Türkiye Garanti Bankası Anonim Şirketi
And Its Subsidiaries

Interim Condensed Consolidated Financial Statements

For the nine month period ended

30 September 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

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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 September 2020, the interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine 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.

Basis for Qualified Conclusion

As stated in Note 22, the accompanying interim condensed consolidated financial statements as at 30 September 2020 include a general reserve of total TL 4,330,000 thousands, of which TL 1,830,000 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.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a Turkish corporation and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity

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 nine month period ended 30 September 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

13 November 2020
İstanbul, Turkey

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Interim Condensed Consolidated Statement of Financial Position
At 30 September 2020

(Currency: Thousands of Turkish Lira (TL))

	Notes	30 September 2020	31 December 2019
Assets			
Cash and balances with central banks	3	55,849,394	48,441,269
Financial assets at fair value through profit or loss	4	7,953,245	5,152,560
Derivative financial assets	5	6,863,070	2,999,557
Loans and advances to banks	6	36,027,033	30,205,189
Loans and advances to customers	7,25	328,902,840	266,292,916
Investment securities	8,24	67,952,052	55,861,610
Equity investments	9	362,956	422,113
Assets held for sale	10	1,019,735	1,452,258
Investment properties		360,123	335,539
Tangible and intangible assets		8,088,291	7,680,866
Goodwill, net	11	32,948	32,948
Deferred tax asset	21	2,558,567	1,894,441
Other assets	12	10,410,262	8,424,716
Total Assets		**526,380,516**	**429,195,982**
Liabilities			
Deposits from banks	13	1,169,163	2,668,751
Deposits from customers	14	344,333,437	274,470,218
Loans and advances from banks and other institutions	15	31,120,523	26,739,820
Obligations under repurchase agreements and money market fundings	16	3,097,071	1,786,861
Debt securities issued	17	23,532,271	21,026,537
Financial liabilities at fair value through profit or loss	18	15,591,683	14,342,293
Derivative financial liabilities	19	7,645,106	4,239,665
Subordinated liabilities	20	6,899,418	4,729,707
Current tax liability	21	357,638	685,143
Deferred tax liability	21	136,108	73,104
Provisions	22	9,405,118	6,561,425
Other liabilities and accrued expenses	23	22,058,408	17,786,228
Total Liabilities		**465,345,944**	**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	1,629,806	1,603,555
Other reserves	8,24	4,688,282	3,382,570
Retained earnings	24	49,332,378	43,667,933
		60,808,717	**53,812,309**
Non-controlling interests	24	**225,855**	**273,921**
Total Equity		**61,034,572**	**54,086,230**
Total Liabilities and Equity		**526,380,516**	**429,195,982**
Commitments and Contingencies	25	**74,076,122**	**62,757,095**

The notes on pages 5 to 75 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 Nine-Month Period Ended 30 September 2020

(Currency: Thousands of Turkish Lira (TL))

	Notes	1 January 2020- 30 September 2020	1 July 2020- 30 September 2020	1 January 2019- 30 September 2019	1 July 2019- 30 September 2019
Statement of Profit or Loss:					
Interest income:					
Interest on loans		22,655,822	7,709,741	25,820,640	8,383,171
Interest on securities		4,220,184	1,573,662	4,639,078	1,374,898
Interest on deposits at banks		516,993	299,144	878,209	387,624
Interest on lease business		375,354	132,783	390,972	126,340
Interest on factoring business		198,448	70,978	292,281	79,539
Interest on reserve deposits		34,277	33,766	366,638	74,688
Others		186,835	58,019	174,721	49,429
		28,187,913	9,878,093	32,562,539	10,475,689
Interest expense:					
Interest on saving, commercial and public deposits		(6,267,003)	(2,154,942)	(13,559,146)	(4,183,317)
Interest on borrowings, obligations under repurchase agreements,money market and swap fundings		(3,651,771)	(1,396,950)	(3,815,399)	(1,190,315)
Interest on debt securities issued		(995,466)	(316,962)	(1,961,419)	(631,927)
Interest on subordinated liabilities		(712,472)	(272,666)	(205,984)	(63,807)
Interest on lease business		(109,701)	(26,836)	(140,065)	(47,024)
Interest on bank deposits		(56,323)	(14,719)	(76,851)	(19,073)
Others		(362,384)	(109,970)	(71,398)	(8,541)
		(12,155,120)	(4,293,045)	(19,830,262)	(6,144,004)
Net interest income before provisions for loans and other credit risks		**16,032,793**	**5,585,048**	**12,732,277**	**4,331,685**
Provisions for loans and other credit risks, net	3,6,7,8,12,22	**(4,882,415)**	**(1,120,778)**	**(4,572,622)**	**(2,172,548)**
Net interest income after provisions for loans and other credit risks		**11,150,378**	**4,464,270**	**8,159,655**	**2,159,137**
Fees and commissions income		6,004,661	2,097,218	6,463,419	2,330,694
Fees and commissions expense		(1,170,442)	(424,828)	(1,842,910)	(672,085)
Net fees and commissions income		**4,834,219**	**1,672,390**	**4,620,509**	**1,658,609**
Net trading income/(expense)	27	**1,514,102**	**2,163,337**	**(547,220)**	**151,619**
Foreign exchange gains/(losses), net		**(835,360)**	**(1,972,546)**	**555,209**	**(33,668)**
Insurance business income		1,057,887	341,634	670,343	265,366
Insurance business expense		(423,817)	(134,380)	(211,849)	(95,300)
Net insurance business income		**634,070**	**207,254**	**458,494**	**170,066**
Gain on sale of assets		332,994	175,325	154,360	61,472
Other operating income	28	417,148	142,411	335,736	110,714
Other operating income		**750,142**	**317,736**	**490,096**	**172,186**
Total operating Income		**18,047,551**	**6,852,441**	**13,736,743**	**4,277,949**
Salaries and wages		(2,443,120)	(878,262)	(2,225,030)	(786,428)
Impairment losses, net	10,22	(2,411,237)	(1,289,370)	(284,518)	(165,716)
Credit card reward and promotion expenses		(1,369,136)	(465,999)	(1,105,408)	(405,141)
Employee benefits	22	(973,899)	(261,319)	(1,075,982)	(319,969)
Depreciation and amortisation		(684,995)	(233,438)	(659,717)	(220,431)
Taxes and duties other than income		(280,351)	(49,636)	(291,630)	(56,040)
Communication expenses		(211,426)	(74,839)	(185,202)	(66,832)
Other operating expenses	29	(1,954,514)	(667,479)	(1,514,520)	(564,365)
Total operating expenses		**(10,328,678)**	**(3,920,342)**	**(7,342,007)**	**(2,584,922)**
Profit/(loss) before tax		**7,718,873**	**2,932,099**	**6,394,736**	**1,693,027**
Taxation charge	21	(2,196,856)	(893,955)	(1,373,615)	(367,582)
Net profit/(loss) for the period		**5,522,017**	**2,038,144**	**5,021,121**	**1,325,445**
Other Comprehensive Income:					
(items to be recycled subsequently to profit or loss)					
Foreign currency translation, net of tax	24	2,023,922	1,254,641	28,516	(384,547)
Fair value change on debt instruments measured at fair value through other comprehensive income, net of tax:					
Net change in fair values	24	(94,199)	(491,143)	204,016	471,590
Net amount reclassified to profit/loss	24	(42,634)	(2,187)	100,032	47,342
Cash flow hedges, net of tax:					
Effective portion of changes in hedge reserve	24	(45,397)	59,393	(277,230)	(289,031)
Net amount reclassified to profit/loss	24	169,819	28,036	(209,789)	(56,649)
Net investment hedge for foreign operations, net of tax	24	(758,938)	(435,490)	(21,626)	136,433
		1,252,573	**413,250**	**(176,081)**	**(74,862)**
(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	42,494	(6,788)	72,530	(3,568)
Net amount recycled to profit/loss	24	-	-	-	-
Change on revaluation surplus on tangible and intangible assets, net of tax		220,219	126,494	2,768	(3,522)
		262,713	**119,706**	**75,298**	**(7,090)**
Other comprehensive income for the period, net of tax		**1,515,286**	**532,956**	**(100,783)**	**(81,952)**
Total Comprehensive Income for the Period		**7,037,303**	**2,571,100**	**4,920,338**	**1,243,493**
Net profit/(loss) attributable to:					
Equity holders of the Bank		5,465,513	2,017,394	4,960,908	1,305,617
Non-controlling interests		56,504	20,750	60,213	19,828
		5,522,017	**2,038,144**	**5,021,121**	**1,325,445**
Total comprehensive income attributable to:					
Equity holders of the Bank		6,978,851	2,550,244	4,859,755	1,223,414
Non-controlling interests		58,452	20,856	60,583	20,079
		7,037,303	**2,571,100**	**4,920,338**	**1,243,493**
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)		**1.301**	**0.480**	**1.181**	**0.311**

The notes on pages 5 to 75 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 September 2020

(Currency: Thousands of Turkish Lira (TL))

				Other Reserves								
				to be recycled to profit or loss			not to be recycled to profit or loss					
	Share Capital	Share Premium	Legal Reserves	Fair Value Change on Debt Instruments	Hedge Reserve	Foreign Currency Translation Reserve	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 gains from debt instruments measured at fair value through other comprehensive income	-	-	-	203,646	-	-	-	-		-	370	204,016
Net unrealized gains from equity investments measured at fair value through other comprehensive income	-	-	-	-	-	-	72,530	-	-	-	-	72,530
Net realized gains on debt instruments measured at fair value through other comprehensive income recycled to statement of profit or loss at disposal	-	-	-	100,032	-	-	-	-	-	-	-	100,032
Foreign currency translation	-	-	-	(5,910)	1,366	33,060	-	-	-	-	-	28,516
Net change on revaluation surplus on tangible and intangible assets	-	-	-	-	-	-	-	-	2,768	-	-	2,768
Net losses on cash flow hedges	-	-	-	-	(487,019)	-	-	-	-	-	-	(487,019)
Net change on net investment hedge for foreign operations	-	-	-	-	(21,626)	-	-	-	-	-	-	(21,626)
Net profit/loss for nine-month period	-	-	-	-	-	-	-	-	-	4,960,908	60,213	5,021,121
Total comprehensive income for the period	**-**	**-**	**-**	**297,768**	**(507,279)**	**33,060**	**72,530**	**-**	**2,768**	**4,960,908**	**60,583**	**4,920,338**
Transfer to legal reserves	-	-	5,582	-	-	-	-	-	-	(5,582)	-	-
Foreign currency translation for legal reserves	-	-	(74)	-	-	-	-	-	-	-	-	(74)
Dividends paid	-	-	-	-	-	-	-	-	-	-	(680)	(680)
Balances at 30 September 2019	**5,146,371**	**11,880**	**1,591,428**	**(842,369)**	**(1,633,863)**	**3,089,248**	**173,747**	**(160,773)**	**1,724,567**	**42,457,311**	**257,460**	**51,815,007**
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**
Transfer to legal reserves												
Dividends paid												
Net unrealized losses from debt instruments measured at fair value through other comprehensive income	-	-	-	(96,147)	-	-	-	-	-	-	1,948	(94,199)
Net unrealized losses from equity investments measured at fair value through other comprehensive income	-	-	-	-	-	-	(161,302)	-	-	203,796	-	42,494
Net realized losses on debt instruments measured at fair value through other comprehensive income recycled to statement of profit or loss at disposal	-	-	-	(42,634)	-	-	-	-	-	-	-	(42,634)
Foreign currency translation	-	-	-	14,302	(2,854)	2,012,474	-	-	-	-	-	2,023,922
Net change on revaluation surplus on tangible and intangible assets	-	-	-	-	-	-	-	-	216,389	3,830	-	220,219
Net gains on cash flow hedges	-	-	-	-	124,422	-	-	-	-	-	-	124,422
Net change on net investment hedge for foreign operations	-	-	-	-	(758,938)	-	-	-	-	-	-	(758,938)
Net profit/loss for nine-month period	-	-	-	-	-	-	-	-	-	5,465,513	56,504	5,522,017
Total comprehensive income for the period	**-**	**-**	**-**	**(124,479)**	**(637,370)**	**2,012,474**	**(161,302)**	**-**	**216,389**	**5,673,139**	**58,452**	**7,037,303**
Transfer to legal reserves	-	-	8,694	-	-	-	-	-	-	(8,694)	-	-
Foreign currency translation for legal reserves	-	-	17,557	-	-	-	-	-	-	-	-	17,557
Dividends distributed	-	-	-	-	-	-	-	-	-	-	(106,518)	(106,518)
Balances at 30 September 2020	**5,146,371**	**11,880**	**1,629,806**	**(229,817)**	**(2,477,843)**	**5,544,418**	**57,648**	**(171,269)**	**1,965,145**	**49,332,378**	**225,855**	**61,034,572**

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Interim Condensed Consolidated Statement of Cash Flows
For The Nine-Month Period Ended 30 September 2020

(Currency: Thousands of Turkish Lira (TL))

	Notes	1 January 2020- 30 September 2020	1 January 2019- 30 September 2019
Cash flows from operating activities:-			
Interests and commissions received		28,563,292	33,655,647
Interests and commissions paid		(13,436,619)	(21,857,629)
Other operating activities, net		(496,167)	6,410,704
Cash payments to employees and suppliers		(7,684,290)	(6,440,228)
		6,946,216	11,768,494
(Increase)/decrease in operating assets:-			
Loans and advances to banks		(1,830,513)	396,302
Balances with central banks		(2,393,629)	132,129
Financial assets at fair value through profit or loss		(2,597,865)	(455,929)
Loans and advances to customers		(71,517,270)	(7,523,854)
Other assets		(13,198,969)	(1,441,098)
Increase/(decrease) in operating liabilities:-			
Deposits from banks		(1,499,596)	(2,226,111)
Deposits from customers		69,797,146	15,093,027
Obligations under repurchase agreements and money market fundings		1,289,330	(1,076,668)
Other liabilities		5,139,720	3,415,152
Net cash inflows from operating activities before taxes and duties paid		**(9,865,430)**	**18,081,444**
Income taxes and other duties paid		**(2,996,190)**	**(1,566,886)**
Net cash inflows/(outflows) from operating activities		**(12,861,620)**	**16,514,558**
Cash flows from investing activities:-			
Net decrease/(increase) in investment securities		(11,012,830)	(361,322)
Interest received for investment securities		6,488,994	2,280,589
Increase in equity investments		(3,588)	-
Dividends received		20,118	9,046
Proceeds from sale of tangible and intangible assets		640,408	530,637
Purchase of tangible and intangible assets		(893,706)	(548,294)
Net cash inflows from investing activities		**(4,760,604)**	**1,910,656**
Cash flows from financing activities:-			
Increase in loans and advances from banks and other institutions, net		6,717,407	(7,596,959)
Cash obtained from debt securities issued		19,049,591	16,338,258
Cash used for repayment of debt securities issued		(14,612,676)	(19,637,820)
Payments for leases		(299,284)	(287,337)
Dividends paid		-	(680)
Net cash (outflows)/inflows from financing activities		**10,855,038**	**(11,184,538)**
Effect of exchange rate changes		**4,542,841**	**(17,077)**
Net increase in cash and cash equivalents		**(2,224,345)**	**7,223,599**
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	**45,021,675**	**43,176,131**

The notes on pages 5 to 75 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 nine-month period ended 30 September 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 894 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 21,769 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 September 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 September 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 September 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 2023. 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 condensed financial statements dated 30 September 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 September 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 September 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 September 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 September 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 September 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 update of macroeconomic parameters performed for the third quarter.

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 September 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	11,853,279	-	-	-	-	43,996,115	55,849,394
Financial assets at fair value through profit or loss	33,970	4,605,078	2,219,679	108,157	65,861	920,500	7,953,245
Loans and advances to banks	7,387,637	1,205,409	2,540,238	71,607	414,857	24,407,285	36,027,033
Loans and advances to customers	73,707,495	57,369,204	100,668,870	87,670,394	16,255,423	(6,768,546)	328,902,840
Other assets	11,172,465	-	151,988	-	-	8,507,446	19,831,899
Investment securities	5,813,016	8,929,015	14,613,175	17,998,902	11,510,095	9,087,849	67,952,052
Total Monetary Assets	109,967,862	72,108,706	120,193,950	105,849,060	28,246,236	80,150,649	516,516,463
MONETARY LIABILITIES							
Deposits	143,967,709	29,603,740	13,864,460	2,323,894	176,307	155,566,490	345,502,600
Obligations under repurchase agreements and money market fundings	1,548,335	1,363,676	64,110	93,507	-	27,443	3,097,071
Loans and advances from banks and other institutions	3,028,642	13,350,788	6,342,146	3,316,071	1,645,208	3,437,668	31,120,523
Debt securities issued	5,599,180	784,868	6,754,844	9,972,052	179,733	241,594	23,532,271
Subordinated liabilities	252,880	750,000	-	-	5,754,000	142,538	6,899,418
Financial liabilities at fair value through profit or loss	15,308,889	-	-	-	-	282,794	15,591,683
Other liabilities	-	-	-	-	-	39,602,378	39,602,378
Total Monetary Liabilities	169,705,635	45,853,072	27,025,560	15,705,524	7,755,248	199,300,905	465,345,944

	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 nine-months of 2020 and the year 2019:

	30 September 2020			
	US$ %	EUR %	TL %	Other Currencies%
Assets				
Loans and advances to banks	1-6	(0.47)-5	2-19	2
Debt and other fixed or floating income instruments	3-12	1-4	9-28	2-6
Loans and advances to customers	1-15	1-15	10-19	1-31
Liabilities				
Deposits:				
- Foreign currency deposits	1-4	1-9	-	1-5
- Bank deposits	-	1	7-9	-
- Saving deposits	-	1	11	1-2
- Commercial deposits	1-3	1-6	6-12	1
- Public and other deposits	-	-	11	-
Obligations under repurchase agreements and money market fundings	3	(0.5)	7-14	-
Loans and advances from banks and other institutions	1-5	1-5	6-20	1-6
Debt securities issued (*)	6	5	9-13	-

	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 instruments	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 September 2020			
	US$	EUR	Other Currencies	Total
Assets				
Cash and balances with central banks	14,807,350	27,373,596	8,375,858	50,556,804
Financial assets at fair value through profit or loss	4,773,598	178,525	1,752,338	6,704,461
Loans and advances to banks	20,258,318	7,216,076	1,762,837	29,237,231
Loans and advances to customers	56,341,242	70,130,466	10,536,743	137,008,451
Investment securities	17,804,727	4,189,437	2,038,055	24,032,219
Equity investments	234,434	12,428	-	246,862
Tangible and intangible assets	290	334,976	327,655	662,921
Deferred tax asset	-	19,469	1,717	21,186
Other assets	1,761,566	1,275,547	1,767,960	4,805,073
Total Assets	115,981,525	110,730,520	26,563,163	253,275,208
Liabilities				
Deposits	106,208,204	74,057,641	34,909,753	215,175,598
Obligations under repurchase agreements and money market fundings	104,391	1,167,898	197	1,272,486
Loans and advances from banks and other institutions	13,122,751	14,994,635	239,770	28,357,156
Debt securities issued	16,263,625	1,511,627	-	17,775,252
Financial liabilities at fair value through profit or loss	15,591,683	-	-	15,591,683
Subordinated liabilities	5,877,788	-	-	5,877,788
Current and deferred tax liability	-	57,376	24,784	82,160
Other liabilities, accrued expenses and provisions	6,652,906	2,674,492	556,397	9,883,795
Total Liabilities	*163,821,348*	*94,463,669*	*35,730,901*	*294,015,918*
Net Statement of Financial Position	*(47,839,823)*	*16,266,851*	*(9,167,738)*	*(40,740,710)*
Net Off Balance Sheet Position	*51,556,832*	*(13,423,625)*	*11,542,825*	*49,676,032*
Net Long/(Short) Position	*3,717,009*	*2,843,226*	*2,375,087*	*8,935,322*

	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 7.6720 for USD and 8.9962 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 prefer 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 does 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 September 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	**-**	**-**	**-**	**(363,835)**	**786,166**	**6,477,087**	**-**	**6,899,418**
Turkish Lira	**-**	**712,840**	**474,795**	**7,070,283**	**16,618,027**	**14,248,009**	**-**	**39,123,954**
Cash and balances with central banks	5,292,590	-	-	-	-	-	-	5,292,590
Financial assets at fair value through profit or loss	380,340	37,719	15,345	332,868	445,943	36,569	-	1,248,784
Derivative financial assets	-	1,110,494	1,466,738	1,161,239	892,879	13,573	-	4,644,923
Loans and advances to banks	27,316	6,638,472	116,268	21,101	-	-	(13,355)	6,789,802
Loans and advances to customers	358,121	34,299,059	24,820,855	58,764,536	63,825,638	7,850,149	1,976,031	191,894,389
Investment securities	-	204,497	340,416	6,426,433	28,706,206	8,446,700	(204,419)	43,919,833
Other assets	4,500,377	1,318,205	26,232	40,652	62,535	-	4,433,902	10,381,903
Total Turkish Lira monetary assets	10,558,744	43,608,446	26,785,854	66,746,829	93,933,201	16,346,991	6,192,159	264,172,224
Foreign Currency								
Cash and balances with central banks	24,989,096	25,700,179	-	-	-	-	(132,471)	50,556,804
Financial assets at fair value through profit or loss	253,964	-	4,593,694	1,784,528	30,107	30,902	11,266	6,704,461
Derivative financial assets	-	88,055	243,871	109,168	-	1,777,053	-	2,218,147
Loans and advances to banks	24,391,303	1,250,860	1,055,246	2,538,212	1,077	67,573	(67,040)	29,237,231
Loans and advances to customers	470,408	5,949,742	11,818,016	38,515,127	53,886,738	26,102,985	265,435	137,008,451
Investment securities	-	1,053,230	92,017	1,672,780	12,186,252	9,144,160	(116,220)	24,032,219
Other assets	166,381	2,257,926	97,117	189,574	52,945	-	(177,017)	2,586,926
Total foreign currency monetary assets	50,271,152	36,299,992	17,899,961	44,809,389	66,157,119	37,122,673	(216,047)	252,344,239
Total Monetary Assets	60,829,896	79,908,438	44,685,815	111,556,218	160,090,320	53,469,664	5,976,112	516,516,463
MONETARY LIABILITIES								
Turkish Lira								
Deposits	40,789,192	75,383,386	13,321,794	824,508	8,122	-	-	130,327,002
Loans and advances from banks and other institutions	-	279,503	142,632	1,569,575	771,657	-	-	2,763,367
Obligations under repurchase agreements and money market fundings	-	1,562,908	196,918	64,756	3	-	-	1,824,585
Debt securities issued	-	712,840	474,795	3,346,711	1,222,673	-	-	5,757,019
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	385,040	367,917	286,619	326,852	664,928	-	2,031,356
Subordinated liabilities	-	-	-	-	-	1,021,630	-	1,021,630
Other liabilities	4,552,752	13,810,710	514,116	270,796	573,274	217,553	7,665,866	27,605,067
Total Turkish Lira monetary liabilities	45,341,944	92,134,387	15,018,172	6,362,965	2,902,581	1,904,111	7,665,866	171,330,026
Foreign Currency								
Deposits	118,007,042	67,009,489	17,433,012	11,012,375	1,530,745	182,935	-	215,175,598
Loans and advances from banks and other institutions	-	3,531,433	7,218,710	12,838,047	2,801,998	1,966,968	-	28,357,156
Obligations under repurchase agreements and money market fundings	197	-	1,167,898	-	104,391	-	-	1,272,486
Debt securities issued	-	-	-	3,723,572	11,488,120	2,563,560	-	17,775,252
Financial liabilities at fair value through profit or loss	-	-	-	-	3,907,234	11,684,449	-	15,591,683
Derivative financial liabilities	-	68,566	-	207,152	796,541	4,541,491	-	5,613,750
Subordinated liabilities	-	-	-	-	-	5,877,788	-	5,877,788
Other liabilities	610,605	960,414	623,606	203,117	106,052	3,143	1,845,268	4,352,205
Total foreign currency monetary liabilities	118,617,844	71,569,902	26,443,226	27,984,263	20,735,081	26,820,334	1,845,268	294,015,918
Total Monetary Liabilities	163,959,788	163,704,289	41,461,398	34,347,228	23,637,662	28,724,445	9,511,134	465,345,944

(*) 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 September 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	345,502,600	344,573,956	158,791,643	141,835,994	30,490,655	11,741,401	1,532,156	182,107
Obligations under repurchase agreements and money market fundings	3,097,071	3,080,264	197	1,548,335	1,363,678	64,110	103,944	-
Loans and advances from banks and other institutions	31,120,523	30,953,768	-	3,751,752	7,271,594	14,407,526	3,573,655	1,949,241
Debt securities issued	23,532,271	23,290,559	-	711,750	471,169	6,925,724	12,636,962	2,544,954
Subordinated liabilities	6,899,418	6,756,880	-	-	-	-	-	6,756,880
Financial liabilities at fair value through profit or loss	15,591,683	18,169,625	-	-	-	-	4,014,785	14,154,840
Total Monetary Liabilities	425,743,566	426,825,052	158,791,840	147,847,831	39,597,096	33,138,761	21,861,502	25,588,022

	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 September 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 September 2020			
Financial assets at fair value through profit or loss		*3,472,763*			
Debt and other instruments	*4*	2,872,590			
Equity and other non-fixed income instruments	*4*	600,173			
Loans and advances	*4*	-			
Non-trading financial assets mandatorily at fair value through profit or loss		*4,480,482*			
Loans and advances	*4*	4,480,482			
Debt and other instruments	*4*	-			
Equity and other non-fixed income instruments	*4*	-			
Equity investments measured at FVOCI	*9*	*362,956*			
Derivative financial assets	*5*	*6,863,070*	**Stage 1**	**Stage 2**	**Stage 3**
Financial assets at fair value through other comprehensive income		*35,120,754*	*35,120,754*	-	-
Debt and other instruments	*8*	35,120,754	35,120,754	-	-
Equity and other non-fixed income instruments	*8*	-	-	-	-
Financial assets at amortised cost		*441,657,968*	*376,515,081*	*44,194,914*	*20,947,973*
Balances with central banks excluding reserve deposits	*3*	20,330,554	20,330,554	-	-
Loans and advances to banks	*6*	36,109,601	36,109,601	-	-
Loans and advances to customers	*7*	352,065,862	286,922,975	44,194,914	20,947,973
Debt and other instruments	*8*	33,151,951	33,151,951	-	-
Total financial assets risk		**491,957993**			
Total loan commitments and financial guarantees	*25*	*146,823,518*			
Total maximum credit exposure		**638,781,511**			

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

	Notes	31 December 2019	Stage 1	Stage 2	Stage 3
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*			
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 1,230,122 of loans which have past due more than 90 days, as Stage 2 and TL 182,377 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 September 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 September 2020					
	Stage 1		*Stage 2*		*Stage 3*	
	Individual	*Collective*	*Individual*	*Collective*	*Individual*	*Collective*
Cash loans	1,048	1,800,722	5,144,330	1,654,928	6,644,446	6,870,481
Factoring receivables	-	7,097	8,233	51	283,465	65,570
Financial lease receivables	401	49,001	108,691	31,969	364,732	127,857
Non-cash loans	7,888	333,000	439,878	187,918	553,005	177,920
	9,337	2,189,820	5,701,132	1,874,866	7,845,648	7,241,828

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

30 September 2020	**Loans and Other Receivables under Follow-Up (Stage 2)**		
		Restructured	
Cash Loans	**Non-restructured**	**Revised Contract Terms**	**Other Changes**
Loans	**24,439,702**	**7,636,151**	**11,105,869**
Commercial, Corporate and SME Loans	14,903,460	4,458,899	11,039,011
Consumer Loans	5,931,053	2,694,334	66,858
Credit Cards	3,605,189	482,918	-
Other Receivables	**620,814**	**376,961**	**15,417**
Total	**25,060,516**	**8,013,112**	**11,121,286**

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 September 2020 and 31 December 2019:

30 September 2020	**Corporate / Commercial Loans**	**Consumer Loans**	**Credit Cards**	**Total**
31-60 days	220,638	628,203	93,532	942,373
61-90 days	193,414	283,124	55,264	531,802
Other	31,000,510	7,780,918	3,939,311	42,720,739
Total	**31,414,562**	**8,692,245**	**4,088,107**	**44,194,914**

(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 September 2020	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	13,408,837	3,130,654	-	16,539,491
Pledge assets	2,642,002	216,724	-	2,858,726
Promissory notes	61,469	4,402	-	65,871
Cash collateral	324,173	24,722	-	348,895
Other collaterals	10,376,743	4,586,999	-	14,963,742
Unsecured	4,601,338	728,744	4,088,107	9,418,189
Total	**31,414,562**	**8,692,245**	**4,088,107**	**44,194,914**

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 September 2020	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	9,746,775	248,939	-	9,995,714
Pledge assets	1,750,081	50,500	-	1,800,581
Promissory notes	188,936	6,067	-	195,003
Cash collateral	38,266	363	-	38,629
Other collaterals	2,968,275	1,976,103	-	4,944,378
Unsecured	2,298,020	360,055	1,315,593	3,973,668
Total	**16,990,353**	**2,642,027**	**1,315,593**	**20,947,973**

(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%), 1.5% Domestic Systemically Important Bank Buffer (31 December 2019: 2.00%) and 0.188% 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 September 2020	*31 December 2019*
Tier 1 capital	60,228,575	53,708,108
Tier 2 capital	11,288,061	8,450,176
Deductions from capital	(2,312)	(7,930)
Total regulatory capital	71,514,324	62,150,354
Value at credit, market and operational risks	423,730,200	349,007,519
Capital ratios (%)		
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	16.88	17.81
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	14.21	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 September 2020. In case of applying the measures, consolidated capital adequacy ratio rises to 18.81% as of 30 September 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 US$ 152,951,891 and EUR 46,653,560 for its fixed-rate bonds with a total face value of US$ 387,500,000 and fixed-rate bonds with a total face value of EUR 23,800,000 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 50,788 and TL 424,243 (30 September 2019: gains of TL 211,538 and TL 240,227) 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$ 19,956,757 and EUR 21,052,642, and securities issued amounting to EUR 37,736,834 by designating cross currency swaps with the same face values and terms and securities issued amounting to US$ 437,459,350 and EUR 37,500,000 and deposits amounting to TL 2,210,000, US$ 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 23,038 (30 September 2019: TL 28,182) and loss of TL 253,654 (30 September 2019: TL 597,290) 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 September 2020, while a negative amount of TL 124,777 (net of deferred taxes) was recognised under shareholders' equity as the hedge reserve (30 September 2019: a negative amount of TL 101,005), the unrecognised firm commitment fair value change was recognised as asset amounting to TL 38,342 (30 September 2019: TL 80,389) 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 gain of TL 879 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 loss for the hedged loans and bonds is TL 20,589 (30 September 2019: gain of TL 4,964) 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 11,699 (30 September 2019: TL 8,983) 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 value amount and similar terms; TL 110,097,916 sell and EUR 13,547,435 buy, USD 16,127,439 sell and EUR 14,370,637 buy, SEK 6,832,438 sell and EUR 661,538 buy, PLN 207,219 sell and EUR 46,920 buy, HUF 2,700,000,000 sell and EUR 8,014,762 buy, DKK 5,570,302 sell and EUR 748,475 buy, NOK 2,573,751 sell and EUR 239,976 buy, GBP 13,100,000 sell and EUR 14,519,467 buy, RON 9,999,996 sell and EUR 1,977,007 buy, CHF 42,095 sell and EUR 39,217 buy, CAD 114,579 sell and EUR 73,300 buy. Accordingly, in the current period, a loss of TL 396 (30 September 2019: TL 7,780) resulting from currency derivative contracts were recognized 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 6,788 (30 September 2019: TL 4,491) resulting from interest rate swap agreements and a gain of TL 2,337 (30 September 2019: a loss of TL 17,440) 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)

Beginning on June 2020, the Bank considers the OIS ("Overnight Indexed Swap") curve which is based on TLREF in order to present more accurate fair value measurement of CBRT swaps and makes the necessary fair value adjustments in the valuations.

Fair value of loans and advances to customers is TL 322,270,351 (31 December 2019: TL 261,318,615), whereas the carrying amount is TL 328,902,840 (31 December 2019: TL 266,292,916) in the accompanying interim condensed consolidated statement of financial position as of 30 September 2020.

Fair value of investment securities measured at amortised cost is TL 33,720,276 (31 December 2019: TL 27,704,202), whereas the carrying amount is TL 32,831,298 (31 December 2019: TL 27,600,453) in the accompanying interim condensed consolidated statement of financial position as of 30 September 2020.

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

30 September 2020	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets at fair value through profit or loss (*)	1,244,433	2,079,587	4,629,225	7,953,245
Derivative financial assets	-	6,686,975	176,095	6,863,070
Debt and other instruments measured at FVOCI	26,627,039	8,386,214	107,501	35,120,754
Financial Assets at Fair Value	27,871,472	17,152,776	4,912,821	49,937,069
Financial liabilities at fair value through profit or loss	-	-	15,591,683	15,591,683
Derivative financial liabilities	16,146	4,884,993	2,743,967	7,645,106
Financial Liabilities at Fair Value	16,146	4,884,993	18,335,650	23,236,789

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 shareholder 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 September 2020 and 31 December 2019, the movements of Level 3 financial instruments are as follows:

	30 September 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*(*)*	8,969	-	185,909	856,653
Disposals	(106,982)	(1,099,425)	(68,179)	(726,723)
Transfers, net	107,496	-	-	-
Effects of valuation differences *(**)*	332,126	4,340,536	236,326	1,773,401
Balance at the end of the period	4,912,821	18,335,650	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 September 2020 and 31 December 2019, effect of movements in exchange rates regarding Level 3 financial liabilities is TL 4,853,765 and TL 1,680,509; respectively.

Owned assets starting from 1 November 2015, as a result of changing in the accounting policy, the Group applied revaluation model for its real estate properties recorded under tangible assets instead of cost model in accordance with IAS 16. Within this framework, the revaluation differences arising from the valuations performed by independent expertise firms for all the real estates 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 related changes are recognised in the interim condensed consolidated financial statements.

Fair value information (continued)

Similar to owned assets, the investment properties starting from 1 November 2015, as a result of changing in the accounting policy, the Group applied the fair value model for instead of cost model in accordance with the IAS 40. Within this framework, the revaluation differences arising from the valuations performed by independent expertise firms for all the investment properties is accounted under in the consolidated statement of profit or loss and other comprehensive. 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 related 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 September 2020	Retail Banking	Commercial, Corporate & SME Banking	Other Operations	Total Banking	Leasing	Insurance	Factoring	Other Financial	Other Non-Financial	Combined	Eliminations	Total
Operating income	8,029,630	2,462,791	5,606,124	16,098,545	244,964	538,717	81,072	690,065	443,913	18,097,276	(49,725)	18,047,551
Operating expenses	(4,825,608)	(1,810,378)	(3,243,039)	(9,879,025)	(65,925)	(107,490)	(35,824)	(199,854)	(108,813)	(10,396,931)	68,253	(10,328,678)
Income from operations	**3,204,022**	**652,413**	**2,363,085**	**6,219,520**	**179,039**	**431,227**	**45,248**	**490,211**	**335,100**	**7,700,345**	**18,528**	**7,718,873**
Taxation charge	-	-	(1,873,996)	(1,873,996)	(39,841)	(96,613)	(9,764)	(116,300)	(64,601)	(2,201,115)	4,259	(2,196,856)
Net income for the period	**3,204,022**	**652,413**	**489,089**	**4,345,524**	**139,198**	**334,614**	**35,484**	**373,911**	**270,499**	**5,499,230**	**22,787**	**5,522,017**
Segment assets	89,153,797	237,818,879	185,732,525	512,705,201	7,359,310	2,724,315	2,752,637	2,649,975	2,005,384	530,196,822	(4,179,262)	526,017,560
Equity investments	-	-	749,525	749,525	10,000	304	-	6,594	1	766,424	(403,468)	362,956
Total assets	**89,153,797**	**237,818,879**	**186,482,050**	**513,454,726**	**7,369,310**	**2,724,619**	**2,752,637**	**2,656,569**	**2,005,385**	**530,963,246**	**(4,582,730)**	**526,380,516**
Segment liabilities	234,650,593	119,735,497	101,112,500	455,498,590	5,959,075	1,699,500	2,553,355	2,054,799	1,554,124	469,319,443	(3,973,499)	465,345,944
Total equity	-	-	57,956,136	57,956,136	1,410,235	1,025,119	199,282	601,770	451,261	61,643,803	(609,231)	61,034,572
Total liabilities and equity	**234,650,593**	**119,735,497**	**159,068,636**	**513,454,726**	**7,369,310**	**2,724,619**	**2,752,637**	**2,656,569**	**2,005,385**	**530,963,246**	**(4,582,730)**	**526,380,516**

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

30 September 2019	*Retail Banking*	*Commercial, Corporate & SME Banking*	*Other Operations*	*Total Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial*	*Other Non-Financial*	*Combined*	*Eliminations*	*Total*
Operating income	9,030,594	4,239,704	(817,271)	12,453,027	224,424	558,439	76,433	329,831	221,743	13,863,897	(127,154)	13,736,743
Operating expenses	(4,902,670)	(1,643,743)	(322,170)	(6,868,583)	(69,647)	(110,576)	(35,968)	(172,030)	(149,753)	(7,406,557)	64,550	(7,342,007)
Income from operations	**4,127,924**	**2,595,961**	**(1,139,441)**	**5,584,444**	**154,777**	**447,863**	**40,465**	**157,801**	**71,990**	**6,457,340**	**(62,604)**	**6,394,736**
Taxation charge	-	-	(1,190,558)	(1,190,558)	(32,177)	(98,171)	(8,675)	(39,210)	(16,848)	(1,385,639)	12,024	(1,373,615)
Net income for the period	**4,127,924**	**2,595,961**	**(2,329,999)**	**4,393,886**	**122,600**	**349,692**	**31,790**	**118,591**	**55,142**	**5,071,701**	**(50,580)**	**5,021,121**
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 September 2020 and 2019, included in the accompanying interim condensed consolidated statement of cash flows are as follows:

	30 September 2020	*30 September 2019*
Cash at branches	9,818,584	4,128,787
Unrestricted balances with central banks	13,445,846	21,685,023
Placements at money markets	5,967,941	11,376,174
Loans and advances to banks with original maturity periods of less than three months	15,789,304	5,986,147
	45,021,675	43,176,131

3 Cash and balances with central banks

	30 September 2020	*31 December 2019*
Cash at branches	9,818,584	4,343,805
Reserve deposits at central banks	25,700,256	23,165,352
Balances with central banks excluding reserve deposits	20,330,554	20,932,112
	55,849,394	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 0.11% for RON reserves 0.00% for Euro reserves and 0.02% 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 September 2020 and 31 December 2019 is as follows:

	30 September 2020			*31 December 2019*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	56,183,926	-	-	48,507,689	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(334,532)	-	-	(66,420)	-	-
Total carrying amount	55,849,394	-	-	48,441,269	-	-

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

	30 September 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	268,131	-	-	33,444	-	-
Effects of movements in exchange rates	70	-	-	23	-	-
Balances at the end of the period	334,532	-	-	66,420	-	-

(Currency: Thousands of Turkish Lira (TL))

4 Financial assets at fair value through profit or loss

	30 September 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	1,775,712	1,786,010	2-4	2023	26,122
Government bonds indexed to CPI	412,944	535,430	1-3	2028	191,773
Government bonds in TL	145,482	242,558	3-21	2028	147,292
Bonds issued by financial institutions	156,445	164,241	5-15	2027	199,264
Investment funds		51,085			72,921
Eurobonds	45,264	40,046	3-12	2045	65,209
Discounted government bonds in TL	39,223	36,330	0-9	2022	31,491
Bonds issued by corporations	17,220	14,566	5-24	2021	17,202
Government bonds-floating ***(a)***	2,243	2,324	10	2024	4
		2,872,590			751,278
Loans measured at FVPL ***(b)***		4,480,482			4,207,523
Equity and other non-fixed income instruments:					
Listed shares/equity debt		600,173			193,759
Total financial assets at fair value through profit or loss		7,953,245			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 September 2020, financial assets at FVPL amounting to TL 136,513 are blocked against asset management operations and securitizations (31 December 2019: TL 23,712) (refer to Note 8).

As of 30 September 2020, there are TL 34,350 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 September 2020		*31 December 2019*	
	Trading	*Hedging*(*)	*Trading*	*Hedging*(*)
Swap derivative financial assets	6,068,933	534,774	1,971,845	455,506
Option derivative financial assets	79,352	7,274	360,990	3,858
Forward derivative financial assets	169,388	2,429	198,718	-
Future derivative financial assets	25	-	8,488	-
Other derivative financial assets	895	-	152	-
	6,318,593	544,477	2,540,193	459,364

(*) *Includes derivative transactions subject to cash flow and fair value hedge accounting amounted to TL 544,477 (31 December 2019: TL 441,344) and nil (31 December 2019: TL 18,020), respectively.*

(Currency: Thousands of Turkish Lira (TL))

5 Derivative financial assets (continued)

As of 30 September 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 September 2020

			Fair value change of hedged item				
Hedging item	**Hedged item**	**Type of risk**	**Asset**	**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	-	(141,926)	(115,140)	(936)	(502)
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	15,686	(232,976)	293,450	(251,114)	(64,915)
Cross Currency Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	501,391	(72,965)	(16,616)	(12,166)	-
Cross Currency Swaps	Fixed-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	17,697	(326)	8,471	(8,775)	-
Currency Forwards	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	2,429	-	3,088	(2,590)	-
Interest Rate Options	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	7,274	-	996	-	-
Foreign currency borrowings	Operational lease receivables	Cash flow risk resulted from foreign currency exchange rates	-	-	(24,146)	57,864	-
			544,477	(448,193)	150,103	(217,717)	(65,417)

(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 September 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 September 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	50,788	-	(55,313)	(4,525)
Interest Rate Swaps	Fixed-rate securities	Interest rate risk	400,048	-	(454,260)	(54,212)
Cross Currency Swaps	Fixed-rate securities	Interest rate and foreign currency exchange rate risk	3,606	-	(62,242)	(58,636)
Other (*)(**)			30,394	-	(30,394)	-
			484,836	-	(602,209)	(117,373)

(*) *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 September 2020			*31 December 2019*		
	TL	***Foreign Currency***	***Total***	***TL***	***Foreign Currency***	***Total***
Loans and advances-demand						
Domestic banks	9,248	113,251	122,499	2,714	27,801	30,515
Foreign banks	12,094	24,311,195	24,323,289	9,429	16,012,771	16,022,200
	21,342	24,424,446	24,445,788	12,143	16,040,572	16,052,715
Loans and advances-time						
Domestic banks	745,778	2,310,983	3,056,761	548,862	1,277,660	1,826,522
Foreign banks	527,424	2,068,582	2,596,006	192,000	1,492,915	1,684,915
	1,273,202	4,379,565	5,652,767	740,862	2,770,575	3,511,437
Placements at money markets	5,500,000	467,941	5,967,941	10,202,600	453,535	10,656,135
Income accrual on loans and advances to banks	8,625	34,480	43,105	8,003	26,403	34,406
Total loans and advances to banks	6,803,169	29,306,432	36,109,601	10,963,608	19,291,085	30,254,693
Less:						
Expected credit losses	(13,367)	(69,201)	(82,568)	(29,709)	(19,795)	(49,504)
	6,789,802	29,237,231	36,027,033	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 September 2020, majority of loans and advances-time are short-term with interest rates ranging between (0.47)%-6% per annum for foreign currency time placements and 2%-19% per annum for TL time placements (31 December 2019: 1%-7 and 7%-31%, respectively).

As of 30 September 2020, loans and advances at domestic and foreign banks include blocked accounts of TL 4,343,640 (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 September 2020 and 31 December 2019:

	30 September 2020			*31 December 2019*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	36,109,601	-	-	30,254,693	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(82,568)	-	-	(49,504)	-	-
Total carrying amount	36,027,033	-	-	30,205,189	-	-

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

	30 September 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	(168,025)	-	-	(99,063)	-	-
Provision for the period	195,845	-	-	133,035	-	-
Effects of movements in exchange rates	5,244	-	-	(3,431)	-	-
Balances at the end of the period	82,568	-	-	49,504	-	-

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers

As of 30 September 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%-19% (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 September 2020 and 31 December 2019:

	30 September 2020			*31 December 2019*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	275,276,457	-	-	216,428,657	-	-
Stage 2: Watch list	-	42,112,416	-	-	36,608,185	-
Stage 3.1: Substandard	-	-	146,579	-	-	2,078,194
Stage 3.2: Doubtful	-	-	1,202,205	-	-	5,059,405
Stage 3.3: Loss	-	-	17,595,734	-	-	10,585,242
Total loans	275,276,457	42,112,416	18,944,518	216,428,657	36,608,185	17,722,841
Income accrual on loans	3,414,684	1,069,306	725,282	2,794,547	1,054,611	576,736
Expected credit losses	(1,801,770)	(6,799,258)	(13,514,927)	(1,197,959)	(3,933,519)	(11,428,531)
Total carrying amount	276,889,371	36,382,464	6,154,873	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 September 2020 and 31 December 2019 are as follows:

	30 September 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	793,024	(789,977)	(3,047)	1,243,379	(1,238,117)	(5,262)
Transfer to Stage 2	(284,538)	293,448	(8,910)	(501,816)	529,038	(27,222)
Transfer to Stage 3	(2,489)	(386,546)	389,035	(6,981)	(1,900,983)	1,907,964
Debt sales and write-offs	-	-	(253,083)	-	-	(1,818,936)
Recoveries and reversals	(2,239,511)	(2,541,278)	(1,110,993)	(2,425,758)	(3,125,772)	(1,000,044)
Provision for the period	2,171,103	5,391,627	1,748,586	1,968,593	5,458,787	4,551,073
Effects of movements in exchange rates	166,222	898,465	1,324,808	43,310	268,918	358,955
Balances at the end of the period	1,801,770	6,799,258	13,514,927	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 September 2020 and 31 December 2019, movements of non-performing cash loans (Stage 3) are as follows:

	30 September 2020		31 December 2019	
	Principal	Accrual	Principal	Accrual
Balances at 1 January	17,722,841	576,736	12,116,211	432,491
Addition	1,586,759	138,456	9,353,752	168,272
Collection	(2,339,778)	(18,537)	(2,667,629)	(24,079)
Debt sales and write-offs (*)	(329,791)	(2,553)	(1,812,914)	(9,080)
Effects of movements in exchange rates	2,304,487	31,180	733,421	9,132
Balances at the end of the period	18,944,518	725,282	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 61,370 (30 September 2019: TL 660,804) was sold for a consideration of TL 21,475 in the current period (30 September 2019: TL 44,866). Considering the related provision of TL 52,725 (30 September 2019: TL 659,119) made in the financial statements, a gain of TL 12,830 (30 September 2019: TL 43,181) 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 September 2020 and 31 December 2019:

	30 September 2020			31 December 2019		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	2,577,191	-	-	2,061,700	-	-
Stage 2: Watch list	-	20,070	-	-	15,931	-
Stage 3.1: Substandard	-	-	17,550	-	-	13,833
Stage 3.2: Doubtful	-	-	3,033	-	-	3,437
Stage 3.3: Loss	-	-	346,649	-	-	322,488
Total factoring receivables	2,577,191	20,070	367,232	2,061,700	15,931	339,758
Income accrual on factoring receivables	19,166	-	-	12,774	-	-
Expected credit losses	(7,097)	(8,284)	(349,035)	(4,824)	(7,015)	(313,568)
Total carrying amount	2,589,260	11,786	18,197	2,069,650	8,916	26,190

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

	30 September 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	(24)	24	-	(437)	437	-
Transfer to Stage 3	(20)	-	20	(17)	(333)	350
Debt sales and write-offs	-	-	(32,981)	-	-	-
Recoveries and reversals	(2,163)	(12)	(3,739)	(4,716)	(1,281)	(3,921)
Provision for the period	4,326	1,258	12,131	2,835	8,031	34,979
Effects of movements in exchange rates	56	-	60,133	7	-	18,326
Balances at the end of the period	7,097	8,284	349,035	4,824	7,015	313,568

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

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

	30 September 2020	*31 December 2019*
Balances at 1 January	339,758	306,866
Addition	7,560	24,318
Collection	(8,136)	(11,133)
Debt sales and write-offs	(33,086)	-
Effects of movements in exchange rates	61,136	19,707
Balances at the end of the period	367,232	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 September 2020	*31 December 2019*
Financial lease receivables, net of unearned income	6,585,920	5,233,713
Add: non-performing financial lease receivables(*)	910,941	871,051
Less: expected credit losses on financial lease receivables	(682,651)	(568,865)
	6,814,210	5,535,899
Income accrual on financial lease receivables	42,679	26,693
Analysis of net financial lease receivables		
Due within 1 year	3,097,534	2,592,685
Due between 1 and 5 years	4,272,916	3,407,516
Due after 5 years	180,624	155,449
Financial lease receivables, gross	7,551,074	6,155,650
Unearned income	(736,864)	(619,751)
Financial lease receivables, net	6,814,210	5,535,899
Analysis of net financial lease receivables		
Due within 1 year	2,735,841	2,292,633
Due between 1 and 5 years	3,905,821	3,094,708
Due after 5 years	172,548	148,558
Financial lease receivables, net	6,814,210	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 September 2020 and 31 December 2019:

	30 September 2020			31 December 2019		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	5,628,041	-	-	4,466,590	-	-
Stage 2: Watch list	-	957,879	-	-	767,123	-
Stage 3.1: Substandard	-	-	514,919	-	-	467,235
Stage 3.2: Doubtful	-	-	62,526	-	-	55,386
Stage 3.3: Loss	-	-	317,213	-	-	331,649
Total financial lease receivables	5,628,041	957,879	894,658	4,466,590	767,123	854,270
Income accrual on financial lease receivables	7,436	35,243	16,283	1,629	25,064	16,781
Expected credit losses	(49,402)	(140,660)	(492,589)	(34,985)	(93,045)	(440,835)
Total carrying amount	5,586,075	852,462	418,352	4,433,234	699,142	430,216

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

	30 September 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	19,172	(18,486)	(686)	32,764	(31,910)	(854)
Transfer to Stage 2	(5,460)	7,118	(1,658)	(18,350)	23,045	(4,695)
Transfer to Stage 3	(8)	(8,589)	8,597	(52)	(56,176)	56,228
Debt sales and write-offs	-	-	(41,610)	(133)	(8)	(81,015)
Recoveries and reversals	(50,576)	(45,009)	(58,931)	(80,494)	(51,720)	(76,592)
Provision for the period	41,579	83,027	73,914	41,836	117,331	127,806
Effects of movements in exchange rates	9,710	29,554	72,128	3,398	7,009	21,204
Balances at the end of the period	49,402	140,660	492,589	34,985	93,045	440,835

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

	30 September 2020		31 December 2019	
	Principal	Accrual	Principal	Accrual
Balances at 1 January	854,270	16,781	896,062	1,754
Addition	66,534	(1,363)	277,119	15,154
Collection	(144,302)		(289,806)	-
Debt sales and write-offs	(41,610)		(80,787)	(226)
Effects of movements in exchange rates	159,766	865	51,682	99
Balances at the end of the period	894,658	16,283	854,270	16,781

As of 30 September 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 588. Considering the related provision of TL 42,718 made in the financial statements, a gain of TL 588 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 September 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)***	6,156,800	12,717,745	1-4	2028	11,940,474
Eurobonds	7,940,229	7,831,573	3-12	2034	5,348,795
Government bonds in TL	6,955,144	6,624,675	7-21	2028	2,808,059
Bonds issued by foreign governments	3,788,577	4,018,343	3-4	2028	3,182,908
Government bonds-discounted	1,498,037	1,423,302	9-15	2026	175,224
Government bonds in FC	1,164,648	1,168,173	2-3	2021	1,278,726
Government bonds at floating rates ***(b)***	925,923	946,637	9-10	2027	3,268,475
Bonds issued by financial institutions	189,962	202,532	1-14	2025	119,052
Bonds issued by corporations	179,924	187,774	1	2024	139,444
Total debt and other instruments at FVOCI		35,120,754			28,261,157
Debt and other instruments at amortised cost					
Eurobonds	9,448,267	10,331,187	5-12	2030	6,662,305
Government bonds indexed to CPI ***(a)***	7,105,000	9,070,950	1-3	2027	8,946,605
Government bonds at floating rates ***(b)***	5,105,216	4,983,790	9-11	2027	3,831,845
Government bonds in TL	2,507,200	2,414,357	7-16	2027	334,915
Government bonds-discounted	681,196	631,944	-	2021	-
Government bonds in FC	359,848	359,848	2	2021	265,724
Bonds issued by financial institutions	131,443	114,645	1-28	2023	144,239
Bonds issued by foreign governments	89,962	89,962	-	2020	-
		27,996,683			20,185,633
Income accrual on amortised cost portfolio		5,155,268			7,534,709
Total debt and other instruments at amortised cost		33,151,951			27,720,342
Expected credit losses on amortised cost portfolio		(320,653)			(119,889)
Total investment securities		67,952,052			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, was updated to 9% as of 29 July 2020 and was updated to 10.5% as of 3 September 2020. If the valuation of such securities was performed according to the reference index valid as of 30 September 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 89,228 (net), whereas interest income on securities would increase by TL 238,924.*

(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 September 2020 and 31 December 2019:

	30 September 2020			31 December 2019		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	35,120,754	-	-	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	35,120,754	-	-	28,261,157	-	-

As of 30 September 2020, expected credit losses amounting to TL 241,932 (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 September 2020 and 31 December 2019:

	30 September 2020			31 December 2019		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	33,151,951	-	-	27,720,342	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(320,653)	-	-	(119,889)	-	-
Total carrying amount	32,831,298	-	-	27,600,453	-	-

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

	30 September 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	(68,852)	-	-	(22,083)	-	-
Provision for the period	252,107	-	-	85,056	-	-
Effects of movements in exchange rates	17,509	-	-	2,791	-	-
Balances at the end of the period	320,653	-	-	119,889	-	-

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 2,299,376 (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 September 2020		*31 December 2019*	
	Face value	*Carrying value*	*Face value*	*Carrying value*
Collateralized to foreign banks	9,103,946	9,288,769	5,433,116	6,049,889
Deposited at central banks for repurchase transactions	2,099,600	2,333,726	1,736,621	1,866,862
Deposited at Borsa Istanbul	-	-	-	-
Deposited at central banks for interbank transactions	14,782,432	21,364,842	1,982,809	2,051,842
Deposited at Clearing Bank (Takasbank)	2,122,131	2,761,247	1,526,383	2,565,741
Others	-	205,532		195,252
		35,954,116		12,729,586

9 Equity investments

	30 September 2020		*31 December 2019*	
	Carrying value	*Ownership %*	*Carrying value*	*Ownership %*
Equity investments measured at FVOCI:				
Visa Inc.	234,434	0.00	344,282	0.00
İstanbul Takas ve Saklama Bankası AŞ	26,096	5.25	27,636	5.25
Others	102,426	-	50,195	-
	362,956		422,113	

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 September 2020 and 31 December 2019, movements in tangible assets held for sale are as follows:

	30 September 2020	*31 December 2019*
Balance at the beginning of the period	1,159,058	857,684
Additions	145,129	542,907
Disposals	(318,292)	(264,563)
Fair value changes	26,755	21,053
Effects of movement in exchange rates	7,085	1,977
Balance at the end of the period	1,019,735	1,159,058

(Currency: Thousands of Turkish Lira (TL))

10 Assets held for sale (continued)

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

	30 September 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 foreseen 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.

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 September 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.

(Currency: Thousands of Turkish Lira (TL))

12 Other assets

	30 September 2020	*31 December 2019*
Balances with clearing house	4,798,445	3,503,447
Prepaid expenses, insurance claims and similar items	1,967,756	1,328,334
Gold	1,550,475	2,046,768
Miscellaneous receivables	1,267,734	854,766
Receivables from securities lending market	196,382	208,680
Receivables from sale of assets	153,125	115,728
Prepaid taxes and taxes/funds to be refunded	85,207	93,897
Insurance premium receivables	54,552	64,008
Option premium receivables	2,142	3,403
Purchased cheques	682	482
Others	435,947	326,534
	10,512,447	8,546,047
Expected credit losses for other assets	(102,185)	(121,331)
	10,410,262	8,424,716

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

	30 September 2020			*31 December 2019*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	8,747,258	-	-	6,301,071	-	-
Stage 2: Watch list	-	23,081	-	-	26,315	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	14,808	-	-	14,434
Stage 3.3: Loss	-	-	89,476	-	-	60,159
Expected credit losses	(22,214)	(4,785)	(75,186)	(56,191)	(4,155)	(60,985)
Total carrying amount	8,725,044	18,296	29,098	6,244,880	22,160	13,608

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

	30 September 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	258	(226)	(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	-	-	(834)	-	-	(876)
Recoveries and reversals	(115,845)	(2,876)	(3,747)	(12,829)	(6,995)	(8,184)
Provision for the period	81,110	3,127	8,421	47,740	4,626	12,866
Effects of movements in exchange rates	895	361	10,242	859	232	4,668
Balances at the end of the period	22,214	4,785	75,186	56,191	4,155	60,985

(Currency: Thousands of Turkish Lira (TL))

13 Deposits from banks

Deposits from banks comprise the following:

	30 September 2020	*31 December 2019*
Payable on demand	918,600	2,322,684
Term deposits	249,774	345,286
	1,168,374	2,667,970
Expense accrual on deposits from banks	789	781
	1,169,163	2,668,751

Deposits from banks include both TL accounts amounting to TL 835,430 (31 December 2019: TL 421,923) and foreign currency accounts amounting to TL 332,944 (31 December 2019: TL 2,246,047) in total. As of 30 September 2020, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 7%-9% and 1% (31 December 2019: 8%-26% and (0.46)%-3%), respectively.

14 Deposits from customers

Deposits from customers comprise the following:

	30 September 2020			*31 December 2019*
	Demand	*Time*	*Total*	*Total*
Foreign currency	99,249,408	95,362,535	194,611,943	155,342,562
Saving	24,458,844	59,747,950	84,206,794	74,347,457
Commercial	13,981,180	23,811,964	37,793,144	31,525,501
Public and other	1,810,423	5,036,185	6,846,608	6,263,138
Gold and other precious metals	18,373,188	1,573,905	19,947,093	6,129,777
	157,873,043	185,532,539	343,405,582	273,608,435
Expense accrual on deposits from customers	4,601	923,254	927,855	861,783
	157,877,644	186,455,793	344,333,437	274,470,218

As of 30 September 2020, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 3%-32% and 1%-9% (31 December 2019: 1%-32% and 1%-11%), respectively.

(Currency: Thousands of Turkish Lira (TL))

15 Loans and advances from banks and other institutions

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

	30 September 2020	*31 December 2019*
Short-term borrowings		
Domestic banks	4,178,271	3,045,192
Foreign banks	7,170,505	10,043,876
	11,348,776	13,089,068
Long-term debts		
Short-term portion	14,082,096	7,788,539
Medium and long-term portion	5,522,896	5,635,024
	19,604,992	13,423,563
Expense accrual on loans and advances from banks and other institutions	166,755	227,189
	31,120,523	26,739,820

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

As of 30 September 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 4,735,271), (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 6,427,953).

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 4,645,548), (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 4,805,264).

Long-term debts comprise the following:

			30 September 2020			*31 December 2019*
	Interest rate%	*Interest maturity*	*Amount in original currency*	*Short term portion*	*Medium and long term portion*	*Medium and long term debts*
EIB	1-4	2024	US$ 199 millions	170,983	1,352,387	1,133,327
Proparco	2-3	2028	EUR 111 millions	142,044	852,270	681,789
IFC	1-2	2024	EUR 77 millions	206,443	487,859	446,679
EFSE	2-3	2024	EUR 40 millions	123,869	239,236	178,213
ISBANK AG	2-3	2022	EUR 29 millions	-	264,015	159,614
EBRD	20	2023	TL 232 millions	-	231,857	270,500
EIB	1-2	2023	EUR 22 millions	-	200,437	147,952
AKBANK AG	3	2022	EUR 21 millions	-	191,690	139,663
EBRD	1	2025	US$ 7 millions	10,832	43,324	37,614
IFC	4-5	2023	RON 24 millions	12,551	31,378	28,320
Others				13,415,374	1,628,443	2,411,353
				14,082,096	5,522,896	5,635,024

(Currency: Thousands of Turkish Lira (TL))

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 September 2020	*31 December 2019*
Money market fundings	880,880	321,871
Obligations under repurchase agreements	2,216,191	1,464,990
Obligations on securities under reverse repurchase agreements	-	-
	3,097,071	1,786,861

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 September 2020					
Financial assets at fair value through profit or loss	34,350	34,350	32,171	-	32,171
Investment securities	2,299,376	2,309,598	2,184,020	Oct’20-Feb’25	2,198,798
	2,333,726	2,343,948	2,216,191		2,230,969
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 September 2020, the maturities of the obligations varied from one day to 80 months and interest rates varied between (0.50)%-3% per annum for foreign currency obligations and 7%14% 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.

(Currency: Thousands of Turkish Lira (TL))

17 Debt securities issued

	30 September 2020			31 December 2019
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Bonds payable of US$ 1,806 millions	2024	2.6-6.4	12,717,434	9,861,586
Bonds payable of TL 6,696 millions	2023	7.9-17.0	5,715,810	5,992,997
Bonds payable of EUR 45 millions	2027	5.2	402,585	297,009
Total bonds payable			18,835,829	16,151,592
DPR future flow transactions of US$ 437 millions	2027	2.0-3.4	3,356,188	3,358,730
DPR future flow transactions of EUR 122 millions	2022	0.7-1.3	1,098,542	1,222,085
Total DPR future flow transactions			4,454,730	4,580,815
Expense accrual on bonds payable			218,696	256,139
Expense accrual on DPR future flow transactions			23,016	37,991
			23,532,271	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.

The Bank and/or its consolidated subsidiaries repurchased the Bank's own TL securities with a total face value of TL 2,318,136 and foreign currency securities with a total face value of USD 215,723,000 (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 September 2020.

18 Financial liabilities at fair value through profit or loss

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

	30 September 2020	*31 December 2019*
Securities issued	15,591,683	14,342,293
	15,591,683	14,342,293

In accordance with IFRS 9, the Bank classified a part of securities issued amounting to US$ 2,368,303,572 (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 September 2020, the accumulated fair value change of the related financial liability amounted to TL 2,860,736 (31 December 2019: TL 725,306) and the corresponding loss recognised in the statement of profit or loss and other comprehensive income amounted to TL 2,135,430 (30 September 2019: TL 208,469). The carrying value of the related financial liability amounted to TL 15,591,683 (31 December 2019: TL 14,342,293).

(Currency: Thousands of Turkish Lira (TL))

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 September 2020		*31 December 2019*	
	Trading	*Hedging*(*)	*Trading*	*Hedging*(*)
Swap derivative financial liabilities	6,181,728	1,020,008	2,662,296	1,195,418
Forward derivative financial liabilities	358,692	-	162,783	-
Option derivative financial liabilities	83,188	-	218,864	-
Future derivative financial liabilities	877	-	6	-
Other derivative financial liabilities	613	-	298	-
	6,625,098	1,020,008	3,044,247	1,195,418

(*) *Includes derivative transactions subject to cash flow and fair value hedge accounting amounted to TL 448,193 (31 December 2019: TL 734,714) and TL 571,815 (31 December 2019: TL 460,704), respectively.*

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

20 Subordinated liabilities

Subordinated liabilities comprise the following:

	30 September 2020			*31 December 2019*
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Subordinated debt of US$ 750 million	2027	6.125	5,754,000	4,440,600
Subordinated debt of TL 750 million	2030	TL REF+250 bps	750,000	-
Subordinated debt of TL 253 million	2029	TL REF+130 bps	252,880	252,880
Expense accrual on subordinated liabilities			142,538	36,227
			6,899,418	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.

(Currency: Thousands of Turkish Lira (TL))

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 September 2020	*%*	*30 September 2019*	*%*
Taxes on income per statutory tax rate	1,698,152	22.00	1,406,842	22.00
Disallowable expenses	40,445	0.52	26,788	0.42
Income items exempt from tax or subject to different tax rates	(85,914)	(1.11)	(87,061)	(1.36)
General reserve	402,600	5.22	22,000	0.34
Others	141,573	1.83	5,046	0.08
Taxation charge	2,196,856	28.46	1,373,615	21.48

The taxation charge is comprised of the following:

	For the nine-month period ended	
	30 September 2020	*30 September 2019*
Current taxes	2,652,296	1,684,276
Deferred taxes	(455,440)	(310,661)
Taxation charge	2,196,856	1,373,615

The movement of current tax liability is as follows:

	30 September 2020	*31 December 2019*
Balance at the beginning of the period	685,143	133,670
Current period taxation charge	2,652,296	2,371,219
Less: Advance taxes paid during the period	(2,979,801)	(1,819,746)
Current tax liability	357,638	685,143

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 September 2020	*31 December 2019*
Total deferred tax assets	2,703,927	2,110,957
Off-setted amount	(145,360)	(216,516)
Deferred tax assets per financial statements	2,558,567	1,894,441
Total deferred tax liabilities	281,468	289,620
Off-setted amount	(145,360)	(216,516)
Deferred tax liabilities per financial statements	136,108	73,104
Net deferred tax assets	2,422,459	1,821,337

(Currency: Thousands of Turkish Lira (TL))

21 Taxation (continued)

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 September 2020					
Expected credit losses	1,425,681	1,177,184	1,797	(33,946)	2,570,716
Discount on loans and advances to customers	98,786	19,333	-	-	118,119
Reserve for employee severance indemnity	108,946	13,979	(27)	-	122,898
Short-term employee benefits	148,613	(19,753)	1,083	-	129,943
Tax losses carried forward	99,012	(94,962)	-	-	4,050
Valuation difference on financial assets and liabilities	105,524	(596,066)	(2,079)	217,088	(275,533)
Revaluation surplus on real estates	(209,572)	(1,647)	(8,068)	(20,318)	(239,605)
Impairment of equity investments, tangible and intangible assets	13,382	3,785	-	-	17,167
Accruals on credit card rewards	35,792	9,872	-	-	45,664
Pro-rata basis depreciation expenses	(139,196)	(7,885)	-	-	(147,081)
Others, net	134,369	(48,400)	(9,900)	52	76,121
Net deferred tax assets	1,821,337	455,440	(17,194)	162,876	2,422,459

	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

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

	30 September 2020	31 December 2019
which will expire in 2021	-	1,933
which will expire in 2022	-	25,654
which will expire in 2023	4,050	71,425
	4,050	99,012

(Currency: Thousands of Turkish Lira (TL))

22 Provisions

The principal components of provisions are as follows:

	30 September 2020	*31 December 2019*
General reserve (*)	4,330,000	2,500,000
Expected credit losses from non-cash loans	1,699,609	1,214,480
Insurance business related provisions	826,184	640,739
Reserve for employee severance indemnity	641,201	571,542
Short term employee benefits	616,949	701,665
Provisions for litigations	521,023	489,241
Other provisions (**)	770,152	443,758
	9,405,118	6,561,425

(*) *As of 30 September 2020, general reserves amounting to TL 4,330,000 (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 September 2020, it includes provisions for credit card rewards and promotions amounting to TL 219,848 (31 December 2019: TL 172,524).*

Insurance business related provisions

Insurance business related provisions are detailed in the table below:

	30 September 2020	*31 December 2019*
Reserve for unearned premiums, net	126,947	96,435
Gross	*169,250*	*130,789*
Reinsurers' share	*(42,303)*	*(34,354)*
Provision for claims, net	64,442	57,512
Gross	*89,017*	*78,548*
Reinsurers' share	*(24,575)*	*(21,036)*
Life mathematical reserves	634,795	486,792
	826,184	640,739

Reserve for employee severance indemnity

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

	30 September 2020	*31 December 2019*
Balance, beginning of the period	571,542	502,610
Service cost	38,542	48,853
Interest cost	50,567	75,572
Benefits paid	(25,867)	(57,076)
Settlement/curtailment/termination gain/loss	6,417	4,134
Past service cost arising over last period	-	8
Business combinations	-	-
Actuarial gain/loss	-	(2,559)
Balance, end of the period	641,201	571,542

(Currency: Thousands of Turkish Lira (TL))

22 Provisions (continued)

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 7.117,17 and full TL 6.379,86 as of 30 September 2020 and 31 December 2019, respectively.

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

	30 September 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

Expected credit losses from non-cash loans

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

	30 September 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	95,221	(94,287)	(934)	92,434	(91,370)	(1,064)
Transfer to Stage 2	(31,320)	31,530	(210)	(25,400)	26,879	(1,479)
Transfer to Stage 3	(187)	(3,324)	3,511	(401)	(119,500)	119,901
Debt sales and write-offs	-	-	-	-	-	-
Recoveries and reversals	(354,316)	(150,014)	(243,292)	(268,789)	(180,334)	(148,924)
Provision for the period	358,347	421,955	232,436	309,983	457,568	342,817
Effects of movements in exchange rates	34,692	70,479	114,842	6,881	12,989	27,640
Balances at the end of the period	340,888	627,796	730,925	238,451	351,457	624,572

(Currency: Thousands of Turkish Lira (TL))

23 Other liabilities and accrued expenses

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

	30 September 2020	*31 December 2019*
Blocked accounts against expenditures of card holders	12,659,344	10,091,228
Cheques at clearing house	3,975,133	3,052,402
Miscellaneous payables	1,304,376	1,204,962
Operational lease payables	1,230,781	1,127,370
Transfer orders	732,903	410,539
Withholding taxes	529,414	574,469
Expense accruals	332,701	340,703
Advances received	259,759	130,510
Unearned income	215,698	173,058
Payables to suppliers relating to financial lease activities	104,857	77,273
Blocked accounts	80,811	62,323
Payables to insurance and reinsurance companies relating to insurance business	69,471	48,240
Cash guarantees obtained	18,248	15,005
Option premium payables	8,011	1,538
Others	536,901	476,608
	22,058,408	17,786,228

24 Equity

Share capital

The authorized nominal share capital of the Bank amounted to 4,200,000 TL as of 30 September 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 1,629,806 (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.

(Currency: Thousands of Turkish Lira (TL))

24 Equity (continued)

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

	30 September 2020	31 December 2019
Balance at the beginning of the period	113,612	(1,038,920)
Net unrealized gains from changes in fair value	(282,643)	1,190,067
Related deferred and current income taxes	25,194	(227,510)
Net (losses)/gains recycled to the statement of comprehensive income on disposal	(54,633)	223,783
Related deferred and current income taxes	11,999	(37,023)
Effect of movements in foreign exchange rates	14,302	3,215
Balance at the end of the period	(172,169)	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.

In the current period, net investment hedge amounting to EUR 414,165,411 (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 2,529,248 (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 September 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 September 2020, net non-controlling interests amount to TL 225,855 (31 December 2019: TL 273,921). Non-controlling interests are detailed as follows:

	30 September 2020	31 December 2019
Capital	55,219	55,219
Retained earnings and other reserves	114,132	142,239
Net income for the period	56,504	76,463
	225,855	273,921

(Currency: Thousands of Turkish Lira (TL))

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 September 2020	***31 December 2019***
Letters of guarantee	62,420,468	50,427,390
Letters of credit	9,384,629	10,676,483
Acceptance credits	2,141,354	1,579,043
Other guarantees and endorsements	129,671	74,179
	74,076,122	62,757,095

As of 30 September 2020;
- Commitment for unpaid capital of subsidiaries companies amounts to TL 2,763 (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 72,747,396 (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 1,818,585 (31 December 2019: TL 1,809,064) in total.

As of 30 September 2020, securities acquired under security borrowing transactions amounting to TL 5,688 (31 December 2019: TL 14,468).

26 Derivative financial instruments

As of 30 September 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 505,000,178 (31 December 2019: TL 369,829,737), approximately 64% 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 September 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 (*)	18,284,000	16,458,644	18,974,458	12,650,250	138,764,832	205,132,184
Purchases	*9,142,000*	*8,229,322*	*9,487,229*	*6,325,325*	*69,382,416*	*102,566,292*
Sales	*9,142,000*	*8,229,322*	*9,487,229*	*6,324,925*	*69,382,416*	*102,565,892*
Interest rate options	-	2,849,759	-	-	2,861,885	5,711,644
Purchases	-	*1,814,039*	-	-	*1,969,533*	*3,783,572*
Sales	-	*1,035,720*	-	-	*892,352*	*1,928,072*
Interest rate futures	-	23,016	-	-	-	23,016
Purchases	-	-	-	-	-	-
Sales	-	*23,016*	-	-	-	*23,016*
Other Derivatives						
Securities, shares and index options	205,872	13,632	28,580	135,774	70,234	454,092
Purchases	*162,938*	*6,816*	*14,290*	*67,887*	*35,117*	*287,048*
Sales	*42,934*	*6,816*	*14,290*	*67,887*	*35,117*	*167,044*
Other forward contracts	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Other future contracts	865,413	736,059	8,081	-	-	1,609,553
Purchases	*23,655*	*639,014*	*261*	-	-	*662,930*
Sales	*841,758*	*97,045*	*7,820*	-	-	*946,623*
Other swap contracts	13,020,138	67,122	46,432	-	36,339,250	49,472,942
Purchases	*12,951,526*	*33,561*	*23,216*	-	-	*13,008,303*
Sales	*68,612*	*33,561*	*23,216*	-	*36,339,250*	*36,464,639*
Currency Derivatives						
Spot exchange contracts	21,452,286	-	-	-	-	21,452,286
Purchases	*10,739,694*	-	-	-	-	*10,739,694*
Sales	*10,712,592*	-	-	-	-	*10,712,592*
Forward exchange contracts	4,779,251	5,076,544	3,591,408	2,679,774	39,083	16,166,060
Purchases	*2,353,566*	*2,528,736*	*1,801,039*	*1,359,085*	*20,439*	*8,062,865*
Sales	*2,425,685*	*2,547,808*	*1,790,369*	*1,320,689*	*18,644*	*8,103,195*
Currency/cross currency swaps	78,471,667	90,064,437	17,607,480	2,165,894	5,345,209	193,654,687
Purchases	*33,154,175*	*45,220,924*	*9,147,000*	*916,759*	*2,948,664*	*91,387,522*
Sales	*45,317,492*	*44,843,513*	*8,460,480*	*1,249,135*	*2,396,545*	*102,267,165*
Options	4,650,131	687,706	1,711,717	774,340	433,644	8,257,538
Purchases	*2,293,731*	*339,135*	*766,879*	*395,305*	*216,822*	*4,011,872*
Sales	*2,356,400*	*348,571*	*944,838*	*379,035*	*216,822*	*4,245,666*
Foreign currency futures	643,213	761,917	545,806	1,115,240	-	3,066,176
Purchases	*595,446*	*89,992*	*263,055*	*540,876*	-	*1,489,369*
Sales	*47,767*	*671,925*	*282,751*	*574,364*	-	*1,576,807*
Subtotal Purchases	71,416,731	58,901,539	21,502,969	9,605,237	74,572,991	235,999,467
Subtotal Sales	70,955,240	57,837,297	21,010,993	9,916,035	109,281,146	269,000,711
Total of Transactions	142,371,971	116,738,836	42,513,962	19,521,272	183,854,137	505,000,178

(*) *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:

	Nine-month period ended 30 September 2020	*Three-month period ended 30 September 2020*	*Nine-month period ended 30 September 2019*	*Three-month period ended 30 September 2019*
Fixed/floating securities	2,083,950	400,762	208,848	(142,582)
Financial assets designated as FVPL	(1,225,874)	(698,845)	-	75,644
Derivative transactions	656,026	2,461,420	(756,068)	218,557
Net trading income/expense	1,514,102	2,163,337	(547,220)	151,619

28 Other operating income

	Nine-month period ended 30 September 2020	*Three-month period ended 30 September 2020*	*Nine-month period ended 30 September 2019*	*Three-month period ended 30 September 2019*
Other operating income:				
Net sales from operational lease business(*)	193,386	64,073	101,539	38,911
Net sales from other non-financial subsidiaries	53,190	24,853	59,981	19,914
Dividend income	20,118	1,457	9,046	24
Rent income from real estate (including investment property)	2,546	1,165	2,726	1,094
Others	147,908	50,863	162,444	50,771
Total operating income	417,148	142,411	335,736	110,714

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

29 Other operating expenses

	Nine-month period ended 30 September 2020	*Three-month period ended 30 September 2020*	*Nine-month period ended 30 September 2019*	*Three-month period ended 30 September 2019*
Computer usage expenses	441,697	163,628	302,524	89,567
Saving deposits insurance fund	417,891	147,557	296,704	133,307
Utility expenses	141,356	50,641	147,116	49,417
Advertising expenses	101,645	35,099	111,207	25,220
Rent expenses	86,446	29,897	81,653	27,882
Repair and maintenance expenses	58,400	19,591	65,270	22,719
Research and development expenses	36,148	9,340	56,596	25,252
Stationary expense	31,806	7,460	28,829	9,087
Others	639,125	204,266	424,621	181,914
	1,954,514	667,479	1,514,520	564,365

(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 September 2020	***31 December 2019***
Statement of financial position		
Loans and advances to banks	14,942	38,537
Loans and advances to customers	462,356	28,860
Loans measured at FVPL	4,476,514	4,207,523
Miscellaneous receivables	649,021	241,380
Deposits from banks	40,088	133,851
Deposits from customers	187,660	109,680
Miscellaneous payables	-	-
Commitments and contingencies		
Non-cash loans	929,086	1,049,332
Derivatives	40,901,471	23,381,185

	Nine-month period ended 30 September 2020	***Three-month period ended 30 September 2020***	***Nine-month period ended 30 September 2019***	***Three-month period ended 30 September 2019***
Statement of profit or loss and other comprehensive income				
Interest, fees and commissions income	40,125	22,943	13,793	2,459
Interest, fees and commissions expenses	4,395	1,154	6,511	1,422
Net trading income/(expense) and foreign exchange gains/(losses), net	(337,365)	(516)	132,098	324,402
Other operating income	17,164	5,369	574	144
Other operating expenses	17,212	7,014	373	356

In the first nine-months of 2020, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 4%-28% and 2%-6% (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 nil and 8%-16%, 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 11,996 (30 September 2019: TL 83) are recognised against balances outstanding during the period with related parties as of 30 September 2020.

(Currency: Thousands of Turkish Lira (TL))

30 Related party disclosures (continued)

Including the payment related to resigners, key management personnel compensation for the nine-month period ended 30 September 2020 amounted to TL 89,169 (30 September 2019: TL 107,896) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted to TL 51,882 (30 September 2019: TL 84,096) and of its subsidiaries amounted to TL 37,287 (30 September 2019: TL 23,800).

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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