# Fibabanka A.Ş.
# and Its Subsidiaries

**Consolidated Financial Statements**
**As of and for the year ended**
**31 December 2020 with**
**Independent Auditor’s Report Thereon**

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Independent Auditors' Report

To the General Assembly of Fibabanka Anonim Şirketi,

*Qualified Opinion*

We have audited the consolidated financial statements of Fibabanka Anonim Şirketi ("the Bank") and its subsidiaries (together will be referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

*Basis for Qualified Opinion*

As stated in Note 21, the accompanying consolidated financial statements as at 31 December 2020 include a general reserve provision of total of TL 151.000 thousands, of which TL 106.500 thousands was recognized as expense within the current period and TL 44.500 thousands had been recognized as expense in prior periods; with a deferred tax asset amounting to TL 30.200 thousands of which TL 20.410 thousands was recognized within the current period and TL 9.790 thousands had been recognized in prior periods, which does not meet the requirements of International Accounting Standard ("IAS") 37 "Provisions, Contingent Liabilities and Contingent Assets". This general reserve provision is provided by the Bank management for the possible effects of the negative circumstances which may arise in economy or market conditions.

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

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

*Impairment of loans and advances to customers*

Refer to "Significant accounting policies" Note 3. xiii to the consolidated financial statements relating to the impairment of loans and advances to customers.

| *Key audit matter* | *How the matter is addressed in our audit* |
|---|---|
| As at 31 December 2020, loans and advances to customers measured at amortised cost comprise 69% of the Group's total assets.<br>The Group recognizes its loans and advances to customers measured at amortised cost in accordance with IFRS 9 Financial Instruments ("Standard").<br>The Group applies the "expected credit loss model" in determining the impairment of loans and advances to customers in accordance with the Standard. The model which contains significant assumptions and estimates is reviewed by the Group management annually.<br>The significant assumptions and estimates of the Group's management are as follows:<br>- significant increase in credit risk;<br>- incorporating the forward looking macroeconomic information in calculation of credit risk; and<br>- design and implementation of expected credit loss model. | Our procedures for testing impairment of loans and advances to customers included below:<br>• We tested the design, implementation and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment process with the involvement of information risk management specialists.<br>• We evaluated the adequacy of the subjective and objective criteria that is defined in the Group's impairment accounting policy compared with the Standard.<br>• We evaluated the Group's business model and methodology and the evaluation of the calculations were carried out with the control testing and detailed analysis by the involvement of specialist.<br>• We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information and tested their classification. In this context, the current status of the loan customer has been evaluated by including the impact of COVID-19 on prospective information and macroeconomic variables. |

| | |
|---|---|
| The determination of the impairment of loans and advances to customers measured at amortised cost depends on the (i) credit default status, (ii) the model based on the change in the credit risk at the first recognition date and (iii) the classification of the loans and advances to customers measured at amortised cost according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets.<br><br>The Group calculates expected credit losses on both an individual and a collective basis. Individual provisions consider the estimated future performance of the business and the fair value of the collateral provided for credit transactions.<br><br>The collective basis expected credit loss calculation is based on complex processes which are modelled by using current and past data sets and expectations. The completeness and accuracy of data sets in the model are also considered and the forward looking expectations are reflected by macroeconomic models. Impairment on loans and advances to customers measured at amortised cost was considered to be a key audit matter, due to the significance of the estimates, assumptions including the impact of COVID-19, the level of judgements and its complex structure as explained above. | • We evaluated the accuracy of the expected credit loss calculations by selecting sample for the loans which are assessed on individual basis including the impact of COVID-19 on the assumptions and estimates.<br><br>• We tested the accuracy and completeness of the data in the calculation models for the loans which are assessed on collective basis. The expected credit loss calculation was tested through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters for the selected sample portfolios were recalculated.<br><br>• We assessed the macroeconomic models which are used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method.<br><br>• We evaluated the qualitative and quantitative assessments which are used in determining the significant increase in credit risk.<br><br>• We also evaluated the adequacy of the consolidated financial statements' disclosures related to impairment provisions. |

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

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

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

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

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

Alper Güvenç
Partner

18 August 2021
Istanbul, Turkey

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## Consolidated Statement of Financial Position as at 31 December 2020

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

| | Notes | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Bank | 7 | 2,921,503 | 2,707,721 |
| Due from banks | | 1,299,024 | 520,489 |
| *-Due from banks* | 8 | *886,793* | *490,479* |
| *-Money market placements* | 8 | *412,231* | *30,010* |
| Financial assets at fair value through profit and loss (Net) | 9 | 845,573 | 2,697,120 |
| *-Loans* | 9 | - | *1,948,020* |
| *-Debt instruments* | 9 | *138,208* | *97,737* |
| *-Derivative financial assets held for trading* | 10 | *707,365* | *651,363* |
| Financial assets measured at FVOCI | 11 | 1,104,234 | 807,568 |
| Financial assets measured at amortised cost | 12 | 1,207,496 | 575,010 |
| Loans and advances to customers | 13 | 18,750,686 | 13,650,946 |
| Derivative financial assets held for hedging | 14 | - | 87,539 |
| Investments in equity instruments | 15 | 27,259 | 27,743 |
| Property and equipment | 17 | 361,240 | 355,401 |
| Intangible assets | 18 | 91,028 | 69,895 |
| Deferred tax assets | 27 | 191,644 | 54,308 |
| Other assets | 16 | 387,233 | 302,665 |
| **Total Assets** | | **27,186,920** | **21,856,405** |
| **Liabilities** | | | |
| Deposits from customers | 20 | 16,664,370 | 13,508,890 |
| Deposits from banks | 19 | 1,610,656 | 782,383 |
| *-Deposits from banks* | | 1,000,496 | *49,126* |
| *-Obligations under repurchase commitments* | | 610,160 | *733,257* |
| Funds borrowed | 22 | 1,155,142 | 859,381 |
| Securities issued | 23 | 1,480,900 | 1,718,332 |
| Derivative financial liabilities held for trading | 24 | 1,107,492 | 674,761 |
| Derivative financial liabilities held for hedging | 25 | - | 113,444 |
| Subordinated debts | 26 | 2,127,599 | 1,789,018 |
| Other liabilities and provisions | 21 | 1,159,482 | 750,854 |
| **Total Liabilities** | | **25,305,641** | **20,197,063** |
| **Equity** | | | |
| Share capital | 28 | 943,684 | 943,684 |
| Share premium | 28 | 128,678 | 128,678 |
| Other capital reserves - | 28 | 85,097 | 81,575 |
| Items that may be reclassified subsequently to profit or loss | | | |
| *-Unrealized gains(losses) on financial assets measured at FVOCI, net of tax* | 28 | 17,838 | 15,774 |
| Items that will not be reclassified subsequently to profit or loss | | | |
| *-Actuarial losses on employee termination benefits* | | (10,787) | (7,777) |
| Retained earnings | 28 | 716,610 | 497,321 |
| **Equity attributable to owners of the bank** | | **1,881,120** | **1,659,255** |
| Non-controlling interest | | 159 | 87 |
| **Total Shareholders' Equity** | | **1,881,279** | **1,659,342** |
| **Total Liabilities and Shareholders' Equity** | | **27,186,920** | **21,856,405** |

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

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

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

| | Notes | 1 January – 31 December 2020 | 1 January – 31 December 2019 |
|---|---|---|---|
| Interest income | 31 | 2,349,890 | 2,778,318 |
| Interest expense | 31 | (1,534,663) | (2,063,890) |
| **Net interest income** | | **815,227** | **714,428** |
| Fees and commission income | 32 | 219,886 | 268,315 |
| Fees and commission expenses | 32 | (34,999) | (34,614) |
| **Net fee and commission income** | | **184,887** | **233,701** |
| Net trading income | 33 | 261,828 | 161,995 |
| Other operating income | 33 | 42,599 | 132,171 |
| | | **304,427** | **294,166** |
| **Operating income** | **34** | **1,304,541** | **1,242,295** |
| Personnel expenses | 35 | (322,572) | (276,941) |
| Depreciation and amortisation | 17, 18 | (72,083) | (55,013) |
| Impairment losses on loans and advances | 13 | (263,460) | (482,997) |
| Other expenses | 36 | (319,929) | (173,654) |
| **Profit before income tax** | | **326,497** | **253,690** |
| Income tax | 27 | (88,400) | (38,910) |
| **Profit for the period** | | **238,097** | **214,780** |
| **Profit attributable to:** | | | |
| Equity holders of the Bank | | 238,025 | 214,751 |
| Non-controlling interests | | 72 | 29 |
| | | **238,097** | **214,780** |

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

## Consolidated Statement of Other Compehensive Income for the year ended 31 December 2020

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

| | **1 January-31 December 2020** | **1 January-31 December 2019** |
|---|---|---|
| **Profit for the year** | **238,097** | **214,780** |
| **Other comprehensive income / (expense)** | **--** | **--** |
| ***Items that may be reclassified subsequently to profit or loss*** | **2,064** | **42,346** |
| *-Unrealized gains / losses on financial assets measured at FVOCI* | *7,958* | *52,393* |
| *-Tax effect of unrealized gains / losses on financial assets measured at FVOCI* | *(5,894)* | *(10,047)* |
| ***Items that will not be reclassified subsequently to profit or loss*** | **(3,010)** | **(2,034)** |
| *-Actuarial losses on employee termination benefits* | *(3,763)* | *(2,542)* |
| *-Tax effect of actuarial losses on employee termination benefits* | *753* | *508* |
| **Other comprehensive income / (expense) for the year, net of tax** | **(946)** | **40,312** |
| **Total comprehensive income for the year** | **237,151** | **255,092** |
| **Attributable to:** | | |
| Equity holders of the Bank | 237,079 | 255,063 |
| Non – controlling interest | 72 | 29 |

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

## Fibabanka Anonim Şirketi and its Subsidiary

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

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

| | Share capital | Share premium | Other capital reserves | Items that may be reclassified subsequently to profit or loss | Items that will not be reclassified subsequently to profit or loss | Retained earnings / (accumulated losses) | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | Unrealized gains (losses) on financial assets measured at FVOCI | Actuarial gains / (losses) | | | |
| **Balances at 1 January 2019** | **943,684** | **128,678** | -- | **(26,572)** | **(5,743)** | **282,570** | **58** | **1,322,675** |
| ***Total comprehensive income*** | | | | | | | | |
| Net profit for the year | -- | -- | -- | -- | -- | 214,751 | 29 | 214,780 |
| *Other comprehensive income* | | | | | | | | |
| Additions to unrealized gains / (losses) on financial assets measured at FVOCI, net of deferred tax | -- | -- | -- | 42,346 | -- | -- | -- | 42,346 |
| Actuarial losses on employee termination benefits, net of deferred tax | -- | -- | -- | -- | (2,034) | -- | -- | (2,034) |
| Total other comprehensive income | -- | -- | -- | 42,346 | (2,034) | -- | -- | **40,312** |
| **Total comprehensive income** | **--** | **--** | **--** | **42,346** | **(2,034)** | **214,751** | **29** | **255,092** |
| ***Transaction with equity holders of the Bank*** | | | | | | | | |
| *Contributions and distributions* | | | | | | | | |
| Subordinated debt(*) | -- | -- | 81,575 | -- | -- | -- | -- | 81,575 |
| **Total contributions and distributions** | **--** | **--** | **81,575** | **--** | **--** | **--** | **--** | **81,575** |
| **Balances at 31 December 2019** | **943,684** | **128,678** | **81,575** | **15,774** | **(7,777)** | **497,321** | **87** | **1,659,342** |
| **Balances at 1 January 2020** | **943,684** | **128,678** | **81,575** | **15,774** | **(7,777)** | **497,321** | **87** | **1,659,342** |
| ***Total comprehensive income*** | | | | | | | | |
| Net profit for the year | -- | -- | -- | -- | -- | 238,025 | 72 | 238,097 |
| *Other comprehensive income* | | | | | | | | |
| Additions to unrealized gains / (losses) on financial assets measured at FVOCI, net of deferred tax | -- | -- | -- | 2,064 | -- | -- | -- | 2,064 |
| Actuarial losses on employee termination benefits, net of deferred tax | -- | -- | -- | -- | (3,010) | -- | -- | (3,010) |
| Total other comprehensive income | -- | -- | -- | 2,064 | (3,010) | -- | -- | (946) |
| **Total comprehensive income** | -- | -- | -- | **2.064** | **(3,010)** | **238,025** | **72** | **237,151** |
| ***Transaction with equity holders of the Bank*** | | | | | | | | |
| *Contributions and distributions* | | | | | | | | |
| Subordinated debt(*) | -- | -- | 18,736 | -- | -- | (18,736) | -- | -- |
| Coupons paid to equity holders | -- | -- | (15,214) | -- | -- | | -- | (15,214) |
| **Total contributions and distributions** | **--** | **--** | **3,522** | **--** | **--** | **(18,736)** | **--** | **(15,214)** |
| **Balances at 31 December 2020** | **943,684** | **128,678** | **85,097** | **17,838** | **(10,787)** | **716,610** | **159** | **1,881,279** |

(*) The Group classified the additional borrowing of TL 100,000 nominal and its interest expense related to 2020, which has a capital stock character, under "other capital reserves" according to the "IAS 32 Financial Instruments: Presentation" Standards ("IAS 32"). Interest expenses belonging to previous year are shown under retained earnings.

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

**Fibabanka Anonim Şirketi and its Subsidiary**

## Consolidated Statement of Cash Flows for the year ended 31 December 2020

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

| | Notes | 1 January-31 December 2020 | 1 January-31 December 2019 |
|---|---|---|---|
| **Net profit/(loss) for the year** | | **238,097** | **214,780** |
| *Adjustments for:* | | | |
| Depreciation of property and equipment | 17 | 39,850 | 42,225 |
| Amortisation of intangible assets | 18 | 26,068 | 12,788 |
| General provision | | 106,500 | (20,500) |
| Impairment losses on loans and advances, net | | 26,006 | 234,329 |
| Unearned revenue | | 16,332 | 2,683 |
| Employment termination benefits | 21 | 6,892 | 6,409 |
| Unused vacation pay provision | | 1,228 | 1,558 |
| Other provisions (net) | | (151,297) | (5,374) |
| Bonus provision | | 1,641 | 1,001 |
| Unrealized gains on financial assets/liabilities | | 1,042,228 | 3,392 |
| Taxation | 27 | 88,400 | 38,910 |
| **Operating profit before changes in operating assets/liabilities** | | **1,441,945** | **532,201** |
| *Changes in operating assets and liabilities:* | | | |
| Net decrease in balances with banks and central bank | | 1,027,541 | (221,234) |
| Net increase in financial assets at fair value through profit & loss | | 1,907,549 | (453,135) |
| Net increase in loans | | (3,071,630) | (1,312,481) |
| Net increase in other assets | | 151,286 | 161,495 |
| Net decrease in deposits | | 1,327,274 | 2,918,268 |
| Net increase in other liabilities | | 86,894 | (1,231,428) |
| Employment termination benefits paid | 21 | (5,863) | (4,984) |
| Taxes paid | | (84,557) | (48,849) |
| Bonuses paid | | (14,400) | (12,000) |
| **Net cash used in operating activities** | | **2,766,039** | **327,853** |
| *Cash flow from investing activities:* | | | |
| Purchase of financial assets measured at FVOCI | | (417,912) | (203,590) |
| Proceeds from sale of financial assets measured at FVOCI | | 121,246 | 257,817 |
| Purchase of financial assets measured at amortised cost | | (493,617) | (275,388) |
| Proceeds from sale of financial assets measured at amortised cost | | - | 63,410 |
| Unrealized gains on financial assets measured at FVOCI, net of tax | | 38,225 | - |
| Purchase of property & equipment | 17 | (57,837) | (109,357) |
| Purchase of intangible assets | 18 | (51,385) | (50,298) |
| **Net cash used in investing activities** | | **(861,280)** | **(317,406)** |
| *Cash flow from financing activities:* | | | |
| Proceeds from borrowing funding loans | | 315,156 | 191,995 |
| Payments of borrowing funding loans | | (233,910) | (233,788) |
| Proceeds from issue of subordinated liabilities | | - | 77,295 |
| **Net cash provided by financing activities** | | **81,246** | **35,502** |
| **Net (decrease)/increase in cash & cash equivalents** | | **1,986,005** | **45,949** |
| **Cash & cash equivalents at the beginning of the year** | 7 | **2,058,550** | **2,087,665** |
| Foreign exchange effect on cash and cash equivalents | | (1,509,123) | (75,064) |
| **Cash & cash equivalents at the end of the year** | 7 | **2,535,432** | **2,058,550** |

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

## 1. General Information

On 21 December 2001, Share Transfer Agreement was signed with Novabank S.A. for the sale of all shares of Sitebank A.Ş. under the control of the Savings Deposit Insurance Fund ("SDIF") and the sale transaction was approved by the decision of the Banking Regulation and Supervision Agency ("BRSA") No: 596 on 16 January 2002.

In the General Assembly held on 4 March 2003, the name of Sitebank A.Ş. was amended as BankEuropa Bankası A.Ş.

In the extraordinary General Assembly held on 28 November 2006, the name of BankEuropa Bankası A.Ş. was amended as Millennium Bank A.Ş.

On 10 February 2010, Banco Comercial Portugues S.A. and Credit Europe Bank N.V., which is an affiliate of Fiba Group, signed a share purchase agreement to transfer 95% of Millennium Bank A.Ş.'s shares to Credit Europe Bank N.V. and the legal approval process has been completed as of 27 December 2010. Credit Europe Bank N.V. is 100% owned by Credit Europe Group N.V. which is a banking group incorporated in Netherlands and an affiliate of Fiba Holding A.Ş.

In the extraordinary General Assembly held on 25 April 2011 the name of Millennium Bank A.Ş. has been amended as Fibabanka A.Ş. ("the Bank").

As of December 2012, Fiba Holding A.Ş. became the ultimate parent of the Bank after acquiring 97.6% of the shares from Credit Europe Bank N.V. on 3 December 2012 and 2.4% of the shares from Banco Comercial Portugues S.A. on 7 December 2012. There were sales of equity shares to the management of the Bank in 2013. Total share of the management is 0.6% as of 31 December 2020.

The Parent Bank applied to the BRSA on 14 January 2015 for permission of the subordinated loan provided from Fiba Holding A.Ş. in the amount of USD 50 million to be converted to share capital. Following the authorization of the BRSA on 4 March 2015, the Board of Directors decision was taken on 5 March 2015 regarding share capital increase of TL 128,860, TL 127,045 of the increase was provided by the subordinated loan granted by Fiba Holding A.Ş. which had been approved to be converted to capital and TL 1,815 of total capital was paid in cash by the other shareholders, capital increase was recognised in financial satements following the completion of the legal procedures on 7 May 2015.

The Bank's paid-in capital was increased by TL 168,655 in total on 23 December 2015 with equal contributions from International Finance Corporation ("IFC") and European Bank for Reconstruction and Development ("EBRD"). In addition, share issuance premium of TL 73,379 was recognised in the shareholders' equity.

The Bank's paid-in capital amounting to TL 850,038 was increased to TL 943,684 on 7 September 2016 with the capital contribution of TurkFinance B.V. by TL 93,646. In addition, share issuance premium of TL 55,299 was recognised in the shareholders' equity.

As of 31 December 2020, the Bank's full paid in capital is TL 943,684.

As of 31 December 2020, the Bank has 50 domestic branches and its head office is located at the following address: Esentepe Mah. Büyükdere Cad. No: 129 Şişli / İstanbul (31 December 2019: 63 domestic branches).

## 1. General Information (continued)

### Explanations on Subsidiaries

**Fiba Portföy Yönetimi A.Ş.**

Fiba Portföy Yönetimi A.Ş. ("Fiba Portföy") which is a 99% owned subsidiary of the Bank, established in September 2013 in İstanbul, was consolidated by using full consolidation method in the consolidated financial statements as at 31 December 2020.

Fiba Portföy's application to Capital Markets Board of Turkey ("CMB") about portfolio management authorization certificate was issued successfully and PYŞ. PY 56/1267 numbered 12 December 2013 dated authorization certificate was given to Fiba Portföy.

The aim of Fiba Portföy is to manage portfolios which consist of financial assets within the implementation of CMB's laws and relevant legislation rules with portfolio management contract as a representative and trade in capital markets. Besides, Fiba Portföy can manage local and foreign investment funds, investment trusts, local/foreign natural and legal people, investment firms and similar enterprises within the circle of legislation conditions as portfolio management activities. Fiba Portföy can also function on investment consulting activity, market consultancy and trading on shares of investment funds at Borsa İstanbul A.Ş. Emerging Companies Market on the condition that articles of the capital market legislation is fulfilled and necessary permission and authorization certificates are taken from Capital Markets Board. The Bank owns 99% of the equity of Fiba Portföy whose headquarters is located in Istanbul.

**Finberg Araştırma Geliştirme Danışmanlık Yatırım Hizmetleri A.Ş.**

Finberg Araştırma Geliştirme Danışmanlık Yatırım Hizmetleri Anonim Şirketi ("Finberg") which is a 100% owned subsidiary of the Bank, established in 2018 in İstanbul, was consolidated by using full consolidation method in the consolidated financial statements as at 31 December 2020.

Finberg is an investment and financial technology venture. Achieving a first in the Turkish banking industry, Finberg is intended to promote entrepreneurship and financial technologies. Aiming to partner with medium-scale companies and offer consultancy services in areas with growth potential, Fibabanka provides financing and added value to enterprises in the fields of mobile payment, income-expense monitoring and money transfer.

Finberg's aim is to offer customers both conventional banking products and the new products emerging from the combination of financial services and technology. As well, Finberg is designed to reach new customers and extend the Bank's knowledge of existing customers through such technological products, providing services to them with the right products. Furthermore, other purposes include minimizing the high costs and long timelines posed by the provision of products and services, while eliminating the challenges associated with accessing customer information and incorrect information, as encountered in conventional banking products.

Fibabanka A.Ş., Fiba Portföy Yönetimi A.Ş. and Finberg Araştırma Geliştirme Danışmanlık Yatırım Hizmetleri A.Ş. are together stated as the "Group" in this report.

The Group has 1,564 employees as of 31 December 2020 (31 December 2019: 1,554 employees).

## 2. New and amended standards and interpretations

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.

**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 standard is not applicable for the Group and will not have any impact on the financial position or performance of the Group.

**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 standard is not applicable for the Group and will not have any impact on the financial position or performance of the Group.

**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.

## 2. New and amended standards and interpretations (continued)

The amendments include:

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

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

c) Clarifying how lending conditions affect classification; and

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

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

**COVID-19 related rent concession (Amendments to IFRS 16)**

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

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

The practical expedient will only apply if:

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 does not 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 standard is not applicable for the Group and will not have any impact on the financial position or performance of the Group.

## 2. New and amended standards and interpretations (continued)

**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.

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

**Annual Improvements to IFRS Standards 2018–2020**

*Improvements to IFRSs*

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

*IFRS 1 First-time Adoption of International Financial Reporting Standards*

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

## 2. New and amended standards and interpretations (continued)

*IFRS 9 Financial Instruments*

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

*IFRS 16 Leases, Illustrative Example 13*

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

**IBOR Reform and its Effects on Financial Reporting—Phase 2**

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

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

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

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

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

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

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

The effects of the changes on the Group's consolidated financial statements have been evaluated and it has been concluded that there is no need for early application. On the other hand, the process for IBOR is expected to be completed as of 31 December 2021, and the Group's studies continue within the scope of compliance with the changes.

## 2. New and amended standards and interpretations (continued)

**Amendments are effective on 1 January 2020**

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

1. The revised Conceptual Framework (Version 2018)
2. Amendments to IFRS 3 - Definition of a Business
The application of the amendment to IFRS 3 did not have a significant impact on the consolidated financial statements of the Group.
3. Amendments to IAS 1 and IAS 8 - Definition of Material
The application of the amendment to IAS 1 and IAS 8 is not expected to have a significant effect on the consolidated financial statements of the Group.
3. Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
The application of this amendment did not have a significant impact on the consolidated financial statements of the Group.

## 3 Significant Accounting Policies

### i. Statement of Compliance

The Bank and its subsidiaries maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Accounting Practice Regulations as promulgated by BRSA, the Turkish Commercial Code and the Turkish Tax Legislation (collectively, Turkish GAAP).

These consolidated financial statements have been prepared in accordance with IFRS Standards.

### ii. Basis of Preparation

The accompanying financial statements are presented in thousands of TL, which is the Group's functional currency.

The financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair value if reliable measures are available: derivative financial assets held for trading, derivative financial assets held for hedging, financial assets at fair value through profit or loss, financial assets measured at FVOCI, derivative financial liabilities held for trading and derivative financial liabilities held for hedging.

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

### iii. Basis of Consolidation

According to full consolidation method, the subsidiaries' 100% of assets, liabilities, revenues, expenditures and off-balance sheet liabilities were combined with the Parent Bank's assets, liabilities, revenues, expenditures and off-balance sheet liabilities. Book value of the investment in the Group's subsidiaries and the portion of the cost of subsidiaries' capital belonging to the Group are eliminated. All intragroup balances and income and expenses relating to transactions between the Bank and its subsidiaries are eliminated in full on consolidation. Non-controlling interest shares in the net income of consolidated subsidiaries determined the net income of the Group and were demonstrated as a separate item in the income statement. Non-controlling interest shares were presented under equity in the consolidated financial statement.

## 3 Significant Accounting Policies (Continued)

### iv. Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

### v. Potential impacts of COVID-19 on the 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 financial statements dated 31 December 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 and disclosed in the related accounting policies.

### vi. Use of Estimates and Judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these financial statements, the significant judgments such as loan loss provision and deferred tax recoverability made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2020.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the effect on the amounts recognised in the financial statements are described in notes "ix", "x" and xxi".

### vii. Reclassification of Comparative Information

In order to comply with the presentation of the current period financial statements, comparative information is reclassified when necessary and significant differences are explained.

### viii. Foreign Currency Translation

For the purpose of the accompanying financial statements, the consolidated results and consolidated financial position of the Group is expressed in Turkish Lira, which is the functional currency of the Group, and the presentation currency for the accompanying consolidated financial statements.

Transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

(Amounts expressed in thousands of TL unless otherwise indicated.)

**3 Significant Accounting Policies (continued)**

**viii. Foreign Currency Translation (continued)**

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts, swaps and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

As at 31 December 2020 and 31 December 2019 foreign currency assets and liabilities of the Group are mainly in USD and EUR. Foreign currency translation rates used by the Group as of respective year-ends are as follows:

| | EUR / TL | USD / TL |
|---|---|---|
| 31 December 2020 | 9.0079 | 7.3405 |
| 31 December 2019 | 6.6506 | 5.9402 |

**ix. Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Property | 50 years |
| Vehicles | 5 years |
| Furniture, fixtures and office equipment and others | 4-50 years |

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognized in the income statement. There is no impairment recorded related to property and equipment.

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

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 3 Significant Accounting Policies (continued)

### x. Intangible Assets

Intangible assets acquired are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

There is no impairment recorded related to intangible assets. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful lives of 3 to 10 years. There are no intangible assets with indefinite useful lives.

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

### xi. Earnings per share

Earnings per share disclosed in the statement of profit or loss are calculated by dividing net profit for the year by the weighted average number of shares outstanding during the related period concerned

| | **31 December 2020** | **31 December** 2019 |
|---|---|---|
| Net Profit distributable to Common Shares | 238,025 | 214,751 |
| Average Number of Issued Common Shares (Thousand) | 94,116,055 | 94,116,055 |
| Earnings Per Share (Amounts presented as full TL) | **0.00252** | **0.00228** |

In Turkey, companies can increase their share capital by distributing "bonus shares" to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the year in which they were issued and for each earlier period. In case bonus shares are distributed after the balance sheet date but before the preparation of the financial statements, earnings per share is calculated considering the new number of shares.

There are no bonus shares issued by the Group in 2020 (31 December 2019: None).

### xii. Cash and Cash Equivalents

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

**3 Significant Accounting Policies (continued)**

**xiii. Financial Instruments**

**Initial recognition of financial instruments**

It shall be recognised a financial asset or a financial liability in the statement of financial position when, and only when, an entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using settlement date accounting.

**Initial measurement of financial instruments**

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. At initial recognition, the Group shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

**Classification of financial instruments**

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

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

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

**Assessment of business model**

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

**3 Significant Accounting Policies (continued)**

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

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

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

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

**Other business models**

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

## 3 Significant Accounting Policies (continued)

### a) Financial Assets

Financial assets include cash on hand, contractual rights to receive cash or another financial asset from the counterparty or the right to exchange of financial instruments or equity instrument transactions of the counterparty. Financial assets are classified into three groups as financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and financial assets measured at amortized cost. The Group classifies its financial assets based on the Group's business model and characteristics of the contractual cash flows in accordance with IFRS 9 and uses significant judgment on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments. The Group determines the classification of its financial assets at initial recognition.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date i.e. the date that the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

➢ ***Financial assets measured at fair value through profit or loss***

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

Loans measured at fair value through profit or loss are subject to valuation in accordance with fair value principles and profit or losses, emerging as a result of valuation, are recognized under profit/loss accounts.

**3 Significant Accounting Policies (continued)**

- ***Financial assets measured at fair value through other comprehensive income***

Financial assets are measured at fair value through other comprehensive income if financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on principal amount outstanding.

Financial assets measured at fair value through other comprehensive income are recognized by adding transaction costs to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets measured at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the “Accumulated other comprehensive income or loss to be reclassified through profit or loss” under shareholders’ equity. When these securities are collected or disposed of, the accumulated fair value differences reflected in the equity are recognized in the income statement.

Equity securities, which are classified as financial assets measured at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range. If the market prices cannot be obtained, the quoted market prices of other marketable securities are used for which have the same qualification in terms of interest, maturity and other terms.

As of 31 December 2020, total amount of financial assets measured at fair value through other comprehensive income is TL 1,104,234 (31 December 2019: TL 807,568), of which TL 345,999 comprises of private bank and corporate bonds denominated in foreign currencies with maturity more than 1 year (31 December 2019: TL 502,506).

- ***Financial assets measured at amortized cost***

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost.

Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is accounted in income statement.

## 3 Significant Accounting Policies (continued)

### ➢ *Loans and Receivables*

Except for loans and advances designated as hedged item in qualifying hedging relationships and carried at fair value, such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortisation process. Interest earned on such loans and receivables is reported as interest income.

### ➢ *Explanations on expected credit loss*

The Parent Bank recognizes expected credit loss allowance for financial assets measured at amortized cost and measured at fair value through other comprehensive income.

As of 1 January 2018, the Parent Bank recognizes provisions for impairment in accordance with IFRS 9 requirements by applying the expected credit loss model under IFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

The financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

**Stage 1**

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

**Stage 2**

In the event of a significant increase in credit risk since initial recognition, the financial asset will be transferred to Stage 2. Impairment for credit risk will be determined on the basis of the instrument's lifetime expected credit losses.

**Stage 3**

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized.

As part of IFRS 9, expected credit loss models are improved in process of exposure at default, probability of default and loss given default. These models are formed by taking into consideration internal ratings systems, past data and prospective expectations and considering below factors;

- Costumer type (individual, corporate, commercial and micro)
- Product type
- Ratings used as part of internal ratings systems
- Collaterals
- Collection period
- Exposure at default
- Time passed from loan disbursement
- Time to maturity

## 3. Significant Accounting Policies (continued)

**Exposure at Default:** Expresses the exposure amount when debtor defaults. It accounts along with the maturity of the borrower.

The amount of additional risk that may occur in case of default is added to the amount of risk and included in the calculations by using the credit conversion rates (CCR) for irrevocable commitments.

**Probability of Default:** Refers to the probability of default due to the inability of the debtor to fulfill its obligations. 12-month or lifetime estimation is performed according to whether there is an increase in credit risk or not.

**Loss Given Default:** In the default of the borrower, it is calculated as the expected credit loss to exposure at default. Loss given default models include inputs such as product type, customer segment, collateral structure, customer payment performance.

**Macroeconomic Factors:** Macroeconomic indicators are taken into account in determining the probability of default component in the expected credit loss calculation. Future macroeconomic forecasts are reflected in the expected credit loss calculations using more than one scenario.

While macroeconomic information is included, models and estimates reflecting the relationships between model risk parameters and macroeconomic variables are taken into consideration. The main macroeconomic indicators that make up these estimation models are the Gross Domestic Product (GDP) and the unemployment rate.

Macroeconomic estimation models include more than one scenario and the related scenarios are taken into account in the expected credit loss calculations.

Future expectations are determined based on 2 scenarios, base and negative. Each scenario has predetermined weights, and the final provisions are calculated by weighting on these probabilities.

**Calculation of Expected Loss Period:** In determining the lifetime expected credit loss, the period in which the Parent Bank will be exposed to credit risk is taken into consideration. Behavioral maturity analysis was performed on credit cards and overdraft accounts. The maximum period for which credit losses are to be recognized, except for credit cards and other rotative loans, is the contractual life of the financial instrument unless a legal right is required to recall the loan.

**Significant Increase in Credit Risk:** Due to the significant increase in credit risk, the Parent Bank performs quantitative and qualitative assessments to determine the financial assets to be classified as Stage 2 (Significant Increase in Credit Risk).

Within the scope of the quantitative assesments made for the corporate segment, the Parent Bank compares the change between the starting date and the date of the report by taking into account the time passed since the opening date. In order to make this comparison, the Parent Bank specifies threshold values to determine which changes are accepted as significant change. The decision to classify financial assets as Stage 2 due to a significant increase in credit risk by exceeding these threshold values is taken by the opinion of the Credit Department.

Within the scope of qualitative evaluations, financial assets included in the scope of close monitoring as of the reporting date are classified as Stage 2.

**3. Significant Accounting Policies (continued)**

➢ ***Derecognition of Financial Assets***

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

**b) Financial Liabilities**

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

➢ ***Financial Liabilities at Fair Value through Profit or Loss***

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in 'other gains/losses' line in the statement of comprehensive income.

➢ ***Other Financial Liabilities***

Other financial liabilities, including borrowings and deposits, are initially measured at fair value, net of transaction costs.

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.  Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortisation process.

➢ ***Derecognition of Financial Liabilities***

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

**3 Significant Accounting Policies (continued)**

➢ ***Off- Balance Sheet Commitments and Contingencies***

The Parent Bank deals with off-balance sheet risk in the normal course of business such as letters of guarantee, letters of credit, pre-financing loans, etc. The Group's exposure to credit losses arising from these instruments is represented by the contractual amount of those instruments.

**Derivative Financial Instruments**

The Group's derivative transactions mainly consist of interest rate swaps, foreign currency swaps, foreign currency options and foreign currency forward contracts. The Group does not have any embedded derivatives separated from the host contract.

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", forward foreign currency purchase/sale contracts, swaps and options are classified as "hedging purpose" and "trading purpose" transactions. Derivative contracts of the Group are all classified as trading purpose derivatives. Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Also, the assets and liabilities arising from the derivative transactions are recorded as off-balance sheet items at their contractual notional amounts. The derivative transactions held for trading are valued at fair-value using market prices or pricing models subsequent to initial recognition and are presented in "derivatives held for trading purpose". Gains and losses arising from a change in the fair value are recognized in the income statement.

➢ **Netting of Financial Assets and Liabilities**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

**xiv. Fair Value Considerations**

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms length transaction. Fair value is best evidenced by a market price, being the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market, if one exists.

Various financial instruments are accounted for at fair value. Other financial instruments are accounted at amortized cost but disclosure is required of fair value for comparison purposes, wherever practicable.

Due to economic conditions and volatility or low trading volumes in markets, the Parent Bank may be unable, in certain cases, to find a market price in an actively traded market. In such cases, other measures of fair value are considered. These include comparisons with similar financial instruments that do have active markets. As there are wide ranges of valuation techniques, it may be inappropriate to compare the Group's fair value information to independent markets or to other financial institutions' fair value information.

For certain financial assets and liabilities carried at cost, the fair values are assumed not to differ significantly from cost, due to the short-term nature of the items involved or because interest rates applicable to such items are variable at such short notice that interest income or expense on such items would not differ significantly from market rates.

**3 Significant Accounting Policies (continued)**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

- Central Bank accounts and balances with banks: The carrying amount is a reasonable estimate of fair value.
- Securities investments: Fair value is estimated using quoted market prices wherever applicable.
- Derivatives: Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and the fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Parent Bank uses that technique. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

  In the absence of forward foreign currency market rates and reliable forward rate estimations in a volatile market, values of foreign currency swap transactions are determined by comparing forward rates with contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected to the income statement. In determination of the fair values of interest rate swaps, discounted values calculated using the fixed and floating interest rates between the transaction date and repricing date are used.

- Loans and Receivables: Except for loans and advances designated as hedged item in qualifying hedging relationships and carried at fair value, such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortisation process. Interest earned on such loans and receivables is reported as interest income.

  The Group management believes that the risk factors embedded in the initial interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair value calculation of loans.

- Deposits: Estimated fair value of demand deposits, saving deposits and interbank deposits is the amount payable on demand at the reporting date.

- Borrowings: Borrowings have interest rates that are fixed on an entry value basis but may be subject to fluctuation in accordance with prevailing interest rates in the market. Interest-bearing borrowings and overdrafts are recorded at the proceeds received. Interests on borrowings are accounted for on an accrual basis and are added to the carrying amount of instruments to the extent they are not settled in the period in which they arise.

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

## 3 Significant Accounting Policies (continued)

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

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

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

### xv. Non-current Assets Held for Sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### xvi. Employee Benefits

- ***Employee Termination Benefits***

In accordance with existing social legislation in Turkey, the Group is required to pay lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

These payments are qualified as recognized retirement benefit plan according to revised IAS 19 Employee Benefits. Severance payment liability recognized in the balance sheet is calculated according to net present value of expected amount in the future arising from all employees' retirements and presented in the financial statements. All actuarial gains and losses are recognized immediately through other comprehensive income.

As of 31 December 2020, the Group's severance payment provision is calculated by an actuarial firm and the actuarial loss of TL 10,787 (net of deferred taxes) is accounted for under Equity (31 December 2019: Actuarial loss of TL 7,777).

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 3 Significant Accounting Policies (continued)

The principal actuarial assumptions used at 31 December 2020 and 31 December 2019 are as follows;

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| | % | % |
| Discount rate | 13.0 | 13.5 |
| Inflation rate | 8.5 | 6.0 |

The computation of the liability is predicated upon retirement pay ceiling announced by the Government. The ceiling amount at 31 December 2020 was TL 7,117.17 (full basis) (31 December 2019: TL 6,379.86 (full basis)).

➢ ***Other Contributions***

The Group pays contributions to Social Security Funds on a mandatory basis. There are no other liabilities related to employee benefits to be provisioned.

### xvii. Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### xviii. Leases

➢ ***The Group as Lessee***

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch and head office premises, which are cancellable subject to a period of notice. With the “IFRS 16 Leases” standard valid from 1 January 2019, the difference between operating leases and finance leases has been eliminated and the lease transactions have been expressed under the “Lease Payables” as liability by leases.

➢ ***IFRS 16 Leases***

The Group has adopted new standard, changes and commands, which are valid as of 1 January 2019, in line with the “IFRS 16 Leases” standard’s first time applying transition commands.

IFRS 16 “Lease” Standard

The Group as a lessee according to “Lease” Standard:

The Group assesses whether the contract has the quality of a lease or whether the lease includes the transaction at the beginning of a contract. In case the contract is transferred for a certain period of time to control the use of the asset defined for a price, it is either leased or includes a lease. The Group reflects the existence of a right of use and a lease liability to the financial statements at the effective date of the lease.

**3 Significant Accounting Policies (continued)**

Existence of right to use:

The right to use asset is first recognized by cost method and includes:

a) the initial measurement amount of the lease obligation,

b) the amount obtained by deducting all the rental incentives received from all lease payments made at or before the beginning of the lease;

c) all initial direct costs incurred by the Group.

When applying the cost method, the Group measures the right to use as follows:

a) deducts accumulated depreciation and accumulated impairment losses and

b) measures the restatement of the lease obligation at the restated cost.

The Group applies depreciation clauses of IAS 16 Tangible Assets standard when measuring the depreciation of the right to use.

Lease obligations:

At the effective date of the lease, the Group measures its leasing liability at the present value of the lease payments not paid at that time. Lease payments are discounted using the Group's average borrowing interest rates.

The lease payments included in the measurement of the lease liability consist of the payments to be made for the right of use during the lease term of the underlying asset and the unpaid payments at the effective date of the lease.

After the effective date of the lease, the Group measures the leasing liability as follows:

a) Increase the book value to reflect the interest on the lease obligation

b) Reduces the book value to reflect the lease payments made and

c) The book value is measured to reflect reassessments and restructuring, or reflect to fixed lease payments as of revised nature.

The interest on the lease liability for each period in the lease period is the amount calculated by applying a fixed periodic interest rate to the remaining balance of the lease liability.

## 3 Significant Accounting Policies (continued)

### xix. Income and Expense Recognition

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, throughout the period to the next repricing date. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees paid or received between parties in the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Interest income and expenses presented in the statement of profit or loss and other comprehensive income include interest income and expenses arising from currency swaps, cross currency swaps, futures and interest rate cap/floor agreements which are presented as other interest income and expense in the accompanying consolidated financial statements.

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized ratably over the period service is provided.

Fee for bank transfers and other banking transaction services are recorded as income when collected. Net trading income comprises gains minus losses related to financial assets and liabilities held for trading and includes all realised and unrealised fair value changes and foreign exchange differences.

### xx. Related party transactions

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

## 3 Significant Accounting Policies (continued)

### xxi. Income Tax

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

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

- ***Current Tax***

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

- ***Deferred Tax***

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

In accordance with the provisional article, added to Corporate Tax Law, corporate tax, which is 20% for the year 2017, has changed as 22% for the profit of company belonging to 2018, 2019 and 2020 fiscal periods. In accordance with this applicable law, 22% tax rate shall be calculated for periods, in which the deferred tax assets and liabilities emerges and liabilities are met, while it is calculated with 20% for 2021 and following periods.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

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

### xxii. Subsequent Events

Post-balance sheet events that provide additional information about the Group’s position at the balance sheet dates (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 4 Segment Reporting

A segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components.

Segment information is presented in respect of the Group’s business segments. The Group comprises Retail, Corporate & Commercial Banking and Treasury as main business segments; Fiba Portföy and Finberg, the Bank's consolidated subsidiaries, are operating in the area of portfolio management and entrepreneurship, new business fields and technologies respectively.

Major financial statement items according to business segments:

| 1 January - 31 December 2020 | Corporate & Commercial Banking | Retail Banking | Treasury & Head Office | Total |
|---|---|---|---|---|
| Operating income | 790,683 | 296,170 | 217,688 | 1,304,541 |
| Profit/loss before tax | 280,339 | 50,677 | (4,519) | 326,497 |
| Tax charge | | | | (88,400) |
| **Net profit** | | | | **238,097** |
| **31 December 2020** | | | | |
| Segment assets | 15,229,438 | 3,777,473 | 8,180,009 | 27,186,920 |
| Unallocated assets | | | | -- |
| **Total assets** | | | | **27,186,920** |
| Segment liabilities | 3,993,327 | 12,673,602 | 8,638,712 | 25,305,641 |
| Unallocated liabilities | | | | -- |
| Equity | | | | 1,881,279 |
| **Total liabilities and equity** | | | | **27,186,920** |

| 1 January - 31 December 2019 | Corporate & Commercial Banking | Retail Banking | Treasury & Head Office | Total |
|---|---|---|---|---|
| Operating income | 872,415 | 212,020 | 157,860 | 1,242,295 |
| Profit/loss before tax | 259,912 | (176,072) | 169,850 | 253,690 |
| Tax charge | | | | (38,910) |
| **Net profit** | | | | **214,780** |
| **31 December 2019** | | | | |
| Segment assets | 13,441,734 | 2,066,449 | 6,348,222 | 21,856,405 |
| Unallocated assets | | | | -- |
| **Total assets** | | | | **21,856,405** |
| Segment liabilities | 2,499,553 | 11,018,021 | 6,679,489 | 20,197,063 |
| Unallocated liabilities | | | | -- |
| Equity | | | | 1,659,342 |
| **Total liabilities and equity** | | | | **21,856,405** |

## 5 Financial Risk Management

### (a) Introduction and Overview

The Group has exposure to the following risks due to its operations:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

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

***Risk Management Framework***

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Risk Committee of the Bank is responsible for developing and monitoring the Group's risk management policies in their specified areas. All board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its directives, procedures and regular trainings aims to develop a disciplined and constructive control environment, in which all employees understand their roles and responsibilities.

The Bank Audit Committee is responsible to monitor the efficiency and adequacy of the Group's Internal Control Systems framework on behalf of the Board of Directors. The Bank Audit Committee is assisted in these functions by Risk Management, Internal Control and Operational Risk, Legislation & Compliance and Internal Audit departments.

The effects of developments in COVID-19 on Bank's risk profile and risk appetite framework are closely monitored within risk measurement, reporting and management processes.

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 5 Financial Risk Management (continued)

## (b) Credit Risk

Credit risk is the risk of financial loss of the Group if a customer or counterparty fails to meet its contractual obligations to a financial instrument, among the Group's corporate, retail bank sovereign loan portfolio. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure such as individual risk, counterparty risk, group risk as well as country & sector risks.

The Group's counterparty credit exposure at the balance sheet date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the balance sheet.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group only deals with counterparties which have good credit worthiness.

The Group has defined rating models, and validation standards in order to estimate, identify, measure, monitor, dispose, reduce and manage the credit risk. These standards have been developed to determine the quality of credit customers in line with the Group's credit policy. Credit risk reports and concentration & risk limits concerning the Bank's loan portfolio are reviewed periodically by the Risk Management Department.

| | **31 December 2020** |
|---|---:|
| Performing loans | 15,875,999 |
| Loans under close monitoring (stage 2) | 3,085,379 |
| Non-performing loans (stage 3) | 619,425 |
| **Gross** | **19,580,803** |
| ECL allowance for stage 3 loans | 388,750 |
| ECL allowance for stage 1 and stage 2 loans | 441,366 |
| **Total** | **18,750,687** |

| | **31 December 2019** |
|---|---:|
| Performing loans | 13,659,003 |
| Loans under close monitoring (stage 2) | 1,823,734 |
| Non-performing loans (stage 3) | 920,338 |
| **Gross** | **16,403,075** |
| ECL allowance for stage 3 loans | 515,118 |
| ECL allowance for stage 1 and stage 2 loans | 288,991 |
| **Total** | **15,598,966** |

(*) Loans at fair value through profit or loss amounting to TL 1,948,020 are also included.

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 5 Financial Risk Management (continued)

*Collateral policy*

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

The breakdown of cash loans and advances to customers by type of collateral is as follows:

| | 31 December 2020 | | |
|---|---|---|---|
| **Cash Loans-Gross** | **Performing** | **Non - Performing** | **Total** |
| Secured loans | 14,725,124 | 322,161 | 15,047,285 |
| Secured by cash collateral | 234,132 | -- | 234,132 |
| Secured by mortgages | 3,824,029 | 283,790 | 4,107,819 |
| Other collateral (pledge on assets, vehicle, corporate and personal guarantees, promissory notes) | 10,666,963 | 38,371 | 10,705,334 |
| Unsecured loans | 4,236,254 | 297,264 | 4,533,518 |
| **Total Cash Loans-Gross** | **18,961,378** | **619,425** | **19,580,803** |

| | 31 December 2019 | | |
|---|---|---|---|
| **Cash Loans-Gross** | **Performing** | **Non - Performing** | **Total** |
| Secured loans | 12,829,216 | 471,321 | 13,300,537 |
| Secured by cash collateral | 411,093 | -- | 411,093 |
| Secured by mortgages | 3,809,281 | 412,932 | 4,222,213 |
| Other collateral (pledge on assets, vehicle, corporate and personal guarantees, promissory notes) | 8,608,842 | 58,389 | 8,667,231 |
| Unsecured loans | 2,653,521 | 449,017 | 3,102,538 |
| **Total Cash Loans-Gross** | **15,482,737** | **920,338** | **16,403,075** |

The breakdown of non-cash loans by type of collateral is as follows:

| **Non-Cash Loans** | **31 December 2020** | **31 December 2019** |
|---|---|---|
| Secured loans | 1,266,562 | 972,667 |
| Secured by cash collateral | -- | -- |
| Secured by mortgages | 56,819 | 58,824 |
| Other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 1,209,743 | 913,843 |
| Unsecured loans | -- | 52,001 |
| **Total Non-Cash Loans** | **1,266,562** | **1,024,668** |

*Sectoral concentration of loans and advances to customers*

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of performing loans and advances to customers is shown below:

| | **31 December 2020** | **31 December 2019** |
|---|---|---|
| Consumer | 2,719,236 | 1,622,644 |
| Manufacturing | 4,065,387 | 3,052,099 |
| Service | 8,797,170 | 6,754,025 |
| Construction | 2,306,635 | 2,955,926 |
| Agriculture and stockbreeding | 281,196 | 291,805 |
| Other | 791,754 | 806,238 |
| **Total performing loans and advances to customers** | **18,961,378** | **15,482,737** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

### 5 Financial Risk Management (continued)
### (b) Credit Risk (continued)

*Maximum exposure to credit risk*

The table below shows the maximum exposure to credit risk for the components of the financial statements;

| Gross maximum exposure | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Balances with the Central Bank (including reserve deposits)(*) | 2,585,089 | 2,448,081 |
| Deposits with and loans due from banks and other financial institutions | 1,300,776 | 520,836 |
| Financial assets at fair value through profit and loss | 138,208 | 2,045,761 |
| Financial assets at fair value through other comprehensive income | 1,104,234 | 807,568 |
| Financial assets measured at amortised cost | 1,207,902 | 575,098 |
| Loans and receivables | 19,580,803 | 14,455,055 |
| **Total** | **25,917,012** | **20,852,399** |
| | | |
| Contingent liabilities | 1,266,562 | 1,024,668 |
| Commitments | 1,567,786 | 1,117,888 |
| **Total** | **2,834,348** | **2,142,556** |
| | | |
| **Total credit risk exposure** | **28,751,360** | **22,994,955** |

(*) Balances with the Central Bank (including reserve deposits) excludes cash in TL /foreign currency amount.

*Information by major sectors and type of counterparties*

| Current Period | Loans | | Provisions |
|---|---|---|---|
| | Impaired | | |
| **Major Sector / Counterparties** | **Significant Increase in Credit Risk (Stage 2)** | **Credit Impaired (Stage 3)** | **Expected Credit Losses** |
| **Agriculture** | **22,058** | **53,394** | **32,469** |
| Farming and Stockbreeding | 21,739 | 46,668 | 28,236 |
| Forestry | 319 | 6,726 | 4,233 |
| Fishery | -- | -- | -- |
| **Manufacturing** | **441,805** | **114,951** | **84,228** |
| Mining and Quarrying | 28,064 | 33,264 | 26,454 |
| Production | 95,781 | 76,758 | 54,405 |
| Electricity, Gas and Water | 317,960 | 4,929 | 3,369 |
| **Construction** | **611,825** | **130,322** | **188,880** |
| **Services** | **1,749,996** | **264,969** | **251,585** |
| Wholesale and Retail Trade | 419,581 | 131,745 | 111,071 |
| Accommodation and Dining | 586,114 | 11,438 | 33,815 |
| Transportation and Telecommunication | 398,674 | 72,496 | 71,669 |
| Financial Institutions | 2,322 | 438 | 285 |
| Real Estate and Rental Services | 100,694 | 15,763 | 11,300 |
| Self-Employment Services | 228,891 | 3,040 | 6,263 |
| Educational Services | 2,954 | 8,991 | 5,817 |
| Health and Social Services | 10,766 | 21,058 | 11,365 |
| **Other** | **259,695** | **55,789** | **117,211** |
| **Total** | **3,085,379** | **619,425** | **674,373** |

### 5 Financial Risk Management (continued)

(Amounts expressed in thousands of TL unless otherwise indicated.)

Credit quality of loans and receivables as of 31 December 2020 and 2019 are as follows;

| **31 December 2020** | **Neither past due nor impaired** | **Past due but not impaired** | **Individually impaired (gross)** | **Total** |
|---|---|---|---|---|
| Loans and receivables | | | | |
| Commercial | 16,048,167 | 188,577 | 579,219 | 16,815,962 |
| Consumer | 2,671,304 | 37,265 | 40,207 | 2,748,776 |
| Credit cards | 15,592 | 473 | -- | 16,065 |
| **Total** | **18,735,063** | **226,315** | **619,425** | **19,580,803** |

| **31 December 2019** | **Neither past due nor impaired** | **Past due but not impaired** | **Individually impaired (gross)** | **Total** |
|---|---|---|---|---|
| Loans and receivables | | | | |
| Commercial | 13,434,073 | 406,806 | 867,554 | 14,708,433 |
| Consumer | 1,568,043 | 46,765 | 52,784 | 1,667,592 |
| Credit cards | 24,177 | 2,873 | -- | 27,050 |
| **Total** | **15,026,293** | **456,444** | **920,338** | **16,403,075** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 5 Financial Risk Management (continued)

### (b) Credit Risk (continued)

Carrying amount per class of loans and receivables assets whose terms have been renegotiated:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Loans and receivables | | |
| Commercial | 1,606,460 | 837,748 |
| Consumer | 16,218 | 4,549 |
| **Total** | **1,622,679** | **842,297** |

Aging analysis of past due but not impaired loans per class of financial instruments:

| 31 December 2020 | Less than 31 days | 31-60 days | 61-90 days | 90+ days | Total |
|---|---|---|---|---|---|
| Loans and receivables | | | | | |
| Commercial | 44,562 | 16,263 | 105,896 | 21,856 | 188,577 |
| Consumer | 6,213 | 6,207 | 6,897 | 17,948 | 37,265 |
| Credit cards | 109 | 105 | 259 | - | 473 |
| **Total** | **50,884** | **22,575** | **113,052** | **39,804** | **226,315** |

| 31 December 2019 | Less than 31 days | 31-60 days | 61-90 days | Total |
|---|---|---|---|---|
| Loans and receivables | | | | |
| Commercial | 250,051 | 57,928 | 98,827 | 406,806 |
| Consumer | 4,362 | 23,249 | 19,154 | 46,765 |
| Credit cards | 1,012 | 1,113 | 748 | 2,873 |
| **Total** | **255,425** | **82,290** | **118,729** | **456,444** |

### (c) Liquidity Risk

Liquidity risk reflects the potential inability both to finance assets over appropriate times to maturity and at suitable rates and to liquidate portfolio positions at the proper time and at reasonable prices.

The Group maintains liquidity facilities with the Central Bank of Turkey and other banks that are available immediately when needed. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Liquidity risk is continuously assessed by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall strategy.

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 5 Financial Risk Management (continued)

### (c) Liquidity Risk (continued)

The table below shows the undiscounted cash flows on the Group's non-derivative financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal inflow / (outflow) disclosed in the below table represents the contractual undiscounted cash flows relating to the principal and interest on the financial liability.

| 31 December 2020 | Carrying amount | Gross nominal outflow | Demand | Less than one month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| *Non-derivative liabilities* | | | | | | | | |
| Deposits from banks | 1,610,656 | (1,613,876) | (50,626) | (939,848) | (623,402) | -- | -- | -- |
| Deposits from customers | 16,664,370 | (16,756,161) | (1,947,926) | (11,989,941) | (2,615,113) | (95,128) | (3,585) | (104,468) |
| Borrowed funds | 1,155,142 | (1,197,536) | -- | (521) | (168,932) | (768,225) | (259,858) | -- |
| Securities issued | 1,480,900 | (1,660,129) | -- | (43,308) | -- | (43,308) | (1,573,513) | -- |
| Subordinated debts | 2,127,599 | (2,906,266) | -- | -- | (72,404) | (72,404) | (579,229) | (2,182,229) |
| **Total** | **23,038,667** | **(24,133,968)** | **(1,998,552)** | **(12,973,618)** | **(3,479,851)** | **(979,065)** | **(2,416,185)** | **(2,286,697)** |
| ***Derivative liabilities - total*** | **1,107,492** | **(430,912)** | **(132,550)** | **(248,246)** | **(87,296)** | **37,180** | **--** | **--** |
| Inflow | | 17,813,518 | 6,895,549 | 5,241,626 | 3,619,924 | 2,056,419 | -- | -- |
| Outflow | 1,107,492 | (18,244,430) | (7,028,099) | (5,489,872) | (3,707,220) | (2,019,239) | -- | -- |
| **Total** | **24,146,159** | **(24,564,880)** | **(2,131,102)** | **(13,221,864)** | **(3,567,147)** | **(941,885)** | **(2,416,185)** | **(2,286,697)** |

| 31 December 2019 | Carrying amount | Gross nominal outflow | Demand | Less than one month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| *Non-derivative liabilities* | | | | | | | | |
| Deposits from banks | 782,383 | (784,534) | (22,159) | (280,240) | (482,135) | -- | -- | -- |
| Deposits from customers | 13,508,890 | (13,554,010) | (1,258,569) | (9,778,079) | (2,226,549) | (290,008) | (805) | -- |
| Borrowed funds | 859,381 | (955,232) | -- | (3,038) | (30,678) | (428,540) | (492,976) | -- |
| Securities issued | 1,718,332 | (1,957,608) | -- | (139,018) | (283,867) | (39,018) | (1,495,705) | -- |
| Subordinated debts | 1,789,018 | (2,576,717) | -- | -- | (61,147) | (61,147) | (489,175) | (1,965,248) |
| **Total** | **18,658,004** | **(19,828,101)** | **(1,280,728)** | **(10,200,375)** | **(3,084,376)** | **(818,713)** | **(2,478,661)** | **(1,965,248)** |
| ***Derivative liabilities - total*** | 700,846 | 125,544 | 15,048 | 10,035 | 5,928 | 94,533 | **--** | -- |
| Inflow | (87,359) | 16,521,045 | 4,174,644 | 5,037,678 | 3,140,414 | 4,168,309 | -- | -- |
| Outflow | 788,205 | (16,395,501) | (4,159,596) | (5,027,643) | (3,134,486) | (4,073,776) | -- | -- |
| **Total** | **19,358,850** | **(19,702,557)** | **(1,265,680)** | **(10,190,340)** | **(3,078,448)** | **(724,180)** | **(2,478,661)** | **(1,965,248)** |

Maturity analysis of balance sheet items is as follows:

| As at 31 December 2020 | Demand | Up to 1 month | 1 to 3 months | 3 months to 1 year | Over 1 year | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | |
| Cash and balances with the Central bank | 1,526,247 | 1,395,445 | -- | -- | -- | (189) | 2,921,503 |
| Due from banks | 452,319 | 848,457 | -- | -- | -- | (1,752) | 1,299,024 |
| Financial assets at FVTPL | -- | 301,627 | 24,139 | 102,990 | 416,817 | -- | 845,573 |
| Financial assets at FVOCI | 87,071 | 192,033 | 22,533 | 353,440 | 449,157 | -- | 1,104,234 |
| Financial Assets measured at amortised cost | -- | -- | 52,051 | 231,707 | 924,144 | (406) | 1,207,496 |
| Loans and advances to customers | -- | 2,118,999 | 3,726,334 | 6,649,948 | 6,466,097 | (210,691) | 18,750,686 |
| Derivative assets held for hedging | -- | -- | -- | -- | -- | -- | -- |
| Other assets | -- | -- | -- | -- | -- | 1,058,404 | 1,058,404 |
| **Total assets** | **2,065,637** | **4,856,561** | **3,825,057** | **7,338,085** | **8,256,215** | **845,366** | **27,186,920** |
| **Liabilities:** | | | | | | | |
| Deposits from customers | 1,947,926 | 11,960,950 | 2,574,787 | 90,603 | 90,104 | -- | 16,664,370 |
| Deposits from banks | 50,626 | 938,875 | 621,155 | -- | -- | -- | 1,610,656 |
| Funds borrowed | -- | 1,505 | 178,776 | 723,339 | 251,522 | -- | 1,155,142 |
| Securities issued | -- | 37,310 | -- | -- | 1,443,590 | -- | 1,480,900 |
| Derivatives held for trading purpose | -- | 331,344 | 263,522 | 129,207 | 383,419 | -- | 1,107,492 |
| Derivative financial liabilities held for hedging | -- | -- | -- | -- | -- | | -- |
| Subordinated debts | -- | -- | 38,843 | 61 | 2,088,695 | -- | 2,127,599 |
| Other liabilities and equity | -- | 63,504 | 147,608 | 14,538 | 15,529 | 2,852,984 | 3,094,163 |
| **Total liabilities** | **1,998,552** | **13,333,488** | **3,824,691** | **957,748** | **4,272,859** | **2,852,984** | **27,186,920** |
| **Net liquidity surplus/(gap)** | **67,085** | **(8,476,927)** | **366** | **6,380,337** | **3,983,356** | **(2,007,618)** | **--** |
| **As at 31 December 2019** | | | | | | | |
| Total assets | **1,186,333** | **4,164,124** | **2,421,100** | **5,782,769** | **7,376,432** | **925,647** | **21,856,405** |
| Total liabilities | **1,280,728** | **10,308,290** | **3,103,290** | **831,578** | **4,033,219** | **2,299,300** | **21,856,405** |
| **Net liquidity surplus/(gap)** | **(94,395)** | **(6,144,166)** | **(682,190)** | **4,951,191** | **3,343,213** | **(1,373,653)** | **--** |

**5 Financial Risk Management (continued)**

**(d) Market Risk**

In order to provide hedge against the market risk within the context of the risk management objectives, the Group sets its activities related with market risk management in accordance with “Regulations on Banks’ Internal Control and Risk Management Systems and ICAAP” published in the Official Gazette no. 29057 dated 11 July 2014 and “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” published in the Official Gazette no. 29511 dated 23 October 2015.

Being exposed to market risk, Bank’s Board of Directors has defined risk management strategies and policies about risk managements in line with application and recommendation of group and have led to follow-up strategies periodically. The limits of risks are identified and these limits are revised periodically. Board of Directors ensures that risk management group and executive managers should identify, measure, control and manage the Group’s risk.

Market risk arising from trading transactions is limited through the risk appetite policy approved by Board of Directors as “low” and measured by taking into consideration BRSA’s standard methodology. Additionally Financial Control Department reports the market value of daily purchases and sales and realized profit. The risk management and asset liability committee continuously monitor compliance of trading transactions with the risk appetite policy. Market risk occurred between mismatches of asset-liability maturity is also monitored through GAP report.

Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations. Risk measurement methods such as cash flow projection, GAP analysis are also applied.

Capital to be kept for general market risk and specific risk are calculated by using a standard method in accordance with “Measurement and Assessment of Bank Capital Adequacy Regulation” and reported monthly.

In the calculation of the value at credit risk for the derivative financial instruments, the receivables from counterparties are multiplied by the rates stated in the Article 21 and Appendix-2 of “the Regulation on Measurement and Assessment of Capital Adequacy of Banks”, reduced as per the “Regulation on Credit Risk Mitigation Techniques” and then included in the relevant exposure category and weighted for a second time. The risk amount related to the Group's derivative financial instruments are calculated using the “Fair Value Method”.

***(i) Interest Rate Risk***

“Interest rate risk” is the probability of loss due to changes in interest rates depending on the Group’s position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between rate sensitive assets and liabilities.

Within the scope of Asset and Liability Management Policy, Group's assets and liabilities are re-priced according to the remaining maturities and determined interest rate shocks’ effect on the net economic value is calculated.

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 5 Financial Risk Management (continued)
## (d) Market Risk (continued)

### *(i) Interest Rate Risk*

With the interest rate risk reports and stress tests on the interest rate risk of the Group, willing to relocate risk levels are tested due to the sensitivity of the risk levels in the presence of crisis scenarios and keeping them under control is provided.

Interest rate gap analysis

The following tables indicate the periods in which financial assets and liabilities are repriced as at 31 December 2020 and 31 December 2019;

| 31 December 2020: | Less than three months | Between three and twelve months | Over one year | Non-interest bearing | Total |
|---|---|---|---|---|---|
| ***Financial assets*** | | | | | |
| Cash and balances with the Central Bank | 1,866,495 | -- | -- | 1,055,008 | 2,921,503 |
| Due from banks | 848,457 | -- | -- | 450,567 | 1,299,024 |
| Financial assets at FVTPL | 325,809 | 102,834 | 416,930 | -- | 845,573 |
| Financial assets at fair value through other comprehensive income | 214,566 | 356,369 | 446,228 | 87,071 | 1,104,234 |
| Financial assets measured at amortised cost | 73,021 | 231,707 | 902,768 | -- | 1,207,496 |
| Loans and advances to customers | 7,154,326 | 4,954,360 | 6,852,693 | (210,691) | 18,750,686 |
| Derivative assets held for hedging | -- | -- | -- | -- | -- |
| ***Financial liabilities*** | | | | | |
| Deposits from customers | 14,535,737 | 90,603 | 90,104 | 1,947,926 | 16,664,370 |
| Deposits from banks | 1,560,032 | -- | -- | 50,624 | 1,610,656 |
| Borrowed funds | 592,356 | 560,968 | 1,818 | -- | 1,155,142 |
| Securities issued | 37,310 | -- | 1,443,590 | -- | 1,480,900 |
| Derivatives held for trading | 594,866 | 129,207 | 383,419 | -- | 1,107,492 |
| Derivative financial liabilities held for hedging | -- | -- | -- | -- | -- |
| Subordinated debts | 38,843 | 61 | 2,088,695 | -- | 2,127,599 |

| 31 December 2019: | Less than three months | Between three and twelve months | Over one year | Non-interest bearing | Total |
|---|---|---|---|---|---|
| ***Financial assets*** | | | | | |
| Cash and balances with the Central Bank | 1,793,051 | -- | -- | 914,670 | 2,707,721 |
| Due from banks | 409,627 | -- | -- | 110,862 | 520,489 |
| Financial assets at FVTPL | 205,126 | 120,718 | 423,260 | (4) | 749,100 |
| Financial assets at fair value through other comprehensive income | 99,971 | 23,741 | 680,056 | 3,800 | 807,568 |
| Financial assets measured at amortised cost | 20,983 | -- | 554,115 | (88) | 575,010 |
| Loans and advances to customers (*) | 5,859,154 | 3,752,178 | 5,871,406 | 116,228 | 15,598,966 |
| Derivative assets held for hedging | -- | 37,723 | 49,816 | -- | 87,539 |
| ***Financial liabilities*** | | | | | |
| Deposits from customers | 11,972,523 | 277,179 | 619 | 1,258,569 | 13,508,890 |
| Deposits from banks | 760,224 | -- | -- | 22,159 | 782,383 |
| Borrowed funds | 340,533 | 208,036 | 310,812 | -- | 859,381 |
| Securities issued | 417,719 | -- | 1,300,613 | -- | 1,718,332 |
| Derivatives held for trading | 132,107 | 118,771 | 423,883 | -- | 674,761 |
| Derivative financial liabilities held for hedging | -- | 31,820 | 81,624 | -- | 113,444 |
| Subordinated debts | 32,771 | 57 | 1,756,190 | -- | 1,789,018 |

(*) Loans at fair value through profit or loss amounting to TL 1,948,020 are also included.

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 5 Financial Risk Management (continued)

### (d) Market Risk (continued)

### *(i) Interest Rate Risk*

The following table indicates the interest rates by major currencies for the major balance sheet components as at 31 December 2020 and 31 December 2019:

| 31 December 2020 | EUR % | USD % | Other Currencies % | TL % |
|---|---|---|---|---|
| Cash and balances with the Central Bank | -- | -- | -- | |
| Financial assets at FVTPL | -- | 3.15 | -- | 11.74 |
| Financial assets at fair value through other comprehensive income | 3.12 | 5.65 | -- | 13.81 |
| Financial assets measured at amortised cost | 4.52 | 6.70 | -- | 9.04 |
| Due from banks | 0.01 | -- | -- | 17.67 |
| Loans and advances to customers | 5.91 | 4.76 | 5.93 | 18.13 |
| | | | | |
| Deposits from banks | -- | 1.17 | 0.10 | 16.87 |
| Borrowed funds | 2.38 | 1.27 | -- | 10.66 |
| Repurchase agreements | 1.47 | 2.17 | -- | -- |
| Deposits from customers | 0.85 | 1.85 | 0.45 | 16.52 |
| Securities issued | -- | 6.00 | -- | -- |
| Subordinated debts | -- | 8.01 | -- | -- |
| | | | | |
| **31 December 2019** | | | | |
| Cash and balances with the Central Bank | -- | -- | -- | -- |
| Financial assets at FVTPL | 2.43 | 6.68 | -- | 31.29 |
| Financial assets at fair value through other comprehensive income | 3.28 | 5.55 | -- | 8.79 |
| Financial assets measured at amortised cost | 5.22 | -- | -- | 9.10 |
| Due from banks | -- | -- | -- | 11.00 |
| Loans and advances to customers | 6.03 | 6.14 | 5.82 | 18.47 |
| | | | | |
| Deposits from banks | -- | 1.75 | 0.60 | 10.09 |
| Borrowed funds | 2.62 | 4.44 | -- | 11.84 |
| Repurchase agreements | 0.47 | 3.45 | -- | -- |
| Deposits from customers | 0.36 | 2.66 | 0.94 | 12.10 |
| Securities issued | -- | 6.00 | -- | 14.59 |
| Subordinated debts | -- | 8.18 | -- | -- |

(Amounts expressed in thousands of TL unless otherwise indicated.)

### 5 Financial Risk Management (continued)

### (d) Market Risk (continued)

The Group analyses and reports to the Group's senior management the interest rate sensitivity of equity on a monthly basis by applying positive and negative shocks to the interest sensitive on balance sheet and off-balance sheet positions which are distributed into groups based on their cashflows.

| | 31 December 2020 | | | 2019 |
|---|---|---|---|---|
| | **Shock Applied (+ / - x bps)** | **Gains/ Losses** | **Gains / Equity - Losses / Equity** | **Gains / Equity - Losses / Equity** |
| TRY | 500 | (258,373) | (6.21)% | (2.92)% |
| TRY | -400 | 234,459 | 5.63% | 2.57% |
| USD | 200 | 11,716 | 0.28% | 2.62% |
| USD | -200 | (8,815) | (0.21)% | (2.79)% |
| EUR | 200 | (155,789) | (3.74)% | (5.29)% |
| EUR | -200 | 171,514 | 4.12% | 5.87% |
| **Total (For Positive Shocks)** | | **(402,445)** | **(9.67)%** | **(5.59)%** |
| **Total (For Negative Shocks)** | | **397,158** | **9.54%** | **5.65%** |

### *(ii) Currency Risk*

The Group is exposed to currency risk through transactions in foreign currencies. The main measurement currencies of its foreign exchange operations are EUR and USD. As the currency in which the Group presents its financial statements is the Turkish Lira (TL), the financial statements are affected by movements in the exchange rates between these currencies and TL. Currency risk is managed through VaR limits.

At 31 December 2020 and 31 December 2019, the Group's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

| | 2020 | | | | |
|---|---|---|---|---|---|
| | **EUR** | **USD** | **Other** | **Total** | **Total in 2019** |
| *Foreign currency denominated assets:* | | | | | |
| Cash and balances with Central Bank | 784,122 | 1,564,671 | 142,875 | 2,455,668 | 2,506,889 |
| Due from banks | 163,968 | 233,598 | 25,401 | 422,967 | 88,195 |
| Financial assets at FVTPL | -- | 3 | -- | 3 | 718 |
| Money market receivables | 72,063 | -- | -- | 72,063 | -- |
| Financial assets at fair value through other comprehensive income | 261,966 | 747,155 | -- | 1,009,121 | 795,616 |
| Financial assets measured at amortised cost | 704,701 | 315,542 | -- | 1,020,243 | 386,592 |
| Loans and advances to customers | 6,134,858 | 1,112,460 | 9,870 | 7,257,188 | 7,312,787 |
| Other assets | 1,429 | 1,276 | 380 | 3,085 | 2,694 |
| | **8,087,107** | **3,974,705** | **178,526** | **12,240,338** | **11,093,491** |
| *Foreign currency denominated liabilities:* | | | | | |
| Deposits from customers | 996,741 | 5,871,621 | 937,305 | 7,805,667 | 6,871,199 |
| Deposits from banks | 56,933 | 1,108,101 | 20,669 | 1,185,703 | 768,879 |
| Borrowed funds | 353,750 | 781,022 | -- | 1,134,772 | 842,608 |
| Securities issued | -- | 1,480,900 | -- | 1,480,900 | 1,334,395 |
| Subordinated debts | -- | 2,127,599 | -- | 2,127,599 | 1,789,018 |
| Other liabilities | 9,885 | 148,794 | -- | 158,679 | 177,226 |
| | **1,417,309** | **11,518,037** | **957,974** | **13,893,320** | **11,783,325** |
| Net on-balance sheet position | 6,669,798 | (7,543,332) | (779,448) | (1,562,982) | (689,834) |
| Net off-balance sheet position | (6,521,053) | 7,601,889 | 832,534 | 1,913,370 | 724,173 |
| Net position | **148,745** | **58,557** | **53,086** | **260,388** | **34,339** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

**5 Financial Risk Management (continued)**

A 10 percent strengthening of the foreign currencies against TL would have decreased profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. A 10 percent weakening of the TL against foreign currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | Profit or Loss | Equity | Profit or Loss | Equity |
| USD | 5,856 | 7,085 | 3,044 | 3,754 |
| EUR | 14,875 | 15,487 | 405 | 969 |
| Other currencies | 5,309 | 5,309 | (15) | (15) |
| **Total. net** | **26,040** | **27,881** | **3,434** | **4,708** |

## (e) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business areas.

The Group practices policies in accordance with local regulations and in the context of best international practices for operational risk identification, measurement, mitigation, reporting and control of international best practices in the context of implementing.

Under the umbrella of operational risk, business continuity policies and procedures have been created. Business impact analysis has been made to ensure process based business continuity, critical activities of the institution and necessary resources to carry out these activities have been identified. Creation of infrastructure for the implementation of the plans is in progress through business continuity plans.

## (f) Capital Adequacy

The BRSA sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets (12% for banks operating in offshore markets). These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The Group's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, tier-1 security, legal reserves, retained earnings, translation reserve, tier1 security and minority interest after deductions for goodwill and certain cost items.

- Tier 2 capital, which includes qualifying subordinated liabilities, general impairment allowances and the element of the fair value reserve relating to unrealized gains on securities classified as financial assets measured at FVOCI.

(Amounts expressed in thousands of TL unless otherwise indicated.)

**5 Financial Risk Management (continued)**

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Group and its individually regulated operations have complied with externally imposed capital requirements throughout the period and its capital adequacy ratio calculated in accordance with local regulations is above the minimum required ratio which is 8%.

The capital adequacy ratio is calculated within the scope of the “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the “Regulation”)”, “Regulation on Credit Risk Mitigation Techniques”, “Regulation on Calculation of Risk Weighted Amounts for Securitization’s” and the “Regulation on Equities of Banks”. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as “trading book” and “banking book” according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and provisions.

In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the “Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables”. The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the “Regulation on Credit Risk Mitigation Techniques” and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

In the calculation of the value at credit risk for the derivative financial instruments and the credit derivatives classified in banking book, the receivables from counterparties are multiplied by the rates stated in the Appendix-2 of the Regulation, reduced as per the “Regulation on Credit Risk Mitigation Techniques” and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the article 5 of the Regulation. the “counterparty credit risk” is calculated for repurchase transactions, securities and commodities borrowing agreements.

**Summary information related to the consolidated capital adequacy ratio**

| | Bank | | Group | |
|---|---|---|---|---|
| | **Current Period** | **Prior Period** | **Current Period** | **Prior Period** |
| Capital Requirement for Credit Risk (Value at Credit Risk*0.08) (CRCR) | 1,526,156 | 1,159,043 | 1,526,156 | 1,159,043 |
| Capital Requirement for Market Risk (CRMR) | 47,740 | 72,931 | 47,740 | 72,931 |
| Capital Requirement for Operational Risk (CROR) | 144,904 | 88,911 | 145,587 | 89,171 |
| Equity | 4,163,418 | 3,215,081 | 4,173,852 | 3,215,203 |
| Equity/((CRCR+MRCR+ORCR) * 12.5 * 100) | 19.38% | 19.47% | 19.42% | 19.47% |

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 6 Fair Value of Financial Instruments

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

| 31 December 2020 | Financial instruments at fair value | Loans and receivables | Financial instruments at amortized cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|
| Cash and balances with the Central Bank | -- | 2,921,503 | -- | 2,921,503 | 2,921,503 |
| Due from banks | -- | 1,299,024 | -- | 1,299,024 | 1,299,024 |
| Financial assets at FVTPL | 845,573 | -- | -- | 845,573 | 845,573 |
| Financial assets measured at FVOCI | 1,104,234 | -- | -- | 1,104,234 | 1,104,234 |
| Financial assets measured at amortised cost | 1,207,496 | -- | -- | 1,207,496 | 1,277,595 |
| Derivative assets held for hedging | -- | -- | -- | -- | -- |
| Loans and advances to customers: | | | | | |
| Measured at fair value | -- | -- | -- | -- | -- |
| Measured at amortized cost | -- | 18,750,686 | -- | 18,750,686 | 18,639,479 |
| | **3,157,303** | **22,971,213** | **--** | **26,128,516** | **26,087,408** |
| | | | | | |
| Deposits from customers | -- | -- | 16,664,370 | 16,664,370 | 16,664,370 |
| Deposits from banks | -- | -- | 1,610,656 | 1,610,656 | 1,610,656 |
| Borrowed funds | -- | -- | 1,155,142 | 1,155,142 | 1,155,142 |
| Securities issued | -- | -- | 1,480,900 | 1,480,900 | 1,480,900 |
| Derivatives held for trading | 1,107,492 | -- | -- | 1,107,492 | 1,107,492 |
| Derivative liabilities held for hedging | - | -- | -- | -- | -- |
| Subordinated debts | -- | -- | 2,127,599 | 2,127,599 | 2,127,599 |
| | **1,107,492** | **--** | **23,038,667** | **24,146,159** | **24,146,159** |

| 31 December 2019 | Financial instruments at fair value | Loans and receivables | Financial instruments at amortized cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|
| Cash and balances with the Central Bank | -- | 2,707,721 | -- | 2,707,721 | 2,707,721 |
| Due from banks | -- | 520,489 | -- | 520,489 | 520,489 |
| Financial assets at FVTPL | 749,100 | -- | -- | 749,100 | 749,100 |
| Financial assets measured at FVOCI | 807,568 | -- | -- | 807,568 | 807,568 |
| Financial assets measured at amortised cost | 575,010 | -- | -- | 575,010 | 605,621 |
| Derivative assets held for hedging | 87,539 | -- | -- | 87,539 | 87,539 |
| Loans and advances to customers: | | | | | |
| Measured at fair value | -- | 1,948,020 | -- | 1,948,020 | 1,948,020 |
| Measured at amortized cost | -- | 13,650,946 | -- | 13,650,946 | 13,802,785 |
| | **2,219,217** | **18,827,176** | **--** | **21,046,393** | **21,228,843** |
| | | | | | |
| Deposits from customers | -- | -- | 13,508,890 | 13,508,890 | 13,508,890 |
| Deposits from banks | -- | -- | 782,383 | 782,383 | 782,383 |
| Borrowed funds | -- | -- | 859,381 | 859,381 | 859,381 |
| Securities issued | -- | -- | 1,718,332 | 1,718,332 | 1,718,332 |
| Derivatives held for trading | 674,761 | -- | -- | 674,761 | 674,761 |
| Derivative liabilities held for hedging | 113,444 | -- | -- | 113,444 | 113,444 |
| Subordinated debts | -- | -- | 1,789,018 | 1,789,018 | 1,789,018 |
| | **788,205** | **--** | **18,658,004** | **19,446,209** | **19,446,209** |

Fair values of the financial assets and liabilities carried at amortized cost (for disclosure purposes), except for loans and advances to customers and financial assets measured at amortized cost are considered to approximate their respective carrying values due to their short-term nature.

(Amounts expressed in thousands of TL unless otherwise indicated.)

The fair value measurement for fixed rate loans and receivables are calculated by using the discounted cash flow method and has been categorised as a Level 2 fair value based on the inputs to the valuation technique used.

## 6 Fair Value of Financial Instruments (continued)

The fair values of financial assets and financial liabilities are determined as follows:

• Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

• Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

• Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives.

| | 31 December 2020 | | | |
|---|---|---|---|---|
| | **Carrying Amount** | **Level 1** | **Level 2** | **Level 3** |
| **Financial Assets** | | | | |
| Financial assets at fair value through profit and loss | 845,573 | 138,208 | 707,365 | -- |
| Financial assets at fair value through other comprehensive income | 1,100,931 | -- | -- | -- |
| **Financial Liabilities** | | | | |
| Derivatives held for trading | 1,107,492 | -- | 1,107,492 | -- |

| | 31 December 2019 | | | |
|---|---|---|---|---|
| | **Carrying Amount** | **Level 1** | **Level 2** | **Level 3** |
| **Financial Assets** | | | | |
| Financial assets at fair value through profit and loss | 749,100 | 97,737 | 651,363 | -- |
| Financial assets at fair value through other comprehensive income | 807,568 | 807,568 | -- | -- |
| Loans and advances to customers | 15,598,966 | -- | 15,750,805 | -- |
| Financial assets measured at amortised cost | 575,010 | -- | 605,621 | -- |
| **Financial Liabilities** | | | | |
| Deposit from banks & customers | 14,291,273 | -- | 14,291,273 | -- |
| Funds borrowed | 859,381 | -- | 859,381 | -- |
| Securities issued | 1,718,332 | -- | 1,718,332 | -- |
| Subordinated debts | 1,789,018 | -- | 1,789,018 | -- |
| Derivatives held for trading | 674,761 | -- | 674,761 | -- |
| Derivatives used for hedging purposes | 113,444 | -- | 113,444 | -- |

There is no transition between Level 1 and Level 2 in the current year.

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 7 Cash and Balances with Central Bank

At 31 December 2020 and 31 December 2019, cash and balances with the Central Bank are as follows:

| | 31 December 2020 | 31 December 2019 |
|---|---:|---:|
| Cash on hand | 336,602 | 259,794 |
| Reserve deposits at the Central Bank-unrestricted | 1,193,135 | 1,310,397 |
| Reserve deposits at the Central Bank-restricted | 1,391,955 | 1,137,684 |
| Expected credit loss | (189) | (154) |
| **Cash and balances with the Central Bank** | **2,921,503** | **2,707,721** |
| Due from other banks | 1,300,776 | 520,836 |
| Less: Reserve deposits-restricted | (1,391,955) | (1,137,684) |
| Less: Restricted deposits | (293,141) | (31,976) |
| Expected credit loss | (1,752) | (347) |
| **Cash and cash equivalents in the statements of cash flows** | **2,535,432** | **2,058,550** |

Reserve deposits at the Central Bank represent the minimum cash reserve maintained with the Central Bank of Turkey (the Central Bank), as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the Central Bank. At 31 December 2020, reserve deposit ratios for Turkish Lira and foreign currency deposits are 1%-6% and 5%-21% (31 December 2019: 1%-7% and 5%-21%). Restricted reserve deposits are not available for the daily business of the Group. As of 31 December 2020, there is interest payment 12.0% for TL reserves and 0% for USD reserves deposits (31 December 2019: None).

## 8 Due from Banks

At 31 December 2020 and 31 December 2019, due from banks are as follows:

| | 31 December 2020 | 31 December 2019 |
|---|---:|---:|
| Turkish Lira | 65,375 | 23,004 |
| Foreign Currency | 386,943 | 88,204 |
| **Demand** | **452,318** | **111,208** |
| Turkish Lira | 400,195 | 379,618 |
| Foreign Currency | 36,032 | -- |
| **Time** | **436,227** | **379,618** |
| Turkish Lira | 340,168 | 30,010 |
| Foreign Currency | 72,063 | -- |
| **Money market placements** | **412,231** | **30,010** |
| **Expected credit loss** | **(1,752)** | **(347)** |
| **Total due from banks** | **1,299,024** | **520,489** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

**8 Due from Banks (continued)**

As at 31 December 2020, TL currency time placements have 4 days maturity and 17.65% interest rate on the average (31 December 2019: 3 days maturity and 11.77%). As at 31 December 2020, EUR currency time placements have 4 days maturity and 0.01% interest rate on the average (31 December 2019: None). As at 31 December 2020, TL money market placements have 3 days maturity and 18.04% interest rate on the average (31 December 2019: 3 days maturity and 12.25%). As at 31 December 2020, there are no foreign currency money market placements (31 December 2019: None). The Group has TL 293,141 blocked deposit accounts for the derivative contracts with the banks abroad (31 December 2019: TL 31,976).

**9 Financial Assets at Fair Value Through Profit and Loss**

At 31 December 2020 and 31 December 2019, debt securities at FVTPL are as follows:

| | 31 December 2020 | | | 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | **Pledged** | **Non-pledged** | **Total** | **Pledged** | **Non-pledged** | **Total** |
| **Debt instruments** | **2,726** | **135,482** | **138,208** | **24,575** | **73,162** | **97,737** |
| Government bonds | 2,726 | 24,751 | 27,477 | 24,579 | 260 | 24,839 |
| Eurobonds | -- | -- | -- | -- | 706 | 706 |
| Corporate and bank bonds | -- | 3 | 3 | -- | 12 | 12 |
| Investment fund | -- | 110,728 | 110,728 | | 72,184 | 72,184 |
| Expected credit loss | -- | -- | -- | (4) | -- | (4) |
| **Total** | **2,726** | **135,482** | **138,208** | **24,575** | **73,162** | **97,737** |

As of 31 December 2020, government securities with carrying values of TL 2,726 (31 December 2019: TL 24,579) are pledged to the Central Bank and İstanbul Takas ve Saklama Bankası Anonim Şirketi (Clearing and Custody Incorporation) for regulatory requirements and as a guarantee for money market transactions. As of 31 December 2020, there is no pledged financial asset subject to repo transactions (31 December 2019: None).

TL 2,680 (31 December 2019: TL 24,601) of debt securities have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

Average interest rates for TL and USD denominated financial assets at FVTPL are 11.74% and 3.15% respectively (31 December 2019: are 31.29% and 6.68% respectively).

***Loans recognized at fair value through profit or loss***

As of 31 December 2020, there are no loans measured at fair value through profit or loss (31 December 2019: TL 1,948,020).

The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortized to statement of profit or loss over the life of the hedged item from that date of the hedge accounting is discontinued.

(Amounts expressed in thousands of TL unless otherwise indicated.)

### 10. Derivative financial assets

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Derivatives held for trading | | |
| - Forwards | 97,046 | 59,591 |
| - Swaps | 368,124 | 368,713 |
| - Options | 242,195 | 223,059 |
| **Total** | **707,365** | **651,363** |

### 11. Financial assets measured at FVOCI

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Debt instruments** | | |
| Share certificates | 5,466 | 3,800 |
| Corporate and bank bonds | 711,562 | 614,270 |
| Government bonds | 387,206 | 189,498 |
| **Total** | **1,104,234** | **807,568** |

(*) ECL amount is TL 2,963 as of 31 December 2020 (TL 2,436 as of 31 December 2019).

As of 31 December 2020 TL, 2,854 of financial assets at fair value through other comprehensive income have floating interest rates whereas the rest of the debt securities have fixed interest rates (31 December 2019: TL 2,466).

As of 31 December 2020, government securities with carrying values of TL 51,781 (31 December 2019: TL 154,708) are pledged to the Central Bank and İstanbul Takas ve Saklama Bankası Anonim Şirketi (Clearing and Custody Incorporation) for regulatory requirements and as a guarantee for money market transactions. As of 31 December 2020, securities with carrying values TL 668,430 (31 December 2019: TL 632,281) are pledged subject to repo transactions.

Average interest rates for TL, EUR and USD denominated financial assets at FVTPL are 13.81%. 3.12% and 5.65% respectively (31 December 2019: 8.79%. 3.28% and 5.55% respectively).

### 12. Financial assets measured at amortised cost

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Debt instruments** | | |
| Corporate and bank bonds | 13,313 | -- |
| Government bonds | 1,194,589 | 575,098 |
| Expected credit loss | (406) | (88) |
| **Total** | **1,207,496** | **575,010** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 13 Loans and Advances to Customers

At 31 December 2020 and 31 December 2019, details of loans and advances to customers are as follows:

| **Consumer loans and individual credit cards** | **31 December 2020** | **31 December 2019** |
|---|---|---|
| ***Consumer loans-TL*** | | |
| Real estate loans | 277,766 | 314,057 |
| Vehicle loans | 2,812 | 3,777 |
| General purpose loans | 2,361,414 | 1,250,024 |
| Others | -- | -- |
| ***Consumer loans FC and FC Indexed*** | | |
| Real estate loans | 4,855 | 12,107 |
| Vehicle loans | -- | -- |
| General purpose loans | 317 | 447 |
| ***Individual credit cards-TL*** | | |
| With installment | 1,119 | 1,094 |
| Without installment | 5,930 | 6,632 |
| ***Individual credit cards-FC*** | | |
| With installment | -- | -- |
| Without installment | 135 | 112 |
| ***Personnel loans*** | **5,832** | **3,799** |
| ***Overdraft account-TL*** | **59,056** | **30,595** |
| ***Total consumer loans and individual credit cards*** | **2,719,236** | **1,622,644** |
| | | |
| **Commercial loans and corporate credit cards** | | |
| | | |
| ***Commercial loans with installments-TL*** | | |
| Real estate loans | 153 | 1,018 |
| Vehicle loans | 76,174 | 71,772 |
| General purpose loans | 4,158,668 | 3,340,835 |
| ***Commercial loans with installments-FC Indexed*** | | |
| Real estate loans | -- | -- |
| Vehicle loans | 6,354 | 12,425 |
| General purpose loans | 6,083,676 | 5,603,409 |
| ***Corporate credit cards-TL*** | | |
| With installment | 2,413 | 2,234 |
| Without installment | 6,307 | 16,978 |
| ***Overdraft accounts-TL*** | **76,144** | **49,359** |
| ***Spot loans*** | **1,479,872** | **1,444,616** |
| ***Revolving loans*** | **2,003,628** | **2,026,326** |
| ***Investment loans*** | **177,832** | **231,268** |
| ***Export loans*** | **145,079** | **192,384** |
| ***Other loans*** | **2,071,374** | **892,914** |
| ***Total commercial loans and corporate credit cards*** | **16,287,675** | **13,885,538** |
| ***Total performing loans*** | **19,006,911** | **15,508,182** |
| | | |
| **Non-performing loans** | **619,425** | **920,338** |
| | | |
| **Unearned commission income** | **(45,533)** | **(25,445)** |
| **Total gross loans** | **19,580,803** | **16,403,075** |
| Allowance for loan losses | (830,116) | (804,109) |
| **Loans and advances to customers(*)** | **18,750,686** | **15,598,966** |

(*) As at 31 December 2019, loans at fair value through profit or loss amounting to TL 1,948,020 are also included.

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 13 Loans and Advances to Customers (continued)

### Information on expected credit losses

| | Stage 1 | Stage 2 | Stage 3 |
|---|---|---|---|
| **Beginning of period (1 January 2020)** | **117,373** | **171,618** | **515,118** |
| Transfers to stage 1 | 10,759 | (10,759) | -- |
| Transfers to stage 2 | (16,165) | 16,165 | -- |
| Transfers to stage 3 | (1,114) | (10,259) | 11,373 |
| Provision for the year | 44,905 | 119,847 | 23,728 |
| Amounts written off | (15) | (989) | (161,470) |
| **Period end (31 December 2020)** | **155,743** | **285,623** | **388,750** |

(*) The loan amounting to TL 242,412 has been written off from assets by transferring to asset management company in 2020.

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

| | Carrying Amount | | | | Expected Credit Loss | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage I | Stage II | Stage III | Total | Stage I | Stage II | Stage III | Total |
| Cash and balances with Central Bank | 2,921,692 | -- | -- | **2,921,692** | 189 | -- | -- | **189** |
| Due from banks | 1,300,776 | -- | -- | **1,300,776** | 1,752 | -- | -- | **1,752** |
| Financial assets at FVTPL | 845,573 | -- | -- | **845,573** | -- | -- | -- | **--** |
| Financial assets at fair value through other comprehensive income | 1,104,234 | -- | -- | **1,104,234** | 2,963 | -- | -- | **2,963** |
| Financial assets measured at amortised cost | 1,207,902 | -- | -- | **1,207,902** | 406 | -- | -- | **406** |
| Derivative assets held for hedging | -- | -- | -- | **--** | -- | -- | -- | **--** |
| Loans and advances to customers | 15,875,999 | 3,085,379 | 619,425 | **19,580,803** | 155,743 | 285,623 | 388,750 | **830,116** |

### Movement on non-performing loans

| | Loans and receivables with limited collectability | Loans and receivables with doubtful collectability | Uncollectible loans and receivables |
|---|---|---|---|
| **Balances at Beginning of Period** | **268,082** | **216,051** | **436,205** |
| Additions (+) | 258,983 | 51,340 | 18,057 |
| Transfers from other categories of non-performing loans (+) | 14 | 320,477 | 409,449 |
| Transfers to other categories of non-performing loans (-) | 320,477 | 409,449 | 14 |
| Collections (-) | 130,972 | 43,215 | 212,694 |
| Write-offs (-) | -- | -- | -- |
| Sold (-)(*) | 11,043 | 52,259 | 179,110 |
| Corporate and commercial Loans | 11,027 | 50,876 | 149,387 |
| Retail loans | 16 | 539 | 23,995 |
| Credit cards | -- | 844 | 5,728 |
| Other | -- | -- | -- |
| **Balances at End of the Period** | **64,587** | **82,945** | **471,893** |
| Expected credit losses (-) | 33,606 | 56,774 | 298,370 |
| **Net Balance on Balance Sheet** | **30,981** | **26,171** | **173,523** |

(*) The loan amounting to TL 242,412 has been written off from assets by transferring to asset management company in 2020.

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 14 Derivative Financial Assets Held For Hedging

At 31 December 2020 and 31 December 2019, derivative financial assets held for hedging purposes are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| **Derivative financial assets held for hedging** | | | | |
| | **TL** | **FC** | **TL** | **FC** |
| Fair Value Hedge | -- | -- | 87,539 | -- |
| Cash Flow Hedge | -- | -- | -- | -- |
| Foreign Net Investment Hedge | -- | -- | -- | -- |
| **Total** | -- | -- | **87,539** | -- |

The Group's Asset Liability Committee aims to hedge the interest risk through hedging its TL denominated fixed rate credit portfolio with cross currency swaps by linking the high correlated part of the fair value changes of hedging instruments after prospective tests.

## 15 Investments in Equity Instruments

The Group has TL 27,259 investments in equity instruments as of 31 December 2020 (31 December 2019: TL 27,743).

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 16 Other Assets

At 31 December 2020 and 31 December 2019, other assets comprised the following items:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Non-current assets held for sale | 188,166 | 153,718 |
| Check clearance balance | 123,046 | 81,414 |
| Prepaid commissions | 23,574 | 28,453 |
| Other prepaid expenses | 18,062 | 13,565 |
| Other | 34,385 | 25,515 |
| **Total** | **387,233** | **302,665** |

Movement of non-current assets held for sale is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Opening balance, 1 January** | 153,718 | **222,731** |
| Additions | 122,908 | 101,528 |
| Disposal | (88,460) | (170,541) |
| **Balance at 31 December** | **188,166** | **153,718** |

## 17 Property and Equipment

Movement in property and equipment during the year ended 31 December 2020 is as follows:

| | Premises | Furniture, fixture and equipment | Construction in progress | Total |
|---|---|---|---|---|
| Balance at 1 January 2020: | | | | |
| Cost | 295,376 | 120,951 | 30,170 | 446,497 |
| Accumulated depreciation | (29,056) | (62,040) | -- | (91,096) |
| **Opening net carrying amount** | **266,320** | **58,911** | **30,170** | **355,401** |
| Cost | | | | |
| Additions | 766 | 24,331 | 32,741 | 57,837 |
| Disposals | (5,225) | (6,924) | -- | (12,149) |
| Accumulated depreciation | | | | |
| Depreciation charge | (22,497) | (23,518) | -- | (46,015) |
| Disposals | (164) | 6,329 | -- | 6,165 |
| **Balance at 31 December 2020**: | **239,200** | **59,129** | **62,911** | **361,240** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

### 17 Property and Equipment (continued)

Movement in property and equipment during the year ended 31 December 2019 is as follows:

| | Premises | Furniture, fixture and equipment | Construction in progress | Total |
|---|---|---|---|---|
| Balance at 1 January 2019: | | | | |
| Cost | 223,097 | 89,975 | -- | 313,072 |
| Accumulated depreciation | (6,542) | (48,365) | -- | (54,907) |
| **Opening net carrying amount** | **216,555** | **41,610** | **--** | **258,165** |
| Cost | | | | |
| Additions | 72,279 | 37,078 | 30,170 | 139,527 |
| Disposals | -- | (6,101) | -- | (6,101) |
| Accumulated depreciation | | | | |
| Depreciation charge | (22,404) | (19,821) | -- | (42,225) |
| Disposals | (110) | 6,145 | -- | 6,035 |
| **Balance at 31 December 2019**: | **266,320** | **58,911** | **30,170** | **355,401** |

### 18 Intangible Assets

Movement in intangible assets during the year ended 31 December 2020 is as follows:

| | Software | Other | Carrying Value |
|---|---|---|---|
| Balance at 1 January 2020: | | | |
| Cost | 138,202 | 5,955 | 144,157 |
| Accumulated amortisation | (68,307) | (5,955) | (74,262) |
| **Opening net carrying amount** | **69,895** | **-** | **69,895** |
| Cost | | | |
| Additions | 51,384 | -- | 51,384 |
| Disposals | (4,184) | -- | (4,184) |
| Accumulated amortisation | | | -- |
| Amortisation charge | (26,068) | -- | (26,068) |
| Disposals | -- | | -- |
| **Balance at 31 December 2020**: | **91,028** | **--** | **91,028** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 18 Intangible Assets (continued)

Movement in intangible assets during the year ended 31 December 2019 is as follows:

| | Software | Other | Carrying Value |
|---|---|---|---|
| Balance at 1 January 2019: | | | |
| Cost | 84,566 | 5,955 | 90,521 |
| Accumulated amortisation | (49,564) | (5,955) | (55,519) |
| **Opening net carrying amount** | **35,002** | **--** | **35,002** |
| Cost | | | |
| Additions | 50,298 | -- | 50,298 |
| Disposals | (2,617) | -- | (2,617) |
| Accumulated amortisation | | | |
| Amortisation charge | (12,788) | -- | (12,788) |
| Disposals | -- | | -- |
| **Balance at 31 December 2019**: | **69,895** | **--** | **69,895** |

## 19 Deposits from Banks

At 31 December 2020 and 31 December 2019, deposits from banks comprised the following items:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Demand deposits in FC | 50,035 | 20,678 |
| Demand deposits in TL | 590 | 1,480 |
| Time deposits in FC | 525,507 | 14,943 |
| Time deposits in TL | 424,364 | 12,025 |
| Money market deposits | 610,160 | 733,257 |
| **Total** | **1,610,656** | **782,383** |

## 20 Deposits from Customers

At 31 December 2020 and 31 December 2019, deposits from customers comprised the following items:

| | 31 December 2020 | | | 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | **Demand** | **Time** | **Total** | **Demand** | **Time** | **Total** |
| **Saving Deposits** | **1,262,125** | **11,548,792** | **12,810,917** | **841,776** | **11,497,223** | **12,338,999** |
| FC Deposits | 1,022,955 | 5,948,252 | 6,971,207 | 624,521 | 6,222,486 | 6,847,007 |
| TL Deposits | 239,170 | 5,600,540 | 5,839,710 | 217,255 | 5,274,737 | 5,491,992 |
| **Commercial deposits** | **308,582** | **2,556,938** | **2,865,520** | **329,407** | **727,161** | **1,056,568** |
| **Public sector and other inst. deposit** | **4,734** | **148,739** | **153,473** | **62,240** | **25,937** | **88,177** |
| **Precious metals** | **372,485** | **461,975** | **834,460** | **25,146** | **--** | **25,146** |
| **Total deposits from customers** | **1,947,926** | **14,716,444** | **16,664,370** | **1,258,569** | **12,250,321** | **13,508,890** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 21 Other Liabilities and Provisions

At 31 December 2020 and 31 December 2019, other liabilities comprised of the following items:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Blocked accounts | 267,161 | 199,526 |
| Check clearance account | 196,614 | 148,879 |
| Miscellaneous payables | 179,677 | 151,330 |
| Financial leases | 53,631 | 68,636 |
| Taxes and duties withheld | 42,840 | 40,580 |
| Unused vacation pay liability and personnel bonus accrual | 17,739 | 14,870 |
| Payables to consultants and suppliers | 6,385 | 7,477 |
| Blocked cheques | 1,381 | 298 |
| Other | 62,034 | 36,991 |
| **Other liabilities** | **827,462** | **668,587** |
| Provision for taxes | 143,871 | 1,456 |
| Employee termination benefits | 19,874 | 15,083 |
| General reserve provision (*) | 151,000 | 44,500 |
| Provision for non-cash loans | 11,077 | 19,121 |
| Provision for lawsuits | 6,198 | 2,107 |
| **Provisions** | **332,020** | **82,267** |
| **Total** | **1,159,482** | **750,854** |

(*) As of 31 December 2020, general reserve provision amounting to TL 151,000 (31 December 2019: TL 44,500) is provided by the Bank management for the possible effects of the negative circumstances which may arise in economy or market conditions.

### Employee Termination Benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 7,117.17 (full TL) and TL 6,379.86 (full TL) at 31 December 2020 and 2019 respectively) per year of employment at the rate of pay applicable at the date of retirement or termination.

The principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

- Calculation is based on discount rate of 13.50%, inflation rate of 6.00% and real rate of rise in salary of 0.00%.

- Individuals' earliest retirement age is considered as retirement age.

- CSO 1980 mortality table is used for the death probabilities of male and female employees.

Movements in the present value of the employee termination benefits were as follows:

| | 2020 | 2019 |
|---|---|---|
| Opening, 1 January | 15,083 | 11,116 |
| Current service cost | 5,005 | 5,003 |
| Interest cost | 1,887 | 1,406 |
| Benefits paid | (5,863) | (4,984) |
| Actuarial losses on employee termination benefits | 3,762 | 2,542 |
| **Closing, 31 December** | **19,874** | **15,083** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

### 22 Funds Borrowed

Borrowed funds as of 31 December 2020 and 2019 comprised the following items:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Borrowings from Banks** | | |
| Turkish Lira | 20,370 | 16,773 |
| Foreign Currency | 1,134,772 | 842,608 |
| **Total** | **1,155,142** | **859,381** |

### 23 Securities Issued

| 31 December 2020 | TL | | FC | |
|---|---|---|---|---|
| | Short Term | Medium and Long Term | Short Term | Medium and Long Term |
| Nominal | -- | -- | -- | 1,443,590 |
| Carrying Amount | -- | -- | -- | 1,480,900 |

| 31 December 2019 | TL | | FC | |
|---|---|---|---|---|
| | Short Term | Medium and Long Term | Short Term | Medium and Long Term |
| Nominal | 383,867 | -- | -- | 1,300,613 |
| Carrying Amount | 383,937 | -- | -- | 1,334,395 |

### 24 Derivative Financial Liabilities Held for Trading

At 31 December 2020 and 31 December 2019, derivative liabilities held for trading are as follows:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Derivatives held for trading | | |
| - Forwards | 100,750 | 65,341 |
| - Swaps | 767,880 | 386,379 |
| - Options | 238,862 | 223,041 |
| **Total** | **1,107,492** | **674,761** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 25 Derivative Financial Liabilities Held For Hedging

At 31 December 2020 and 31 December 2019, derivative financial liabilities held for hedging purposes are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| **Derivative financial liabilities held for hedging** | **TL** | **FC** | **TL** | **FC** |
| Fair Value Hedge | -- | -- | 113,444 | -- |
| Cash Flow Hedge | -- | -- | -- | -- |
| Foreign Net Investment Hedge | -- | -- | -- | -- |
| **Total** | **--** | **--** | **113,444** | **--** |

## 26 Subordinated Debts

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| Debt instruments subject to Tier 1 equity | 100,000 | 220,276 | 100,000 | 178,263 |
| Subordinated loans | -- | -- | -- | -- |
| Subordinated debt instruments (*) | 100,000 | 220,276 | 100,000 | 178,263 |
| Debt instruments subject to Tier 2 equity | -- | 1,907,323 | -- | 1,610,755 |
| Subordinated loans | -- | -- | -- | -- |
| Subordinated debt instruments | -- | 1,907,323 | -- | 1,610,755 |
| **Total** | **100,000** | **2,127,599** | **100,000** | **1,789,018** |

(*) TL debt instruments are recognized in other capital reserves.

### Additional Tier 1 Capital

The Group has recognised the issued Tier 1 securities of TL 100,000 nominal and related interest expense, as "other capital reserves" within the scope of "IAS 32 Financial Instruments: Presentation". It has recognised the issued Tier 1 securities of USD 30,000 nominal and related interest expense as "subordinated debt".

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 26 Subordinated Debts (continued)

**Debt instruments included in shareholder's equity calculation:**

| | | | |
|---|---|---|---|
| Issuer | Fibabanka A.Ş. | Fibabanka A.Ş. | Fibabanka A.Ş. |
| Code of debt instrument (CUSIP, ISIN etc.) | XS1386178237 | TRSFIBA10016 | XS2096028571 |
| Regulation of debt instrument | BRSA's "Regulation on Equities of Banks" dated 1 November 2006" and English Law | BRSA's "Regulation on Equities of Banks" dated 1 November 2006" | BRSA's "Regulation on Equities of Banks" dated 1 November 2006" and English law |
| **Consideration Status in Shareholders' Equity Calculation** | | | |
| Situation of being subject to practice of being taken into consideration with 10% deduction after1/1/2015 | No | No | No |
| Eligible at unconsolidated / consolidated | Unconsolidated and Consolidated | Unconsolidated and Consolidated | Unconsolidated and Consolidated |
| Type of debt instrument | Subordinated Security | Subordinated Security | Subordinated Security |
| Recognized amount in shareholders' equity calculation (As of the most recent reporting date – Thousand TL) | 1,868,480 | 100,000 | 220,215 |
| Nominal value of debt instrument (Thousand TL) | 2,202,150 | 100,000 | 220,215 |
| Related account of debt instrument | Subordinated Debt Instruments | Shareholders' Equity | Subordinated Debt Instruments |
| Issuing date of debt instrument | 24/03/16-10/05/17 | 20/03/19 | 31/12/19 |
| Maturity structure of debt instrument (Demand/Time) | Time | Demand | Demand |
| Initial term of of debt instrument | 11 years | -- | -- |
| Issuer call subject to prior BRSA approval | Has repayment right | Has repayment right | Has repayment right |
| Optional call date, reimbursement amount | 24/11/2022; USD 300 million | 13/03/2024; TL 100 million | 31/12/2024; USD 30 million |
| Subsequent call date, if any | None | At the end of every 5th year following | On each interest payments date after first 5 years |

## 26 Subordinated Debts (continued)

**Interest/Dividend Payments**

| | | | |
|---|---|---|---|
| Fixed or floating interest/dividend payments | Floating interest | Floating interest | Floating interest |
| Interest rate or index value of interest rate | Upto pay back option date 7.75% (5 years mid-swap rate+5.758%); afterwards current 5 years mid-swap rate+5.758% | 8% additional return on TRLibor | 10% additional return on Libor |
| Whether there is any restriction to stop dividend payments or not | None | None | None |
| Feature of being fully optional, partially optional or obligatory | Obligatory | Optional | Optional |
| Whether there is any stimulant to repayment like interest rate hike or not | None | None | None |
| Feature of being cumulative or noncumulative | -- | -- | -- |
| **Feature of being convertible bonds** | | | |
| If there is convertible bonds, trigger incidents cause this conversion | -- | -- | -- |
| If there is convertible bonds, feature of full or partially conversion | -- | -- | -- |
| If there is convertible bonds, rate of conversion | -- | -- | -- |
| If there is convertible bonds, feature of conversion –oligatory or optional- | -- | -- | -- |
| If there is convertible bonds, types of convertible instruments | -- | -- | -- |
| If there is convertible bonds, exporter of convertible debt instruments | -- | -- | -- |
| **Feature of value reducement** | | | |
| If there is a feature of value reducement, trigger incidents cause this reducement | -- | Under the condition that unconsolidated and/or consolidated Tier I capital adequacy ratio drop below BRSA's ratio | Under the condition that unconsolidated and/or consolidated Tier I capital adequacy ratio drop below BRSA's ratio |
| If there is a feature of value reducement, feature of full or partially reducement of value | -- | Partially and totally | Partially and totally |
| If there is a feature of value reducement, feature of being constant of temporary | -- | -- | -- |
| If there is a feature of value reducement, mechanism of value incrementation | -- | -- | -- |
| Claiming rank in case of winding up (Instrument that is just above debt instrument) | After the other borrowers except depositors | After depositors, other borrowers and Tier II capital | After depositors, other borrowers and Tier II capital |
| Whether meeting the conditions defined by 7th or 8th articles of Shareholders' Equity of Banks Regulation | Meets the conditions defined by 8th article, does not meet the conditions defined by 7th article. | Meets the conditions defined by 7th article, does not meet the conditions defined by 8th article. | Meets the conditions defined by 7th article, does not meet the conditions defined by 8th article. |
| The conditions not met which were defined by 7th or 8th of the 7th or 8th articles of Shareholders' Equity of Banks Regulation | -- | Can not be converted to stock. | Can not be converted to stock. |

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 27 Taxation

Effective from 1 January 2006, statutory income is subject to corporate tax at 20%, on the other hand as per the provisional article 91 of Law numbered 7061, which is added to Corporate Tax Law numbered 5520 corporate tax rate regarding 2018, 2019 and 2020 fiscal periods (accounting periods starting within the related period for companies which are assigned special accounting period) has changed as 22%. In accordance with the Article 11 of the Law No. 7316 on the Procedure for the Collection of Public Receivables and the Law on Amendments to Certain Laws published in the Official Gazette dated April 22, 2021, and with the temporary Article 13 added to the Corporate Tax Law, the corporate tax rate is 25% for the taxation period of 2021 and this rate will be applied as 23% for the taxation period of 2022.

In Turkey, the Tax Procedural Law does not provide a procedure for final agreement of tax assessments. Tax returns are required to be filed within the fourth month following the balance sheet date. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

Tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred.

Provision for corporate taxes for current and previous year is presented below:

| | 2020 | 2019 |
|---|---|---|
| Total tax liability | 220,908 | 16,858 |
| Prepaid taxes | (77,037) | (15,402) |
| **Provision for taxes** | **143,871** | **1,456** |

For the years ended 31 December 2020 and 2019, taxation comprised the following:

| | 2020 | 2019 |
|---|---|---|
| Current tax expense | (226,453) | (23,601) |
| Deferred tax income / (expense) | 138,053 | (15,309) |
| **Total** | **(88,400)** | **(38,910)** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 27 Taxation (continued)

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

| | 2020 | % | 2019 | % |
|---|---|---|---|---|
| **Profit before income tax** | **326,497** | **100%** | **253,690** | **100%** |
| At statutory income tax rate | (65,299) | (20)% | (55,812) | (22)% |
| Non deductible expenses | (2,900) | (1)% | (1,727) | (1)% |
| Others | (20,200) | (6)% | 18,629 | 7% |
| **Taxation** | **(88,400)** | **(27)%** | **(38,910)** | **(15)%** |

***Deferred tax assets and liabilities***

Deferred tax assets and deferred tax liabilities at 31 December 2020 and 31 December 2019 are attributable to the items detailed in the table below:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| ***Deferred tax assets/ liabilities*** | | |
| Valuation of financial assets | 58,428 | (24,066) |
| Allowance for loan losses | 121,165 | 73,403 |
| Reserve for employee termination benefits | 3,975 | 3,017 |
| Provision for vacation pay | 1,239 | 1,092 |
| Unearned loan commissions | 8,773 | 3,041 |
| Others | (1,936) | (2,179) |
| **Net deferred tax assets (liabilities)** | **191,644** | **54,308** |

The movements of deferred tax assets are as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance at the beginning of the period** | **54,308** | **79,155** |
| Deferred tax recognised in profit or loss | 138,053 | (15,309) |
| Deferred tax recognised in OCI | (717) | (9,538) |
| **Balance at the end of the period** | **191,644** | **54,308** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 28 Share Capital and Share Premium

Share capital structure of the Group is as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| **Name / Commercial Title** | **Share Amount (Nominal)** | **Share Ratios** | **Share Amount (Nominal)** | **Share Ratios** |
| Fiba Holding A.Ş. | 675,583 | 71.59% | 675,379 | 71.57% |
| International Finance Corporation (“IFC”) | 84,554 | 8.96% | 84,554 | 8.96% |
| European Bank for Reconstruction and Development (“EBRD”) | 84,554 | 8.96% | 84,554 | 8.96% |
| Turk Finance B.V. (“Abraaj”) | 93,897 | 9.95% | 93,897 | 9.95% |
| Others | 5,096 | 0.54% | 5,300 | 0.56% |
| **Total** | **943,684** | **100.00%** | **943,684** | **100.00%** |

In May 2015, the Parent Bank’s capital was increased by TL 128,860 TL; TL 127,045 of the increase was provided by the subordinated loan granted by Fiba Holding A.Ş. which had been approved to be converted to capital and TL 1,815 of total capital was paid in cash by the other shareholders.

In December 2015, the Parent Bank’s paid-in capital was increased to TL 850,038 by an increase of TL 168,655 in total, with equal contributions from International Finance Corporation and European Bank for Reconstruction and Development. In addition, share issuance premium of TL 73,379 was recognised in the shareholders’ equity.

The Parent Bank’s paid-in capital amounting to TL 850,038 was increased to TL 943,684 on 7 September 2016 with the capital contribution of TurkFinance B.V. by TL 93,646. In addition, share issuance premium of TL 55,299 was recognised in the shareholders’ equity.

As of 31 December 2020, Parent Bank’s paid in capital is TL 943,684.

**Retained Earnings / (Accumulated Losses) and Other Capital Reserves**

At 31 December 2020 retained earnings are TL 716,610 (31 December 2019: TL 497,321).

The Parent Bank has issued a TL-denominated debt instrument on 20 March 2019 with nominal amount of TL 100.000 with a floating interest rate, which fulfills the conditions of 7th section-2nd paragraph of BRSA’s "Regulation on Equities of Banks", has equity characteristics and with related interest expense, it is included in Tier I capital calculations. It is presented under “Other Capital Reserves” in statement of financial position.

**Unrealized Losses on Financial Assets measured at FVOCI, Net of Tax**

At 31 December 2020, unrealized gains / (losses) on financial assets measured at FVOCI are TL 22,644 gain (31 December 2019: TL 19,111 gain). The tax effect of unrealized gain on financial assets measured at FVOCI is TL 4,805 (31 December 2019: TL TL 3,336), and the net unrealized gain amount is TL 17,838 (31 December 2019: TL 15,774 gain).

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 29 Commitments and Contingent Liabilities

### *29.1 Letters of guarantee and credit*

As at 31 December 2020, the Group is contingently liable for letters of guarantee and credit given amounting to TL 1,266,562 (31 December 2019: TL 1,024,668).

| **Current Period** | **Carrying Amount** | | | **Expected Credit Loss(*)** | | |
|---|---|---|---|---|---|---|
| | **Stage I** | **Stage II** | **Stage III** | **Stage I** | **Stage II** | **Stage III** |
| Letters of Guarantee | 810,858 | 43,406 | 7,307 | 2,571 | 2,666 | 3,671 |
| Bills of Exchange and Bank Acceptances | 156,767 | - | - | 653 | - | - |
| Letters of Credit | 230,213 | 18,011 | - | 216 | 2 | - |
| **Total** | **1,197,838** | **61,417** | **7,307** | **3,440** | **2,668** | **3,671** |

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

| **Prior Period** | **Carrying Amount** | | | **Expected Credit Loss (*)** | | |
|---|---|---|---|---|---|---|
| | **Stage I** | **Stage II** | **Stage III** | **Stage I** | **Stage II** | **Stage III** |
| Letters of Guarantee | 707,597 | 31,351 | 11,665 | 2,648 | 4,039 | 6,336 |
| Bills of Exchange and Bank Acceptances | 105,847 | -- | -- | 231 | -- | -- |
| Letters of Credit | 168,208 | -- | -- | 77 | -- | -- |
| **Total** | **981,652** | **31,351** | **11,665** | **2,956** | **4,039** | **6,336** |

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

### *29.2 Other commitments*

| | **31 December 2020** | **31 December 2019** |
|---|---|---|
| Irrevocable credit facilities | 1,332,248 | 876,316 |
| Payment commitments for cheques | 184,090 | 187,578 |
| Commitments for credit card expenditure limits | 27,643 | 32,901 |
| Other irrevocable commitments | 14,927 | 15,152 |
| Tax and fund liabilities from export commitments | 8,878 | 5,940 |
| Commitments for credit card and banking promotions | -- | 1 |
| **Total** | **1,567,786** | **1,117,888** |

### *29.3 Derivative contracts*

Commitments for purchase of foreign currencies under option, forward and swap contracts at 31 December 2020 and 31 December 2019 are as follows:

| | **31 December 2020** | **31 December 2019** |
|---|---|---|
| | **Purchases** | **Purchases** |
| Spot buy-sell commitments | 498,011 | 2,263,390 |
| Swap agreements | 12,931,028 | 10,967,115 |
| Forward agreements | 2,003,993 | 2,220,775 |
| Options | 3,038,144 | 2,754,642 |
| Others | 234,960 | 578,516 |
| **Total** | **18,706,136** | **18,784,438** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

**29 Commitments and Contingent Liabilities (continued)**

Maturity analysis of derivative instruments is as follows:

| 31 December 2020 | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|---|
| Interest rate swaps | 10,000 | 215,000 | 260,000 | 264,130 | 700,641 | **1,449,771** |
| Spot. forward and swap exchange contracts | 6,571,651 | 4,498,386 | 1,322,123 | 520,208 | 1,070,889 | **13,983,257** |
| Options | 755,000 | 263,597 | 925,103 | 527,741 | 566,703 | **3.038.144** |
| Futures | -- | -- | -- | -- | -- | **--** |
| Others | 56,981 | 12,233 | 3,198 | 162,552 | -- | **234.964** |
| **Total** | **7,393,632** | **4,989,216** | **2,510,424** | **1,474,631** | **2,338,233** | **18,706,136** |

| 31 December 2019 | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|---|
| Interest rate swaps | -- | -- | -- | -- | 322,010 | **322,010** |
| Spot. forward and swap exchange contracts | 5,526,910 | 4,815,147 | 1,009,645 | 1,331,695 | 2,445,873 | **15,129,270** |
| Options | 851,776 | 261,989 | 209,851 | 385,584 | 1,045,442 | **2,754,642** |
| Futures | -- | -- | -- | -- | -- | **--** |
| Others | -- | -- | 7,012 | 216,518 | 354,986 | **578,516** |
| **Total** | **6,378,686** | **5,077,136** | **1,226,508** | **1,933,797** | **4,168,311** | **18,784,438** |

## 30 Related Parties

For the purpose of this report, the Group's ultimate parent group, Fiba Holding A.Ş. and all its subsidiaries, and the ultimate owners, directors of Fibabanka A.Ş. are referred to as related parties. During the course of the business, the Group has made placements with and also received deposits from them at various terms.

*(a) Transactions with direct related parties*

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Interest income | -- | -- |
| Interest expense on deposits | 4,778 | 26,828 |
| Non - cash loan commission income | -- | -- |

*(b) Balances with direct related parties*

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Non cash loans to related parties | 20 | 20 |
| Deposits from related parties | 18,479 | 57,840 |
| Subordinated loans | -- | -- |
| Other borrowings | -- | -- |

(Amounts expressed in thousands of TL unless otherwise indicated.)

### 30 Related Parties (continued)

*(c) Transactions with other related parties*

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Interest income | 36,979 | 39,265 |
| Interest expense | 20,626 | 49,756 |
| Net trading income | 577 | (37,456) |
| Non - cash loan commission income | 126 | 105 |

*(d) Balances with other related parties*

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Cash loans to other related parties | 635,851 | 331,014 |
| Non - cash loans to other related parties | 70,760 | 61,073 |
| Deposits from other related parties | 512,953 | 231,137 |

*(e) Derivative transactions with other related parties*

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| | **Purchase (*)** | **Purchase(*)** |
| Spot, swap, forward and option agreements for trading purposes | 585,484 | 381,159 |

(*) Stated in notional amounts

*(f) Remuneration and benefits of key management*

The key management and the members of the Board of Directors received remuneration and fees amounting to TL 23,116 in the current period (2019: TL 16,295).

### 31 Net Interest Income

| | 2020 | 2019 |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers | 2,034,861 | 2,205,377 |
| Due from banks | 40,344 | 146,203 |
| Derivative assets | 153,692 | 308,597 |
| Debt instruments | 112,395 | 89,227 |
| Others | 8,598 | 28,914 |
| | **2,349,890** | **2,778,318** |
| **Interest expense** | | |
| Deposits from banks and customers | 811,395 | 1,278,187 |
| Saving deposits insurance | 58,547 | 19,312 |
| Funds borrowed | 208,688 | 184,436 |
| Derivative liabilities | 281,197 | 364,424 |
| Obligations under repurchase agreements | 17,804 | 19,854 |
| Securities issued | 138,708 | 179,864 |
| Others | 18,324 | 17,813 |
| | **1,534,663** | **2,063,890** |
| **Net interest income** | **815,227** | **714,428** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

## 32 Fees and Commission Income and Expenses

Fees and commission income for the years ended 31 December 2020 and 31 December 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Insurance commissions | 113,183 | 116,999 |
| Limit allocation revision and appraisal fees | 16,059 | 77,257 |
| Commissions from non-cash loans | 20,562 | 14,650 |
| FibaTarife commissions | 11,725 | 11,359 |
| Credit card commissions | 5,658 | 10,706 |
| Periodical service commissions | 2,656 | 10,594 |
| Asset management fees (*) | 10,215 | 4,752 |
| Transfer commissions | 3,354 | 2,384 |
| Account maintenance fees | 403 | 1,711 |
| Others | 36,072 | 17,903 |
| **Fees and commission income** | **219,886** | **268,315** |

(*) Asset management fees relate to fees earned by the Group on investment funds.

Fees and commission expenses for the year ended 31 December 2020 and 31 December 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Credit card fees | 9,439 | 10,954 |
| Commissions for debt issued | 5,579 | 6,721 |
| Commissions to correspondent banks | 4,461 | 3,821 |
| Debit card fees | 1,264 | 3,418 |
| Payment and transaction fees | 2,623 | 2,225 |
| Other | 11,633 | 7,475 |
| **Fees and commission expense** | **34,999** | **34,614** |

## 33 Net Trading Income

| | 2020 | 2019 |
|---|---|---|
| Gains on derivative transactions | 183,190 | 87,792 |
| Foreign exchange gains /(losses) | 34,939 | 11,863 |
| Gains / (losses) on debt instruments, net | 43,699 | 62,340 |
| **Total** | **261,828** | **161,995** |

## 34 Other Operating Income

| | 2020 | 2019 |
|---|---|---|
| Gain on sale of non-current assets held for sale and tangible assets | 10,268 | 57,838 |
| Gain on sale of Loans & NPLS | 17,723 | 25,283 |
| Reversal of general reserve provision | -- | 20,500 |
| Intermediary fees | -- | 6,826 |
| Others | 14,608 | 21,724 |
| **Total** | **42,599** | **132,171** |

(Amounts expressed in thousands of TL unless otherwise indicated.)

### 35 Personnel Expenses

| | 2020 | 2019 |
|---|---|---|
| Wages and salaries | 223,566 | 184,294 |
| Social security premiums | 37,260 | 31,545 |
| Personnel bonuses | 16,767 | 12,000 |
| Employee health insurance expenses | 7,604 | 7,054 |
| Food and beverage | 5,490 | 7,039 |
| Transportation | 2,211 | 4,600 |
| Termination and vacation pay expenses | 2,255 | 2,912 |
| Others | 35,120 | 27,497 |
| **Total** | **322,572** | **276,941** |

### 36 Other Expenses

| | 2020 | 2019 |
|---|---|---|
| General reserve provision expense (*) | 106,500 | - |
| Information technology expenses | 37,828 | 26,852 |
| Taxes other than on income | 23,350 | 25,671 |
| Communication expenses | 27,088 | 24,816 |
| Consultancy expenses | 29,488 | 16,460 |
| Advertisement expenses | 16,669 | 13,392 |
| Representation hospitality expense | 2,640 | 8,253 |
| Outsource service expenses | 6,833 | 7,047 |
| Cleaning expenses | 7,818 | 6,703 |
| Transportation expenses | 7,142 | 6,514 |
| Electricity expenses | 4,017 | 4,159 |
| Regulatory agency expense | 4,377 | 4,124 |
| Maintenance expenses | 2,217 | 3,522 |
| Office supplies | 1,043 | 1,527 |
| Rent expenses | 630 | 882 |
| Others | 42,289 | 23,732 |
| **Total** | **319,929** | **173,654** |

(*) As of 31 December 2020, the consolidated financial statements include a general reserve provision of total of TL 151.000 thousands, of which TL 106.500 thousands was recognized as expense within the current period.

### 37 Subsequent Events

Effective from 1 January 2006, statutory income is subject to corporate tax at 20%, on the other hand as per the provisional article 91 of Law numbered 7061, which is added to Corporate Tax Law numbered 5520 corporate tax rate regarding 2018, 2019 and 2020 fiscal periods (accounting periods starting within the related period for companies which are assigned special accounting period) has changed as 22%. In accordance with the Article 11 of the Law No. 7316 on the Procedure for the Collection of Public Receivables and the Law on Amendments to Certain Laws published in the Official Gazette dated April 22, 2021, and with the temporary Article 13 added to the Corporate Tax Law, the corporate tax rate is 25% for the taxation period of 2021 and this rate will be applied as 23% for the taxation period of 2022.