(41,964,521)*	*10,803,087*	*5,249,625*	*(25,911,809)*
Net Off Balance Sheet Position	*43,369,500*	*(9,993,897)*	*(3,394,841)*	*29,980,762*
Net Long/(Short) Position	*1,404,979*	*809,190*	*1,854,784*	*4,068,953*

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies. The effective exchange rates at the balance sheet date announced by the Bank in TL are 6.8278 for USD and 7.6689 for Euro.

Financial risk management disclosures (continued)

The short positions in the consolidated statement of financial position shown in the table above are hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its subsidiaries ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The potential impact of adverse exchange rate fluctuations on the capital adequacy ratio and foreign currency risk weighted assets are regularly monitored according to internal limits and reported.

(c) Liquidity risk

Liquidity risk is defined as the risk that the Bank may not be able to fulfill its payment obligations in a timely manner due to the lack of available cash or cash inflows in quality and in quantity to cover the cash outflows in a complete and timely manner due to imbalances in the cash flows of the Bank and its subsidiaries.

Liquidity risk is managed by Asset and Liability Management department (ALMD), Weekly Review Committee and Asset and Liability Committee (ALCO) in line with liquidity and funding policies and risk appetite approved by the Board of Directors in order to take the necessary measures in a timely and correct manner against possible liquidity shortages that may result from market conditions and balance sheet structure. Under stressed conditions, liquidity risk is managed within the contingency funding plan framework.

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 basic metrics 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.

ALCO takes necessary decisions which will be executed by related departments by assessing the liquidity risk that the Bank is exposed to and considering the Bank's strategy and conditions of competition and pursues the implementations.

ALMD, performs daily liquidity management by ensuring compliance with regulatory and internal liquidity limits and monitoring related early warning indicators in case of probable liquidity squeezes. The medium and long term liquidity and funding management is performed by ALMD in accordance with ALCO decisions.

Head of Risk Management defines the Bank's liquidity risk, measures and monitors the risks with liquidity risk measurement methods that are in compliance with international standards, presents measurement results periodically to related departments, committees and senior management. Head of Risk Management coordinates related parties in order to ensure compliance of risk management process in accordance with the Bank's risk profile, operation environment and strategic plan with regulations. Head of Risk Management analyses, develops and revises relevant liquidity risk measurement in accordance with changing market conditions and the Bank's structure. Risk Management Department reviews assumptions and parameters used in liquidity risk analysis.

Financial risk management disclosures (continued)

The liquidity risk analysis and the important liquidity indicators are reported monthly to related senior management. Additionally, analysis and monitored internal ratios related to liquidity risk are presented in ALCO report. Internal liquidity metrics are monitored with limit and alert levels approved by the Board of Directors and reported regularly to related parties.

Decentralized management approach is adopted in liquidity management. Each subsidiary controlled by the Bank performs daily, medium and long term liquidity management independently from the Bank by the authorities in each subsidiary responsible for managing liquidity risk.

In addition, within the scope of consolidated risk management, liquidity and funding risk of each subsidiary in control are monitored via the liquidity risk management methods identified by the Bank by considering the operations, risk profile and regulations of the related subsidiary.

The Bank keeps liquidity buffer in high level by taking liquidity risk increased periods into consideration. With this approach, the effect of volatility in the markets due to the adverse effects of COVID-19 outbreak on the Bank's liquidity need is in minimum level.

Also there is an increase in loan demands within the effects of COVID-19 outbreak and customers prefers to extend their existing loans maturities. On the other hand, the Bank is well-prepared for similar scenarios that matured loans are not presented as cash in flow in the Bank's internal liquidity metrics and therefore this not create a significant effect from the point of the Bank. On the contrary, the Bank takes actions to improve the deposit volume and this liquidity is used for the increase in loan demands.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	30 June 2020							
	Demand Accounts	***Up to 1 month***	***1 to 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 year***	***Undistributed(*)***	***Total***
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	7,455,597	-	-	-	-	-	(47,002)	7,408,595
Financial assets at fair value through profit or loss	600,376	53,695	18,530	206,569	369,701	112,482	-	1,361,353
Derivative financial assets	-	440,023	189,975	259,486	732,259	-	-	1,621,743
Loans and advances to banks	23,038	862,889	157,025	73,307	-	-	(7,424)	1,108,835
Loans and advances to customers	462,533	31,168,959	20,011,704	62,376,267	63,239,706	6,244,942	2,581,744	186,085,855
Investment securities	-	126,188	82,548	4,560,606	29,779,854	8,726,836	(166,508)	43,109,524
Other assets	4,104,268	993,197	25,189	42,808	57,657	-	4,612,661	9,835,780
Total Turkish Lira monetary assets	12,645,812	33,644,951	20,484,971	67,519,043	94,179,177	15,084,260	6,973,471	250,531,685
Foreign Currency								
Cash and balances with central banks	17,216,458	27,120,452	-	-	-	-	(64,273)	44,272,637
Financial assets at fair value through profit or loss	25,310	-	-	5,782,238	382,362	3,348	-	6,193,258
Derivative financial assets	-	40,982	166,739	288,102	-	1,579,157	-	2,074,980
Loans and advances to banks	21,794,264	1,126,381	901,807	1,985,446	64,404	23,695	(26,914)	25,869,083
Loans and advances to customers	432,921	5,495,564	4,904,802	41,853,436	48,471,661	23,546,561	520,674	125,225,619
Investment securities	-	77,371	386,404	2,204,883	10,527,017	8,127,478	(94,554)	21,228,599
Other assets	895,474	912,157	96,348	174,501	45,278	-	(95,657)	2,028,101
Total foreign currency monetary assets	40,364,427	34,772,907	6,456,100	52,288,606	59,490,722	33,280,239	239,276	226,892,277
Total Monetary Assets	53,010,239	68,417,858	26,941,071	119,807,649	153,669,899	48,364,499	7,212,747	477,423,962
MONETARY LIABILITIES								
Turkish Lira								
Deposits	44,621,302	69,301,277	11,165,992	3,691,155	3,433	-	-	128,783,159
Loans and advances from banks and other institutions	-	389,267	257,376	955,270	681,987	-	-	2,283,900
Obligations under repurchase agreements and money market fundings	-	13,473,908	1,811,291	53,208	1	-	-	15,338,408
Debt securities issued	-	3,044,346	1,470,007	437,955	1,231,900	-	-	6,184,208
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	231,488	217,084	201,807	283,861	621,135	-	1,555,375
Subordinated liabilities	-	-	-	-	-	1,018,644	-	1,018,644
Other liabilities	4,338,454	11,721,208	1,549,461	264,456	530,536	202,471	6,328,128	24,934,714
Total Turkish Lira monetary liabilities	48,959,756	98,161,494	16,471,211	5,603,851	2,731,718	1,842,250	6,328,128	180,098,408
Foreign Currency								
Deposits	90,484,121	61,542,071	13,372,468	10,893,331	1,509,479	169,354	-	177,970,824
Loans and advances from banks and other institutions	-	2,843,630	697,241	15,544,833	5,086,007	508,755	-	24,680,466
Obligations under repurchase agreements and money market fundings	170	301,161	996,860	-	93,690	-	-	1,391,881
Debt securities issued	-	-	-	3,282,776	10,602,049	2,363,146	-	16,247,971
Financial liabilities at fair value through profit or loss	-	-	-	-	3,796,673	10,656,415	-	14,453,088
Derivative financial liabilities	-	143,923	-	213,639	722,229	3,823,427	-	4,903,218
Subordinated liabilities	-	-	-	-	-	5,152,711	-	5,152,711
Other liabilities	709,930	610,079	535,853	131,515	85,185	1,539	1,587,958	3,662,059
Total foreign currency monetary liabilities	91,194,221	65,440,864	15,602,422	30,066,094	21,895,312	22,675,347	1,587,958	248,462,218
Total Monetary Liabilities	140,153,977	163,602,358	32,073,633	35,669,945	24,627,030	24,517,597	7,916,086	428,560,626

(*) Includes expected credit losses.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	31 December 2019							
	Demand Accounts	***Up to 1 month***	***1 to 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 year***	***Undistributed(*)***	***Total***
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	3,285,996	-	-	-	-	-	(7,785)	3,278,211
Financial assets at fair value through profit or loss	236,532	4,368	-	143,395	212,724	28,979	-	625,998
Derivative financial assets	-	746,813	227,854	328,386	402,846	-	-	1,705,899
Loans and advances to banks	12,140	10,669,495	219,552	62,424	-	-	(29,712)	10,933,899
Loans and advances to customers	335,629	35,508,944	18,562,090	38,040,644	53,276,939	5,687,101	3,857,917	155,269,264
Investment securities	-	52,600	3,725,926	5,937,623	23,701,116	5,556,720	(84,000)	38,889,985
Other assets	3,349,320	844,166	27,409	33,820	80,385	39,673	3,121,353	7,496,126
Total Turkish Lira monetary assets	7,219,617	47,826,386	22,762,831	44,546,292	77,674,010	11,312,473	6,857,773	218,199,382
Foreign Currency								
Cash and balances with central banks	18,071,788	27,149,900	-	-	-	-	(58,630)	45,163,058
Financial assets at fair value through profit or loss	30,148	-	127	4,411,845	64,046	20,396	-	4,526,562
Derivative financial assets	-	-	13,651	122,817	187,679	969,511	-	1,293,658
Loans and advances to banks	16,040,325	1,715,705	200,430	1,220,633	86,491	27,254	(19,548)	19,271,290
Loans and advances to customers	91,764	10,663,088	2,509,899	31,209,863	44,558,335	19,898,443	2,092,260	111,023,652
Investment securities	-	-	1,025,162	716,456	3,431,823	11,834,064	(35,880)	16,971,625
Other assets	1,491,860	1,114,025	80,195	112,685	8,204	8,163	7,899	2,823,031
Total foreign currency monetary assets	35,725,885	40,642,718	3,829,464	37,794,299	48,336,578	32,757,831	1,986,101	201,072,876
Total Monetary Assets	42,945,502	88,469,104	26,592,295	82,340,591	126,010,588	44,070,304	8,843,874	419,272,258
MONETARY LIABILITIES								
Turkish Lira								
Deposits	30,721,719	67,152,290	8,466,239	6,583,920	189,876	2	-	113,114,046
Loans and advances from banks and other institutions	-	1,574,790	175,867	332,644	1,308,169	-	-	3,391,470
Obligations under repurchase agreements and money market fundings	-	360,743	45,303	10,220	-	-	-	416,266
Debt securities issued	-	293,118	3,779,748	752,673	1,210,545	-	-	6,036,084
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	178,649	369,007	581,669	635,067	517,874	-	2,282,266
Subordinated liabilities	-	-	-	-	-	261,478	-	261,478
Other liabilities	3,575,875	11,298,590	760,305	192,606	570,798	231,819	5,102,108	21,732,101
Total Turkish Lira monetary liabilities	34,297,594	80,858,180	13,596,469	8,453,732	3,914,455	1,011,173	5,102,108	147,233,711
Foreign Currency								
Deposits	58,131,838	77,970,081	14,292,294	11,337,861	2,133,189	159,660	-	164,024,923
Loans and advances from banks and other institutions	-	1,364,247	725,582	16,931,665	4,189,944	136,912	-	23,348,350
Obligations under repurchase agreements and money market fundings	149	-	436,370	459,044	394,122	80,910	-	1,370,595
Debt securities issued	-	-	906	88,812	12,682,582	2,218,153	-	14,990,453
Financial liabilities at fair value through profit or loss	-	-	-	-	3,789,350	10,552,943	-	14,342,293
Derivative financial liabilities	-	125,843	-	234,021	235,403	1,362,132	-	1,957,399
Subordinated liabilities	-	-	-	-	-	4,468,229	-	4,468,229
Other liabilities	663,163	715,118	470,481	109,791	81,892	1,444	1,331,910	3,373,799
Total foreign currency monetary liabilities	58,795,150	80,175,289	15,925,633	29,161,194	23,506,482	18,980,383	1,331,910	227,876,041
Total Monetary Liabilities	93,092,744	161,033,469	29,522,102	37,614,926	27,420,937	19,991,556	6,434,018	375,109,752

(*) Includes expected credit losses.

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

Contractual maturity analysis of liabilities according to remaining maturities

The remaining maturities table of the contractual liabilities includes the undiscounted future cash outflows for the principal amounts of the Bank and its subsidiaries' financial liabilities as per their earliest likely contractual maturities.

	30 June 2020							
	Carrying Value	*Nominal Principal Outflows*	*Demand*	*Up to 1 Month*	*1 to 3 Months*	*3 to 12 Months*	*1 to 5 Years*	*Over 5 Years*
Deposits	306,753,983	305,859,645	135,099,541	130,539,721	24,254,618	14,294,885	1,502,743	168,137
Obligations under repurchase agreements and money market fundings	16,730,289	16,694,386	170	13,750,469	2,798,648	52,500	92,599	-
Loans and advances from banks and other institutions	26,964,366	26,777,823	-	3,056,892	944,079	21,500,103	767,994	508,755
Debt securities issued	22,432,179	22,132,621	-	3,035,673	1,462,536	3,687,935	11,603,300	2,343,177
Subordinated liabilities	6,171,355	6,123,730	-	-	-	-	-	6,123,730
Financial liabilities at fair value through profit or loss	14,453,088	16,541,971	-	-	-	-	3,876,402	12,665,569
Total Monetary Liabilities	393,505,260	394,130,176	135,099,711	150,382,755	29,459,881	39,535,423	17,843,038	21,809,368

	31 December 2019							
	Carrying Value	*Nominal Principal Outflows*	*Demand*	*Up to 1 Month*	*1 to 3 Months*	*3 to 12 Months*	*1 to 5 Years*	*Over 5 Years*
Deposits	277,138,969	276,276,405	88,853,312	144,688,683	22,669,558	17,596,669	2,309,235	158,948
Obligations under repurchase agreements and money market fundings	1,786,861	1,790,934	149	356,594	480,547	469,044	404,559	80,041
Loans and advances from banks and other institutions	26,739,820	26,512,631	-	2,772,161	855,237	17,250,209	5,498,113	136,911
Debt securities issued	21,026,537	20,732,407	-	289,127	3,763,227	838,812	13,662,124	2,179,117
Subordinated liabilities	4,729,707	4,693,480	-	-	-	-	-	4,693,480
Financial liabilities at fair value through profit or loss	14,342,293	14,870,724	-	-	-	-	3,769,224	11,101,500
Total Monetary Liabilities	345,764,187	344,876,581	88,853,461	148,106,565	27,768,569	36,154,734	25,643,255	18,349,997

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

(d) Credit risk

The Bank and its subsidiaries are subject to credit risk through the trading, lending, hedging and investing activities and the guarantees issued for their customers as well as in cases where they act as intermediaries on behalf of customers or other third parties.

In accordance with IFRS 7 "Financial Instruments: Disclosures", the Group's maximum credit risk exposure (see definition below) by headings in the statement of financial position as of 30 June 2020 and 31 December 2019 are provided below. It does not consider the availability of collateral or other credit enhancements to guarantee compliance with payment obligations. The maximum credit exposures broken down by financial instruments are as follows:

	Notes	30 June 2020	Stage 1	Stage 2	Stage 3
Financial assets at fair value through profit or loss		*3,078,107*			
Debt and other instruments	*4*	2,520,887			
Equity and other non-fixed income instruments	*4*	557,220			
Loans and advances	*4*	-			
Non-trading financial assets mandatorily at fair value through profit or loss		*4,476,504*			
Loans and advances	*4*	4,476,504			
Debt and other instruments	*4*	-			
Equity and other non-fixed income instruments	*4*	-			
Equity investments measured at FVOCI	*9*	*502,043*			
Derivative financial assets	*5*	*3,696,723*			
Financial assets at fair value through other comprehensive income		*33,475,469*	*33,475,469*	-	-
Debt and other instruments	*8*	33,475,469	33,475,469	-	-
Equity and other non-fixed income instruments	*8*	-	-	-	-
Financial assets at amortised cost		*407,347,069*	*346,593,042*	*40,849,236*	*19,904,791*
Balances with central banks excluding reserve deposits	*3*	16,700,787	16,700,787	-	-
Loans and advances to banks	*6*	27,012,271	27,012,271	-	-
Loans and advances to customers	*7*	332,510,281	271,756,254	40,849,236	19,904,791
Debt and other instruments	*8*	31,123,730	31,123,730	-	-
Total financial assets risk		**452,575,915**			
Total loan commitments and financial guarantees	*25*	*138,947,729*			
Total maximum credit exposure		**591,523,644**			

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

	Notes	31 December 2019			
Financial assets at fair value through profit or loss		*945,037*			
Debt and other instruments	4	751,278			
Equity and other non-fixed income instruments	4	193,759			
Loans and advances	4	-			
Non-trading financial assets mandatorily at fair value through profit or loss		*4,207,523*			
Loans and advances	4	4,207,523			
Debt and other instruments	4	-			
Equity and other non-fixed income instruments	4	-			
Equity investments measured at FVOCI	9	*422,113*			
Derivative financial assets	5	*2,999,557*	***Stage 1***	***Stage 2***	***Stage 3***
Financial assets at fair value through other comprehensive income		*28,261,157*	*28,261,157*	-	-
Debt and other instruments	8	28,261,157	28,261,157	-	-
Equity and other non-fixed income instruments	8	-	-	-	-
Financial assets at amortised cost		*362,654,344*	*304,673,044*	*38,470,914*	*19,510,386*
Balances with central banks excluding reserve deposits	3	20,932,112	20,932,112	-	-
Loans and advances to banks	6	30,254,693	30,254,693	-	-
Loans and advances to customers	7	283,747,197	225,765,897	38,470,914	19,510,386
Debt and other instruments	8	27,720,342	27,720,342	-	-
Total financial assets risk		**399,489,731**			
Total loan commitments and financial guarantees	27	*123,740,348*			
Total maximum credit exposure		**523,230,079**			

The maximum credit exposure presented in the table above is determined by type of financial asset as explained below:

- In the case of financial assets recognised in the statement of financial position, exposure to credit risk is considered equal to its carrying amount (not including impairment losses) with the sole exception of derivatives. For derivatives, credit risk exposure is measured as the fair value of the corresponding instrument.

- The maximum credit risk exposure on financial guarantees granted is the maximum amount that the Group would be liable for if these guarantees were called in.

There is no change in cure and reverse transfer logic, assessment of the significant increase in credit risk, internal rating and model inputs or low credit risk assumptions compared to year-end IFRS financial statements.

In line with the guidance of IASB dated 27 March 2020, IFRS 9 requires the application of judgements and both requires and allows entities to adjust their approach to determining ECLs in different circumstances.

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

With the aim of mitigating the impact of COVID-19, various international bodies, local regulators have made pronouncements aimed at allowing flexibility in the implementation of the accounting and prudential frameworks. Financial and regulatory measures, such as tax payment deferrals, wage support and extension of the payments of the consumer and car loans, have been taken by the Turkish government and other local regulators to minimize the economic impact of COVID-19.

The measures by the local regulator

With its decision dated 17 March 2020 and its decision dated 27 March 2020, Banking Regulation and BRSA decided that the following measures would be in force until 31 December 2020:

i. The 30-day past due criteria used for loans to be classified under group 2 loans pursuant to the BRSA Regulation on Classification of Loans and Provisions, has been changed to 90 days,
ii. The 90-day past due criteria used for loans to be classified as non-performing loans has been changed to 180 days.

The Bank's approach

The Bank previously adopted an approach that past due more than 30 and 90 days were a qualitative indicator that automatically required an exposure to be transferred to Stage 2 and Stage 3. For the current period the Bank has not applied the existing methodology mechanically and tried to avoid the application of strong procyclical assumptions for IFRS 9

As a result, the Bank started to implement payment holiday schemes in line with the guidance from local banking regulator and other banks' supervisors. These payment holiday schemes are not automatically considered as forbearance and/or a Stage 2 trigger and the same rationale is applied for the categorization of non-performing loans for payment breaks over 90 days considering the temporarily liquidity shortage of customers because of COVID-19.

Considering the above, the Bank classified amounting TL 1,547 thousand of loans which have past due more than 90 days, as Stage 2 and TL 205 thousand of loans which have past due days between 30-90 days as stage 1.

The Bank develops estimates based on the best available information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions, the Bank considers both effects of COVID-19 and the significant government support measures being undertaken.

As of 30 June 2020 and 31 December 2019, the breakdowns of individually and collectively assessed expected credit losses for loans, factoring and financial lease receivables and non-cash loans are as follows:

	30 June 2020					
	Stage 1		***Stage 2***		***Stage 3***	
	Individual	***Collective***	***Individual***	***Collective***	***Individual***	***Collective***
Cash loans	884	1,616,205	4,451,173	1,696,265	6,608,217	5,897,450
Factoring receivables	-	5,691	7,951	113	252,952	64,731
Financial lease receivables	436	40,273	105,006	21,575	363,186	66,699
Non-cash loans	-	301,352	374,047	151,780	543,407	149,934
	1,320	1,963,521	4,938,177	1,869,733	7,767,762	6,178,814

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

	31 December 2019					
	Stage 1		*Stage 2*		*Stage 3*	
	Individual	*Collective*	*Individual*	*Collective*	*Individual*	*Collective*
Cash loans	-	1,197,959	2,573,223	1,360,296	6,000,098	5,428,433
Factoring receivables	-	4,824	7,003	12	234,587	78,981
Financial lease receivables	111	34,874	16,402	76,643	11,994	428,841
Non-cash loans	-	238,451	226,138	125,319	477,127	147,445
	111	1,476,108	2,822,766	1,562,270	6,723,806	6,083,700

As of 30 June 2020 and 31 December 2019, details of loans under follow-up (Stage 2) including restructured contracts are as follows:

30 June 2020	**Loans and Other Receivables under Follow-Up (Stage 2)**		
		Restructured	
Cash Loans	**Non-restructured**	**Revised Contract Terms**	**Other Changes**
Loans	**24,875,568**	**5,659,015**	**9,346,121**
Commercial, Corporate and SME Loans	15,614,016	3,224,787	9,292,264
Consumer Loans	6,065,962	2,026,858	53,857
Credit Cards	3,195,590	407,370	-
Other Receivables	**592,333**	**360,804**	**15,395**
Total	**25,467,901**	**6,019,819**	**9,361,516**

31 December 2019	**Loans and Other Receivables under Follow-Up (Stage 2)**		
		Restructured	
Cash Loans	**Non-restructured**	**Revised Contract Terms**	**Other Changes**
Loans	**26,191,796**	**2,609,325**	**8,861,675**
Commercial, Corporate and SME Loans	17,830,904	1,146,565	8,810,102
Consumer Loans	5,375,456	986,483	51,573
Credit Cards	2,985,436	476,277	-
Other Receivables	**520,932**	**275,128**	**12,058**
Total	**26,712,728**	**2,884,453**	**8,873,733**

Below table indicates the delinquency periods of loans under follow-up (Stage 2) as of 30 June 2020 and 31 December 2019:

30 June 2020	**Corporate / Commercial Loans**	**Consumer Loans**	**Credit Cards**	**Total**
31-60 days	217,215	575,917	85,278	878,410
61-90 days	348,099	307,074	69,588	724,761
Other	28,534,285	7,263,686	3,448,094	39,246,065
Total	**29,099,599**	**8,146,677**	**3,602,960**	**40,849,236**

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

31 December2019	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
31-60 days	578,372	965,769	169,562	1,713,703
61-90 days	552,336	292,979	62,670	907,985
Other	27,464,981	5,154,764	3,229,481	35,849,226
Total	**28,595,689**	**6,413,512**	**3,461,713**	**38,470,914**

The collaterals held against loans under follow-up (Stage 2) including accruals, are presented below, as per the collateral type, up to the outstanding total amount of exposures:

30 June 2020	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	12,586,026	3,237,241	-	15,823,267
Pledge assets	2,208,730	226,497	-	2,435,227
Promissory notes	68,746	4,505	-	73,251
Cash collateral	449,071	23,956	-	473,027
Other collaterals	9,086,200	3,970,660	-	13,056,860
Unsecured	4,700,826	683,818	3,602,960	8,987,604
Total	**29,099,599**	**8,146,677**	**3,602,960**	**40,849,236**

31 December 2019	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	13,590,835	2,929,497	-	16,520,332
Pledge assets	2,167,317	186,050	-	2,353,367
Promissory notes	104,960	3,402	-	108,362
Cash collateral	419,617	18,009	-	437,626
Other collaterals	8,567,017	2,680,188	-	11,247,205
Unsecured	3,745,943	596,366	3,461,713	7,804,022
Total	**28,595,689**	**6,413,512**	**3,461,713**	**38,470,914**

The collaterals held against non-performing (Stage 3) loans and receivables including accruals, are presented below, as per the collateral type, up to the outstanding total amount of exposures:

30 June 2020	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	9,300,647	276,794	-	9,577,441
Pledge assets	1,588,629	53,361	-	1,641,990
Promissory notes	179,918	5,901	-	185,819
Cash collateral	41,467	357	-	41,824
Other collaterals	2,805,681	1,879,075	-	4,684,756
Unsecured	2,129,930	361,140	1,281,891	3,772,961
Total	**16,046,272**	**2,576,628**	**1,281,891**	**19,904,791**

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

31 December 2019	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	9,196,005	322,843	-	9,518,848
Pledge assets	1,432,716	59,136	-	1,491,852
Promissory notes	200,985	5,714	-	206,699
Cash collateral	14,230	377	-	14,607
Other collaterals	3,307,065	1,818,635	-	5,125,700
Unsecured	1,530,171	359,234	1,263,275	3,152,680
Total	**15,681,172**	**2,565,939**	**1,263,275**	**19,510,386**

(e) Capital management – regulatory capital

BRSA, being the main regulatory and supervisory body in Turkey, sets and monitors minimum capital requirements at consolidated and Bank-only level. Individual banking operations are directly supervised by their local regulators and subject to requirements set by these authorities.

In order to build up adequate buffers above these minimum requirements, BRSA requires the Bank to hold 2.5% Capital Conservation Buffer (31 December 2019: 2.5%), 1.50% Domestic Systemically Important Bank Buffer (31 December 2019: 2.00%) and 0.159% Countercyclical Buffer (31 December 2019: 0.135%) as CET1 capital.

Banks that do not meet these buffer requirements subject to restrictions on discretionary payments as described in the Regulation on Capital Conservation and Countercyclical Capital Buffers. No restriction as of reporting date applies to Bank that has excess capital above all these requirements.

The Bank's and its subsidiaries' consolidated regulatory capital is composed mainly of the following items:

-Common Equity Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, other comprehensive income, foreign currency translation reserve and non-controlling interests after deductions for goodwill and certain cost items

-Additional Tier 1 capital, which the Bank has no qualifying liability needs to be classified in this category

-Tier 2 capital, which includes qualifying subordinated liabilities and Stage 1 and 2 provisions capped with 1.25% of Credit RWA.

The Bank's and its subsidiaries' regulatory capital positions on consolidated basis are as follows:

	30 June 2020	*31 December 2019*
Tier 1 capital	57,897,947	53,708,108
Tier 2 capital	10,287,283	8,450,176
Deductions from capital	(2,695)	(7,930)
Total regulatory capital	68,182,535	62,150,354
Value at credit, market and operational risks	391,482,683	349,007,519
Capital ratios (%)		
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	17.42	17.81
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	14.79	15.39

Financial risk management disclosures (continued)

Within the context of the measures that are announced by BRSA on 23 March 2020, in capital adequacy ratio calculation until 31 December 2020, spot purchase exchange rate used in preparation of financial statements as of 31 December 2019, may be considered in the calculation of Turkish Lira equivalent of credit risk exposures in foreign currencies, and negative revaluation differences of the securities classified under "Financial Assets Measured at Fair Value through Other Comprehensive Income" which acquired before 23 March 2020 may not be included in capital calculation.

The Bank does not take into consideration the related measures in regulatory capital adequacy ratio calculation as of 30 June 2020. In case of applying the measures, consolidated capital adequacy ratio rises to 18.39% as of 30 June 2020.

(f) *Hedging*

Due to the Bank and its subsidiaries' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its subsidiaries from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its subsidiaries enter into transactions to ensure that it is economically hedged in accordance with risk management policies. In the accompanying interim condensed consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

From time to time, the Bank enters into various interest rate swap transactions in order to hedge its certain cash flow or fair value exposures on floating/fixed rate assets and liabilities, through converting its floating/fixed rate income/payments into fixed/floating rate income/payments.

In this respect, the Bank applied fair value hedge accounting for the fixed rate eurobonds issued in 2011 with a total face value of US$ 500,000,000, maturity of 10 years and maturity date of 20 April 2021 which were priced at 6.375% originally and had a coupon rate of 6.25%, by designating interest rate swaps with the same face value amount and conditions. In June 2012, the Bank ceased to apply hedge accounting and accordingly fair value calculations for these bonds. The accumulated fair value differences incurred starting from the date of hedge accounting up to the date on which it was ceased, are amortised as per the effective interest-rate method in compliance with IFRS 9.

The Bank also applied fair value hedge accounting for its fixed-rate loans with a total principal of TL 175,000, US$ 170,661,951 and EUR 47,477,090 for its fixed-rate bonds with a total face value of TL 430,000 and US$ 387,500,000 and fixed-rate bonds with a total face value of EUR 75,800,000 by designating interest rate swaps and cross currency swaps with the same face values and terms. Accordingly, the accumulated fair value gain for the hedged loans and bonds is TL 48,878 and TL 388,127 (30 June 2019: gains of TL 67,160 and TL 83,665) resulted from the related fair value calculations for the hedged loans and bonds were accounted for under net trading income/(expense) in the consolidated statement of profit or loss and other comprehensive income, respectively.

Financial risk management disclosures (continued)

The Bank also enters into interest rate and cross currency swap agreements in order to avoid cash flow risks of its variable-rate financial instruments. In this respect, the Bank applied cash flow hedge accounting for its borrowings amounting to US$ 23,948,108 and EUR 21,052,642, and securities issued amounting to EUR 41,478,940 by designating cross currency swaps with the same face values and terms and securities issued amounting to US$ 475,731,708 and EUR 45,000,000 and deposits amounting to TL 3,385,000, USD 610,000,000 and forward EUR 480,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, gain of TL 20,450 (30 June 2019: TL 55,126) and loss of TL 330,121 (30 June 2019: TL 110,494) resulting from cross currency and interest rate swap agreements were recognised under other comprehensive income, respectively.

Effective from 1 October 2017, the subsidiary ceased the cash flow hedge regarding foreign currency exposure of its EUR denominated operational lease contracts and considered a fair value hedge relationship between such EUR denominated operational lease receivables and corresponding foreign currency borrowings. Accordingly, the subsequent cumulative change in the fair value of EUR denominated operational lease receivables (the firm commitment) attributable to the hedged risk is recognised as an asset with a corresponding gain recognised in profit or loss. As of 30 June 2020, while a negative amount of TL 112,308 (net of deferred taxes) was recognised under shareholders' equity as the hedge reserve (30 June 2019: TL 133,186), the unrecognised firm commitment fair value change was recognised as asset amounting to TL 46,418 (30 June 2019: TL 126,281) as a consequence of the new fair value hedge designation explained above. Besides, the subsidiary continued to apply cash flow hedge for its forecasted second hand vehicle sales same as previous year.

In the consolidated interim condensed financial statements, the Bank applies cash flow hedge accounting by designating interest rate swap agreements for floating rate borrowings used by one of the Bank's consolidated subsidiaries, in order to hedge the cash flow risk arising from fluctuations in market interest rates of these borrowings on a consolidated level, starting from 30 September 2019. In this respect, cash flow hedge accounting is applied for borrowings amounting to EUR 102,659,877 by designating interest rate swaps that include floor options with the same nominal value and interest rate swaps of US$ 7,000,000 with the same nominal value and terms. Accordingly, in the current period, a net loss of TL 756 recognised under shareholders'equity resulting from interest rate swap agreements.

One of the Bank's consolidated subsidiaries enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial instruments due to fluctuations in market interest rates. In this respect, the subsidiary applied fair value hedge accounting for fixed rate eurobonds with a total face value of US$ 25,000,000 and EUR 20,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, the accumulated fair value gain for the hedged loans and bonds is TL 19,463 (30 June 2019: loss of TL 40,132) resulting from the related fair value calculations for the hedged bonds were accounted for under net trading income/(expense) in the consolidated statement of profit or loss and other comprehensive income.

One of the Bank's consolidated subsidiaries enters into interest rate swap agreements in order to hedge the change in cash flows of floating rate financial instruments due to fluctuations in market interest rates. In this respect, the subsidiary applied cash flow hedge accounting for its borrowings amounting to EUR 35,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a net loss of TL 11,553 (30 June 2019: TL 8,564) resulting from interest rate swap agreements were recognised under shareholders' equity.

Financial risk management disclosures (continued)

One of the Bank's consolidated subsidiaries enters into foreign currency derivative contracts to hedge the foreign currency risk of its expected future cash flows. In this respect, the subsidiary applied cash flow hedge accounting for its loans granted in Turkish Lira by designating swaps with the same face values and similar terms; TL 162,204,524 sell and EUR 20,576,960 buy, USD 41,308,855 sell and EUR 36,891,233 buy, SEK 6,832,438 sell and EUR 640,971 buy, PLN 207,219 sell and EUR 45,559 buy, HUF 2,700,000,000 sell and EUR 8,014,762 buy, DKK 5,570,302 sell and EUR 746,829 buy, NOK 2,077,242 sell and EUR 185,652 buy, GBP 1,101,484 sell and EUR 1,266,590 buy, RON 9,999,996 sell and EUR 1,977,007 buy, CHF 42,102 sell and EUR 39,836 buy. Accordingly, in the current period, a loss of TL 2,587 (30 June 2019: TL 4,295) resulting from currency derivative contracts were recognised under shareholder's equity.

One of the Bank's consolidated subsidiaries enters into foreign currency derivative contracts to hedge the foreign currency risk of its expected future cash flows. In this respect, the subsidiary applied cash flow hedge accounting for its financial lease receivables granted in foreign currency by designating swaps with the same face values and similar terms; EUR 15,000,000 sell and TL 139,095,000 buy, USD 29,000,000 sell and TL 209,090,000 buy. Accordingly, in the current period, a loss of TL 5,930 (30 June 2019: TL 4,421) resulting from interest rate swap agreements and a gain of TL 6,962 (30 June 2019: a loss of TL 6,106) resulting from currency derivative contracts was recognised under shareholder's equity.

Fair value information

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.

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgement is necessary required to interpret market data to determine the estimated fair value. While management uses available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities are not materially different than their recorded values except for those of loans and advances to customers and investment securities. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements and money market fundings, loans and advances from banks and other institutions, and other short-term assets and liabilities that are of a contractual nature, obligations under repurchase agreements and money market fundings, loans and advances from banks and other institutions, and other short-term assets and liabilities that are of a contractual nature.

Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Within the scope of IFRS 13 Fair Value Measurement standard; (i) if there is a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities); (ii) when the transaction or quoted price does not represent fair value; and / or (iii) when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured, or (iv) when the price is stale, an adjustment to the transactions or quoted prices is made and this adjustment is reflected to the fair value measurement. In this context, the point is determined within the range that is most representative of fair value under current market conditions.

(Currency: Thousands of Turkish Lira (TL))

Fair value information (continued)

As of 30 June 2020, the Bank started to use TLREF OIS ("Overnight Indexed Swap") curves to reflect its fair valuation more accurately for the CBRT swap transactions and made the necessary fair value measurement adjustments.

Fair value of loans and advances to customers is TL 305,320,289 (31 December 2019: TL 261,318,615), whereas the carrying amount is TL 311,311,474 (31 December 2019: TL 266,292,916) in the accompanying interim condensed consolidated statement of financial position as of 30 June 2020.

Fair value of investment securities measured at amortised cost is TL 32,060,139 (31 December 2019: TL 27,704,202), whereas the carrying amount is TL 30,862,654 (31 December 2019: TL 27,600,453) in the accompanying interim condensed consolidated statement of financial position as of 30 June 2020.

The table below analyzes financial instruments carried at fair value, by valuation method:

30 June 2020	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value through profit or loss (*)	1,566,124	1,386,272	4,602,215	7,554,611
Derivative financial assets	607	3,539,398	156,718	3,696,723
Debt and other instruments measured at FVOCI	30,146,647	3,328,822	-	33,475,469
Financial Assets at Fair Value	31,713,378	8,254,492	4,758,933	44,726,803
Financial liabilities at fair value through profit or loss	-	-	14,453,088	14,453,088
Derivative financial liabilities	4,037	4,174,675	2,279,881	6,458,593
Financial Liabilities at Fair Value	4,037	4,174,675	16,732,969	20,911,681

31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value through profit or loss (*)	680,675	44,979	4,426,906	5,152,560
Derivative financial assets	8,978	2,846,273	144,306	2,999,557
Debt and other instruments measured at FVOCI	26,934,136	1,327,021	-	28,261,157
Financial Assets at Fair Value	27,623,789	4,218,273	4,571,212	36,413,274
Financial liabilities at fair value through profit or loss	-	-	14,342,293	14,342,293
Derivative financial liabilities	156	3,487,263	752,246	4,239,665
Financial Liabilities at Fair Value	156	3,487,263	15,094,539	18,581,958

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

(*)Financial assets measured at fair value through profit or loss include loan amounting to USD 710,682,828 (31 December 2019: USD 710,182,828) provided to a special purpose entity. As detailed in Note 10, according to the decision made at the 2018 annual general assembly of related special purpose entity, it was decided to increase the capital of the special purpose entity by TL 3,982,230, all of which will be covered by common receivables. After the capital increase, USD 154,885,708 of the related loan, which corresponds to the share of receivables in the Bank, has been paid off.

(Currency: Thousands of Turkish Lira (TL))

Fair value information (continued)

This loan is classified under financial assets measured at fair value through profit/loss as per IFRS 9. The fair value of this loan is determined by the independent valuation company based on the weighted average of different methodologies (discounted cash flows, similar market multipliers, same sector transaction multipliers, market value and analyst reports). Upon the result of the independent valuation, the Bank management also evaluated the discounted cash flows and reflected its internal evaluation on the relevant valuation result. In this internal valuation, the Bank has determined to use the earnings before interest, taxes and depreciation (EBITDA) profit margin rates which are observed in previous periods and additional risk premium was added in discounted cash flow model. The corresponding loan is considered as Level 3 based on IFRS 13 "Fair Value Measurement" standard.

Valuation techniques considered in the valuation work and any possible changes in the basic assumptions may affect the carrying value of the related asset. For discounted cash flows method, significant unobservable inputs are EBITDA, growth rate and weighted average cost of capital. The estimated fair value of the asset would increase if growth rate and EBITDA are higher and decrease if the weighted average cost of capital is higher. Trading multiples and transaction multiples for the companies operating in the same sector are the other valuation techniques for pricing the assets. Transaction multiples for the companies operating in the same sector are based on similar transactions based on geographical features, industry, size, target market and other factors. Transaction multiples are derived by dividing the enterprise values of the companies to EBITDAs. The estimated fair value of the asset would increase if the multiples were higher and decrease if multiples were lower.

In the case that the growth rate in the assumptions used in the discounted cash flow method in the valuation report is increased by 0.25% / (decreased by 0.25%) and the risk-free return on investment rate is decreased by 0.25% / (increased by 0.25%), assuming that all other variables remain constant, the assets recognized in the financial statements and the profit for the period will increase by approximately 106 million TL (will decrease 93 million TL).

Regarding valuation of the related securities issued, it is determined a reference level which indicates the correlation among the transaction spread at inception date with either of the followings: TC CDS, TC eurobonds, and Z-spreads of the Bank and TC and considered the impact of daily changes in relevant parameters with variation in reference level. Therefore, the fair value of both the securities issued and the corresponding Total Return Swap (TRS) transactions are determined as Level 3.

As of 30 June 2020 and 31 December 2019, the movements of Level 3 financial instruments are as follows:

	30 June 2020		***31 December 2019***	
	Asset	***Liability***	***Asset***	***Liability***
Balance at the beginning of the period	4,571,212	15,094,539	4,217,156	13,191,208
Additions*(*)*	651,858	-	185,909	856,653
Disposals	(106,982)	(606,780)	(68,179)	(726,723)
Transfers, net	-	-	-	-
Effects of valuation differences *(**)*	(357,155)	2,245,210	236,326	1,773,401
Balance at the end of the period	4,758,933	16,732,969	4,571,212	15,094,539

(*) Based on IFRS 9, in order to eliminate the accounting mismatch, the securitized bonds issued are measured at fair value and it is used the valuation of the Turkish Republic's credit default swap (CDS) and Eurobonds together with the Z-spread of the Turkish Republic (TC) and the Bank. The credit default swap (CDS) level is determined based on the remaining maturity.

(**) As of 30 June 2020 and 31 December 2019, effect of movements in exchange rates regarding Level 3 financial liabilities is TL 2,492,405 and TL 1,680,509; respectively.

Owned assets starting from 1 November 2015, as a result of changing the accounting policy, the Group applied revaluation model for properties recorded under tangible assets instead of cost model in accordance with IAS 16. Within this framework, the revaluation difference arising from the valuations performed by independent expertise firms for all real estated registered in the ledger is accounted under shareholder's equity. The Bank has reviewed the valuation of its real estate properties which have significant changes in the fair value considering the current market conditions and the changes are recognised in the interim condensed consolidated financial statements.

Fair value information (continued)

Similar to owned assets, investment properties starting from 1 November 2015, as a result of changing in the accounting policy, the Group applied fair value model for instead of cost model in accordance with the IAS 40. Accordingly, for all the investment properties registered in the ledger, a valuation study was performed by independent expertise firms. As of the reporting period, the Bank has reviewed the valuation of its investment properties which have significant changes in their fair value considering the current market conditions and the changes are recognised in the interim condensed consolidated financial statements.

Owned assets and investment properties are considered at fair value are classified at Level 3.

Notes to the interim condensed consolidated financial statements:

1 Segment reporting

The Bank has eight reportable segments from banking and other financial institutions, as described in the business segments part below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the senior management reviews internal reports regularly. The following summary describes the operations in each of the Bank's reportable segments.

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

Business segments

The segments are identified on the basis used by the Group's top management to allocate resources and evaluate performance, in accordance with IFRS 8 "Operating Segments". The Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The main business segments are banking, leasing, insurance and factoring sectors. Banking segment information is detailed further to retail banking and commercial, corporate and SME banking as these are the major banking activities. Other operations heading under the banking segment include mainly treasury and investment banking activities as well as unallocated income and expense items. The analysis is as follows:

30 June 2020	*Retail Banking*	*Commercial, Corporate & SME Banking*	*Other Operations*	*Total Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial*	*Other Non-Financial*	*Combined*	*Eliminations*	*Total*
Operating income	5,246,247	1,503,599	3,391,116	10,140,962	157,855	364,333	45,693	442,373	245,496	11,396,712	(201,602)	11,195,110
Operating expenses	(3,279,811)	(1,385,412)	(1,604,910)	(6,270,133)	(43,083)	(81,569)	(23,572)	(132,888)	(73,415)	(6,624,660)	216,324	(6,408,336)
Income from operations	**1,966,436**	**118,187**	**1,786,206**	**3,870,829**	114,772	282,764	22,121	309,485	172,081	4,772,052	14,722	4,786,774
Taxation charge	-	-	(1,103,896)	(1,103,896)	(26,054)	(63,973)	(4,650)	(72,494)	(34,127)	(1,305,194)	2,293	(1,302,901)
Net income for the period	**1,966,436**	**118,187**	**682,310**	**2,766,933**	**88,718**	**218,791**	**17,471**	**236,991**	**137,954**	**3,466,858**	**17,015**	**3,483,873**
Segment assets	82,217,921	224,996,700	167,589,707	474,804,328	6,568,951	2,545,284	2,551,020	2,157,547	1,792,420	490,419,550	(3,801,000)	486,618,550
Equity investments	-	-	889,543	889,543	10,000	304	-	5,664	1	905,512	(403,469)	502,043
Total assets	**82,217,921**	**224,996,700**	**168,479,250**	**475,693,871**	**6,578,951**	**2,545,588**	**2,551,020**	**2,163,211**	**1,792,421**	**491,325,062**	**(4,204,469)**	**487,120,593**
Segment liabilities	209,265,946	102,909,046	107,964,970	420,139,962	5,259,571	1,637,215	2,369,565	1,658,567	1,461,235	432,526,115	(3,965,489)	428,560,626
Total equity	-	-	55,553,909	55,553,909	1,319,380	908,373	181,455	504,644	331,186	58,798,947	(238,980)	58,559,967
Total liabilities and equity	**209,265,946**	**102,909,046**	**163,518,879**	**475,693,871**	**6,578,951**	**2,545,588**	**2,551,020**	**2,163,211**	**1,792,421**	**491,325,062**	**(4,204,469)**	**487,120,593**

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

30 June 2019	*Retail Banking*	*Commercial, Corporate & SME Banking*	*Other Operations*	*Total Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial*	*Other Non-Financial*	*Combined*	*Eliminations*	*Total*
Operating income	6,183,037	3,086,797	(533,144)	8,736,690	147,224	361,636	60,756	211,953	137,506	9,655,765	(71,086)	9,584,679
Operating expenses	(2,909,363)	(480,598)	(1,185,910)	(4,575,871)	(47,140)	(72,457)	(24,020)	(116,429)	(98,622)	(4,934,539)	51,569	(4,882,970)
Income from operations	**3,273,674**	**2,606,199**	**(1,719,054)**	**4,160,819**	**100,084**	**289,179**	**36,736**	**95,524**	**38,884**	**4,721,226**	**(19,517)**	**4,701,709**
Taxation charge	-	-	(881,990)	(881,990)	(20,658)	(63,560)	(8,424)	(25,058)	(9,283)	(1,008,973)	2,940	(1,006,033)
Net income for the period	**3,273,674**	**2,606,199**	**(2,601,044)**	**3,278,829**	**79,426**	**225,619**	**28,312**	**70,466**	**29,601**	**3,712,253**	**(16,577)**	**3,695,676**
31 December 2019												
Segment assets	76,596,027	185,707,364	154,346,628	416,650,019	6,159,153	2,170,565	2,201,627	1,707,107	1,764,785	430,653,256	(1,879,387)	428,773,869
Equity investments	-	-	810,331	810,331	10,000	304	-	4,946	1	825,582	(403,469)	422,113
Total assets	**76,596,027**	**185,707,364**	**155,156,959**	**417,460,350**	**6,169,153**	**2,170,869**	**2,201,627**	**1,712,053**	**1,764,786**	**431,478,838**	**(2,282,856)**	**429,195,982**
Segment liabilities	187,757,054	96,061,460	82,181,090	365,999,604	4,953,260	793,412	2,037,643	1,416,598	1,563,850	376,764,367	(1,654,615)	375,109,752
Total equity	-	-	51,460,746	51,460,746	1,215,893	1,377,457	163,984	295,455	200,936	54,714,471	(628,241)	54,086,230
Total liabilities and equity	**187,757,054**	**96,061,460**	**133,641,836**	**417,460,350**	**6,169,153**	**2,170,869**	**2,201,627**	**1,712,053**	**1,764,786**	**431,478,838**	**(2,282,856)**	**429,195,982**

(Currency: Thousands of Turkish Lira (TL))

2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 30 June 2020 and 2019, included in the accompanying interim condensed consolidated statement of cash flows are as follows:

	30 June 2020	*30 June 2019*
Cash at branches	7,859,947	4,043,908
Unrestricted balances with central banks	12,601,462	22,414,022
Placements at money markets	430,783	152,912
Loans and advances to banks with original maturity periods of less than three months	14,400,561	10,014,972
	35,292,753	36,625,814

3 Cash and balances with central banks

	30 June 2020	*31 December 2019*
Cash at branches	7,859,947	4,343,805
Reserve deposits at central banks	27,120,498	23,165,352
Balances with central banks excluding reserve deposits	16,700,787	20,932,112
	51,681,232	48,441,269

Reserve deposits at central banks

As per the Communiqué no. 2013/15 "Reserve Deposits" of the Central Bank of the Republic of Turkey ("CBRT"), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. The Reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its subsidiaries. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of liabilities in TL, foreign currencies and gold taken at the rates determined by CBRT. The Central Bank of Turkey pays interest to banks that provide credit growth in accordance with the communique principles dated 9 December 2019 and numbered 2019/19, for Turkish Lira required reserves.

The reserve deposits at the Central Bank of the Netherlands, as required by the Dutch Banking Law, are calculated as 1% on all customer deposits with an original maturity less than 2 years and 1% on bank deposits of non-EU banks with an original maturity less than 2 years.

The banks operating in Romania are obliged to keep minimum reserve requirements in accounts held with Romanian Central Bank (NBR). The reserve requirements are to be held in RON for RON liabilities and in Euro or US$ for foreign currency liabilities.

Currently, in line with stipulations of related legislation in force, the rates for reserve requirements are 6% both for RON denominated liabilities with a remaining maturity less than 2 years and foreign currency denominated liabilities with a remaining maturity less than 2 years excluding Romanian banks' fundings. The interest rates paid by the NBR to banks for reserve requirements are subject of permanent update, currently the rates are 0.13% for RON reserves 0.00% for Euro reserves and 0.03% for US$ reserves.

(Currency: Thousands of Turkish Lira (TL))

3 Cash and balances with central banks (continued)

The credit quality analysis of cash and balances with central banks as of 30 June 2020 and 31 December 2019 is as follows:

	30 June 2020			***31 December 2019***		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	51,902,068	-	-	48,507,689	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(220,836)	-	-	(66,420)	-	-
Total carrying amount	51,681,232	-	-	48,441,269	-	-

The movements of expected credit losses per asset class for cash and balances with central banks as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020			***31 December 2019***		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	66,420	-	-	44,547	- -	- -
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Debt sales and write-offs	-	-	-	-	-	-
Recoveries and reversals	(89)	-	-	(11,594)	-	-
Provision for the period	154,478	-	-	33,444	-	-
Effects of movements in exchange rates	27	-	-	23	-	-
Balances at the end of the period	220,836	-	-	66,420	-	-

(Currency: Thousands of Turkish Lira (TL))

4 Financial assets at fair value through profit or loss

	30 June 2020				*31 December 2019*
	Face value	***Carrying value***	***Interest rate range %***	***Latest maturity***	***Carrying value***
Debt and other instruments measured at FVPL:					
Government bonds in FC	1,172,417	1,176,616	2-3	2021	26,122
Eurobonds	378,353	385,530	3-12	2047	65,209
Government bonds in TL	269,151	376,344	7-23	2028	147,292
Discounted government bonds in TL	181,901	169,420	-	2022	31,491
Government bonds indexed to CPI	114,911	165,065	1-3	2027	191,773
Bonds issued by financial institutions	159,105	159,978	2-15	2027	199,264
Investment funds		68,467			72,921
Bonds issued by corporations	17,220	18,240	5-24	2021	17,202
Government bonds-floating ***(a)***	1,201	1,227	4-11	2025	4
		2,520,887			751,278
Loans measured at FVPL ***(b)***		4,476,504			4,207,523
Equity and other non-fixed income instruments:					
Listed shares		557,220			193,759
Total financial assets at fair value through profit or loss		7,554,611			5,152,560

(a) *The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*
(b) *It includes the loan provided to a special purpose entity. This loan is accounted under loans measured at FVPL based on IFRS 9.*

Income from debt and other instruments held at fair value is reflected in the consolidated statement of profit or loss and other comprehensive income as interest on securities. Gains and losses arising from trading of financial assets at FVPL are recorded in net trading income/(expense).

As of 30 June 2020, financial assets at FVPL amounting to TL 137,163 are blocked against asset management operations and securitizations (31 December 2019: TL 23,712) (refer to Note 8).

As of 30 June 2020, there are TL 33,893 of securities pledged under repurchase agreements with customers (31 December 2019: TL 26,860).

5 Derivative financial assets

Derivative financial assets mainly consist of foreign currency and interest rate swaps, foreign currency options and forward foreign currency contracts.

	30 June 2020		***31 December 2019***	
	Trading	***Hedging***(*)	***Trading***	***Hedging***(*)
Swap derivative financial assets	2,855,103	489,973	1,971,845	455,506
Option derivative financial assets	219,076	5,622	360,990	3,858
Forward derivative financial assets	125,476	686	198,718	-
Future derivative financial assets	-	-	8,488	-
Other derivative financial assets	787	-	152	-
	3,200,442	496,281	2,540,193	459,364

(*) *Includes derivative transactions subject to cash flow and fair value hedge accounting amounted to TL 475,019 (31 December 2019: TL 441,344) and TL 21,262 (31 December 2019: TL 18,020), respectively.*

(Currency: Thousands of Turkish Lira (TL))

5 Derivative financial assets (continued)

As of 30 June 2020 and 31 December 2019, fair value changes of hedged items and related gains/losses accounted under equity and statement of profit or loss, for cash flow hedges are as follows:

30 June 2020

Hedging item	Hedged item	Type of risk	Fair value change of hedged item: Asset	Fair value change of hedged item: Liability	Gains/losses accounted under equity	Gains/losses accounted under statement of profit or loss	Ineffective portion (net) accounted under statement of profit or loss
Interest Rate Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates	-	(133,108)	(107,416)	4,215	(444)
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	27,348	(329,623)	173,446	(204,847)	(83,055)
Cross Currency Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	428,246	(28,815)	(14,580)	(10,192)	1
Cross Currency Swaps	Fixed-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	13,117	(4,029)	5,269	(7,179)	-
Currency Forwards	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	686	-	1,041	(1,039)	-
Interest Rate Options	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	5,622	-	381	-	-
Foreign currency borrowings	Operational lease receivables	Cash flow risk resulted from foreign currency exchange rates	-	-	(10,306)	37,269	-
			475,019	(495,575)	47,835	(181,773)	(83,498)

(Currency: Thousands of Turkish Lira (TL))

5 Derivative financial assets (continued)

31 December 2019

Hedging item	Hedged item	Type of risk	Fair value change of hedged item: Asset	Fair value change of hedged item: Liability	Gains/losses accounted under equity	Gains/losses accounted under statement of profit or loss	Ineffective portion (net) accounted under statement of profit or loss
Interest Rate Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates	7,075	(24,103)	(106,708)	53,943	831
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	5,171	(662,201)	(602,570)	417,372	(12,174)
Cross Currency Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	419,346	(82)	(22,982)	(11,946)	-
Currency Forwards	Firm commitments	Cash flow risk resulted from foreign currency exchange rates	5,894	(48,328)	(15,843)	14,482	-
Currency Forwards	Mile payments	Cash flow risk resulted from foreign currency exchange rates	-	-	50,967	-	-
Interest Rate Options	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	3,858	-	535	-	-
Foreign currency borrowings	Operational lease receivables	Cash flow risk resulted from foreign currency exchange rates	-	-	33,677	73,323	-
			441,344	(734,714)	(662,924)	547,174	(11,343)

As of 30 June 2020 and 31 December 2019, fair value changes of hedged items and related gains/losses accounted under equity and statement of profit or loss, for fair value hedges are as follows:

30 June 2020

Hedging item	Hedged item	Type of risk	Fair value change of hedged item	Net fair value change of hedging instrument: Asset	Net fair value change of hedging instrument: Liability	Statement of profit or loss effect
Interest Rate Swaps	Fixed-rate commercial loans	Interest rate risk	51,926	-	(50,343)	1,583
Interest Rate Swaps	Fixed-rate mortgage loans	Interest rate risk	(3,048)	4,529	-	1,481
Interest Rate Swaps	Fixed-rate securities	Interest rate risk	364,583	12,557	(417,571)	(40,431)
Cross Currency Swaps	Fixed-rate securities	Interest rate and foreign currency exchange rate risk	4,081	4,176	(1,787)	6,470
Other (*)(**)			16,195	-	(16,195)	-
			433,737	21,262	(485,896)	(30,897)

(*) *Hedged item consists of firm commitments as explained in Hedging section under Financial Risk Management Disclosures.*
(**) *Hedging instrument consists of on-balance sheet items.*

(Currency: Thousands of Turkish Lira (TL))

5 Derivative financial assets (continued)

31 December 2019

Hedging item	Hedged item	Type of risk	Fair value change of hedged item	Net fair value change of hedging instrument: Asset	Net fair value change of hedging instrument: Liability	Statement of profit or loss effect
Interest Rate Swaps	Fixed-rate commercial loans	Interest rate risk	147,422	6,224	(186,490)	(32,844)
Interest Rate Swaps	Fixed-rate mortgage loans	Interest rate risk	14,063	1,691	(15,774)	(20)
Interest Rate Swaps	Fixed-rate securities	Interest rate risk	200,330	4,690	(234,896)	(29,876)
Cross Currency Swaps	Fixed-rate securities	Interest rate and foreign currency exchange rate risk	6,809	5,415	(23,544)	(11,320)
Other (*)(**)			33,321	-	(42,677)	(9,356)
			401,945	18,020	(503,381)	(83,416)

(*) *Hedged item consists of firm commitments as explained in Hedging section under Financial Risk Management Disclosures.*
(**) *Hedging instrument consists of on-balance sheet items.*

The notional amounts of derivative financial assets are explained in detail in Note 26.

6 Loans and advances to banks

	30 June 2020			*31 December 2019*		
	TL	*Foreign Currency*	*Total*	*TL*	*Foreign Currency*	*Total*
Loans and advances-demand						
Domestic banks	3,529	77,241	80,770	2,714	27,801	30,515
Foreign banks	13,951	21,720,390	21,734,341	9,429	16,012,771	16,022,200
	17,480	21,797,631	21,815,111	12,143	16,040,572	16,052,715
Loans and advances-time						
Domestic banks	647,755	1,855,518	2,503,273	548,862	1,277,660	1,826,522
Foreign banks	444,535	1,776,281	2,220,816	192,000	1,492,915	1,684,915
	1,092,290	3,631,799	4,724,089	740,862	2,770,575	3,511,437
Placements at money markets	-	430,783	430,783	10,202,600	453,535	10,656,135
Income accrual on loans and advances to banks	6,498	35,790	42,288	8,003	26,403	34,406
Total loans and advances to banks	1,116,268	25,896,003	27,012,271	10,963,608	19,291,085	30,254,693
Less:						
Expected credit losses	(7,433)	(26,920)	(34,353)	(29,709)	(19,795)	(49,504)
	1,108,835	25,869,083	26,977,918	10,933,899	19,271,290	30,205,189

(Currency: Thousands of Turkish Lira (TL))

6 Loans and advances to banks (continued)

As of 30 June 2020, majority of loans and advances-time are short-term with interest rates ranging between (0.46)%-5% per annum for foreign currency time placements and 5%-11% per annum for TL time placements (31 December 2019: 1%-7 and 7%-31%, respectively).

As of 30 June 2020, loans and advances at domestic and foreign banks include blocked accounts of TL 3,793,283 (31 December 2019: TL 3,309,957) held against securitizations, fundings and insurance business.

The credit quality analysis of loans and advances to banks is as follows as of 30 June 2020 and 31 December 2019:

	30 June 2020			*31 December 2019*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	27,012,271	-	-	30,254,693	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(34,353)	-	-	(49,504)	-	-
Total carrying amount	26,977,918	-	-	30,205,189	-	-

The movements of expected credit losses per asset class for loans and advances to banks as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020			*31 December 2019*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	49,504	-	-	18,963	-	-
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Debt sales and write-offs	-	-	-	-	-	-
Recoveries and reversals	(165,718)	-	-	(99,063)	-	-
Provision for the period	148,382	-	-	133,035	-	-
Effects of movements in exchange rates	2,185	-	-	(3,431)	-	-
Balances at the end of the period	34,353	-	-	49,504	-	-

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers

As of 30 June 2020, interest rates on loans granted to customers range between 1%-31% (31 December 2019: 1%-21%) per annum for the foreign currency loans and 10%-33% (31 December 2019: 1%-33%) per annum for the TL loans.

The credit quality analysis of cash loans and advances to customers excluding factoring and financial lease receivables, including related income accruals, is as follows as of 30 June 2020 and 31 December 2019:

	30 June 2020			*31 December 2019*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	261,477,429	-	-	216,428,657	-	-
Stage 2: Watch list	-	38,393,216	-	-	36,608,185	-
Stage 3.1: Substandard	-	-	136,390	-	-	2,078,194
Stage 3.2: Doubtful	-	-	2,720,475	-	-	5,059,405
Stage 3.3: Loss	-	-	15,224,066	-	-	10,585,242
Total loans	261,477,429	38,393,216	18,080,931	216,428,657	36,608,185	17,722,841
Income accrual on loans	2,997,816	1,487,488	638,713	2,794,547	1,054,611	576,736
Expected credit losses	(1,617,089)	(6,147,438)	(12,505,667)	(1,197,959)	(3,933,519)	(11,428,531)
Total carrying amount	262,858,156	33,733,266	6,213,977	218,025,245	33,729,277	6,871,046

The movements of expected credit losses per asset class for cash loans and advances to customers as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020			*31 December 2019*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	1,197,959	3,933,519	11,428,531	877,232	3,941,648	7,462,003
Transfer to Stage 1	521,365	(519,074)	(2,291)	1,243,379	(1,238,117)	(5,262)
Transfer to Stage 2	(192,542)	199,186	(6,644)	(501,816)	529,038	(27,222)
Transfer to Stage 3	(1,192)	(177,573)	178,765	(6,981)	(1,900,983)	1,907,964
Debt sales and write-offs	-	-	(214,482)	-	-	(1,818,936)
Recoveries and reversals	(1,526,351)	(883,163)	(722,875)	(2,425,758)	(3,125,772)	(1,000,044)
Provision for the period	1,547,758	3,183,558	1,183,004	1,968,593	5,458,787	4,551,073
Effects of movements in exchange rates	70,092	410,985	661,659	43,310	268,918	358,955
Balances at the end of the period	1,617,089	6,147,438	12,505,667	1,197,959	3,933,519	11,428,531

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

As of 30 June 2020 and 31 December 2019, movements of non-performing cash loans (Stage 3) are as follows:

	30 June 2020		*31 December 2019*	
	Principal	**Accrual**	**Principal**	**Accrual**
Balances at 1 January	17,722,841	576,736	12,116,211	432,491
Addition	948,764	64,747	9,353,752	168,272
Collection	(1,477,396)	(15,225)	(2,667,629)	(24,079)
Debt sales and write-offs (*)	(285,404)	(667)	(1,812,914)	(9,080)
Effects of movements in exchange rates	1,172,126	13,122	733,421	9,132
Balances at the end of the period	18,080,931	638,713	17,722,841	576,736

(*) *One of the Bank's consolidated subsidiaries in accordance with the relevant accounting policy has partially written down TL 197,554 of a loan amounting to TL 267,833. The related loan, which was written down, was sold to the Bank by its subsidiary for its fair value of TL 70,279. The remaining balance consists of 100% provisioned loans that were written down at the relevant date.*

A part of non-performing cash loans of the Bank and one of its consolidated subsidiaries amounting to TL 16,049 (30 June 2019: TL 391,189) was sold for a consideration of TL 5,310 in the current period (30 June 2019: TL 26,984). Considering the related provision of TL 14,971 (30 June 2019: TL 389,504) made in the financial statements, a gain of TL 4,232 (30 June 2019: TL 25,299) is recognised under "gains on sale of assets" in the statement of profit or loss and other comprehensive income.

The credit quality analysis of factoring receivables, including related income accruals, is as follows as of 30 June 2020 and 31 December 2019:

	30 June 2020			*31 December 2019*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	2,376,825	-	-	2,061,700	-	-
Stage 2: Watch list	-	23,140	-	-	15,931	-
Stage 3.1: Substandard	-	-	17,256	-	-	13,833
Stage 3.2: Doubtful	-	-	1,596	-	-	3,437
Stage 3.3: Loss	-	-	316,701	-	-	322,488
Total factoring receivables	2,376,825	23,140	335,553	2,061,700	15,931	339,758
Income accrual on factoring receivables	13,846	-	-	12,774	-	-
Expected credit losses	(5,691)	(8,064)	(317,683)	(4,824)	(7,015)	(313,568)
Total carrying amount	2,384,980	15,076	17,870	2,069,650	8,916	26,190

The movements of expected credit losses per asset class for factoring receivables as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020			*31 December 2019*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	4,824	7,015	313,568	7,150	163	263,834
Transfer to Stage 1	98	(1)	(97)	2	(2)	-
Transfer to Stage 2	(10)	10	-	(437)	437	-
Transfer to Stage 3	(19)	-	19	(17)	(333)	350
Debt sales and write-offs	-	-	(32,981)	-	-	-
Recoveries and reversals	(1,844)	(12)	(2,927)	(4,716)	(1,281)	(3,921)
Provision for the period	2,625	1,052	11,683	2,835	8,031	34,979
Effects of movements in exchange rates	17	-	28,418	7	-	18,326
Balances at the end of the period	5,691	8,064	317,683	4,824	7,015	313,568

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

As of 30 June 2020 and 31 December 2019, movements of non-performing factoring receivables (Stage 3) are as follows:

	30 June 2020	*31 December 2019*
Balances at 1 January	339,758	306,866
Addition	4,806	24,318
Collection	(4,908)	(11,133)
Debt sales and write-offs	(32,981)	-
Effects of movements in exchange rates	28,878	19,707
Balances at the end of the period	335,553	339,758

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease. The receivables are secured by way of the underlying assets. Loans and advances to customers include the following financial lease receivables:

	30 June 2020	*31 December 2019*
Financial lease receivables, net of unearned income	5,794,943	5,233,713
Add: non-performing financial lease receivables(*)	849,594	871,051
Less: expected credit losses on financial lease receivables	(597,175)	(568,865)
	6,047,362	5,535,899
Income accrual on financial lease receivables	40,787	26,693
Analysis of net financial lease receivables		
Due within 1 year	2,752,485	2,592,685
Due between 1 and 5 years	3,801,644	3,407,516
Due after 5 years	171,862	155,449
Financial lease receivables, gross	6,725,991	6,155,650
Unearned income	(678,629)	(619,751)
Financial lease receivables, net	6,047,362	5,535,899
Analysis of net financial lease receivables		
Due within 1 year	2,424,300	2,292,633
Due between 1 and 5 years	3,459,404	3,094,708
Due after 5 years	163,658	148,558
Financial lease receivables, net	6,047,362	5,535,899

(*) *Includes related income accruals.*

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

The credit quality analysis of financial lease receivables including related income accruals is as follows as of 30 June 2020 and 31 December 2019:

	30 June 2020			31 December 2019		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	4,885,440	-	-	4,466,590	-	-
Stage 2: Watch list	-	909,503	-	-	767,123	-
Stage 3.1: Substandard	-	-	442,147	-	-	467,235
Stage 3.2: Doubtful	-	-	76,055	-	-	55,386
Stage 3.3: Loss	-	-	315,341	-	-	331,649
Total financial lease receivables	4,885,440	909,503	833,543	4,466,590	767,123	854,270
Income accrual on financial lease receivables	4,898	35,889	16,051	1,629	25,064	16,781
Expected credit losses	(40,709)	(126,581)	(429,885)	(34,985)	(93,045)	(440,835)
Total carrying amount	4,849,629	818,811	419,709	4,433,234	699,142	430,216

The movements of expected credit losses per asset class for financial lease receivables as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020			31 December 2019		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balances at 1 January	34,985	93,045	440,835	56,016	85,474	398,753
Transfer to Stage 1	12,135	(11,874)	(261)	32,764	(31,910)	(854)
Transfer to Stage 2	(4,086)	5,001	(915)	(18,350)	23,045	(4,695)
Transfer to Stage 3	(6)	(5,988)	5,994	(52)	(56,176)	56,228
Debt sales and write-offs	-	-	(41,056)	(133)	(8)	(81,015)
Recoveries and reversals	(31,959)	(28,814)	(39,096)	(80,494)	(51,720)	(76,592)
Provision for the period	25,571	62,276	32,787	41,836	117,331	127,806
Effects of movements in exchange rates	4,069	12,935	31,597	3,398	7,009	21,204
Balances at the end of the period	40,709	126,581	429,885	34,985	93,045	440,835

As of 30 June 2020 and 31 December 2019, movements of non-performing financial lease receivables (Stage 3) are as follows:

	30 June 2020		31 December 2019	
	Principal	Accrual	Principal	Accrual
Balances at 1 January	854,270	16,781	896,062	1,754
Addition	46,253	400	277,119	15,154
Collection	(95,513)	(1,363)	(289,806)	-
Debt sales and write-offs	(41,056)	-	(80,787)	(226)
Effects of movements in exchange rates	69,589	233	51,682	99
Balances at the end of the period	833,543	16,051	854,270	16,781

As of 30 June 2019, a part of non-performing financial lease receivables of one of the Bank's consolidated subsidiaries amounting to TL 42,718 was sold for a consideration of TL 546. Considering the related provision of TL 42,718 made in the financial statements, a gain of TL 546 was recognised under "gains on sale of assets" in the statement of profit or loss and other comprehensive income.

(Currency: Thousands of Turkish Lira (TL))

8 Investment securities

	30 June 2020				31 December 2019
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments at FVOCI:					
Government bonds indexed to CPI ***(a)***	5,723,049	12,138,015	1-4	2028	11,940,474
Government bonds in TL	7,407,244	7,604,505	7-23	2028	2,808,059
Eurobonds	6,517,721	6,566,989	3-12	2034	5,348,795
Bonds issued by foreign governments	3,536,077	3,666,631	3-4	2028	3,182,908
Government bonds-discounted	1,389,188	1,341,724	9-15	2026	175,224
Government bonds in FC	1,041,513	1,049,986	2-3	2021	1,278,726
Government bonds at floating rates ***(b)***	754,089	763,306	8-11	2027	3,268,475
Bonds issued by financial institutions	176,689	184,406	1-14	2025	119,052
Bonds issued by corporations	153,378	159,907	1	2024	139,444
Total debt and other instruments at FVOCI		33,475,469			28,261,157
Debt and other instruments at amortised cost					
Eurobonds	8,408,613	9,294,455	5-12	2030	6,662,305
Government bonds indexed to CPI ***(a)***	7,105,000	9,071,093	1-3	2027	8,946,605
Government bonds at floating rates ***(b)***	4,533,859	4,400,669	10-15	2027	3,831,845
Government bonds in TL	2,507,200	2,451,879	7-16	2027	334,915
Government bonds-discounted	681,196	631,944	-	2021	-
Government bonds in FC	306,756	306,756	2	2021	265,724
Bonds issued by financial institutions	107,337	109,802	1-28	2023	144,239
Bonds issued by foreign governments	76,689	76,689	-	2020	-
		26,343,287			20,185,633
Income accrual on amortised cost portfolio		4,780,443			7,534,709
Total debt and other instruments at amortised cost		31,123,730			27,720,342
Expected credit losses on amortised cost portfolio		(261,076)			(119,889)
Total investment securities		64,338,123			55,861,610

(a) *The Bank values CPI-indexed government bonds in its securities portfolio according to the reference index on the issue date and the index that is calculated according to the expected inflation rate. The inflation rate used during the valuation is being updated during the year when it is considered necessary. The estimated inflation rate which was taken as 8.5% in the first three months of 2020, was updated to 7.5% as of 1 April 2020. If the valuation of such securities was performed according to the reference index valid as of 30 June 2020, the Bank's unrealized gains/(losses) from fair value changes on debt instruments and equity investments measured at FVOCI under the equity would decrease by TL 44,420 (net), whereas interest income on securities would increase by TL 120,763.*

(b) *The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*

Interest income from debt and other fixed or floating instruments is reflected in interest on securities, whereas, gains and losses arising from changes in the fair values of debt and other instruments measured at FVOCI are accounted as a separate component of equity.

(Currency: Thousands of Turkish Lira (TL))

8 Investment securities (continued)

The credit quality analysis of investment securities measured at FVOCI is as follows as of 30 June 2020 and 31 December 2019:

	30 June 2020			31 December 2019		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	33,475,469	-	-	28,261,157	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	-	-	-	-	-	-
Total carrying amount	33,475,469	-	-	28,261,157	-	-

As of 30 June 2020, expected credit losses amounting to TL 202,729 (31 December 2019: TL 86,057) are recognised under other comprehensive income for debt and other instruments measured at FVOCI.

The credit quality analysis of investment securities measured at amortised cost is as follows as of 30 June 2020 and 31 December 2019:

	30 June 2020			31 December 2019		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	31,123,730	-	-	27,720,342	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(261,076)	-	-	(119,889)	-	-
Total carrying amount	30,862,654	-	-	27,600,453	-	-

The movements of expected credit losses per asset class for investment securities measured at amortised cost as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020			31 December 2019		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balances at 1 January	119,889	-	-	54,125	-	-
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Recoveries and reversals	(67,022)	-	-	(22,083)	-	-
Provision for the period	202,323	-	-	85,056	-	-
Effects of movements in exchange rates	5,886	-	-	2,791	-	-
Balances at the end of the period	261,076	-	-	119,889	-	-

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 16,124,762 (31 December 2019: TL 1,862,942).

(Currency: Thousands of Turkish Lira (TL))

8 Investment securities (continued)

The following table summarizes securities that were deposited as collateral with respect to various banking, insurance and asset management transactions:

	30 June 2020		*31 December 2019*	
	Face value	*Carrying value*	*Face value*	*Carrying value*
Collateralized to foreign banks	8,905,771	9,287,277	5,433,116	6,049,889
Deposited at central banks for repurchase transactions	9,666,876	14,523,363	1,736,621	1,866,862
Deposited at Borsa Istanbul	753,972	1,635,292	-	-
Deposited at central banks for interbank transactions	7,576,971	9,964,126	1,982,809	2,051,842
Deposited at Clearing Bank (Takasbank)	1,424,962	2,094,233	1,526,383	2,565,741
Others		202,184		195,252
		37,706,475		12,729,586

9 Equity investments

	30 June 2020		*31 December 2019*	
	Carrying value	*Ownership %*	*Carrying value*	*Ownership %*
Equity investments measured at FVOCI:				
Visa Inc. (*)	403,366	0.00	344,282	0.00
İstanbul Takas ve Saklama Bankası AŞ	26,096	5.25	27,636	5.25
Others	72,581		50,195	-
	502,043		422,113	

(*) *represents 0.001001% of ownership in Visa Inc.*

As of 21 June 2016, the acquisition of Visa Europe Ltd. by Visa Inc. was completed. During acquisition, the Bank and one of its consolidated subsidiaries sold their two existing shares in Visa Europe Ltd. with a nominal of EUR 10.00 in exchange of cash consideration amounting to EUR 61,376,433 and of 22.284 shares of new "C Type Visa Inc." shares. The acquired new shares were classified as available for sale at the acquisition date and subsequent to adoption of IFRS 9, reclassified as equity investments measured at FVOCI similar to other shares classified in the same category.

The legal name of İMKB Takasbank AŞ was changed as İstanbul Takas ve Saklama Bankası AŞ in 2013. The paid-in capital of İstanbul Takas ve Saklama Bankası AŞ was decided to be increased from TL 60,000 to TL 420,000 by TL 360,000 of which TL 180,000 was in cash, at the ordinary general meeting held on 29 March 2013. The Bank and its consolidated subsidiary participated in this increase by TL 10,539 in cash and also acquired bonus shares of TL 5,135. The ownership percentage remained the same.

İstanbul Takas ve Saklama Bankası AŞ and other equity investments do not have a quoted market price in an active market and there is a wide range of possible fair value measurements for these investments. The cost represents the best estimate of their fair values within that range and therefore, these investments are accounted at cost in the accompanying interim condensed consolidated financial statements.

(Currency: Thousands of Turkish Lira (TL))

10 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.

As of 30 June 2020 and 31 December 2019, movements in tangible assets held for sale are as follows:

	30 June 2020	***31 December 2019***
Balance at the beginning of the period	1,159,058	857,684
Additions	103,778	542,907
Disposals	(127,439)	(264,563)
Fair value changes	23,965	21,053
Effects of movement in exchange rates	3,445	1,977
Balance at the end of the period	1,162,807	1,159,058

As of 30 June 2020 and 31 December 2019, movements in investments in associates to be disposed are as follows:

	30 June 2020	***31 December 2019***
Balance at the beginning of the period	293,200	11
Additions (*)	-	881,129
Disposals	-	-
Fair value changes	(293,200)	(587,940)
Effects of movement in exchange rates	-	-
Balance at the end of the period	-	293,200

(*)Within the context of the existing loan agreements, all creditors including the Bank have reached an agreement on restructuring the loans granted to Ojer Telekomünikasyon A.Ş. (OTAŞ) who is the main shareholder of Türk Telekomünikasyon A.Ş. (Türk Telekom) and it is contemplated that Türk Telekom's number of 192,500,000,000 A group shares owned by OTAŞ, representing 55% of its issued share capital corresponding to A group shares have been pledged as a guarantee for the existing facilities would be taken over by a special purpose entity which is incorporated or will be incorporated in the Turkish Republic, and owned by directly or indirectly by all creditors. As per the agreed structure, it is agreed on the corresponding agreements, completed all required corporate and administrative permissions and the transaction is concluded by a transfer of the aforementioned shares to the special purpose entity incorporated in the Turkish Republic, and owned by directly or indirectly by all creditors. In this context, the Bank owned 22.1265% of the founded special purpose entity and the related investment is considered within the scope of IFRS 5 "Assets Held for Sale and Discontinued Operations".

As per the decision made at the 2018 annual general assembly of related special purpose entity, it was decided to increase the capital of the special purpose entity by TL 3,982,230, all of which will be covered by common receivables. The Entity's paid-in capital after the general assembly had been TL 3,982,280. The Bank's shareholding ratios in the Entity's capital did not change as a result of the increase, and the nominal value of the direct shares increased from TL 11 to TL 881,140 and the number of shares increased from 1,106,325 to 88,114,036,863. As explained the details before the capital increase, valuation differences recorded on the financial asset are presented as impairment in assets held for sale after capital increase. In the current year, all of the assets acquired under IFRS 5 was impaired.

The main purpose of the lending banks is to transfer the shares of Türk Telekom to an expert investor after the necessary conditions are met. For this purpose, on 19 September 2019, an international investment bank was authorized as a sales consultant, and in this context necessary actions related to sales will be taken and negotiations with potential investors will be initiated.

(Currency: Thousands of Turkish Lira (TL))

11 Goodwill

Goodwill arises from the direct acquisitions of Garanti Yatırım Menkul Kıymetler AŞ, Garanti Finansal Kiralama AŞ, Garanti Emeklilik ve Hayat AŞ and Garanti Faktoring AŞ consisting of the excesses of the total acquisition costs over the fair values of the net assets of these consolidated entities at the dates of their acquisition as follows:

	30 June 2020	***31 December 2019***
Garanti Yatırım Menkul Kıymetler AŞ	20,984	20,984
Garanti Faktoring AŞ	6,697	6,697
Garanti Finansal Kiralama AŞ	5,233	5,233
Garanti Emeklilik ve Hayat AŞ	34	34
	32,948	32,948
Impairment of goodwill	-	-
	32,948	32,948

Impairment losses when necessary are provided for decrease in the net asset value of the consolidated entities by assessing their internal and external resources.

12 Other assets

	30 June 2020	***31 December 2019***
Balances with clearing house	4,162,391	3,503,447
Prepaid expenses, insurance claims and similar items	1,850,189	1,328,334
Gold	1,260,203	2,046,768
Miscellaneous receivables	1,156,383	854,766
Receivables from sale of assets	135,451	115,728
Prepaid taxes and taxes/funds to be refunded	87,613	93,897
Insurance premium receivables	53,326	64,008
Option premium receivables	2,729	3,403
Purchased cheques	655	482
Others	412,103	535,214
	9,121,043	8,546,047
Expected credit losses for other assets	(87,520)	(121,331)
	9,033,523	8,424,716

The credit quality analysis of other assets excluding gold, prepaid taxes and option premium receivables is as follows as of 30 June 2020 and 31 December 2019:

	30 June 2020			***31 December 2019***		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	7,661,218	-	-	6,301,071	-	-
Stage 2: Watch list	-	25,956	-	-	26,315	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	16,612	-	-	14,434
Stage 3.3: Loss	-	-	66,712	-	-	60,159
Expected credit losses	(11,129)	(5,805)	(70,586)	(56,191)	(4,155)	(60,985)
Total carrying amount	7,650,089	20,151	12,738	6,244,880	22,160	13,608

(Currency: Thousands of Turkish Lira (TL))

12 Other assets (continued)

The movements of expected credit losses per asset class for other assets excluding gold, prepaid taxes and option premium receivables as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020			*31 December 2019*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	56,191	4,155	60,985	21,007	3,458	54,759
Transfer to Stage 1	200	(168)	(32)	800	(800)	-
Transfer to Stage 2	(337)	408	(71)	(1,328)	3,939	(2,611)
Transfer to Stage 3	(58)	(164)	222	(58)	(305)	363
Debt sales and write-offs	-	-	(366)	-	-	(876)
Recoveries and reversals	(115,845)	(1,887)	(2,401)	(12,829)	(6,995)	(8,184)
Provision for the period	70,709	3,127	7,936	47,740	4,626	12,866
Effects of movements in exchange rates	269	334	4,313	859	232	4,668
Balances at the end of the period	11,129	5,805	70,586	56,191	4,155	60,985

13 Deposits from banks

Deposits from banks comprise the following:

	30 June 2020	*31 December 2019*
Payable on demand	1,578,107	2,322,684
Term deposits	669,879	345,286
	2,247,986	2,667,970
Expense accrual on deposits from banks	653	781
	2,248,639	2,668,751

Deposits from banks include both TL accounts amounting to TL 702,105 (31 December 2019: TL 421,923) and foreign currency accounts amounting to TL 1,545,881 (31 December 2019: TL 2,246,047) in total. As of 30 June 2020, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 6%-8% and (0.01)%-2% (31 December 2019: 8%-26% and (0.46)%-3%), respectively.

(Currency: Thousands of Turkish Lira (TL))

14 Deposits from customers

Deposits from customers comprise the following:

	30 June 2020			31 December 2019
	Demand	*Time*	*Total*	*Total*
Foreign currency	78,013,939	85,291,283	163,305,222	155,342,562
Saving	27,157,255	57,737,408	84,894,663	74,347,457
Commercial	15,802,067	20,124,455	35,926,522	31,525,501
Public and other	1,345,925	5,263,943	6,609,868	6,263,138
Gold and other precious metals	11,202,248	1,673,136	12,875,384	6,129,777
	133,521,434	170,090,225	303,611,659	273,608,435
Expense accrual on deposits from customers	5,893	887,792	893,685	861,783
	133,527,327	170,978,017	304,505,344	274,470,218

As of 30 June 2020, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 5%-13% and 1%-9% (31 December 2019: 1%-32% and 1%-11%), respectively.

15 Loans and advances from banks and other institutions

Loans and advances from banks and other institutions comprise the following:

	30 June 2020	*31 December 2019*
Short-term borrowings		
Domestic banks	3,543,376	3,045,192
Foreign banks	5,620,481	10,043,876
	9,163,857	13,089,068
Long-term debts		
Short-term portion	11,337,217	7,788,539
Medium and long-term portion	6,276,749	5,635,024
	17,613,966	13,423,563
Expense accrual on loans and advances from banks and other institutions	186,543	227,189
	26,964,366	26,739,820

As of 30 June 2020, there are no promissory notes with short-term maturities (31 December 2019: nil).

As of 30 June 2020, short-term borrowings included two one-year-syndicated-loan facilities to be utilised for general trade finance purposes including export and import contracts in two tranches of (i) US$ 245,500,000 and EUR 317,000,000 with rates of Libor + 1.9% and Euribor +1.65% per annum (equivalent of TL 4,107,266,200), (ii) US$ 229,500,000 and EUR 518,800,000 with rates of Libor + 1.85% and Euribor + 1.7% per annum (equivalent of TL 5,545,605,420).

As of 31 December 2019, short-term borrowings included two one-year-syndicated-loan facilities to be utilised for general trade finance purposes including export and import contracts in two tranches of (i) US$ 326,000,000 and EUR 408,750,000 with rates of Libor + 2.5% and Euribor +2.4% per annum (equivalent of TL 4,645,547,925), (ii) US$ 229,500,000 and EUR 518,800,000 with rates of Libor + 2.25% and Euribor + 2.1% per annum (equivalent of TL 4,805,263,880).

(Currency: Thousands of Turkish Lira (TL))

15 Loans and advances from banks and other institutions (continued)

Long-term debts comprise the following:

	Interest rate%	*Interest maturity*	*30 June 2020 Amount in original currency*	*Short term portion*	*Medium and long term portion*	*31 December 2019 Medium and long term debts*
EIB	1-4	2024	US$ 203 millions	152,167	1,230,823	1,133,327
Proparco	2-3	2028	EUR 111 millions	121,088	726,525	681,789
IFC	1-2	2024	EUR 79 millions	176,227	428,449	446,679
ISBANK AG	2-3	2022	EUR 39 millions	115,089	184,997	159,614
EFSE	2-3	2023	EUR 33 millions	97,600	157,485	178,213
EBRD	20	2023	TL 232 millions	-	231,857	270,500
EIB	9	2020	TL 218 millions	218,513	-	840,320
EIB	1	2023	EUR 22 millions	-	171,100	147,952
AKBANK AG	3	2022	EUR 21 millions	-	161,872	139,663
EBRD	1	2025	US$ 7 millions	9,639	38,557	37,614
IFC	5	2023	RON 24 millions	10,775	26,937	28,320
Others				10,436,119	2,918,147	1,571,033
				11,337,217	6,276,749	5,635,024

16 Obligations under repurchase agreements and money market fundings

The Bank and its subsidiaries raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

Obligations under repurchase agreements and money market fundings comprise the following:

	30 June 2020	*31 December 2019*
Money market fundings	595,447	321,871
Obligations under repurchase agreements	16,134,842	1,464,990
Obligations on securities under reverse repurchase agreements	-	-
	16,730,289	1,786,861

(Currency: Thousands of Turkish Lira (TL))

16 Obligations under repurchase agreements and money market fundings (continued)

Assets sold under repurchase agreements are further detailed as follows:

	Carrying value	*Fair value of underlying assets*	*Carrying amount of corresponding liabilities*	*Range of repurchase dates*	*Repurchase price*
30 June 2020					
Financial assets at fair value through profit or loss	33,893	33,893	31,865	-	31,865
Investment securities	16,124,762	16,605,167	16,102,977	Jul'20-Feb'25	16,142,538
	16,158,655	16,639,060	16,134,842		16,174,403
31 December 2019					
Financial assets at fair value through profit or loss	26,860	26,860	26,741	-	26,742
Investment securities	1,862,942	1,848,178	1,438,249	Jan'20-Feb'25	1,297,534
	1,889,802	1,875,038	1,464,990		1,324,276

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As of 30 June 2020, the maturities of the obligations varied from one day to 56 months and interest rates varied between (0.50)%-3% per annum for foreign currency obligations and 4%12% per annum for TL obligations (31 December 2019: 1%-4% and 7%-22%, respectively). In general the carrying values of such assets are more than the corresponding liabilities due to the margins set between the parties, since such funding is raised against assets collateralized.

17 Debt securities issued

	30 June 2020			*31 December 2019*
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Bonds payable of US$ 1,814 millions	2024	4.0-6.4	11,319,836	9,861,586
Bonds payable of TL 7,003 millions	2023	8.0-17.0	6,126,930	5,992,997
Bonds payable of EUR 45 millions	2027	5.2	343,081	297,009
Total bonds payable			17,789,847	16,151,592
DPR future flow transactions of US$ 476 millions	2027	3.1-4.5	3,248,201	3,358,730
DPR future flow transactions of EUR 143 millions	2022	0.9-1.5	1,094,573	1,222,085
Total DPR future flow transactions			4,342,774	4,580,815
Expense accrual on bonds payable			269,377	256,139
Expense accrual on DPR future flow transactions			30,181	37,991
			22,432,179	21,026,537

In April 2013, the Bank established a Global Medium Term Notes (GMTN) program in order to issue bonds and other borrowing instruments in any currency with different series and maturities. In this regard, since May 2013 the Bank issues bills in US$, EUR, CHF, RON, CZK, JPY and AUD with latest maturity in April 2027.

(Currency: Thousands of Turkish Lira (TL))

17 Debt securities issued (continued)

The Bank and/or its consolidated subsidiaries repurchased the Bank's own TL securities with a total face value of TL 1,951,302 and foreign currency securities with a total face value of USD 215,427,000 (31 December 2019: TL 863,079 and US$ 206,943,000) and netted off such securities in the accompanying interim condensed consolidated financial statements as of 30 June 2020.

18 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise the following:

	30 June 2020	***31 December 2019***
Securities issued	14,453,088	14,342,293
	14,453,088	14,342,293

In accordance with IFRS 9, the Bank classified a part of securities issued amounting to US$ 2,422,738,095 (31 December 2019: US$ 2,511,607,143) as financial liabilities at fair value through profit or loss at the initial recognition in order to eliminate the accounting mismatch.

As of 30 June 2020, the accumulated fair value change of the related financial liability amounted to TL 2,381,132 (31 December 2019: TL 725,306) and the corresponding gain recognised in the statement of profit or loss and other comprehensive income amounted to TL 1,655,826 (30 June 2019: TL 374,465). The carrying value of the related financial liability amounted to TL 14,453,088 (31 December 2019: TL 14,342,293).

19 Derivative financial liabilities

Derivative financial liabilities mainly consist of foreign currency and interest rate swaps, foreign currency options and forward foreign currency contracts.

	30 June 2020		***31 December 2019***	
	Trading	***Hedging***(*)	***Trading***	***Hedging***(*)
Swap derivative financial liabilities	5,191,507	965,276	2,662,296	1,195,418
Forward derivative financial liabilities	175,057	-	162,783	-
Option derivative financial liabilities	123,530	-	218,864	-
Future derivative financial liabilities	2,520	-	6	-
Other derivative financial liabilities	703	-	298	-
	5,493,317	965,276	3,044,247	1,195,418

(*) *Includes derivative transactions subject to cash flow and fair value hedge accounting amounted to TL 495,575 (31 December 2019: TL 734,714) and TL 469,701 (31 December 2019: TL 460,704), respectively.*

The notional amounts of derivative financial liabilities are explained in detail in Note 26.

(Currency: Thousands of Turkish Lira (TL))

20 Subordinated liabilities

Subordinated liabilities comprise the following:

	30 June 2020			*31 December 2019*
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Subordinated debt of US$ 750 million	2027	6.125	5,120,850	4,440,600
Subordinated debt of TL 253 million	2029	TL REF+130 bps	252,880	252,880
Subordinated debt of TL 750 million	2030	TL REF+250 bps	750,000	-
Expense accrual on subordinated liabilities			47,625	36,227
			6,171,355	4,729,707

On 23 May 2017, the Bank had obtained a 10-year subordinated loan of US$ 750 million due in May 2027 with its first Basel III compliant Tier 2 issuance from international capital markets, with a coupon rate of 6.125%.

On 9 October 2019, the Bank issued a subordinated loan with quarterly variable coupon payments based on BIST TLREF, a total face value of TL 252,880 and a maturity of 10 years.

On 14 February 2020, the Bank issued a subordinated loan with quarterly variable coupon payments based on BIST TLREF, a total face value of TL 750,000 and a maturity of 10 years.

21 Taxation

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	30 June 2020	*%*	*30 June 2019*	*%*
Taxes on income per statutory tax rate	1,053,090	22.00	1,034,376	22.00
Disallowable expenses	16,606	0.35	15,161	0.32
Income items exempt from tax or subject to different tax rates	31,509	0.66	(103,279)	(2.20)
General reserve	132,000	2.75	22,000	0.47
Others	69,696	1.46	37,775	0.81
Taxation charge	1,302,901	27.22	1,006,033	21.40

The taxation charge is comprised of the following:

	For the six-month period ended	
	30 June 2020	*30 June 2019*
Current taxes	2,258,782	1,229,429
Deferred taxes	(955,881)	(223,396)
Taxation charge	1,302,901	1,006,033

The movement of current tax liability is as follows:

	30 June 2020	*31 December 2019*
Balance at the beginning of the period	685,143	133,670
Current period taxation charge	2,258,782	2,371,219
Less: Advance taxes paid during the period	(1,511,883)	(1,819,746)
Current tax liability	1,432,042	685,143

(Currency: Thousands of Turkish Lira (TL))

21 **Taxation** (continued)

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the period. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the statement of financial position.

Deferred tax assets and liabilities are as follows:

	30 June 2020	***31 December 2019***
Total deferred tax assets	2,993,648	2,110,957
Off-setted amount	(163,290)	(216,516)
Deferred tax assets per financial statements	2,830,358	1,894,441
Total deferred tax liabilities	262,154	289,620
Off-setted amount	(163,290)	(216,516)
Deferred tax liabilities per financial statements	98,864	73,104
Net deferred tax assets	2,731,494	1,821,337

Movements in deferred tax assets and liabilities are detailed in the table below:

	Opening balance	***Recognised in statement of profit or loss***	***Effects of movement in exchange rates***	***Recognised in equity***	***Closing balance***
30 June 2020					
Expected credit losses	1,425,681	795,407	932	(25,556)	2,196,464
Discount on loans and advances to customers	98,786	7,934	-	-	106,720
Reserve for employee severance indemnity	108,946	9,444	(27)	-	118,363
Short-term employee benefits	148,613	(18,756)	225	-	130,082
Tax losses carried forward	99,012	(65,363)	-	-	33,649
Valuation difference on financial assets and liabilities	105,524	286,277	(352)	(7,798)	383,651
Revaluation surplus on real estates	(209,572)	(1,388)	(3,519)	(8,309)	(222,788)
Impairment of equity investments, tangible and intangible assets	13,382	4,112	-	-	17,494
Accruals on credit card rewards	35,792	9,788	-	-	45,580
Pro-rata basis depreciation expenses	(139,196)	1,632	-	-	(137,564)
Others, net	134,369	(73,206)	(1,320)	-	59,843
Net deferred tax assets	1,821,337	955,881	(4,061)	(41,663)	2,731,494

	Opening balance	***Recognised in statement of profit or loss***	***Effects of movement in exchange rates***	***Recognised in equity***	***Closing balance***
31 December 2019					
Expected credit losses	1,354,148	81,945	459	(10,871)	1,425,681
Discount on loans and advances to customers	112,808	(14,022)	-	-	98,786
Reserve for employee severance indemnity	96,832	14,395	(1,796)	(485)	108,946
Short-term employee benefits	138,415	9,925	273	-	148,613
Tax losses carried forward	93,103	5,913	(4)	-	99,012
Valuation difference on financial assets and liabilities	(137,419)	313,552	723	(71,332)	105,524
Revaluation surplus on real estates	(202,260)	(983)	(1,835)	(4,494)	(209,572)
Impairment of equity investments, tangible and intangible assets	11,298	2,084	-	-	13,382
Accruals on credit card rewards	27,366	8,426	-	-	35,792
Pro-rata basis depreciation expenses	(127,591)	(11,605)	-	-	(139,196)
Others, net	116,249	17,691	(460)	889	134,369
Net deferred tax assets	1,482,949	427,321	(2,640)	(86,293)	1,821,337

(Currency: Thousands of Turkish Lira (TL))

21 Taxation (continued)

As of 30 June 2020 and 31 December 2019, the maturity of expiration analysis of tax losses subject to deferred tax coming from subsidiaries is as follows:

	30 June 2020	***31 December 2019***
Current year + 1 year	3,648	4,211
Current year + 2 years	1,304	22,798
Current year + 3 years	25,654	25,654
Current year + 4 years	3,043	40,440
Current year + 5 years	-	5,909
	33,649	99,012

22 Provisions

The principal components of provisions are as follows:

	30 June 2020	***31 December 2019***
General reserve (*)	3,100,000	2,500,000
Expected credit losses from non-cash loans	1,520,520	1,214,480
Insurance business related provisions	783,920	640,739
Short term employee benefits	623,156	701,665
Reserve for employee severance indemnity	618,604	571,542
Provisions for litigations	546,342	489,241
Other provisions (**)	618,213	443,758
	7,810,755	6,561,425

(*) *As of 30 June 2020, general reserves amounting to TL 3,100,000 (31 December 2019: TL 2,500,000) are provided by the Bank in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions.*

(**)*As of 30 June 2020, it includes provisions for credit card rewards and promotions amounting to TL 217,711 (31 December 2019: TL 172,524).*

Insurance business related provisions

Insurance business related provisions are detailed in the table below:

	30 June 2020	***31 December 2019***
Reserve for unearned premiums, net	130,877	96,435
Gross	*174,189*	*130,789*
Reinsurers' share	*(43,312)*	*(34,354)*
Provision for claims, net	56,072	57,512
Gross	*80,663*	*78,548*
Reinsurers' share	*(24,591)*	*(21,036)*
Life mathematical reserves	596,971	486,792
	783,920	640,739

(Currency: Thousands of Turkish Lira (TL))

22 Provisions (continued)

Reserve for employee severance indemnity

Movement in the reserve for employee severance indemnity is as follows:

	30 June 2020	*31 December 2019*
Balance, beginning of the period	571,542	502,610
Service cost	25,783	48,853
Interest cost	33,710	75,572
Benefits paid	(17,349)	(57,076)
Settlement/curtailment/termination gain/loss	4,918	4,134
Past service cost arising over last period	-	8
Business combinations	-	-
Actuarial gain/loss	-	(2,559)
Balance, end of the period	618,604	571,542

The computation of the liabilities is based upon the retirement pay ceiling announced by the government. The ceiling amounts applicable for each year of employment are full TL 6,730.15 and full TL 6,379.86 as of 30 June 2020 and 31 December 2019, respectively.

The principal actuarial assumptions for the Bank and its consolidated subsidiaries are as follows:

	30 June 2020 %(*)	*31 December 2019 %(*)*
Net effective discount rates	3.97	3.97
Discount rates	12.50	12.50
Expected rates of salary increases	9.70	9.70
Inflation rates	8.20	8.20

(*) *In the above table, the effective rates are presented for the Bank and its consolidated subsidiaries subject to the labour law, whereas the rates applied for the calculations differ according to the employee's years-in-service.*

The sensitivity analysis of reserve for employee severance indemnity for the Bank is as follows as of 31 December 2019:

	2019 % change in employee severance indemnity	
Assumption change	***Sensitivity of Past Service Liability %***	***Sensitivity of Normal Cost %***
Discount rate +1%	(11.1)	(13.8)
Discount rate -1%	13.3	17.0
Inflation rate +0.25%	12.4	(3.7)
Inflation rate -0.25%	(11.4)	3.9

(Currency: Thousands of Turkish Lira (TL))

22 Provisions (continued)

Expected credit losses from non-cash loans

Movement in expected credit losses from non-cash loans as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020			*31 December 2019*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	238,451	351,457	624,572	123,743	245,225	285,681
Transfer to Stage 1	64,481	(63,910)	(571)	92,434	(91,370)	(1,064)
Transfer to Stage 2	(17,366)	17,504	(138)	(25,400)	26,879	(1,479)
Transfer to Stage 3	(59)	(1,832)	1,891	(401)	(119,500)	119,901
Debt sales and write-offs	-	-	-	-	-	-
Recoveries and reversals	(243,032)	(96,925)	(188,051)	(268,789)	(180,334)	(148,924)
Provision for the period	245,087	288,160	197,983	309,983	457,568	342,817
Effects of movements in exchange rates	13,790	31,373	57,655	6,881	12,989	27,640
Balances at the end of the period	301,352	525,827	693,341	238,451	351,457	624,572

23 Other liabilities and accrued expenses

The principal components of other liabilities and accrued expenses are as follows:

	30 June 2020	*31 December 2019*
Blocked accounts against expenditures of card holders	10,670,819	10,091,228
Cheques at clearing house	3,794,872	3,052,402
Miscellaneous payables	1,252,860	1,204,962
Operational lease payables	1,160,706	1,127,370
Transfer orders	622,402	410,539
Withholding taxes	488,793	574,469
Expense accruals	322,332	340,703
Unearned income	193,446	173,058
Advances received	182,900	130,510
Payables to suppliers relating to financial lease activities	89,294	77,273
Blocked accounts	75,530	62,323
Payables to insurance and reinsurance companies relating to insurance business	54,620	48,240
Cash guarantees obtained	15,732	15,005
Option premium payables	5,416	1,538
Others	325,390	476,608
	19,255,112	17,786,228

(Currency: Thousands of Turkish Lira (TL))

24 Equity

Share capital

The authorized nominal share capital of the Bank amounted to 4,200,000 TL as of 30 June 2020 (31 December 2019: TL 4,200,000).

Legal reserves

As per the decisions made at the annual general assemblies of the Bank and its subsidiaries, 5% of the prior year's net income is allocated to legal reserves. The reserves include legal reserves amounting to TL 1,611,304 (31 December 2019: TL 1,603,555) in total.

For the Bank and its Turkish subsidiaries, the legal reserves are generated by annual appropriations amounting to 5% of the statutory income until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

The Bank's subsidiaries in Romania also allocate legal reserves in accordance with the requirements of statutory laws and regulations applicable for each entity. According to the relevant legislation, legal reserves include annual allocations of 5% of the statutory income before tax. According to the relevant legislation, the legal reserve cannot exceed 20% of the share capital.

The Bank's subsidiary in the Netherlands is not subject to any legal reserve requirements.

Unrealized gains/(losses) from fair value changes on debt instruments and equity investments measured at FVOCI

	30 June 2020	***31 December 2019***
Balance at the beginning of the period	113,612	(1,038,920)
Net unrealized gains from changes in fair value	552,769	1,190,067
Related deferred and current income taxes	(108,385)	(227,510)
Net (losses)/gains recycled to the statement of comprehensive income on disposal	(54,097)	223,783
Related deferred and current income taxes	13,650	(37,023)
Effect of movements in foreign exchange rates	10,976	3,215
Balance at the end of the period	528,525	113,612

Hedge reserve

The hedge reserve comprises the effective portions of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (as explained in Hedging section under Financial Risk Management Disclosures) and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

(Currency: Thousands of Turkish Lira (TL))

24 **Equity** (continued)

In the current period, net investment hedge amounting to EUR 400,672,672 (31 December 2019: EUR 401,703,512) is applied in total among investments in Garanti Bank International NV and Garanti Holding BV having capitals denominated in foreign currencies and long term foreign currency borrowings. Foreign exchange losses in the amount of TL 1,984,885 (31 December 2019: TL 1,580,575), arising from conversion of both foreign currency investments and long term foreign currency borrowings are accounted under share capital and hedge reserves, respectively under equity as of 30 June 2020. There is no ineffective portion arising from net investment hedge accounting.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the functional currency of the Bank which is TL and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

Non-controlling interests

As of 30 June 2020, net non-controlling interests amount to TL 311,517 (31 December 2019: TL 273,921). Non-controlling interests are detailed as follows:

	30 June 2020	***31 December 2019***
Capital	55,219	55,219
Retained earnings and other reserves	220,544	142,239
Net income for the period	35,754	76,463
	311,517	273,921

25 Commitments and contingencies

In the ordinary course of business, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the accompanying interim condensed consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit. Commitments and contingent liabilities comprise the following:

	30 June 2020	***31 December 2019***
Letters of guarantee	57,162,834	50,427,390
Letters of credit	8,792,112	10,676,483
Acceptance credits	1,799,591	1,579,043
Other guarantees and endorsements	108,994	74,179
	67,863,531	62,757,095

25 Commitments and contingencies (continued)

As of 30 June 2020;
- Commitment for unpaid capital of subsidiaries companies amounts to TL 3,553 (31 December 2019: TL 6,336).
- Commitments for unused credit limits and promotions of credit cards, cheques and loans to customers, commitments for loan granting and other revocable and irrevocable commitments amount to TL 71,084,198 (31 December 2019: TL 60,983,253) in total.
- Commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 1,813,922 (31 December 2019: TL 1,809,064) in total.

As of 30 June 2020, securities acquired under security borrowing transactions include no shares (31 December 2019: TL 14,468).

26 Derivative financial instruments

As of 30 June 2020, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 415,169,753 (31 December 2019: TL 369,829,737), approximately 60% of which are due within a year (31 December 2019: 62%).

The following tables summarize the notional amounts of the forward, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the date of the statement of financial position. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognised in the statement of profit or loss and other comprehensive income, except for contracts of cash flow hedges as stated above.

(Currency: Thousands of Turkish Lira (TL))

26 Derivative financial instruments (continued)

	Notional amount with remaining life of					
30 June 2020	***Up to 1 month***	***1 to 3 month***	***3 to 6 month***	***6 to 12 month***	***Over 1 year***	***Total***
Interest Rate Derivatives						
Interest rate swaps (*)	6,658,422	14,558,000	12,766,418	16,037,426	125,879,986	175,900,252
Purchases	*3,329,211*	*7,279,000*	*6,383,209*	*8,018,713*	*62,940,187*	*87,950,320*
Sales	*3,329,211*	*7,279,000*	*6,383,209*	*8,018,713*	*62,939,799*	*87,949,932*
Interest rate options	409,668	-	1,843,506	692,675	2,585,291	5,531,140
Purchases	*204,834*	-	*921,753*	*692,675*	*1,821,255*	*3,640,517*
Sales	*204,834*	-	*921,753*	-	*764,036*	*1,890,623*
Interest rate futures	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Other Derivatives						
Securities, shares and index options	2,570	12,162	17,568	67,772	141,004	241,076
Purchases	*1,285*	*6,081*	*8,784*	*33,886*	*70,502*	*120,538*
Sales	*1,285*	*6,081*	*8,784*	*33,886*	*70,502*	*120,538*
Other forward contracts	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Other future contracts	108,822	575,212	1,138	-	-	685,172
Purchases	*351*	*231,605*	*1,138*	-	-	*233,094*
Sales	*108,471*	*343,607*	-	-	-	*452,078*
Other swap contracts	2,354,807	218,542	102,980	15,028	33,083,942	35,775,299
Purchases	*2,246,739*	*109,271*	*51,490*	*7,514*	-	*2,415,014*
Sales	*108,068*	*109,271*	*51,490*	*7,514*	*33,083,942*	*33,360,285*
Currency Derivatives						
Spot exchange contracts	8,663,689	-	-	-	-	8,663,689
Purchases	*4,330,672*	-	-	-	-	*4,330,672*
Sales	*4,333,017*	-	-	-	-	*4,333,017*
Forward exchange contracts	4,666,463	2,775,870	2,745,644	1,626,399	68,974	11,883,350
Purchases	*2,336,859*	*1,371,312*	*1,386,609*	*830,552*	*33,900*	*5,959,232*
Sales	*2,329,604*	*1,404,558*	*1,359,035*	*795,847*	*35,074*	*5,924,118*
Currency/cross currency swaps	81,072,492	49,110,131	16,847,423	9,640,152	5,327,140	161,997,338
Purchases	*38,341,385*	*24,410,981*	*8,346,916*	*4,672,118*	*2,948,085*	*78,719,485*
Sales	*42,731,107*	*24,699,150*	*8,500,507*	*4,968,034*	*2,379,055*	*83,277,853*
Options	8,191,188	1,198,369	171,541	1,505,265	378,206	11,444,569
Purchases	*4,089,683*	*598,358*	*83,168*	*710,631*	*189,103*	*5,670,943*
Sales	*4,101,505*	*600,011*	*88,373*	*794,634*	*189,103*	*5,773,626*
Foreign currency futures	370,970	1,150,315	514,819	1,011,764	-	3,047,868
Purchases	*186,619*	*578,348*	*262,190*	*505,110*	-	*1,532,267*
Sales	*184,351*	*571,967*	*252,629*	*506,654*	-	*1,515,601*
Subtotal Purchases	55,067,638	34,584,956	17,445,257	15,471,199	68,003,032	190,572,082
Subtotal Sales	57,431,453	35,013,645	17,565,780	15,125,282	99,461,511	224,597,671
Total of Transactions	112,499,091	69,598,601	35,011,037	30,596,481	167,464,543	415,169,753

(*) *In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.*

(Currency: Thousands of Turkish Lira (TL))

26 Derivative financial instruments (continued)

	Notional amount with remaining life of					
31 December2019	*Up to 1 month*	*1 to 3 month*	*3 to 6 month*	*6 to 12 month*	*Over 1 year*	*Total*
Interest Rate Derivatives						
Interest rate swaps (*)	480,080	594,990	3,297,794	12,529,758	114,076,705	130,979,327
Purchases	*240,040*	*297,495*	*1,648,897*	*6,264,879*	*57,038,536*	*65,489,847*
Sales	*240,040*	*297,495*	*1,648,897*	*6,264,879*	*57,038,169*	*65,489,480*
Interest rate options	-	-	4,083,845	1,776,240	2,363,697	8,223,782
Purchases	-	-	*4,083,845*	*888,120*	*1,677,157*	*6,649,122*
Sales	-	-	-	*888,120*	*686,540*	*1,574,660*
Interest rate futures	-	29,604	-	-	-	29,604
Purchases	-	-	-	-	-	-
Sales	-	*29,604*	-	-	-	*29,604*
Other Derivatives						
Securities, shares and index options	55,988	127,396	26,788	30,658	181,042	421,872
Purchases	*21,084*	*62,672*	*15,024*	*15,329*	*90,521*	*204,630*
Sales	*34,904*	*64,724*	*11,764*	*15,329*	*90,521*	*217,242*
Other forward contracts	181,221	60,407	-	-	-	241,628
Purchases	*86,296*	-	-	-	-	*86,296*
Sales	*94,925*	*60,407*	-	-	-	*155,332*
Other future contracts	118,362	493,580	2,605	-	-	614,547
Purchases	*11,976*	*221,807*	-	-	-	*233,783*
Sales	*106,386*	*271,773*	*2,605*	-	-	*380,764*
Other swap contracts	3,774,434	130,560	-	113,384	14,870,724	18,889,102
Purchases	*89,386*	*65,280*	-	*56,692*	-	*211,358*
Sales	*3,685,048*	*65,280*	-	*56,692*	*14,870,724*	*18,677,744*
Currency Derivatives						
Spot exchange contracts	14,877,640	-	-	-	-	14,877,640
Purchases	*7,395,537*	-	-	-	-	*7,395,537*
Sales	*7,482,103*	-	-	-	-	*7,482,103*
Forward exchange contracts	5,790,818	4,543,738	2,850,883	2,575,003	327,160	16,087,602
Purchases	*2,904,429*	*2,319,979*	*1,439,205*	*1,275,750*	*156,330*	*8,095,693*
Sales	*2,886,389*	*2,223,759*	*1,411,678*	*1,299,253*	*170,830*	*7,991,909*
Currency/cross currency swaps	82,717,235	44,065,123	10,326,551	10,157,754	8,187,030	155,453,693
Purchases	*43,222,808*	*21,938,359*	*5,027,264*	*5,117,726*	*4,268,011*	*79,574,168*
Sales	*39,494,427*	*22,126,764*	*5,299,287*	*5,040,028*	*3,919,019*	*75,879,525*
Options	8,672,160	6,728,439	2,289,567	4,134,034	1,519,838	23,344,038
Purchases	*4,257,047*	*3,149,744*	*1,133,698*	*2,049,168*	*763,879*	*11,353,536*
Sales	*4,415,113*	*3,578,695*	*1,155,869*	*2,084,866*	*755,959*	*11,990,502*
Foreign currency futures	27,509	518,293	*71,868*	49,232	-	666,902
Purchases	*14,441*	*259,760*	*36,343*	*25,549*	-	*336,093*
Sales	*13,068*	*258,533*	*35,525*	*23,683*	-	*330,809*
Subtotal Purchases	58,243,044	28,315,096	13,384,276	15,693,213	63,994,434	179,630,063
Subtotal Sales	58,452,403	28,977,034	9,565,625	15,672,850	77,531,762	190,199,674
Total of Transactions	116,695,447	57,292,130	22,949,901	31,366,063	141,526,196	369,829,737

(*) *In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.*

(Currency: Thousands of Turkish Lira (TL))

27 Net trading income/(expense)

Gains and losses from derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading income/(expense) including the effective portion of fair value hedges, whereas, gains and losses arising from changes in the effective portion of the fair value of cash flow hedges are reflected as a separate component of equity. Net gains/(losses) from trading of financial assets is detailed in the table below:

	Six-month period ended 30 June 2020	*Three-month period ended 30 June 2020*	*Six-month period ended 30 June 2019*	*Three-month period ended 30 June 2019*
Fixed/floating securities	1,683,188	(366,371)	351,430	(213,171)
Financial assets designated as FVPL	(527,029)	(344,652)	(75,644)	-
Derivative transactions	(1,805,394)	(515,793)	(974,625)	(2,537,897)
Net trading income/expense	(649,235)	(1,226,816)	(698,839)	(2,751,068)

28 Other operating income

	Six-month period ended 30 June 2020	*Three-month period ended 30 June 2020*	*Six-month period ended 30 June 2019*	*Three-month period ended 30 June 2019*
Other operating income:				
Net sales from operational lease business(*)	129,313	66,706	62,628	35,823
Net sales from other non-financial subsidiaries	28,337	12,900	40,067	20,948
Dividend income	18,661	17,828	9,022	8,455
Rent income from real estate (including investment property)	1,381	557	1,632	1,091
Others	97,045	56,928	458,878	409,662
Total operating income	274,737	154,919	572,227	475,979

(*) *Depreciation expenses of the operational lease portfolio are netted-off with the net sales of this business.*

29 Other operating expenses

	Six-month period ended 30 June 2020	*Three-month period ended 30 June 2020*	*Six-month period ended 30 June 2019*	*Three-month period ended 30 June 2019*
Computer usage expenses	278,069	138,797	212,957	105,010
Saving deposits insurance fund	270,334	137,982	163,397	74,762
Utility expenses	90,715	34,780	97,699	48,968
Advertising expenses	66,546	23,664	85,987	51,865
Rent expenses	56,549	35,261	53,771	28,364
Repair and maintenance expenses	38,809	19,108	42,551	22,322
Research and development expenses	26,808	14,977	31,344	17,810
Stationary expenses	24,346	12,139	19,742	10,254
Others	434,859	215,852	242,707	77,255
	1,287,035	632,560	950,155	436,610

(Currency: Thousands of Turkish Lira (TL))

30 Related party disclosures

For the purpose of this report, the shareholders either controlling or having executive key management personnel in common with the Bank and BBVA and all their subsidiaries, and their ultimate owners, directors and executive officers and the Bank's unconsolidated subsidiaries and associates are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank had the following balances outstanding from and transactions with related parties:

	30 June 2020	***31 December 2019***
Statement of financial position		
Loans and advances to banks	6,608	38,537
Loans and advances to customers	621,739	28,860
Loans measured at FVPL	4,472,972	4,207,523
Miscellaneous receivables	694,873	241,380
Deposits from banks	34,121	133,851
Deposits from customers	176,411	109,680
Miscellaneous payables	1,950	-
Commitments and contingencies		
Non-cash loans	640,561	1,049,332
Derivatives	29,123,450	23,381,185

	Six-month period ended 30 June 2020	***Three-month period ended 30 June 2020***	***Six-month period ended 30 June 2019***	***Three-month period ended 30 June 2019***
Statement of profit or loss and other comprehensive income				
Interest, fees and commissions income	17,182	9,728	237,617	121,288
Interest, fees and commissions expenses	3,241	2,322	11,648	867
Net trading income/(expense) and foreign exchange	(336,849)	(137,298)	(192,304)	(173,861)
Other operating income	11,795	4,528	764	711
Other operating expenses	10,198	6,429	13,366	7,849

In the first half of 2020, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 4%-28% and 1%-5% (31 December 2019: 4%-6% and (0.46)%-5%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of 8%-15% and 4%-27%, respectively (31 December 2019: 14%-19% and 5%-28%).

Various commission rates are applied to transactions involving guarantees and commitments. The pricing in transactions with the related parties is set on an arms-length basis.

As per IFRS 9, expected credit losses amounted to TL 761 (30 June 2019: TL 86) are recognised against balances outstanding during the period with related parties as of 30 June 2020.

(Currency: Thousands of Turkish Lira (TL))

30 Related party disclosures (continued)

Including the payment related to resigners, key management personnel compensation for the six-month period ended 30 June 2020 amounted to TL 62,318 (30 June 2019: TL 79,872) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted to TL 38,164 (30 June 2019: TL 57,177) and of its subsidiaries amounted to TL 24,154 (30 June 2019: TL 22,695).

31 Profit reserves and profit appropriation

Retained earnings as per the statutory financial statements other than legal reserves, are available for distribution, subject to the legal reserve requirement explained to below.

Under the Turkish Commercial Code, legal reserves consist of first legal reserve and second legal reserve. First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid-in share capital. Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued and fully paid-in share capital, but holding companies are not subject to such transaction. According to the Turkish Commercial Code, legal reserves can only be used to compensate accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

In the ordinary General Assembly Meeting dated 17 July 2020, a decision is made regarding distribution of the unconsolidated net profit of the Bank amounting to TL 6,158,841 (based on BRSA bank-only financial statements), and considering the distribution made based on the decision is presented below.

2019 PROFIT DISTRIBUTION TABLE	
2019 Net Profit	**6,158,841**
A – I. Legal reserve (Turkish Commercial Code 519/1) at 5%	-
Undistributable funds	(5,437)
B – First dividend at 5% of the paid-in capital	-
C – Extraordinary reserves at 5% after above deductions	(307,942)
D – Second dividend to the shareholders	-
E – Extraordinary reserves	(5,845,462)
F – II. Legal reserve (Turkish Commercial Code 519/2)	-

32 Subsequent events

None.

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