Nurol Yatırım Bankası Anonim Şirketi and its subsidiary

Interim condensed consolidated financial statements at September 30, 2019 together with independent auditor's review report

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of
Nurol Yatırım Bankası Anonim Şirketi

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Nurol Yatırım Bankası A.Ş. and its subsidiary ("the Group") as at September 30, 2019, comprising of the interim consolidated statement of financial position as at September 30, 2019 and the related interim consolidated profit or loss and other comprehensive income, changes in equity and cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim financial reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

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

Yaşar Bivas, SMMM
Partner

25 November 2019
Istanbul, Turkey

TABLE OF CONTENTS

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 SEPTEMBER 2019
(Currency - In thousands of Turkish Lira)

	Note	Reviewed 30 September 2019	Audited 31 December 2018
Assets			
Cash and cash equivalents	*6*	284,736	308,898
Reserve deposits at Central Bank	*7*	515,706	321,030
Derivative financial assets		25,503	24,929
Financial assets measured at fair value through other comprehensive income	*8*	240,867	80,431
Loans and advances to customers	*9*	1,754,578	1,682,717
Property and equipment		6,804	4,040
Investment property	*10*	221,716	34,385
Intangible assets		5,203	2,190
Deferred tax assets	*17*	8,075	2,032
Current tax assets		-	7,157
Other assets		41,428	211,678
Total assets		**3,104,616**	**2,679,487**
Liabilities			
Funds borrowed	*11*	985,619	909,077
Debt securities issued	*12*	754,770	736,306
Other liabilities	*14*	891,751	652,855
Derivative financial liabilities		49,686	37,257
Subordinated debts	*13*	84,364	80,254
Provisions	*15*	23,833	9,027
Current tax liability		2,676	-
Total liabilities		**2,792,699**	**2,424,776**
Equity			
Share capital	*18*	220,000	160,000
Reserves		29,589	19,283
Retained earnings		62,328	75,428
Total equity		**311,917**	**254,711**
Total liabilities and equity		**3,104,616**	**2,679,487**

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2019
(Currency - In thousands of Turkish Lira)

	Note	Reviewed 1 January- 30 September 2019	Reviewed 1 January- 30 September 2018
Interest income	*19*	347,524	263,229
Interest expense	*19*	(192,421)	(141,092)
Net interest income		**155,103**	**122,137**
Fee and commission income	*20*	45,720	13,590
Fee and commission expense	*20*	(6,536)	(8,196)
Net fee and commission income		**39,184**	**5,394**
Net trading income / (loss)	*21*	**(58,372)**	**(38,679)**
Net gains/(losses) on financial assets/liabilities at fair value through profit or loss		*(52,862)*	*(38,579)*
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income		*(5,510)*	*(100)*
Dividend income		*69*	-
Other operating income	*22*	9,865	18,247
		(48,438)	**(20,432)**
Operating income		**145,849**	**107,099**
Net impairment/recoveries on financial assets	9	(16,794)	(16,264)
Other provision expenses		(18,865)	(2,383)
Personnel expenses	*23*	(15,699)	(11,553)
Depreciation and amortization		(3,116)	(1,439)
Administrative expenses	*24*	(28,700)	(21,123)
Profit before income tax		**62,675**	**54,337**
Income tax expense	*16*	(13,180)	(14,153)
Profit for the period		**49,495**	**40,184**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Financial assets measured at fair value through other comprehensive income			
Gain / (Loss) arising during the period		8,292	(22,047)
Income tax relating to components of other comprehensive income	*16*	(581)	2,081
Other comprehensive income (loss) for the period, net of income tax		**7,711**	**(19,966)**
Total comprehensive income for the period		**57,206**	**20,218**

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2019

(Currency - In thousands of Turkish Lira)

Reviewed	Note	Share capital	Fair value reserve of financial assets at fair value through other comprehensive income	Legal reserves	Retained earnings	Total equity
Balance at 31 December 2017		**125,000**	**30,988**	**4,500**	**68,476**	**228,964**
Impact of adopting IFRS 9		-	-	-	(20,164)	**(20,164)**
Balances at 1 January 2018		**125,000**	**30,988**	**4,500**	**48,312**	**208,800**
Transfer to reserves		**-**	**-**	**2,874**	**(2,874)**	**-**
Capital Increase		**35,000**	**-**	**-**	**(35,000)**	**-**
Internal Resources		35,000			(35,000)	
Total comprehensive income for the period		-	-	-	-	-
- Profit for the period		-	-	-	40,184	**40,184**
Other comprehensive income for the period, net of tax		-	(19,966)	-	-	**(19,966)**
Total comprehensive income for the period		**-**	**(19,966)**	**-**	**40,184**	**20,218**
Balance at 30 September 2018		**160,000**	**11,022**	**7,374**	**50,622**	**229,018**
Reviewed						
Balances at 1 January 2019		**160,000**	**11,909**	**7,374**	**75,428**	**254,711**
Transfer to reserves		**-**	**-**	**2,595**	**(2,595)**	**-**
Capital Increase		**60,000**	**-**	**-**	**(60,000)**	**-**
Internal Resources		60,000	-	-	(60,000)	-
Total comprehensive income for the period						
- Profit for the period		-	-	-	49,495	**49,495**
- Other comprehensive income for the period, net of tax		-	7,711	-	-	**7,711**
Total comprehensive income for the period		**-**	**7,711**	**-**	**49,495**	**57,206**
Balance at 30 September 2019		**220,000**	**19,620**	**9,969**	**62,328**	**311,917**

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2019

(Currency - In thousands of Turkish Lira)

	Note	**Reviewed 1 January- 30 September 2019(*)**	**Reviewed 1 January- 30 September 2018(*)**
Cash flows from operating activities			
Net profit for the period		49,495	40,184
Adjustments:			
Depreciation and amortisation		3,116	1,207
Current tax expense	*16*	19,804	24,412
Deferred tax (income)/expense	*16*	(6,624)	(10,259)
Provision for loan losses	*9*	16,794	16,264
Other provisions		18,865	2,383
Other accruals		(29,165)	15,563
Foreign exchange loss / (gain)		(9,657)	(103,424)
Fair value gain on investment property		(2,340)	(14,307)
		60,288	**(27,977)**
Changes in operating assets and liabilities			
Change in derivative financial assets		(574)	(1,163)
Change in loans and advances to customers		(63,154)	(564,981)
Change in reserve deposits		(195,380)	244,084
Change in other assets		(17,031)	(80,615)
Change in other liabilities		240,762	249,293
Change in derivative financial liabilities		12,429	78,984
Change in borrowings		80,125	348,666
Taxes paid		(14,075)	(15,175)
Net cash provided by / (used in) operating activities		**43,103**	**259,093**
Cash flows from investing activities			
Purchase of financial assests measured at fair value through other comprehensive income		(4,506,083)	(3,105,578)
Sale of financial assests measured at fair value through other comprehensive income		4,362,030	3,025,134
Purchase of property and equipment		(1,307)	(9,147)
Purchase of intangible assets		(3,879)	(871)
Net cash (used in) / provided by investing activities		**(149,239)**	**(90,462)**
Proceeds from debt securities issued		2,724,146	2,707,956
Repayment from debt securities issued		(2,710,347)	(2,516,718)
Lease Payment		(1,770)	-
Net cash provided by /(used in) financing activities		**12,029**	**191,238**
Effect of foreign exchange rate change on cash and cash equivalents		**9,657**	**103,424**
Net increase in cash and cash equivalents		**(24,162)**	**435.316**
Cash and cash equivalents at 1 January	*6*	308,898	26,682
Cash and cash equivalents at 30 September	*6*	**284,736**	**461,998**

(*) Cash flows from interest received and paid disclosed together. Interest received is amounting to TL 323,413 (30 September 2018: 253,039) and interest paid is amounting to TL 196,573 (30 September 2018: 120,789).

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

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

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

Nurol Varlık Kiralama A.Ş. is established in 2017 to operate in asset leasing sector. Nurol Varlık Kiralama A.Ş. has been registered in trade register as of June 14, 2017 and published in Turkey Trade Registry Gazette numbered 9351 dated 20 September 2017. Nurol Varlık Kiralama A.Ş.'s paid in capital is amounting to TL 50 as of September 30, 2019.

Nature of Activities of the Group

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

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

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

Shareholders	Total nominal value of the shares	Share percentage (%)
Nurol Holding A.Ş.	171,947	78.16
Nurol İnşaat ve Tic. A.Ş.	35,112	15.96
Other	12,941	5.88

The Parent Bank does not have any capital increase during the current period (January 1- September 30, 2019: The Parent Bank's paid in capital has been increased by TL 60,000 provided from internal resources).

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

2. The new standards, amendments and interpretations

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the interim consolidated financial statements as at 30 September 2019 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2019. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2019 are as follows:

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019.

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognises an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Transition to IFRS 16:

The Group adopted IFRS 16 using the Full retrospective approach. The Group elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group therefore did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group elected to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

The standard is applied for annual periods beginning on or after 1 January 2019. The Group disclosed the impact of the standard on financial position or performance of the Group. As of 30 September 2019, The Group recognized right of use asset classified under tangible assets and lease liability amounting to TL 4,797 and TL 3,726 respectively due to application of IFRS 16.

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

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Amendments to IAS 28 “Investments in Associates and Joint Ventures” (Amendments)

In October 2017, the IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures. The amendments clarify that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

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

IFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with IAS 28 Investments in Associates and Joint Ventures. In this amendment, IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the Group.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in “IAS 12 Income Taxes” when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:
(a) whether an entity considers uncertain tax treatments separately;
(b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
(c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
(d) how an entity considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The interpretation did not have a significant impact on the financial position or performance of the Group

Annual Improvements – 2015–2017 Cycle

In December 2017, the IASB issued Annual Improvements to IFRS Standards 2015–2017 Cycle, amending the following standards:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 Borrowing Costs — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments are effective from annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the Group.

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

Plan Amendment, Curtailment or Settlement" (Amendments to IAS 19)

On 7 February 2018, the IASB published Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the Group

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The IASB issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the Group.

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the interim consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

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

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

IFRS 17 - The new Standard for insurance contracts

[The ISB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

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

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

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

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

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

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

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

3. Consolidation

3.1 Basis of Consolidation

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

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

4. Significant accounting policies

4.1 Statement of compliance

These interim condensed consolidated financial statements for the three-month period then ended September 30, 2019 have been prepared in accordance with IAS 34, “Interim Financial Reporting”. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended December 31, 2018.

The Bank maintains its book of account and prepares their statutory financial statements in Turkish Lira (“TL”) in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency (“BRSA”), Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. The subsidiary maintains its books of accounts based on statutory rules and regulations applicable in their jurisdictions. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. The interim condensed consolidated financial statements were authorised for issue by the Group’s management on 25 November 2019.

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.2 Basis of measurement

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

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

4.3 Foreign currency transactions

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

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

	USD / TL (full)	EUR / TL (full)
30 September 2019	5.6437	6.1671
31 December 2018	5.2810	6.0422

4.4 lnterest income and interest expense

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

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

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

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

4. Significant accounting policies (continued)

4.5 Fees and commission

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

4.6 Net trading income

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

4.7 Dividends

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

4.8 Taxation and deferred income taxes

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

Current tax

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

Deferred tax

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

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

4. Significant accounting policies (continued)

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

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

Current and deferred tax for the period

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

4.9 Financial instruments

Initial recognition of financial instruments

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

Initial measurement of financial instruments

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

Classification of financial instruments

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

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

4. Significant accounting policies (continued)

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

Assessment of business model

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

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

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

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

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

Other business models

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

4.9.1 Financial assets

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

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

4. Significant accounting policies (continued)

Financial assets at the fair value through profit or loss

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

Financial Assets at Fair Value Through Other Comprehensive Income

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

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

Financial Assets Measured at Amortized Cost

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

Loans and Advances to Customers

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

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

4. Significant accounting policies (continued)

Due from banks

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

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

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

Repossessed assets

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

Cash and cash equivalents

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

4.9.2 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

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

4. Significant accounting policies (continued)

Deposits, funds borrowed and debt securities issued

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

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

4.9.3 Derivative financial instruments

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

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

4.10 Expected Credit Loss

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

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

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

Stage 1:

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

4. Significant accounting policies (continued)

Stage 2:

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

Stage 3:

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

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

Calculation of expected credit losses

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

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

The bank calculated the average PD and LGD as 1.59% and 26.77%, respectively for cash financial assets, 1.01% and 44.25% for noncash loans as of 30 September 2019. 100% PD is applied for all financial assets in stage 3.

Probability of Default ("PD")

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

4. Significant accounting policies (continued)

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

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

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

Loss Given Default ("LGD")

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

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

Exposure at Default ("EAD")

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

Consideration of the Macroeconomic Factors

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

Calculating the Expected Loss Period

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

4. Significant accounting policies (continued)

Significant increase in credit risk

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

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

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

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

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

4.11 Derecognition of financial instruments

Derecognition of financial assets due to change in contractual terms

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

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

Derecognition of financial assets without any change in contractual terms

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

Derecognition of financial liabilities

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

4. Significant accounting policies (continued)

4.12 Property and equipment

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

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

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

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

4.13 Intangible assets

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

Computer software

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

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

4.14 Investment properties

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

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

4. Significant accounting policies (continued)

4.14 Investment properties (continued)

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

4.15 Leases

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

The Group as lessee

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

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

The Group as lessor

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

In accordance with IFRS 16, the lessee, at the effective date of the lease, measures the leasing liability on the present value of the lease payments that were not paid at that date (leasing liability) and depreciates the existence of the right of use related to the same date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. The interest expense on the lease liability and the depreciation expense on right of use are recorded separately.

4. Significant accounting policies (continued)

4.16 Provisions

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

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

4.17 Employee benefits

Termination and retirement benefits

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

Profit-sharing and bonus plans

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

4.18 Fiduciary assets

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

4.19 Use of estimates and judgments

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

4.20 Key sources of estimation uncertainty

Expected credit loss

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

Determining fair values

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

(Currency - In thousands of Turkish Lira)

5. Segment reporting

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

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

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

Major financial statement items according to business lines:

30 September 2019	Corporate banking	Other(*)	Total operations of the Group
Operating income	140,456	5,393	145,849
Other expenses	(83,174)	-	(83,174)
Profit before income tax	57,282	5,393	62,675
Income tax income/expense	-	-	(13,180)
Profit from continued operations	57,282	5,393	49,495
Profit for the period	**44,102**	**5,393**	**49,495**
Segment assets	3,098,865	5,751	3,104,616
Non-distributed Asset	-	-	-
Total assets	**3,098,865**	**5,751**	**3,104,616**
Segment liabilities	2,792,699	-	2,792,699
Shareholders’ equity	-	311,917	311,917
Total liabilities	**2,792,699**	**311,917**	**3,104,616**

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

30 September 2018	Corporate banking	Other(*)	Total operations of the Group
Operating income	78,399	28,700	107,099
Other expenses	(52,762)	-	(52,762)
Profit before income tax	25,637	28,700	54,337
Income tax income/expense	-	-	(14,153)
Profit for the period	**11,484**	**28,700**	**40,184**
Segment assets	2,677,945	1,542	2,679,487
Non-distributed Asset	-	-	-
Total assets	**2,677,945**	**1,542**	**2,679,487**
Segment liabilities	2,424,776	-	2,424,776
Shareholders’ equity	-	254,711	254,711
Total liabilities	**2,424,776**	**254,711**	**2,679,487**

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

(Currency - In thousands of Turkish Lira)

6. Cash and cash equivalents

	30 September 2019	31 December 2018
Cash and balances with central banks	1,364	226,522
- Cash on hand	*1,361*	*734*
- Balances with central banks	*3*	*225,788*
Due from banks and financial institutions (*)	283,372	82,376
Cash and cash equivalents in the balance sheet	**284,736**	**308,898**

(*) Amount of TL 138 (31 December 2018: 6) provision booked for due from banks and financial institutions and TL 89 provision booked for balances with central banks as of September 30, 2019.

7. Reserve deposits at Central Bank

	30 September 2019	31 December 2018
Turkish Lira	255,666	233,697
Foreign currency	260,040	87,333
	515,706	**321,030**

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

	30 September 2019		31 December 2018	
	Amount	Effective interest rate	Amount	Effective interest rate
Financial assets measured at fair value through other comprehensive income				
Debt instruments [(a)]	215,676	22.92%	60,670	16.44%
Equity instruments – listed [(b)]	16,711		13,446	
Equity instruments – unlisted	9,176		6,414	
Financial assets measured at fair value through other comprehensive income	**241,563**		**80,530**	
Expected Credit Losses (-)[(c)]	**(696)**		**(99)**	
Total FVTOCI	**240,867**		**80,431**	

(a) Financial assets measured at fair value through other comprehensive income include government bonds denominated in TL amounting to TL 316 (31 December 2018: TL 1,155), bank bonds amounting to TL 6,084 (31 December 2018: TL 6,065), Securities issued by the private sector bonds amounting to TL 3,042 (31 December 2018: None). The private sector bonds amounting to TL 205,538 (31 December 2018:53,357).
(b) The Group holds 3.11% of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş. ("Company")'s shares as of 30 September 2019 and the investment is accounted under fair value through other comprehensive income investments, as the Group has no significant influence on the Company. As of the balance sheet date the shares are accounted for using the market price and fair value reserve of TL 14,494 is accounted under equity (31 December 2018: TL 11,230).
(c) The Group calculates expected credit loss for financial assets measured at fair value through other comprehensive income inline with IFRS 9.

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers

	30 September 2019		
	Amount		
	TL	**Foreign currency**	**Total**
Short-term loans	807,554	279,846	1,087,400
Medium and long-term loans	150,619	411,588	562,207
Total performing loans	**958,173**	**691,434**	**1,649,607**
Generic provisions for Stage 1 and Stage 2	**(8,396)**	**-**	**(8,396)**
Non-performing loans	133,111	-	133,111
Provisions for Stage 3	(19,744)	-	(19,744)
Total non-performing loans (net)	**113,367**	**-**	**113,367**
Total loans, net	**1,063,144**	**691,434**	**1,754,578**

	31 December 2018		
	Amount		
	TL	**Foreign currency**	**Total**
Short-term loans	885,499	55,758	941,257
Medium and long-term loans	178,731	421,951	600,682
Total performing loans	**1,064,230**	**477,709**	**1,541,939**
Generic provisions for Stage 1 and Stage 2	**(9,143)**	**-**	**(9,143)**
Non-performing loans (*)	152,285	-	152,285
Provisions for Stage 3 (*)	(2,364)	-	(2,364)
Total non-performing loans (net)	**149,921**	**-**	**149,921**
Total loans, net	**1,205,008**	**477,709**	**1,682,717**

(*) Non performing loans amounting to TL 44,395 has been written off by the Group in 2018.

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers (continued)

Lending structure of the Group:

	30 September 2019	31 December 2018
Corporate Lending	1,526,195	1,400,188
SME Lending	5,021	31,881
Other Lending	251,502	262,155
Less: Allowance for ECL/impairment losses	(28,140)	(11,507)
Total	**1,754,578**	**1,682,717**

Expected Credit Loss Expense Movement of the Group:

	30 September 2019				30 September 2018			
	ECL allowance				ECL allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank)	132	-	-	132	(14)	-	-	(14)
Securities	597	-	-	597	(120)	-	-	(120)
Loans and advances to customers	(1,197)	450	17,380	16,633	(260)	(1,705)	(14,838)	(16,945)
Other financial assets	282	-	-	282	(10)	-	-	(10)
Guarantees	47	(205)	(673)	(831)	(132)	(352)	1,370	886
LCs and Acceptances	(19)	-	-	(19)	(61)	-	-	(61)
	(158)	**245**	**16,707**	**16,794**	**(597)**	**(2,057)**	**(13,610)**	**(16,264)**

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

	30 September 2019							
	Carrying Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank)	800,580	-	-	800,580	138	-	-	138
Securities	240,867	-	-	240,867	696	-	-	696
Derivatives	25,503	-	-	25,503	-	-	-	-
Loans and advances to customers	1,496,018	153,589	*133,111*	1,782,718	761	7,635	19,744	28,140
of which : Large corporate clients	*1,239,495*	*153,589*	*133,111*	*1,526,195*	*714*	*7,635*	*19,744*	*28,093*
of which : SME clients	*5,021*	-	-	*5,021*	-	-	-	-
of which : Others	*251,502*	-	-	*251,502*	*47*	-	-	*47*
Other financial assets	21,099	-	-	21,099	316	-	-	316
Total on-balance sheet financial assets in scope of ECL requirements	**2,584,067**	**153,589**	**133,111**	**2,870,767**	**1,911**	**7,635**	**19,744**	**29,290**

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers (continued)

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

	31 December 2018							
	Carrying Amount				ECL Allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents (including reserves at Central Bank)	629,934	-	-	629,934	6	-	-	6
Securities	80,530	-	-	80,530	99	-	-	99
Derivatives	24,929	-	-	24,929	-	-	-	-
Loans and advances to customers	1,417,029	124,910	152,285	1,694,224	1,958	7,185	2,364	11,507
of which : Large corporate clients	*1,122,993*	*124,910*	*152,285*	*1,400,188*	*1,905*	*7,185*	*2,364*	*11,454*
of which : SME clients	*31,881*	-	-	*31,881*	*5*	-	-	*5*
of which : Others	*262,155*	-	-	*262,155*	*48*	-	-	*48*
Other financial assets	2,271	-	-	2,271	34	-	-	34
Total on-balance sheet financial assets in scope of ECL requirements	**2,154,693**	**124,910**	**152,285**	**2,431,888**	**2,097**	**7,185**	**2,364**	**11,646**

Impairment allowance for loans and advances to customers	**30 September 2019**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	94	-	-	94
Standard grade	171	-	-	171
Sub-standard grade	497	7,635	-	8,132
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	19,744	19,744
	761	**7,635**	**19,744**	**28,140**

Impairment allowance for loans and advances to customers	**31 December 2018**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	84	-	-	84
Standard grade	623	142	-	765
Sub-standard grade	1,251	7,043	-	8,294
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	2,364	2,364
	1,958	**7,185**	**2,364**	**11,507**

(Currency - In thousands of Turkish Lira)

10. Investment Property

The Pre-emption agreement on the real estate properties registered to the Serik District of Antalya Province which is owned by the Parent Bank account in “Other Assets” has not been realized due to the counterparty Vera Varlık Yönetim A.Ş. is not fullfulling the obligations and the legal process is ongoing aforementioned real estate properties have been removed from "Other Assets” and recognized to “Investment Properties” in TL Currency and reevaluated with and independent valuation report (appraisement value: TL 138,955). Similarly, the Right to repurchase agreement on the real estate properties registered to which is owned by the Parent Bank account in “Other Assets” has not been realized due to the counterparty Palmali International is not fullfulling the obligations and the legal process is ongoing aforementioned real estate properties have been removed from "Other Assets” and recognized to “Investment Properties” in TL Currency and reevaluated with and independent valuation report (appraisement value: TL 47,260). Also, other investment properties accounted amounting to TL 35,501 in the account. As of 30 September 2019, the Group has investment property amounting to TL 221,716 (31 December 2018: 34,385).

The Company accounts its investment property under fair value model.

11. Funds borrowed

	30 September 2019			**31 December 2018**		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Funds borrowed	377,273	431,159	808,432	309,131	505,933	815,064
Obligations under repurchase agreements	4,341	172,846	177,187	84,033	9,980	94,013
	381,614	**604,005**	**985,619**	**393,164**	**515,913**	**909,077**

The effective interest rate for funds borrowed denominated in USD is 4.59% (31 December 2018 – 5.63%), in EUR is 3.25% (31 December 2018 – 3.15%) and in TL is 16.65% (31 December 2018 – 25.41 %).

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as at 30 September 2019 (31 December 2018 – None).

(Currency - In thousands of Turkish Lira)

12. Debt securities issued

	30 September 2019			31 December 2018		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Bonds	700,661	-	700,661	718,363	-	718,363
Bills	54,109	-	54,109	17,943	-	17,943
	754,770	**-**	**754,770**	**736,306**	**-**	**736,306**

Debt securities issued – Cash flow movement

	30 September 2019
Balance as at 1 January 2019	736,306
Proceed during the year	2,724,146
Repayments during the year	(2,710,347)
Other non-cash movements	4,665
Balance as at 30 September 2019	**754,770**

As of September 30, 2019, the list of the issued bonds by the Parent Bank in 2019 are shown below:

ISSUE TYPE	ISSUE DATE	MATURITY DATE	DAYS	NOMINAL VALUE (full TL)	INTEREST RATE
BOND	14.06.2019	04.10.2019	112	50,000,000	24.75%
BOND	27.06.2019	25.06.2020	364	100,000,000	25.00%
TAHVİL	01.03.2019	06.03.2020	371	50,000,000	23.00%
BOND	02.08.2019	17.10.2019	76	50,000,000	19.50%
BOND	29.07.2019	25.10.2019	88	50,000,000	21.00%
BOND	28.08.2019	07.11.2019	71	50,000,000	17.50%
BOND	18.07.2019	07.11.2019	112	50,000,000	23.50%
BOND	04.09.2019	04.12.2019	91	100,000,000	17.70%
BOND	18.09.2019	18.12.2019	91	50,000,000	15.50%
BOND	11.09.2019	10.01.2020	121	100,000,000	17.00%
BOND	28.08.2019	26.08.2020	364	50,000,000	16.50%

Nurol Varlık Kiralama A.Ş. issued “Lease certificates” amounting to TL 254,360 in 2019.

13. Subordinated debts

	30 September 2019			31 December 2018		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Bonds (*)	-	28,261	28,261	-	53,781	53,781
Loan (*)	-	56,103	56,103	-	26,473	26,473
	-	**84,364**	**84,364**	**-**	**80,254**	**80,254**

(*) The Bank has issued Eurobond on March 31, 2016 with a nominal value of USD 10,000,000, 10 years maturity and fixed interest rate of 10%, having a coupon payments every six months and received a loan on December 27, 2016 from World Business Capital at an amount of USD 5,000,000 with an interest rate of 6.65%, 10 years maturity, floating rate and quarterly interest payment (31 December 2018: USD 15,000,000).

(Currency - In thousands of Turkish Lira)

14. Other liabilities

	30 September 2019	31 December 2018
Cash collaterals (*)	863,700	618,939
Taxes and funds payable	6,422	5,272
Lease liabilities	3,726	-
Others	17,903	28,644
Total	**891,751**	**652,855**

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

15. Provisions

	30 September 2019	31 December 2018
Provision for lawsuits	16,008	200
Bonus accrual	2,475	3,279
Provision for non - cash loans (*)	2,233	3,083
Employee termination benefits	1,384	1,064
Unused vacation accrual	1,733	1,401
Total	**23,833**	**9,027**

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

	30 September 2019							
Expected credit loss measurement	**Carrying Amount**				**ECL Allowance (*)**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Guarantees	858,475	19,113	2,288	879,876	444	1,588	199	2,231
LCs and Acceptances	7,560	-	-	7,560	2	-	-	2
Total	**866,035**	**19,113**	**2,288**	**887,436**	**446**	**1,588**	**199**	**2,233**

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

Impairment allowance for off-balance sheet financial assets:

	30 September 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	27	-	-	27
Standard grade	355	-	-	355
Sub-standard grade	64	1,588	-	1,652
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	199	199
Total	**446**	**1,588**	**199**	**2,233**

(Currency - In thousands of Turkish Lira)

15. Provisions (continued)

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

	30 September 2019			
	Financial guarantees	**Letters of credit and acceptances**	**Other undrawn commitments**	**Total**
At 1 January 2019	3,062	21	-	3,083
Charge for the year	(831)	(19)	-	(850)
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Unwind of transformed into cash	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
At 30 September 2019	**2,231**	**2**	**-**	**2,233**

16. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In Turkey, corporate tax rate is 22%. The tax legislation provides for a temporary tax of 22% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

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

Income tax recognised in the income statement

The components of income tax expense as stated below:

	30 September 2019	**30 September 2018**
Current tax		
Current income tax	19,804	(24,412)
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	(6,624)	10,259
Income tax expense reported in the income statement	**13,180**	**(14,153)**

(Currency - In thousands of Turkish Lira)

16. Taxation (continued)

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate for the years ended 30 September 2019 and 30 September 2018 is as follows:

	30 September 2019	30 September 2018
Profit before income tax	62,675	54,337
Income tax using the domestic corporate tax rate	(13,789)	(11,954)
Other	(6,015)	(12,458)
Total income tax expense in the profit or loss	**(19,804)**	**(24,412)**

Reconciliation of effective tax rate

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

	30 September 2019	30 September 2018
Deferred tax assets / (liability), net at 1 January	2,032	2,882
Deferred tax recognised in the profit or loss	6,624	10,259
Deferred income tax recognised in other comprehensive income	(581)	2,081
Deferred tax assets/(liabilities), net at end of September	**8,075**	**15,222**

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	30 September 2019			31 December 2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Liability for employee benefits	686	-	686	542	-	542
Valuation of financial assets at FVOCI	-	421	421	(161)	-	(161)
Economic life property and equipment	(400)	-	(400)	-	(254)	(254)
Derivatives	4,879	-	4,879	2,389	-	2,389
Other	-	2,489	2,489	-	(484)	(484)
	5,165	**2,910**	**8,075**	**2,770**	**(738)**	**2,032**

17. Commitments and contingencies

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

(Currency - In thousands of Turkish Lira)

17. Commitments and contingencies (continued)

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

As at 30 September 2019; commitments and contingencies comprised the following:

	30 September 2019	**31 December 2018**
Letters of guarantee	879,876	788,930
Letters of credit	7,560	4,044
Bank acceptance	-	1,825
Other commitments	-	-
Total	**887,436**	**794,799**

18. Share capital and reserves

Share capital

As at 30 September 2019 and 31 December 2018, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	30 September 2019		**31 December 2018**	
	Amount	**%**	**Amount**	**%**
Nurol Holding A.Ş.	171,947	78.16	125,052	78
Nurol İnşaat ve Tic. A.Ş.	35,112	15.96	25,536	16
Others	12,941	5.88	9,412	6
Total	**220,000**		**160,000**	

As at 30 September 2019, the authorised share capital comprised of 220,000 ordinary shares having a par value of TL full 1,000 (As at 31 December 2018, the authorised share capital comprised of 160,000 ordinary shares having a par value of TL full 1,000). All issued shares are paid.

(Currency - In thousands of Turkish Lira)

19. Net interest income

	30 September 2019	30 September 2018
Interest income		
Loans and advances to customers	231,454	236,613
Deposits with banks and other financial institutions	24,235	7,535
Financial assets measured at fair value through profit/loss and financial assets measured at fair value through other comprehensive income	77,026	5,493
Financial Leases	-	-
Other	14,809	13,588
	347,524	**263,229**
Interest expense		
Funds borrowed	57,901	(29,129)
Debt securities issued	110,530	(3,745)
Interbank funds borrowed	10,460	(97,394)
Financial Leases	753	-
Other	12,777	(10,824)
	192,421	**(141,092)**
Net interest income	**155,103**	**122,137**

20. Net fee and commission income

	30 September 2019	30 September 2018
Fee and commission income		
Non-cash loans	15,129	9,443
Other	30,591	4,147
Total fee and commission income	**45,720**	**13,590**
Fee and commission expense		
Non-cash loans	1,382	597
Other	5,154	7,599
Total fee and commission expense	**6,536**	**8,196**
Net fee and commission income	**39,184**	**5,394**

21. Net trading income/loss

	30 September 2019	30 September 2018
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	(5,510)	(100)
Net gains/(losses) on financial assets/liabilities at fair value through profit or loss	(52,862)	(38,579)
Gain / (losses) from derivatives	(49,601)	*46,271*
Gain / (losses) from FX losses	*(3,261)*	*(84,850)*
Total	**(58,372)**	**(38,679)**

(Currency - In thousands of Turkish Lira)

22. Other operating income

	30 September 2019	30 September 2018
Fair value gain on investment properties (*)	2,340	14,387
Rent income	2,820	-
Swift income	2,090	-
Communication expenses reflected to the customers	152	17
Gain on sales of assets	20	-
Other	2,443	3,843
Total	**9,865**	**18,247**

(*) Due to the Pre-emption agreement on the real estate properties registered to Palmali International and the Serik District of Antalya Province which is owned by the Parent Bank account in "Other Assets" has not been realized real estate properties start to recognized to "Investment Properties" in TL Currency and re-evaluated with and independent valuation report (appraisement value: TL 186,215). As a result of the revaluation, a valuation difference of TL 2,340 was realized.

23. Personnel expenses

	30 September 2019	30 September 2018
Wages and salaries	13,390	9,716
Compulsory social security obligations	1,161	849
Other benefits	1,148	988
Total	**15,699**	**11,553**

24. Administrative expenses

	30 September 2019	30 September 2018
Audit and advisory expenses	7,634	2,810
Nurol Holding re-charges	4,432	7,169
Taxes and duties expenses	5,144	3,168
Telecommunication expenses	1,384	987
Hosting expenses	986	159
Computer expenses	799	781
Maintenance expenses	248	141
Notary expenses	129	81
Rent expenses	145	1,701
Advertising expenses	76	69
Transportation expenses	320	-
Other various administrative expenses	7,403	4,057
Total	**28,700**	**21,123**

25. Financial risk management objectives and policies

a) Introduction and overview

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

- credit risk
- market risks

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

Risk management framework

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

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

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

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

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

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

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

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

25. Financial risk management objectives and policies (Continued)

b) Credit risk

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

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

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

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

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Credit risk by risk groups

	Individual	Corporate	Total
30 September 2019			
Performing loans	5,751	1,490,267	1,496,018
Loans under close monitoring	-	153,589	153,589
Non-performing loans	-	133,111	133,111
Gross	**5,751**	**1,776,967**	**1,782,718**
Transferred asset	-	-	-
Specific provisions for Stage 3	-	(19,744)	(19,744)
Generic provisions for Stage 1 and Stage 2	-	(8,396)	(8,396)
Total	**5,751**	**1,748,827**	**1,754,578**
31 December 2018			
Performing loans	1,542	1,415,487	1,417,029
Loans under close monitoring	-	124,910	124,910
Non-performing loans	-	152,285	152,285
Gross	**1,542**	**1,692,682**	**1,694,224**
Transferred asset	-	-	-
Specific provisions for Stage 3	-	(2,364)	(2,364)
Specific provisions for Stage 1 and Stage 2	-	(9,143)	(9,143)
Total	**1,542**	**1,681,175**	**1,682,717**

Exposure to credit risk

		Due from banks		**Loans and advances to customers**	
	Notes	**30 September 2019**	**31 December 2018**	**30 September 2019**	**31 December 2018**
Carrying amount		**283,513**	**82,382**	**1,754,578**	**1,682,717**
Non-performing financial assets		-	-	133,111	152,285
Gross amount		**-**	**-**	**133,111**	**152,285**
Specific provision for Stage 3	*9*	-	-	(19,744)	(2,364)
Generic provision for Stage 1 and 2	*9*	(138)	(6)	(8,396)	(9,143)
Neither past due nor impaired		283,375	82,376	1,657,027	1,584,785
Carrying amount		**283,375**	**82,376**	**1,657,027**	**1,584,785**
Restructured and rescheduled loans and other receivables		-	-	97,551	97,932
Carrying amount		**-**	**-**	**97,551**	**97,932**
Carrying amount (amortised cost)		**283,375**	**82,376**	**1,754,578**	**1,682,717**

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk (continued)

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

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

30 September 2019		**Collaterals after rate of consideration**								
Type of collateral or credit enhancement	**Maximum exposure to credit risk**	**Cash**	**Securities (Cheques& Acts&Stock Share)**	**Property (Mortgages)**	**Assignment of receivables**	**Vehicle Pledge**	**Other**	**Total collateral**	**Net exposure**	**Associated ECLs**
Financial assets										
Cash and cash equivalents (including reserves at Central Bank)	799,220	-	-	-	-	-	-	-	799,220	138
Loans and advances to customers	1,832,235	13,197	391,307	83,178	68,483	131,020	2,257	689,442	1.142,793	28,140
of which : Large corporate clients	1,572,282	12,903	286,283	80,362	66,809	131,020	2,257	579,634	992,648	28,093
of which : SME clients	5,021	294	184	2,816	1,674	-	-	4,968	53	-
of which : Others	254,932	-	104,840	-	-	-	-	104,840	150,092	47
Other financial assets	21,099	-	-	-	-	-	-	-	21,099	316
Derivative financial instruments	25,503	-	-	-	-	-	-	-	25,503	-
Securities at fair value through OCI	266,943	-	-	-	-	-	-	-	266,943	696
Guarantees (after Credit Conversion Factor)	522,744	2,157	16,488	17,517	2,882	683	-	39,727	483,017	2,032
LCs and Acceptances (after Credit Conversion Factor)	3,462	-	-	39	1,024	-	-	1,063	2,399	2

The Parent Bank's internal credit rating grades

The Bank's independent Credit Risk Department operates its internal rating models. The Bank runs models for its key portfolios in which its customers are rate from 1 to 100 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. These information sources are first used to determine the PDs within the Bank's IFRS 9 ECL calculation.

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies (continued)

Fair value through profit or loss (FVTPL)

At 30 September 2019, the Bank has derivative financial assets at FVTPL amounting to TL 25.503 (31 December 2018 – TL 24,929). An analysis of the credit quality of the maximum credit exposure is as follows:

	30 September 2019	31 December 2018
Derivative financial assets	25,503	24,929
Fair value and carrying amount	**25,503**	**24,929**

c) Capital management

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

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

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

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

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

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

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

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

	30 September 2019	31 December 2018
Amount subject to credit risk (I)	2,693,362	2,147,685
Amount subject to market risk (II)	40,544	36,893
Amount subject to operational risk (III)	198,627	140,160
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)	**2,932,533**	**2,324,738**
Shareholders' equity:		
Tier 1 capital	314,919	263,502
Tier 2 capital	96,236	90,708
Total regulatory capital	**411,155**	**354,210**
Capital adequacy ratio	**14.02%**	**15.24%**

25. Financial risk management objectives and policies (continued)

d) Fair values

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

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

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

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

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

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

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

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

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies (continued)

d) Fair values (continued)

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

30 September 2019	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Derivative financial assets		25,503	-	-	25,503
Financial assets measured at fair value through other comprehensive income	*8*	240,867	-	-	240,867
Investment property		-	221,716	-	221,716
		266,370	221,716	-	488,086
Liabilities					
Derivative financial liabilities		-	(49,686)	-	(49,686)
			(49,686)		(49,686)
		266,370	**172,030**	**-**	**438,400**

31 December 2018	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Derivative financial assets		24,929	-	-	24,929
Available for sale investments	*8*	80,431	-	-	80,431
Investment property		-	34,385	-	34,385
		105,360	34,385	-	139,745
Liabilities					
Derivative financial liabilities		-	(37,257)	-	(37,257)
		-	(37,257)	-	(37,257)
		105,360	**(2,872)**	**-**	**102,488**

e) Market risk

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

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

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

Currency risk

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

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

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies (continued)

e) Market risk (continued)

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

Currency risk (continued)

	USD	Euro	Others	Total
2019				
Assets				
Cash and cash equivalents	59,997	92,401	12,153	164,551
Reserve deposits at Central Bank	105,159	154,881	-	260,040
Loans and advances to customers	160,398	531,036	-	691,434
Financial assets measured at fair value through other comprehensive income	205,538	-	-	205,538
Other assets	33	28	-	61
Total assets	**531,125**	**778,346**	**12,153**	**1,321,624**
Liabilities				
Funds borrowed	230,772	408,229	11,859	650,860
Subordinated debts	84,364	-	-	84,364
Other liabilities	16,035	757,211	-	773,246
Total liabilities	**331,171**	**1,165,440**	**11,859**	**1,508,470**
Gross exposure	**199,954**	**(387,094)**	**294**	**(186,846)**
Off-balance sheet position				
Net notional amount of derivatives	(206,821)	388,673	-	181,852
Net exposure	**(6,867)**	**1,579**	**294**	**(4,994)**

	USD	Euro	Others	Total
2018				
Assets				
Cash and cash equivalents	98,224	206,337	3,564	308,124
Reserve deposits at Central Bank	36,747	50,585	-	87,333
Loans and advances to customers	45,037	432,672	-	477,709
Financial assets measured at fair value through other comprehensive income	38,061	15,389	-	53,450
Other assets	138,683	15	-	138,698
Total assets	**356,752**	**704,998**	**3,564**	**1,065,314**
Liabilities				
Funds borrowed	256,523	255,074	3,507	515,103
Subordinated debts	80,254	-	-	80,254
Other liabilities	29,315	561,588	-	590,904
Total liabilities	**366,092**	**816,662**	**3,507**	**1,186,261**
Gross exposure	**(9,340)**	**(111,664)**	**57**	**(120,947)**
Off-balance sheet position				
Net notional amount of derivatives	6,444	117,929	-	124,373
Net exposure	**(2,896)**	**6,265**	**57**	**3,426**

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Interest rate risk

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

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

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

The following table indicates the periods in which financial assets and liabilities reprice as of 30 September 2019 and 31 December 2018:

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 30 September 2019							
Assets							
Cash and cash equivalents	121,305	-	-	-	-	163,431	284,736
Reserve deposits at Central Bank	514,342	-	-	-	-	1,364	515,706
FVTPL investments	25,444	59	-	-	-	-	25,503
Financial assets at fair value through other comprehensive income	10,118	203,852	-	1,010	-	25,887	240,867
Loans and advances to customers	1,035,779	69,561	164,563	450,472	29,552	4,651	1,754,578
Other assets	-	-	-	-	-	283,226	283,226
Total assets	**1,706,988**	**273,472**	**164,563**	**451,482**	**29,552**	**478,559**	**3,104,616**
Liabilities							
Funds borrowed(*)	371,495	71,926	245,362	-	50,981	274,116	1,013,880
Debt securities issued(**)	214,654	291,029	249,087	-	56,103	-	810,873
Other liabilities(***)	502,227	359,886	43,299	-	-	374,451	1,279,863
Total liabilities	**1,088,376**	**722,841**	**537,748**	**-**	**107,084**	**648,567**	**3,104,616**
On balance sheet interest sensitivity gap	618,612	(449,369)	(373,185)	451,482	(77,532)	(170,008)	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**618,612**	**(449,369)**	**(373,185)**	**451,482**	**(77,532)**	**(170,008)**	**-**

(*) Includes subordinated loans amounting to TL 28,261.
(**) Includes subordinated bonds amounting to TL 56,103.
(***) Derivative financial instruments are included in other liabilities.

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Interest rate risk (continued)

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2018							
Assets							
Cash and cash equivalents	275,955	-	-	-	-	32,943	308,898
Reserve deposits at Central Bank	87,333	-	-	-	-	233,697	312,030
FVTPL investments	2,906	23	-	-	-	-	24,929
Available for sale investments	4,955	53,950	655	1,011	-	19,860	80,431
Loans and advances to customers	649,507	36,464	627,201	320,708	41,079	7,758	1,682,717
Other assets	-	-	-	-	-	261,482	261,482
Total assets	**1,042,656**	**90,437**	**627,856**	**321,719**	**41,079**	**555,740**	**2,679,487**
Liabilities							
Funds borrowed (*)	435,718	119,431	157,524	-	49,876	173,002	935,550
Debt securities issued (**)	115,724	377,195	172,860	-	124,308	-	790,087
Other liabilities (***)	346,834	252,385	9,123	-	-	315,657	953,850
Total liabilities	**898,276**	**749,011**	**339,507**	**-**	**174,184**	**488,659**	**2,679,487**
On balance sheet interest sensitivity gap	144,380	(658,574)	288,349	321,719	(133,105)	67,081	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**144,380**	**(658,574)**	**(288,349)**	**321,719**	**(133,105)**	**67,081**	**-**

(*) Includes Subordinated loans amounting to TL 26,473.
(**) Includes Subordinated bonds amounting to 53,781.
(***) Derivative financial instruments include in other liabilities.

Summary of average interest rates

As at 30 September 2019 and 31 December 2018, the summary of average interest rates for different assets and liabilities are as follows:

	30 September 2019			31 December 2018		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and balances with the Central Bank	-	1.50	5.00	-	1.50	13.00
Due from banks	0.04	2.34	21.50	0.04	2.00	18.92
FVTPL investments	-	-	-	-	-	-
Placements at money markets	-	-	-	-	-	-
FVTOCI investments		10.03	31.53	8.07	11.17	15.32
Loans and advances to customers	6.42	8.36	23.04	6.41	10.44	25.83
Other	-	-	-	-	-	-
Liabilities						
Money market borrowings	0.74	1.64	10.32	-	-	20.93
Funds borrowed / Borrower funds	6.09	6.91	17.00	4.68	6.41	19.89
Debt securities issued	-	10.00	19.74	-	10.00	17.02
Funds from other financial institutions	3.88	4.02	22.38	2.34	4.56	20.32

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Liquidity risk

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

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

Exposure to liquidity risk

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

30 September 2019	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	163,431	121,305	-	-	-	-	-	284,736
Reserve deposits at Central Bank	1,364	514,342	-	-	-	-	-	515,706
FVTPL investments	-	25,444	59	-	-	-	-	25,503
FVOCI investments	-	-	2,344	-	2,062	210,574	25,887	240,867
Loans and advances to customers	-	1,035,778	69,561	164,563	480,025	-	4,651	1,754,578
Other assets	61	49,442	-	-	-	-	233,723	283,226
Total assets	**164,856**	**1,746,311**	**71,964**	**164,563**	**482,087**	**210,574**	**264,261**	**3,104,616**
Funds borrowed (*)	274,116	371,495	71,926	245,362	-	50,981	-	1,013,880
Debt securities issued (**)	-	214,654	291,029	249,087	-	56,103	-	810,873
Other liabilities (***)	52,052	502,227	359,886	43,299	-	-	322,399	1,279,863
Total liabilities	**326,168**	**1,088,376**	**722,841**	**537,748**	**-**	**107,084**	**322,399**	**3,104,616**
Liquidity gap	**(161,312)**	**657,935**	**(650,877)**	**(373,185)**	**482,087**	**103,490**	**(58,138)**	**-**
Off Balance Sheet Position	**-**	**(8,549)**	**(15,326)**	**(3,643)**	**(21,088)**	**-**	**-**	**(48,606)**
Receivables from derivatives	-	791,810	356,700	138,909	35,345	-	-	1,322,764
Liabilities from derivatives	-	800,359	372,026	142,552	56,433	-	-	1,371,370
Non cash loans	**-**	**2,700**	**5,497**	**139,500**	**17,125**	**722,614**	**-**	**887,436**

(*) Includes subordinated loans amounting to TL 28,261.

(**) Includes subordinated bonds amounting to TL 56,103.

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

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Liquidity risk (continued)

31 December 2018	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	32,943	275,955	-	-	-	-	-	308,898
Reserve deposits at Central Bank	233,697	87,333	-	-	-	-	-	321,030
FVTPL investments	-	9,739	14,473	717	-	-	-	24,929
FVOCI investments	-	-	21,201	655	1,011	37,704	19,860	80,431
Loans and advances to customers	-	649,507	36,464	627,201	361,787	-	7,758	1,682,717
Other assets	73	213,639	-	-	-	-	47,770	261,482
Total assets	**266,713**	**1,236,173**	**72,138**	**628,573**	**362,798**	**37,704**	**75,388**	**2,679,487**
Funds borrowed (*)	173,002	435,718	119,431	157,524	-	49,876	-	935,550
Debt securities issued (**)	-	115,724	409,561	211,021	-	52,781	-	790,087
Other liabilities(***)	54,621	346,826	282,235	9,123	-	-	261,044	953,850
Total liabilities	**227,623**	**898,268**	**811,227**	**377,668**	**-**	**103,657**	**261,044**	**2,679,487**
Liquidity gap	**39,090**	**337,905**	**(739,089)**	**250,905**	**362,798**	**(65,953)**	**(185,656)**	**-**
Off Balance Sheet Position	**-**	**(5,048)**	**(19,577)**	**(1,333)**	**(17,347)**	**-**	**-**	**(43,305)**
Receivables from derivatives	-	769,226	268,831	8,408	135,159	-	-	1,181,624
Liabilities from derivatives	-	774,274	288,408	9,741	152,506	-	-	1,224,929
Non cash loans	**-**	**1,169**	**139,495**	**97,451**	**11,370**	**545,314**	**-**	**794,799**

(*) Includes Subordinated loans amounting to TL 26,473.

(**) Includes Subordinated bonds amounting to TL 53,781.

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

(Currency - In thousands of Turkish Lira)

26. Related parties

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

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

30 September 2019	Balance	Percentage of the financial statement amount (%)
Cash loans	250,511	14%
Non-cash loans	21,274	2%
Borrower funds / Funds borrowed	93,890	10%

31 December 2018	Balance	Percentage of the financial statement amount (%)
Cash loans	145,500	9%
Non-cash loans	18,639	2%
Borrower funds / Funds borrowed	366,092	40%

30 September 2019	Balance	Percentage of the financial statement amount (%)
Interest income and commissions	46,892	13%
Other operating expense (-)	4,432	14%

30 September 2018	Balance	Percentage of the financial statement amount (%)
Interest income and commissions	32,608	12%
Other operating expense (-)	9,933	44%

As at 30 September 2019, no provisions have been recognised in respect of loans given to related parties (30 September 2018 – none).

Compensation of key management personnel of the Bank

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 8,954 comprising salaries and other benefits for the period 1 January-30 September 2019 (1 January - 30 September 2018: TL 5,878).

27. Events after balance sheet date

In November 21, 2019, the Parent Bank's extraordinary general assembly took the decision about capital increase by TL 80.000 provided from cash in.