

# **Alternatifbank Anonim Őirketi and Its Subsidiaries**

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

# **Alternatifbank Anonim Şirketi and Its Subsidiaries**

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Güney Bağımsız Denetim ve SMMM A.Ş.  
Maslak Mah. Eski Büyükdere Cad.  
Orjin Maslak İş Merkezi No: 27  
Kat: 2-3-4 Daire: 54-57-59  
34485 Sarıyer  
İstanbul - Türkiye

Tel: +90 212 315 3000  
Fax: +90 212 230 8291  
ey.com  
Ticaret Sicil No : 479920  
Mersis No: 0-4350-3032-6000017

## INDEPENDENT AUDITORS' REPORT

To the General Assembly of Alternatifbank A. .

### Opinion

We have audited the consolidated financial statements of Alternatifbank A. . (“the Bank”), and its subsidiaries (“the Group”), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

### Basis for Opinion

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

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. Key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How the Key Audit Matter is addressed in our audit
<p><i>Financial impact of IFRS 9 “Financial Instruments” standard and recognition of impairment on financial assets and related important disclosures</i></p>	
<p>As disclosed in footnote 10 the Group measured expected credit losses for financial assets in accordance with IFRS 9 “Financial Instruments Standards” in its financial statements. The reasons for selecting impairment of financial assets as key audit matter are as follows;</p> <p>Financial assets within balance-sheet and off-balance-sheet subject to IFRS 9 expected credit losses measurement have significant balance in the financial statements</p> <p>The application of IFRS 9 is complex and comprehensive</p> <p>The classification of financial instruments based on the Group’s business models and the characteristics of contractual cash flows in line with IFRS 9 and requirement of significant judgments to determine this business model and the characteristics of contractual cash flows</p> <p>Risks related to the policies established by the management with the compliance and requirements of the legislation and other applications for the calculation of expected credit losses</p> <p>The complexity and intensity of the control environment in the processes designed or reorganized for IFRS 9 Estimations and assumptions used in expected credit losses are significant and complex</p> <p>Complex and comprehensive disclosure requirements of IFRS 9.</p>	<p>Our audit procedures in addition to our current audit procedures:</p> <p>Evaluation of the compliance of the accounting policies adopted with regard to IFRS 9, the Group's past performance, and local and global practices</p> <p>Analysis and testing of processes, systems, and controls originated or re-designed in order to calculate expected credit losses by the Information Systems and Process Audit specialists</p> <p>Evaluation of the key judgments, assumptions, methods used for calculation of expected credit loss determined by the management, and whether the data source is reasonable or not, and their compliance and standard requirements in light of industry and global practices</p> <p>Testing criteria used for determining the contractual cash flows including interest payments with regard to solely principal and principal balance of financial assets on a sample basis and evaluation of Group's business model</p> <p>Evaluation of significant increase in credit risk, definition of default, definition of restructuring, probability of default, loss given default, exposure at default and macro-economic variables, and related basic and significant estimates and assumptions determined for calculation process of expected credit loss and whether these assumptions determined by financial risk management are in line with the Group’s historical performance, legislation, and reasonableness of the estimation process regarding future performance and investigation of credit risk portfolio on a sample basis</p> <p>Evaluation of the accuracy and completeness of attributes of the data used for the calculation process of expected credit losses</p> <p>Detailed testing of mathematical verification of expected credit losses’ calculation on a sample basis</p> <p>Evaluation of the assumptions and estimations used for the individually assessed financial assets based on expert judgment</p> <p>Evaluating the necessity and accuracy of the updates made or required updates after the modeling process</p> <p>Auditing of disclosures related to IFRS 9.</p>

### **Responsibilities of Management and Board of Directors for the consolidated financial statements**

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

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

The Board of Directors are responsible for overseeing the Group's financial reporting process.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

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

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

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

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

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

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

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

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

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

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

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

The engagement partner who supervised and concluded this independent auditor's report is Ya ar Bivas.

Güney Ba ımsız Denetim ve Serbest Muhasebeci Mali Mü avirlik Anonim irketi

*A member firm of Ernst & Young Global Limited*



Ya ar Bivas, SMMM  
Partner

March 22, 2021  
stanbul, Turkey

**ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2020**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated).

	Notes	Audited 31 December 2020	Restated Audited 31 December 2019(*)
<b>ASSETS</b>			
Cash and balances with the Central Bank of Turkey	6	3,594,934	2,686,424
Loans and advances to banks	7	2,332,490	3,051,069
Financial assets at fair value through profit or loss	8	57,312	14,444
Derivative financial assets	9	184,433	188,997
Loans and advances to customers	10	21,907,473	17,229,625
Investment securities	11	5,215,512	3,967,217
- <i>Investment securities at fair value through other comprehensive income (“FVOCI”)</i>	11	982,418	235,254
- <i>Investment securities at amortised cost (“AC”)</i>	11	4,233,094	3,731,963
Leasing receivables		1,543,996	1,428,206
Intangible assets	12	121,773	109,312
Property and equipment	13	365,416	350,790
Deferred income tax assets	19	175,953	137,513
Assets held for sale	20	224,790	321,735
Other assets	14	964,451	461,352
<b>Total assets</b>		<b>36,688,533</b>	<b>29,946,684</b>
<b>LIABILITIES</b>			
Deposits from banks	15	991,098	240,640
Due to customers	16	18,106,109	15,831,669
Funds borrowed	17	9,933,145	7,761,584
Debt securities issued	18	409,783	771,622
Derivative financial instruments	9	331,782	179,920
Derivatives held for risk management	9	4,332	14,119
Provisions	21	117,430	92,201
Retirement benefit obligations	22	12,021	8,850
Lease payables		47,872	50,370
Other liabilities	23	1,484,366	461,496
Subordinated liabilities	17	2,821,726	2,554,736
<b>Total liabilities</b>		<b>34,259,664</b>	<b>27,967,207</b>
<b>EQUITY</b>			
Share capital	24	2,038,390	1,730,655
Share premium	24	54	54
Fair value reserves	25	(16,614)	(38,159)
Hedge reserves		1,290	(7,930)
Revaluation surplus		34,751	27,782
Legal reserves	25	56,229	46,650
Other reserves	25	-	-
Retained earnings	25	314,750	220,408
<b>Total equity attributable to owners of the Bank</b>		<b>2,428,850</b>	<b>1,979,460</b>
<b>Non-controlling interests</b>		<b>19</b>	<b>17</b>
<b>Total equity</b>		<b>2,428,869</b>	<b>1,979,477</b>
<b>Total liabilities and equity</b>		<b>36,688,533</b>	<b>29,946,684</b>

(\*) The table has been restated, as explained in Footnote Number 2.6

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

**ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated).

	Note	Audited 31 December 2020	Restated Audited 31 December 2019(*)
Interest income	26	2,343,295	2,836,727
Interest expense	26	(1,731,973)	(2,267,889)
<b>Net interest income</b>		<b>611,322</b>	<b>568,838</b>
Fee and commission income	27	226,517	166,406
Fee and commission expense	27	(37,058)	(16,234)
<b>Net fee and commission income</b>		<b>189,459</b>	<b>150,172</b>
Foreign exchange gains and losses, net		94,928	136,532
Trading gains and losses, net	28	(110,859)	1,580
Gains/losses from investment securities, net		16,619	(4,092)
<b>Total operating income</b>		<b>801,469</b>	<b>853,030</b>
Impairment losses on loans and credit related commitments, net	29	(269,973)	(330,513)
Other operating expenses	29	(401,596)	(381,138)
<b>Total operating expense</b>		<b>(671,569)</b>	<b>(711,651)</b>
<b>Profit before income tax</b>		<b>129,900</b>	<b>141,379</b>
Tax expense	19	(24,337)	(34,620)
<b>Profit for the year</b>		<b>105,563</b>	<b>106,759</b>
<b>Profit attributable to:</b>			
Equity holders of the Bank		105,561	106,758
Non-controlling interest		2	1
		<b>105,563</b>	<b>106,759</b>
<b>Earnings per share</b>			
Basic earnings per share attributable to the equity holders of the Bank (expressed in TL per thousand share)	2.28	0.0536	0.0702

(\*) The table has been restated, as explained in Footnote Number 2.6

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



**ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated).

	Notes	Audited 1 January - 31 December 2020	Restated Audited 1 January - 31 December 2019(*)
<b>Profit for the year</b>		<b>105,563</b>	<b>106,759</b>
<b>Items that will not be reclassified to profit or loss</b>		<b>5,329</b>	<b>(362)</b>
Remeasurements of defined benefit liability	22	(2,050)	(442)
Property and Plant Revaluation Differences		8,711	-
Related tax		(1,332)	80
<b>Items that are or may be reclassified subsequently to profit or loss:</b>		<b>30,765</b>	<b>10,578</b>
Changes in the fair value of debt instruments at fair value through OCI		24,386	17,140
Net change in financial assets at fair value through other comprehensive income		-	-
Gain/(Loss) from cash flow hedges		11,539	(5,188)
Related tax		(5,160)	(1,374)
<b>Other comprehensive income, net of tax</b>		<b>36,094</b>	<b>10,216</b>
<b>Total comprehensive income</b>		<b>141,657</b>	<b>116,975</b>
<b>Total comprehensive income attributable to</b>			
Equity holders of the Bank		141,655	116,974
Non-controlling interests		2	1
<b>Total comprehensive income</b>		<b>141,657</b>	<b>116,975</b>

(\*) The table has been restated, as explained in Footnote Number 2.6

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

**ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated).

	Note	Attributable to equity holders of the Bank							Total	Non-controlling Interest	Total Equity	
		Share Capital	Share Premium	Legal Reserves	Items that will not be reclassified to profit or loss Revaluation Surplus	Items that are or may be reclassified subsequently to profit or loss Hedge Reserves	Fair Value Reserves	Other Reserves				Retained Earnings
<b>Balance at 1 January 2019(*)</b>		<b>1,167,000</b>	<b>54</b>	<b>34,143</b>	<b>27,782</b>	<b>(3,884)</b>	<b>(52,783)</b>	<b>289,095</b>	<b>242,005</b>	<b>1,703,412</b>	<b>16</b>	<b>1,703,428</b>
Corrections Made According to IAS 8		-	-	-	-	-	-	(289,095)	(115,486)	(404,581)	-	(404,581)
<b>Restated balances at 1 January 2019</b>		<b>1,167,000</b>	<b>54</b>	<b>34,143</b>	<b>27,782</b>	<b>(3,884)</b>	<b>(52,783)</b>	<b>-</b>	<b>126,519</b>	<b>1,298,831</b>	<b>16</b>	<b>1,298,847</b>
<b>Total comprehensive income for the year</b>												
<b>Profit for the year</b>		-	-	-	-	-	-	-	<b>106,758</b>	<b>106,758</b>	<b>1</b>	<b>106,759</b>
<b>Other comprehensive income</b>												
Net change in fair value of debt instruments measured at FVOCI		-	-	-	-	-	14,624	-	-	14,624	-	14,624
Cash flow hedges		-	-	-	-	(4,046)	-	-	-	(4,046)	-	(4,046)
Net change on revaluation surplus		-	-	-	-	-	-	-	-	-	-	-
Remeasurements of defined benefit liability		-	-	-	-	-	-	-	(362)	(362)	-	(362)
<b>Total other comprehensive income</b>		-	-	-	-	<b>(4,046)</b>	<b>14,624</b>	-	<b>(362)</b>	<b>10,216</b>	-	<b>10,216</b>
<b>Total comprehensive income for the year</b>		-	-	-	-	<b>(4,046)</b>	<b>14,624</b>	-	<b>106,396</b>	<b>116,974</b>	<b>1</b>	<b>116,975</b>
<b>Contributions by and distributions to owners</b>												
Transfer to legal reserves		-	-	12,507	-	-	-	-	(12,507)	-	-	-
Capital Increase	24	563,655	-	-	-	-	-	-	-	563,655	-	563,655
<b>Balance at 31 December 2019</b>	<b>24</b>	<b>1,730,655</b>	<b>54</b>	<b>46,650</b>	<b>27,782</b>	<b>(7,930)</b>	<b>(38,159)</b>	<b>-</b>	<b>220,408</b>	<b>1,979,460</b>	<b>17</b>	<b>1,979,477</b>
<b>Balance at 1 January 2020(*)</b>	<b>24</b>	<b>1,730,655</b>	<b>54</b>	<b>46,650</b>	<b>27,782</b>	<b>(7,930)</b>	<b>(38,159)</b>	<b>-</b>	<b>220,408</b>	<b>1,979,460</b>	<b>17</b>	<b>1,979,477</b>
Corrections Made According to IAS 8		-	-	-	-	-	-	-	-	-	-	-
<b>Balances at 1 January 2020</b>		<b>1,730,655</b>	<b>54</b>	<b>46,650</b>	<b>27,782</b>	<b>(7,930)</b>	<b>(38,159)</b>	<b>-</b>	<b>220,408</b>	<b>1,979,460</b>	<b>17</b>	<b>1,979,477</b>
<b>Total comprehensive income for the year</b>												
<b>Profit for the year</b>		-	-	-	-	-	-	-	<b>105,561</b>	<b>105,561</b>	<b>2</b>	<b>105,563</b>
<b>Other comprehensive income</b>												
Net change in fair value of debt instruments measured at FVOCI		-	-	-	-	-	21,545	-	-	21,545	-	21,545
Cash flow hedges		-	-	-	-	9,220	-	-	-	9,220	-	9,220
Net change on revaluation surplus		-	-	-	6,969	-	-	-	-	6,969	-	6,969
Remeasurements gain/loss on defined benefit liability		-	-	-	-	-	-	-	(1,640)	(1,640)	-	(1,640)
<b>Total other comprehensive income</b>		-	-	-	<b>6,969</b>	<b>9,220</b>	<b>21,545</b>	-	<b>(1,640)</b>	<b>36,094</b>	-	<b>36,094</b>
<b>Total comprehensive income for the year</b>		-	-	-	<b>6,969</b>	<b>9,220</b>	<b>21,545</b>	-	<b>103,921</b>	<b>141,655</b>	<b>2</b>	<b>141,657</b>
<b>Contributions by and distributions to owners</b>												
Transfer to legal reserves		-	-	9,579	-	-	-	-	(9,579)	-	-	-
Capital Increase	24	307,735	-	-	-	-	-	-	-	307,735	-	307,735
<b>Balance at 31 December 2020</b>	<b>24</b>	<b>2,038,390</b>	<b>54</b>	<b>56,229</b>	<b>34,751</b>	<b>1,290</b>	<b>(16,614)</b>	<b>-</b>	<b>314,750</b>	<b>2,428,850</b>	<b>19</b>	<b>2,428,869</b>

(\*) The table has been restated, as explained in Footnote Number 2.6

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

**ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**AS AT 31 DECEMBER 2020**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated).

	Note	Audited 1 January- 31 December 2020	Restated Audited 1 January - 31 December 2019(*)
<b>Cash flows from operating activities</b>			
Interest received		2,188,319	2,820,117
Interest paid		(1,661,849)	(2,146,803)
Fees and commissions received		224,043	163,522
Trading income		(15,931)	188,754
Recoveries of loans previously impaired	10	184,602	215,892
Fees and commissions paid	27	(37,058)	(16,234)
Cash payments to employees and other parties		(209,967)	(213,545)
Cash received from other operating activities		523,904	29,758
Cash paid for other operating activities		(2,090,486)	(398,093)
Taxes paid		(41,505)	(127,256)
<b>Cash flows from operating profits before changes in operating assets and liabilities</b>		<b>(935,928)</b>	<b>516,112</b>
<b>Changes in operating assets and liabilities:</b>			
Trading securities		(36,491)	32,461
Loans and advances		(3,459,030)	(1,534,881)
Other assets		(964,067)	(504,599)
Deposits from other banks		50,764	(4,700)
Deposits		485,771	1,465,361
Other money market deposits		700,250	(593,933)
Other liabilities		1,464,017	(670,231)
<b>Net cash from operating activities</b>		<b>(2,694,714)</b>	<b>(1,294,410)</b>
<b>Cash flows from investing activities</b>			
Purchases of financial assets at fair value through other comprehensive income securities		(1,052,423)	(418,404)
Proceeds from sale and redemption of investment securities through OCI		326,935	219,624
Purchases of investment securities at Amortized Cost		-	-
Redemption of investment securities at Amortized Cost		304,375	56,866
Purchases of premises and equipment		(70,964)	(57,641)
Proceeds from sale property and equipment		20,683	6,361
Purchase of intangible assets, net		(12,461)	(8,432)
<b>Net cash used in investing activities</b>		<b>(483,855)</b>	<b>(201,626)</b>
<b>Cash flows from financing activities</b>			
Proceeds from funds borrowed	17	7,697,703	6,683,091
Payments for funds borrowed	17	(5,451,600)	(3,389,016)
Proceeds from bond issue		451,503	762,950
Payments for bonds issued		(1,009,950)	(1,862,716)
Share capital increase	23	307,735	563,655
Payments of finance lease liabilities		(59,204)	(24,177)
<b>Net cash from financing activities</b>		<b>1,936,187</b>	<b>2,733,787</b>
<b>Net increase in cash and cash equivalents</b>		<b>(1,242,382)</b>	<b>1,237,751</b>
Effects of foreign exchange-rate changes on cash and cash equivalents		961,154	387,240
<b>Cash and cash equivalents at beginning of the year</b>	<b>5</b>	<b>4,489,721</b>	<b>2,864,730</b>
<b>Cash and cash equivalents at end of the year</b>	<b>5</b>	<b>4,208,493</b>	<b>4,489,721</b>

(\*) The table has been restated, as explained in Footnote Number 2.6

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

**ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated).

**NOTE 1 - GENERAL INFORMATION**

Alternatifbank A.Ş. (“the Bank” or “the Parent Bank”), was established in Istanbul on 6 November 1991 and started Banking activities on February 1992. The Bank’s ordinary shares started to be traded in Istanbul Stock Exchange on 3 July 1995.

The sale of the shares of the Bank belonging to Anadolu Group companies to The Commercial Bank (P.S.Q.C.) has been finalised on 18 July 2013 and the share transfer has been registered in accordance with the Board of Directors meeting at the same date.

The Bank made an application to Capital Market Boards of Turkey (CMB) and Borsa İstanbul A.Ş. about to delisting from the stock-exchange quotation in accordance with clauses of Capital Market Board “Squeeze-out and Sell-out Rights Communiqué” on 11 July 2014. “Capital Issue Document” prepared for the capital increase allocated to controlling shareholder Commercial Bank of Qatar in the context of the process of squeeze-out and sell-out rights from the minority in accordance with “Squeeze-out and Sell-out Rights Communiqué” has been approved by Capital Market Board on 23 July 2015. As of this date, Alternatifbank A.Ş. is not quoted to stock-exchange.

In March 2018, the Bank has changed its brand name, formerly known as ABank, to Alternatif Bank. As of 31 December 2020, The shareholder structure of the Bank is as follows:

Name of Shareholders	31 December 2020 (*)		31 December 2019	
	Paid in capital	%	Paid in capital	%
The Commercial Bank (P.S.Q.C.)	2,038,390	100	1,730,655	100
<b>Total</b>	<b>2,038,390</b>	<b>100</b>	<b>1,730,655</b>	<b>100</b>

(\*) With the decision of number 14 of Board of Directors on 2 March 2020 it was decided to increase the Bank's capital from TL 1,730,655 to TL 2,038,390 and BRSA approval was obtained on 23 March 2020. In the Trade Registry Gazette dated 6 May 2020 numbered 10072, it was registered that the capital increase amounting to TL 307,735 was paid by The Commercial Bank (P.S.Q.C.) in cash and the Bank’s capital was increased from TL 1,730,655 to TL 2,038,390.

The registered office address of the Bank is at Ayazağa Mah. Azerbaycan Cad. No: 3M/1 2D Blok Sarıyer/İstanbul.

The consolidated financial statements of the Group were authorized for issue by the Management of the Bank on 22 March 2021. The General Assembly has the power to amend the consolidated financial statements after its issue.

For the purposes of the consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as “the Group”.

The operations of the Group consist of banking, leasing and portfolio management conducted mainly with local customers.

The Bank provides banking services through 44 branches (31 December 2019: 48) in Turkey. At 31 December 2020, the Group has 933 employees (31 December 2019: 952).

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**NOTE 1 - GENERAL INFORMATION (Continued)**

The subsidiaries and the Bank’s shareholding interest as at 31 December 2020 and 31 December 2019 are as follows:

	<b>Place of Incorporation</b>	<b>Effective shareholding (%) 31 December 2020</b>	<b>Effective shareholding (%) 31 December 2019</b>
Alternatif Yatırım Menkul Değerler A.Ş.	Istanbul/Turkey	100.00	100.00
Alternatif Finansal Kiralama A.Ş.	Istanbul/Turkey	99.99	99.99

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of Presentation of Financial Statements**

The Bank and its subsidiaries located in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira (“TL”) in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency (“BRSA”), regulations promulgated by the Capital Markets Board of Turkey and also the Turkish Commercial Code.

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit and loss, investment securities at fair value through other comprehensive income, derivative financial instruments and headquarter building that have been measured at fair value.

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

Causing potentially fatal respiratory infections COVID-19 outbreak, which started in China and spread globally in the first quarter of 2020, caused serious effects on both economic and social life. In addition to the social life effects of the cautions taken to ensure the control of outbreak in many countries, there are also consequences observed which is negatively affecting economic activity both on regional and global scale. As in other countries where the pandemic is effective, various cautions also have been taken in our country in social and economic terms in order to reduce that negativeness and the cautions taken continue to be implemented with partial changes. The Bank sustains its activities for the period precisely by closely monitoring the processes related to outbreak, postponing retail and non-retail customers' due debts, restructuring with grace period and existing or additional limit allocations in respect with customers' needs.

Assessments regarding to possible effects of the COVID-19 outbreak through the measurement of expected credit losses as at December 31, 2020 financial statements are explained in the Note 2.11.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.2 Basis of Consolidation**

These consolidated financial statements are presented in Turkish Lira (“TL”), which is the Bank’s functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

The consolidated financial statements comprise the financial statements of the Bank and all its subsidiaries, as of 31 December 2020 and 31 December 2019.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to benefit from its activities. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company’s share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

The Bank also consolidates a subsidiary in which it has less than 50% shareholding since it has power to govern the financial and operating policies of such subsidiary under a statute, to appoint or remove the majority of the members of the board of directors and to cast the majority of votes at the meetings of board of directors.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

The equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position and statement of profit or loss, respectively.

All intra-group balances, transactions and unrealized gains on intra-group transactions are eliminated including inter-company profits and unrealized profits and losses. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

**2.3 Use of Estimates and Judgments**

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in related accounting policies (Note 3).

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.4 Functional and Presentation Currency**

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”).

The consolidated financial statements are presented in Turkish Lira (“TL”), which is the Group’s functional and the presentation currency.

**2.5 Foreign Currency Transactions and Translation**

Transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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. Exchange differences are recognized in profit or loss in the period in which they arise.

**2.6 Due from Banks**

Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

**2.7 Premises and Equipment**

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Furniture and fixtures and motor vehicles	3 years to 15 years
Office equipment	5 years
Leasehold improvements	5 years, or over the period of the lease if less than 5 years
Buildings	50 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset’s fair value less costs to sell and value in use. Impairment losses are recognized in the income statement. There is no impairment recorded related to premises and equipment.

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

The Bank has started to account properties under the tangible assets with their revalued amount instead of cost values in accordance with “IAS 16 Plant and Equipment” on 31 December 2018. The revaluation difference arising from the valuations made by the appraisal firms authorized by Capital Markets Board (“CMB”) and BRSA is accounted in Investment Properties Revaluation Differences line under the Shareholders’ Equity.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.7 Premises and Equipment (Continued)**

**Financial leasing transactions as lessee**

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

**Right of use assets**

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

- The initial measurement amount of the lease obligation,
- The amount obtained by deducting all the rental incentives received from all lease payments made at or before the beginning of the lease;
- All initial direct costs incurred by the Bank and

When the Bank applying the cost method, the existence of the right to use:

- Accumulated depreciation and accumulated impairment losses are deducted and
- Measures the restatement of the lease obligation at the restated cost.

The Parent Bank applies depreciation provisions in IAS 16 “Tangible Fixed Assets” while depreciating the right of use asset.

**The Lease Obligations**

At the effective date of the lease, the Parent Bank measures its leasing liability at the present value of the lease payments not paid at that time. Lease payments are discounted using the the Parent Bank’s average borrowing interest rates. The lease payments included in the measurement of the lease liability consist of the payments to be made for the right of use during the lease term of the underlying asset and the unpaid payments at the effective date of the lease.

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

- Increase the book value to reflect the interest on the lease obligation
- Reduces the book value to reflect the lease payments made and
- The book value is measured to reflect reassessments and restructuring, or reflect to fixed lease payments as of revised nature.

The interest on the lease liability for each period in the lease period is the amount calculated by applying a fixed periodic interest rate to the remaining balance of the lease liability. “IFRS 16 Leasing” Standard was promulgated in Official Gazette No. 29826, dated 16 April 2018 to be applied in the accounting period starting on 31 December 2018. The Parent Bank applied IFRS 16 “Leasing” standard, which replaced IAS 17 “Leasing”, as of 1 January 2019, the date of first implementation.

As of 31 December 2020, net right of use assets and net lease liabilities are amounting to TL 41,159 and TL 47,872 respectively.



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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.8 Goodwill**

The acquisition method of accounting is used for acquired businesses. The acquisition method of accounting includes allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. The Group has TL 49,017 goodwill (31 December 2019: TL 49,017). If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in the income statement as a bargain purchase gain. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units.

**2.9 Intangible Assets**

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Patents and licenses were amortized over their useful economic lives of 15 years. Software and development costs for software were amortized over their useful economic lives of 3 years.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the profit or loss when the asset is derecognized.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.10 Financial Assets**

The Group categorizes its financial assets as “Fair Value through Profit/Loss”, “Fair Value through Other Comprehensive Income” or “Measured at Amortized Cost”. Such financial assets are recognized or derecognized according to IFRS 9 Financial Instruments. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than “Financial Assets at Fair Value through Profit or Loss”, transaction costs are added to fair value or deducted from fair value.

The Group recognizes a financial asset into financial statements when it becomes a party to the contractual terms of a financial instrument. During the first recognition of a financial asset into the financial statements, business model determined by Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Bank's management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments are made to earnings, losses or interests that were previously recorded in the financial statements.

*Financial Assets at 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 re-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*

A financial asset is measured at fair value through other comprehensive income when both of the following conditions are provided:

- 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.

Valuation of such assets is based on its fair value. “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 reflected and impairment of the asset and they are accounted under the “Accumulated other comprehensive income or expense to be reclassified through profit or loss” under shareholders’ equity. In case of sales, the realized gain/losses are recognized directly in the income statement.

During initial recognition an entity may irrevocably elect to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.10 Financial Assets (Continued)**

*Financial Assets Measured at Amortized Cost*

A financial asset is measured at amortized cost when both of the following conditions are provided:

- Financial assets within a business model that aims to hold to collect contractual cash flows,
- Financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates.

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.

*Derivative Financial Assets*

The Group uses derivative financial instruments to hedge its foreign currency and interest rate risk.

The major derivative instruments utilized by the Group are foreign currency swaps, interest rate swaps, currency forwards, currency futures and currency options.

Derivatives are initially recorded with their fair values and related transaction costs as of the contract date are recorded on gain or loss. The following periods of initial reporting, they are measured with their fair values. The result of this assessment, offsetting debit and credits stemming from each contract debit and credits are reflected to the financial statements as a contract-based single asset and liability. The recognition method of profit/loss is based on whether the related derivative is hedged or not, and the content of the hedged instrument.

The Group notifies in written the relationship between hedging instrument and related account, risk management aims of hedge and strategies and the methods using to measure of the hedge effectiveness. The Group evaluates the method of hedge whether to be effective on the expected changes in fair values in this process or not or each result of hedge effectiveness whether to be between the range of 80% and 125%.

Changes in fair values of derivative transactions determined as hedge for fair value are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in “Trading Gains/Losses on derivative financial instruments” account. In the balance sheet, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. In case of inferring hedge accounting, corrections made to the value of hedge account using straight-line amortization method within the days to maturity are reflected to “Trading gains/losses on derivative financial instruments” account in income statement.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.10 Financial Assets (Continued)**

*Derivative Financial Assets (Continued)*

Derivative financial instruments of the Group are classified under “IFRS 9 Financial Instruments” (“IFRS 9”), “Derivative Financial Assets Designated at Fair Value through Profit or Loss” or “Derivative Financial Assets Designated at Fair Value through Other Comprehensive Income”. In accounting policy choice, IFRS 9 provides the option of postponing the acceptance of IFRS 9 hedge accounting and continuing with IAS 39 “Hedge accounting”. In this context, the Group continued to apply IAS 39 “Hedge accounting”.

The notional amounts of derivative transactions are recorded in off-balance sheet accounts based on their contractual amounts. “Financial instruments at fair value through profit or loss” are measured at fair value. If the fair value of derivative financial instruments is positive, it is disclosed under the main account “financial assets at fair value through profit or loss” in “derivative financial assets held for trading” and if the fair value difference is negative, it is disclosed under “derivative financial liabilities held for trading”. Fair value changes are recorded under “Derivative Financial Transactions Gains/(Losses)” in the income statement. The fair values of the derivative financial instruments are calculated using quoted market prices or by using discounted cash flow models.

Referring to the regulations by BRSA on swap markets, regulations dated 9th February 2020 and 12nd February 2020, the Bank has updated the yield curves used in the fair value calculations of the forward-swap derivatives from FX Implied Swap (up to 2 years) and FX CCS (for more than 2 years) to Overnight Index Swap (up to 3 months, inclusive), FX Implied Swap (from 3 months to 2 years), and FX CCS (for more than 2 years). The changes in question did not cause any significant impact on financial statements.

*Loans*

Loans are financial assets which are created by providing money, goods or services to the debtor. Loans are recognized at acquisition cost which is reflecting the fair value after that measured at amortized cost using the effective interest rate method. Any fees and other similar charges paid for assets received as collateral are not considered as part of the transaction cost and reflected in the expense accounts.

Cash loans in personal and corporate loans, according to the Uniform Chart of Accounts (“UCA”) and Prospectus are recognized in accordance with their original balances in the account specified.

The foreign exchange indexed commercial and individual loans are being monitored by the exchange rate of the opening date over Turkish Lira in the TL accounts. Repayments are calculated at the exchange rate at the date of payment, the resulting exchange differences are recognized in the income and expense account.

Starting from 24 March 2014, the Parent Bank has hedged the fair value effects of changes in libor interest rates, fixed interest rate with maturity 5 years funding by using interest rate swap. The nominal value of interest rate swap is TL 55,000 with maturity 5 years respectively.

As of 24 March 2019, the difference of TL 62 resulting from the changes in the fair values of the loans that are subject to fair value hedge accounting will be amortized until 25 December 2023.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.10 Financial Assets (Continued)**

*Repurchase and Resale Transactions*

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement (“repos”), are recognized in the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement using the effective interest method. Securities sold subject to repurchase agreements (“repos”) are reclassified in the financial statements as loaned securities when the transferee has the right by contract or custom to sell or re-pledge the collateral. The counterparty liability for amounts received under these agreements is included in deposits from banks.

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

*Netting off Financial Assets and Liabilities*

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

*Recognition and Derecognition of Financial Instruments*

The Group recognizes a financial asset or financial liability in its statement of financial position when and only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have expired; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires. When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.11 Impairment of Financial Assets**

The Group allocates impairment for expected loss on financial assets measured at amortized cost and measured at fair value through other comprehensive income.

The Group estimates the expected credit losses for a financial lease based on the probabilities determined by taking into account the probable outcomes and estimates the fair value of the money and the estimates of past events, current conditions and future economic conditions at reasonable rates, and reflects supportable information during the reporting period.

Within the scope of internal policies, the Group, evaluates the calculation of credit losses in accordance with IFRS 9, as an individual assessment based on expert opinion. In this context, the Bank takes into account the weight of the estimating the probability of scenario of the occurrence or failure of the related loan losses and reduced expected cash flows to the reporting date with effective interest rate.

The Group uses three basic parameters in the calculation of expected credit loss as default rate, loss in default and default amount. The calculation is also based on these scenarios, time value of money, the historical observed data and the forecasting of the macroeconomic situation.

In the calculation of expected credit loss, the Group includes the prospective macroeconomic information in to the credit risk parameters. In this context, economic models based on the relationship of credit risk parameters with macroeconomic variables are established based on multi-scenario, and the models mainly take into account the basic macroeconomic variables such as Gross Domestic Product (GDP) and Unemployment Rates. The efficiency and adequacy of the models used in the calculation of credit losses are reviewed at regular intervals. In this context, as of 31 December 2020, The Parent Bank separately calculated the possible effects of the COVID-19 outbreak on the estimates and judgments used in the calculation of Expected Credit Losses with the best estimation method. In the light of the said data, the Parent Bank has been revised the macroeconomic indicators for the future in the expected credit loss calculation.

- Stage 1: For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.
- Stage 2: In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. For these assets, lifetime expected credit losses are recognized.
- Stage 3: Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized.

*Definition of Default:*

Default means, when the borrower's payment obligations which against to the Bank, delays more than 90 days from the date of payment in part or in full, or he is not pay.

*Considered as a significant increase in credit risk:*

- Overdue receivables of more than 30 days
- Receivables followed in close monitoring portfolio
- Restructured receivables due to payment difficulties
- Receivables from non-problematic consumer loans from individual customers with problematic consumer loans.
- Receivables exceeding the established thresholds for the differences between the default probabilities measured at the time of the financial statements and the default probabilities observed at the reporting date

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.12 Cash and Cash Equivalents**

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with the Central Bank of Republic of Turkey, deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

**2.13 Financial Liabilities**

Financial liabilities including deposits from banks, due to customers and other borrowed funds are recognised initially at cost. Subsequently, financial liabilities are stated at amortised cost, including transaction costs, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the financial liability using the effective interest method.

**2.14 Employee Benefits**

Obligations related to employee termination and vacation rights are accounted for in accordance with “Turkish Accounting Standard for Employee Rights” (“IAS 19”) and are classified under “Reserve for Employee Rights” account in the statement of financial position.

Under the Turkish Labour Law, the Group is required to pay a specific amount to the employees who have retired or whose employment is terminated other than the reasons specified in the Turkish Labour Law. The reserve for employment termination benefits represents the present value of the estimated total reserve for the future probable obligation of the Group arising from this liability.

According to the IAS 19 that is revised by Public Oversight Accounting and Auditing Standards Authority with the Communiqué published in Official Gazette on 12 March 2013 numbered 28585, in the calculation of the employment termination benefit liabilities of the Bank, the recognition option of the actuarial gains and losses derived from the changes in actuarial assumptions or the differences between actuarial assumptions and realizations in the income statement has been eliminated which is effective for annual periods beginning on or after 1 January 2013.

*Defined Contribution Plans*

For defined contribution plans the Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

**2.15 Provisions**

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

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.16 Share Capital**

Share capital is recognized at the nominal amount and amounts received in excess of the par value are recognized in share premium account. Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction.

**2.17 Leases**

**The Group as the lessee**

*Finance 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.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the estimated useful life of the asset.

**The Group as the lessee**

*Operating leases*

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

**The Group as the lessor**

*Finance leases*

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised.

*Operating leases*

Assets leased out under operating leases are included in investment property in the consolidated financial statements. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised in the profit or loss on a straight-line basis over the lease term.



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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.18 Income and Expense Recognition**

Interest income and expense are recognized in the profit or loss for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized over the period service is provided. Fee for bank transfers and other banking transaction services are recorded as income when collected. Borrowing fees and commissions expenses paid to other financial institutions are recognized as transaction costs and recorded using the “Effective interest rate method”.

**2.19 Income Tax**

Tax expense/(income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

*Income taxes currently payable*

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

Taxes other than on income are recorded within operating expenses (Note 28).

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.19 Income Tax (Continued)**

*Deferred taxes*

Deferred tax is recognized, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted, or substantively enacted, at the reporting date are used to determine deferred income tax. The principal temporary differences arise from measurement of financial assets and liabilities at fair value, loan loss provisions and provision for employment termination benefits.

Deferred tax liabilities and assets are recognised when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Group. Deferred income tax assets resulting from temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised (Note 19).

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the profit or loss.

Corporate Tax Law has been amended with Article 91 of the Law, No. 7061 effective upon promulgation in the Official Gazette, No. 30261, dated 5 December 2017; and the corporate tax levied on the corporate income has been increased from 20% to 22% to be applied for the income belonging to 2018, 2019 and 2020. Therefore, deferred tax rate is used as %20 by the Group for temporary differences expected/expected to be closed after 2020. Deferred tax rate calculation has started to be measured over temporary expected provision losses differences according to IFRS 9 articles from 1 January 2018.

**2.20 Derivative Financial Instruments**

The Group enters into transactions with derivative instruments including forwards, swaps and options in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held-for-trading. Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently re-measured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the profit or loss.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and the fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.20 Derivative Financial Instruments (Continued)**

In the absence of forward foreign currency market rates and reliable forward rate estimations in a volatile market, values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the forward rates discounted to the reporting date. The resulting gain or loss is reflected to the income statement. In determination of the fair values of interest rate swaps, discounted values calculated using the fixed and floating interest rates between the transaction date and re-pricing date are used. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

**Embedded derivatives**

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- The host contract is not itself carried at fair value through profit or loss;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

**Derivatives held for risk management purposes and hedge accounting**

Starting from 24 March 2014, the Bank has hedged the fair value effects of changes in libor interest rates, fixed interest rate loan with maturity 5 years funding by using interest rate swap. The nominal value of interest rate swap is TL 55,000 with maturity 5 years respectively.

As of 24 March 2019, the difference of TL 62 resulting from the changes in the fair values of the loans that are subject to fair value hedge accounting will be amortized until 25 December 2023.

The Bank evaluates the method of hedge whether to be effective on the expected changes in fair values in this process or not or each result of hedge effectiveness whether to be between the range of 80% and 125%.

Changes in fair values of derivative transactions determined as hedge for fair value are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in “Trading Gains/Losses on derivative financial instruments” account. In the balance sheet, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (amortised cost) of the hedged item, for which the risk is hedged by a portfolio hedge, are amortized with the straight line method within the time to maturity and recognized under the “Trading Gains/Losses on derivative financial instruments” account.

The Bank applies cash flow hedge accounting using interest rate swaps to hedge its TL deposits with short term cyclical basis. The Parent Bank implements effectiveness tests at the balance sheet dates for hedge accounting; the effective parts are accounted as defined in IAS 39, in financial statements under equity “Hedging reserves”, whereas the amount concerning ineffective part is associated with income statement.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.20 Derivative Financial Instruments (Continued)**

**Derivatives held for risk management purposes and hedge accounting (Continued)**

	31 December 2020			31 December 2019		
	Principal Amount (*)	Assets	Liabilities	Principal Amount (*)	Assets	Liabilities
<b>Derivative financial instruments</b>						
Interest rate swaps	5,787,446	7,778	4,332	860,000	1,142	14,119
<b>Total</b>	<b>5,787,446</b>	<b>7,778</b>	<b>4,332</b>	<b>860,000</b>	<b>1,142</b>	<b>14,119</b>

(\*) The sum of buy and sell legs of the transactions.

In cash flow hedge accounting, when the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked; the hedging gains and losses that were previously recognized under equity are transferred to profit or loss when the cash flows of the hedged items are realized.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.21 Provisions, contingent assets and contingent liabilities**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate shall be a pre-tax rate and shall not reflect risks for which future cash flow estimates have been adjusted.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are treated as contingent assets or liabilities.

**2.22 Fiduciary Assets**

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

**2.23 Other credit related commitments**

In the normal course of business, the Group enters into other credit related commitments including loan commitments, letters of credit and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as originated loans. Specific provisions are therefore established when losses are considered probable and recorded as other provisions. The provision for credit related commitments also covers losses from the collective assessment where the commitments are grouped using the internal models developed by the Group stemming from the classification of credit related commitments into risk rating classes based on the observation of a series of parameters related to the borrower and/or to the utilisation of the loan.

**2.24 Segment Reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments (Note 31).

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.25 Related Parties**

For the purpose of these consolidated financial statements, shareholders, companies controlled by or affiliated with them and other companies within the shareholders are considered and referred to as related parties (Note 32).

**2.26 Explanations on Accounting Policies, Changes in Accounting Estimates and Errors Standard**

The Parent Bank’s revisions to the prior period are explained as below.

- As of 31 December 2019, The Parent Bank, has started to follow the subordinated loan which was obtained from its controlling shareholder The Commercial Bank (P.S.Q.C.) amounting to USD 75 million (As of 31 December 2019, its equivalent with the exchange rate determined at the first purchase of capital accounts on 31 July 2017 is TL 299,969) TIER I subordinated debt from its shareholder, The Commercial Bank (P.S.Q.C.), which was transferred to the equity account on 31 July 2017, in the "Equity" accounts, which is one of the financial statement items. Amendments have been made to the provisions of the contract regarding the said primary subordinated debt and the related amendments have been completed as of 29 March 2020. The Bank has been declared to BRSA that the related subordinated debt will be included as an additional capital in the capital adequacy calculation with the letter dated 3 April 2020 and numbered 22742.

As a result of the amendments made, under the “Subordinated Debt Instruments” retrospectively from the financial statement items, as of the first acquisition of an additional principal capital of USD 75 million in accordance with the “IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors” (“IAS 8”) started to be followed.

- The Parent Bank considers the bond of 300 million USD, issued on 16 April 2016, as a subordinated debt as supplementary capital. As a result of the amendments made, the issue premium amount that needs to be amortized until the end of maturity before being classified as a subordinated debt, the issue premium of the debt in the form of additional contribution capital in accordance with the “IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors” (“IAS 8”) has reflected its effect on financial statements retrospectively as of the relevant years.

The effects of these adjustments to the prior period consolidated financial statements of the Parent Bank are given below.

	<b>Reported</b>			<b>Restated</b>
	<b>31 December 2019</b>	<b>Classifications</b>	<b>Adjustments</b>	<b>31 December 2019</b>
Subordinated Liabilities	2,096,143	458,593	-	2,554,736
Total Equity	2,438,070	(458,593)	-	1,979,477
<i>Retained earnings</i>	379,032	-	(158,624)	220,408
<i>Other Reserves</i>	299,969	(299,969)	-	-
	<b>Reported</b>			<b>Restated</b>
	<b>31 December 2018</b>	<b>Classifications</b>	<b>Adjustments</b>	<b>1 January 2019</b>
Subordinated Liabilities	1,863,654	404,581	-	2,268,235
Total Equity	1,703,428	(404,581)	-	1,298,847
<i>Retained earnings</i>	242,005	-	(115,486)	126,519
<i>Other Reserves</i>	289,095	(289,095)	-	-

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.27 The new standards, amendments and interpretations**

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2020 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 2020. The effects of these standards and interpretations on the Group’s financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at 1 January 2020 are as follows:

***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 an acquired set of activities assets is a business or not.

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.

The amendments did not have a significant impact on the financial position or performance of the Group.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.27 The new standards, amendments and interpretations (Continued)**

***Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform***

The amendments issued to IFRS 9 and IAS 39 which are effective for periods beginning on or after 1 January 2020 provide reliefs which enable hedge accounting to continue. For these reliefs, it is assumed that the benchmark on which the cash flows of hedged risk or item are based and/or, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform. in connection with interest rate benchmark reform.

Reliefs used as a result of amendments in IFRS 9 and IAS 39 is aimed to be disclosed in financial statements based on the amendments made in IFRS 7.

The amendments did not have a significant 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 did not have a significant impact on the financial position or performance of the Group.

***Amendments to IFRS 16 – Covid-19 Rent Related Concessions***

In May 2020, the IASB issued amendments to IFRS 16 Leases to provide relief to lessees from applying IFRS 16 guidance on lease modifications to rent concessions arising a direct consequence of the Covid-19 pandemic. A lessee that makes this election accounts for any change in lease payments related rent concession the same way it would account for the change under the standard, if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021
- There is no substantive change to other terms and conditions of the lease.

A lessee will apply the amendment for annual reporting periods beginning on or after 1 June 2020. Early application of the amendments is permitted.

The amendments did not have a significant impact on the financial position or performance of the Group



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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.27 The new standards, amendments and interpretations (Continued)**

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 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 IASB 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 2023; 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.

***Amendments to IAS 1- Classification of Liabilities as Current and Non-Current Liabilities***

23 January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2023, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted. The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.27 The new standards, amendments and interpretations (Continued)**

***Amendments to IFRS 3 – Reference to the Conceptual Framework***

In May 2020, the IASB issued amendments to IFRS 3 Business combinations. The amendments are intended to replace to a reference to a previous version of the IASB’s Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing requirements of IFRS 3. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments issued to IFRS 3 which are effective for periods beginning on or after 1 January 2022 and must be applied retrospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS standards (March 2018). The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

***Amendments to IAS 16 – Proceeds before intended use***

In May 2020, the IASB issued amendments to IAS 16 Property, plant and equipment. The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and costs of producing those items, in profit or loss. The amendments issued to IAS 16 which are effective for periods beginning on or after 1 January 2022. Amendments must be applied prospectively only to items of PP&E made available for use on or after beginning of the earliest period presented when the entity first applies the amendment.

***Amendments to IAS 37 – Onerous contracts – Costs of Fulfilling a Contract***

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent assets. . The amendments issued to IAS 37 which are effective for periods beginning on or after 1 January 2022, to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making and also apply a “directly related cost approach”. Amendments must be applied retrospectively to contracts for which an entity has not fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed. The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

***Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16***

In August 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to provide temporary reliefs which address the financial reporting effects when an interbank offering rate (IBOR) is replaced with an alternative nearly risk-free rate (RFR), amending the followings:

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.27 The new standards, amendments and interpretations (Continued)**

***Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16***

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Under this practical expedient, if the interest rates applicable to financial instruments change as a result of the IBOR reform, the situation is not considered as a derecognition or contract modification; instead, this would be determined by recalculating the carrying amount of the financial instrument using the original effective interest rate to discount the revised contractual cash flows.

The practical expedient is required for entities applying IFRS 4 Insurance Contracts that are using the exemption from IFRS 9 Financial Instruments (and, therefore, apply IAS 39 Financial Instruments: Classification and Measurement) and for IFRS 16 Leases, to lease modifications required by IBOR reform

***Relief from discontinuing hedging relationships***

- The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR.
- For the IAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero.

The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued.

As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform.

***Separately identifiable risk components***

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

***Additional disclosures***

Amendments need additional IFRS 7 Financial Instruments disclosures such as; How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform, quantitative information about financial instruments that have yet to transition to RFRs and if IBOR reform has given rise to changes in the entity’s risk management strategy, a description of these changes.

The amendments are mandatory, with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

Overall, the Group expects no significant impact on its balance sheet and equity. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.27 The new standards, amendments and interpretations (Continued)**

**Annual Improvements – 2018–2020 Cycle**

In May 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020 Cycle, amending the followings:

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter: The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported by the parent. The amendment is also applied to an associate or joint venture.

IFRS 9 Financial Instruments – Fees in the “10 per cent test” for derecognition of financial liabilities: The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either borrower or lender on the other’s behalf.

IAS 41 Agriculture – Taxation in fair value measurements: The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring fair value of assets within the scope of IAS 41.

Improvements are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted for all.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

**2.28 Earnings per share**

Earnings per share disclosed in the consolidated statement of profit or loss are determined by dividing net income by the weighted average number of shares outstanding during the period concerned.

	<b>31 December 2020</b>	<b>31 December 2019(**)</b>
Profit attributable to equity holders of the Bank	105,563	106,759
Weighted average number of ordinary shares in issue (thousand) (*)	1,968,074	1,520,749
<b>Basic earnings and diluted per thousand share (expressed in full TL)</b>	<b>0.0536</b>	<b>0.0702</b>

The Bank do not have diluted shares.

(\*) Earnings per share disclosed in the consolidated statement of profit or loss are determined by dividing net income by the weighted average number of shares outstanding during the period concerned.

(\*\*) The table has been restated, as explained in Footnote Number 2.6

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**NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies (Note 2) and financial risk management (Note 4).

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

- **Notes 2.11** -Impairment of financial assets;
- **Note 4 (H)**-determination of the fair value of financial instruments with significant unobservable inputs;
- **Note 12**-impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts; and
- **Note 19**-recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;
- **Note 21**-measurement of defined benefit obligations: key actuarial assumptions;

**NOTE 4 - FINANCIAL RISK MANAGEMENT**

*Strategy in using financial instruments*

To maintain and improve the soundness of its operations, the Bank accords top management priority to upgrading its risk management systems and capabilities.

Risk Management is responsible for monitoring and managing all potential risks for the Bank in a centralized and efficiently coordinated manner. The primary goal of Risk Management is to provide business lines appropriate capital allocation for risks they are exposed to and increase value-added by maximizing risk adjusted return on capital. In this connection, each business line is geared to design appropriate cost-benefit schedule to maximize its return expectation with minimum cost of capital.

The Bank’s Risk Management Policy covers market, structural interest rate, credit, operational and liquidity risks management.

The risk management governance at the Bank starts with the Board of Directors. The Bank Risk Committee, Asset Liability Committee (ALCO), Credit Risk Committee (CRC), Management Risk Committee (MRC), Operational Risk Committee (ORC) and the Risk Management Department are the most important bodies of the risk management structure.

The Board of Directors determines the general risk policy and the risk appetite of the Bank. The Bank Risk Committee defines risk policies and strategies, reviews all types of risks the Bank is exposed to in its quarterly meetings, monitors the implementation of the risk management strategies and brings the important risk issues to the attention of the Board. The ALCO, meeting bi-weekly, is responsible for monitoring and managing any structural asset liability mismatch of the Bank, as well as monitoring and controlling liquidity risk and foreign currency exchange rate risk. The CRC meets quarterly and is responsible for monitoring and evaluating the Bank’s lending portfolio and determining principles and policies regarding credit risk management processes, such as loan approval, limit setting, rating, monitoring and problem management. The MRC is responsible for implementing risk policies regarding both the trading book and the investment book and establishing relevant control systems. In addition, it defines certain limits and regularly reviews these in order to limit and minimize the potential adverse effects of market conditions on the Bank’s profitability and economic value. The ORC also meets quarterly and is responsible for reviewing the Bank’s operational risks and defining the necessary actions to be taken to minimize these risks.

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**A. Credit risk**

Credit risk is defined as the potential loss arising from a borrower’s inability to meet its financial obligations to the Bank. Credit risk is the risk of highest concern due to its large presence on the statement of financial position. Consequently, the Bank’s credit risk management framework was designed in a manner to ensure that non-performing loans are kept as low as possible. In order to keep the quality of the Bank’s credit portfolio at a predefined level, the credit portfolio is regularly analysed and reported in terms of economic sectors, large exposures, rating distribution, collateral structure, non-performing loans amount, and other various aspects. In measuring credit risk, the Bank estimates the probability of default and the potential size of loss in the event of such default. Probability of default is generated by the Bank’s internal rating tool and outputs for potential size of loss are derived from assessments of collateral quality and recovery rates. This grading process draws upon a scorecard containing quantitative and qualitative measures and the expertise of the Bank’s credit officers. The validation and on-going monitoring of the grading models are the responsibilities of the Risk Management Department and depending on validation results models are continuously reviewed and improved if necessary.

Credit quality per class of financial assets is as follows;

**a. Information on types of loans and allowance for impairment:**

<b>31 December 2020</b>	<b>Corporate/ Commercial</b>	<b>SME</b>	<b>Consumer</b>	<b>Credit Cards</b>	<b>Total</b>
Standard Loans	15,745,361	3,575,692	245,805	40,665	19,607,523
Loans under Close Monitoring	2,531,300	934,857	33,225	1,900	3,501,282
Non-performing Loans	779,507	409,499	12,292	1,035	1,202,333
Allowance for impairment (-)	635,491	213,441	9,695	1,042	859,669
<b>Total(*)</b>	<b>18,420,677</b>	<b>4,706,607</b>	<b>281,627</b>	<b>42,558</b>	<b>23,451,469</b>

(\*) Net leasing receivables for 31 December 2020 amounting to TL 1,543,996 are included.

<b>31 December 2019</b>	<b>Corporate/ Commercial</b>	<b>SME</b>	<b>Consumer</b>	<b>Credit Cards</b>	<b>Total</b>
Standard Loans	11,210,700	3,710,711	223,204	25,173	15,169,788
Loans under Close Monitoring	2,125,698	866,449	22,681	2,945	3,017,773
Non-performing Loans	693,014	357,539	14,691	1,243	1,066,487
Allowance for impairment (-)	424,153	162,721	8,304	1,039	596,217
<b>Total(*)</b>	<b>13,605,259</b>	<b>4,771,978</b>	<b>252,272</b>	<b>28,322</b>	<b>18,657,831</b>

(\*) Net leasing receivables for 31 December 2019 amounting to TL 1,428,206 are included.

**b. Information on loans and receivables past due but not impaired:**

<b>31 December 2020</b>	<b>Corporate</b>	<b>SME</b>	<b>Consumer</b>	<b>Credit Card</b>	<b>Total</b>
Past due up to 30 days	368,754	11,827	16,996	623	398,200
Past due 30-60 days	34,334	91,005	7,251	50	132,640
Past due 60-90 days	80,081	77,605	4,100	69	161,855
<b>Total</b>	<b>483,169</b>	<b>180,437</b>	<b>28,347</b>	<b>742</b>	<b>692,695</b>

  

<b>31 December 2019</b>	<b>Corporate</b>	<b>SME</b>	<b>Consumer</b>	<b>Credit Card</b>	<b>Total</b>
Past due up to 30 days	413,792	171,791	9,294	488	595,365
Past due 30-60 days	106,184	57,482	7,548	97	171,311
Past due 60-90 days	52,287	51,245	1,459	40	105,031
<b>Total</b>	<b>572,263</b>	<b>280,518</b>	<b>18,301</b>	<b>625</b>	<b>871,707</b>

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**Credit risk (Continued)**

**c. Information on debt securities, treasury bills and other bills:**

To determine the risk weights of the risk categories as per the Article 6 of the “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks”, international rating firm Japan Credit Rating Agency (JCR) is started to be used as a result of rotation with 31 October 2016 instead of Fitch Ratings` external risk ratings which had been used since 31 December 2012.

Japan Credit Rating Agency	Credit Quality Level
AAA to AA-	1
A+ to A-	2
BBB+ to BBB	3
BB+ to BB-	4
B+ to B-	5
CCC and lower	6

31 December 2020	Financial Assets at Fair Value through P/L (Net)	Financial Assets at Fair Value through OCI	Financial Assets at Amortised Cost	Total
Japan JCR’s Rating				
BB+ (*)	57,312	943,818	4,233,900	5,235,030
<b>Total</b>	<b>57,312</b>	<b>943,818</b>	<b>4,233,900</b>	<b>5,235,030</b>

(\*) Consist of Turkish Republic government bonds, private sector bonds and treasury bills.

31 December 2019	Financial Assets at Fair Value through P/L (Net)	Financial Assets at Fair Value through OCI	Financial Assets at Amortised Cost	Total
Japan JCR’s Rating				
BBB- (*)	5,176	226,834	3,732,494	3,964,504
<b>Total</b>	<b>5,176</b>	<b>226,834</b>	<b>3,732,494</b>	<b>3,964,504</b>

(\*) Consist of Turkish Republic government bonds, private sector bonds and treasury bills.

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**A. Credit risk (Continued)**

**d. Information on rating concentration:**

The credit risk is evaluated according to Bank’s internal rating system. The loans rated according to probability of default, from the best rating (above standard), to the lowest rate (substandard) are presented in the below table and at the bottom of the table there is past due loans (impaired).

“Above standard” category means that the debtor has a strong financial structure, “standard” category means that debtor has a good and sufficient financial structure, “substandard” category means that the debtor’s financial structure under risk in the short and medium term.

	<b>31 December 2020</b>	<b>31 December 2019</b>
High standard (A,B)	94.04%	93.28%
Standard (C)	0.54%	0.89%
Substandard (D)	0.66%	0.54%
Impaired (E)	4.75%	5.29%
Not rated	-	-

**e. Fair value of collaterals (loans and advances to customers):**

Collateral mainly comprises the following: cash funds, deposits, mortgages of real estate at the land registry and mortgages of real estate built on allocated land, export documents, guarantees, and acceptances and pledge on vehicles.

<b>31 December 2020</b>	<b>Corporate</b>	<b>SME</b>	<b>Consumer</b>	<b>Credit Card</b>	<b>Total</b>
Loans under Close Monitoring	5,665,023	2,227,478	371,837	8,896	8,273,234
Non Performing Loans	493,051	326,768	7,649	430	827,898
<b>Total</b>	<b>6,158,074</b>	<b>2,554,246</b>	<b>379,486</b>	<b>9,326</b>	<b>9,101,132</b>

<b>31 December 2019</b>	<b>Corporate</b>	<b>SME</b>	<b>Consumer</b>	<b>Credit Card</b>	<b>Total</b>
Loans under Close Monitoring	3,264,488	1,110,844	5,082	1,300	4,381,714
Non Performing Loans	626,720	395,985	13,089	1,243	1,037,037
<b>Total</b>	<b>3,891,208</b>	<b>1,506,829</b>	<b>18,171</b>	<b>2,543</b>	<b>5,418,751</b>

<b>Type of Collaterals</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
Real-estate mortgage	7,072,787	3,945,880
Cash and cash equivalents	679,135	282,329
Car pledge	1,282,692	254,992
Other	66,518	935,550
<b>Total</b>	<b>9,101,132</b>	<b>5,418,751</b>



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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**A. Credit risk (Continued)**

**f. Concentration of credit risk based on geographical regions:**

	<b>Turkey</b>	<b>EU</b>	<b>Other</b>	<b>Total</b>
Cash and balances with the Central Bank of Turkey	3,594,934	-	-	3,594,934
Loans and advances to banks	1,892,892	55,654	383,944	2,332,490
Financial assets at fair value through profit or loss	57,312	-	-	57,312
Derivative financial instruments	25,549	158,782	102	184,433
Loans and advances to customers, net	21,904,051	3,422	-	21,907,473
- Corporate	16,953,127	3,422	-	16,956,549
- SME	4,706,607	-	-	4,706,607
- Consumer	201,759	-	-	201,759
- Credit card	42,558	-	-	42,558
Investment securities	5,215,512	-	-	5,215,512
- Investment securities at fair value through other comprehensive income	982,418	-	-	982,418
- Investment securities at amortised cost	4,233,094	-	-	4,233,094
Leasing receivables	1,543,996	-	-	1,543,996
Intangible assets	121,773	-	-	121,773
Property and equipment	365,416	-	-	365,416
Deferred income tax assets	175,953	-	-	175,953
Asset held for sale	224,790	-	-	224,790
Other assets	964,451	-	-	964,451
<b>As of 31 December 2020</b>	<b>36,086,629</b>	<b>217,858</b>	<b>384,046</b>	<b>36,688,533</b>
<b>As of 31 December 2019</b>	<b>29,646,608</b>	<b>130,279</b>	<b>169,797</b>	<b>29,946,684</b>
Letter of guarantees	6,274,915	40	15,403	6,290,358
Letter of credits	1,862,258	274,911	90,115	2,227,284
Acceptance credits	8,763	-	-	8,763
Other commitments and contingencies	825,271	546,197	38,166	1,409,634
<b>As of 31 December 2020</b>	<b>8,971,207</b>	<b>821,148</b>	<b>143,684</b>	<b>9,936,039</b>
<b>As of 31 December 2019</b>	<b>7,322,535</b>	<b>58,558</b>	<b>217,079</b>	<b>7,598,172</b>

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**A. Credit risk (Continued)**

**g. Sectoral concentration:**

	31 December 2020		31 December 2019	
	Cash	Non-cash	Cash	Non-cash
<b>Agricultural</b>	<b>167,204</b>	<b>83,631</b>	<b>260,094</b>	<b>64,531</b>
Farming and raising livestock	148,412	83,483	232,821	64,184
Forestry	3,129	102	1,680	301
Fishery	15,663	46	25,593	46
<b>Manufacturing</b>	<b>8,211,645</b>	<b>3,706,126</b>	<b>6,386,570</b>	<b>3,352,978</b>
Mining	279,967	425,723	253,136	204,196
Production	6,491,444	3,147,134	5,103,154	2,992,136
Electric, gas and water	1,440,234	133,269	1,030,280	156,646
<b>Construction</b>	<b>2,601,554</b>	<b>1,503,771</b>	<b>1,990,080</b>	<b>822,768</b>
<b>Services</b>	<b>10,308,749</b>	<b>3,221,660</b>	<b>7,718,014</b>	<b>2,637,357</b>
Wholesale and retail trade	2,706,538	539,558	2,380,069	537,462
Hotel, food and beverage services	443,773	35,504	195,970	35,666
Transportation and telecommunication	2,060,451	355,567	1,427,318	214,438
Financial institutions	1,953,694	1,983,026	1,085,031	1,607,691
Real estate and renting services	1,965,557	120,197	1,454,319	85,794
Self-employment services	1,078,433	81,398	1,087,245	137,372
Education services	5,755	414	2,200	339
Health and social services	94,548	105,996	85,862	18,595
<b>Other</b>	<b>274,621</b>	<b>11,217</b>	<b>410,008</b>	<b>9,063</b>
<b>Total (*)</b>	<b>21,563,773</b>	<b>8,526,405</b>	<b>16,764,766</b>	<b>6,886,697</b>
Non-performing loans	1,086,121	70,683	986,050	-
Expected credit losses	(742,421)	(64,402)	(521,191)	(51,409)
<b>Total(*)</b>	<b>21,907,473</b>	<b>8,532,686</b>	<b>17,229,625</b>	<b>6,835,288</b>

(\*) Net leasing receivables for 31 December 2020 and 2019 amounting to TL 1,543,996 and TL 1,428,206 respectively are not included.

**h. Carrying amounts per class of financial assets whose terms have been renegotiated:**

	31 December 2020	31 December 2019
Loans and advances to customers		
- Corporate lending	1,338,022	241,467
- Small business lending	53,209	326,934
- Consumer lending	600	228
<b>Total</b>	<b>1,391,831</b>	<b>568,629</b>

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**i. Offsetting financial assets and financial liabilities:**

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group’s statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements. Similar financial instruments include derivatives. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

Such collateral is subject to each agreement terms. The terms also give each party the right to terminate the related transactions on the counterparty’s failure to post collateral.

The Group receives and gives collateral in the form of cash in respect of the derivative transactions.

		Related amounts not offset in the statement of financial position					
	Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2020	Derivative financial instruments	184,433	-	184,433	-	(9,114)	175,319
31 December 2019	Derivative financial instruments	188,997	-	188,997	-	(10,063)	178,934

		Related amounts not offset in the statement of financial position					
	Types of financial liabilities	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral pledged	Net amount
31 December 2020	Derivative financial instruments	331,782	-	331,782	-	441,948	773,730
31 December 2019	Derivative financial instruments	179,920	-	179,920	-	214,303	394,223

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**B. Market Risk**

Market risk is the risk of potential loss arising from the adverse effects of interest rates, exchange rates and equity price volatility inherent in the Bank's trading portfolio. The Bank calculates the regulatory capital requirement for market risk using the standardized method within the framework of Banking Regulatory and Supervision Agency guidelines. In accordance with international best practices, Value at Risk (VaR) is measured daily. VaR, which is a measure of the maximum potential loss on the trading portfolio, is calculated using the historical simulation VaR method, adjusted for EWMA (Exponentially Weighted Moving Average). In order to manage the market risk efficiently and to be consistent with the risk appetite, position limits for asset classes, an overall “Bank Risk Tolerance” and VaR limits for each risk factor are determined. Limit monitoring is done daily by the Risk Management Group. VaR results are supported by regular stress tests and scenario analysis.

The Bank utilizes back testing to verify the predictive power of the value-at-risk calculations. In back testing, theoretical gains/losses calculated by VAR on positions at the close of each business day are compared with the actual gains/losses arising from these positions on the next business day. The assumptions used in the VaR model are reviewed and revised as needed based on the results of the back testing process.

**C. Currency Risk**

Foreign exchange exposure is the result of the mismatch of foreign currency denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-balance sheet foreign exchange derivative instruments. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below summarizes the Group’s exposure to foreign currency exchange rate risk. Included in the table are the Group’s assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**C. Currency Risk (Continued)**

**31 December 2020**

	USD	EUR	Other	Subtotal	TL	Total
Cash and balances with the Central Bank of Turkey	2,594,048	500,529	115,599	3,210,176	384,758	3,594,934
Loans and advances to banks	1,370,772	137,488	60,061	1,568,321	764,169	2,332,490
Financial assets at fair value through profit or loss	-	18,063	-	18,063	39,249	57,312
Derivative financial assets	40,574	22,047	5	62,626	121,807	184,433
Loans and advances to customers(***)	3,285,769	7,350,576	3,643	10,639,988	12,811,481	23,451,469
Investment securities	4,328,587	-	-	4,328,587	886,925	5,215,512
- Investment securities at fair value through other comprehensive income	170,390	-	-	170,390	812,028	982,418
- Investment securities at amortised cost	4,158,197	-	-	4,158,197	74,897	4,233,094
Intangible assets	-	-	-	-	121,773	121,773
Property and equipment	-	-	-	-	365,416	365,416
Deferred income tax assets	-	-	-	-	175,953	175,953
Other assets(*)	381,063	65,556	-	446,619	742,622	1,189,241
<b>Total assets</b>	<b>12,000,813</b>	<b>8,094,259</b>	<b>179,308</b>	<b>20,274,380</b>	<b>16,414,153</b>	<b>36,688,533</b>
<b>Liabilities</b>						
Deposits from banks	586,789	35,854	32,733	655,376	335,722	991,098
Due to customers	5,701,477	2,808,923	305,346	8,815,746	9,290,363	18,106,109
Funds borrowed and subordinated liabilities	9,831,128	2,542,298	-	12,373,426	381,445	12,754,871
Debt securities issued	-	-	-	-	409,783	409,783
Derivative financial instruments	236,183	30,997	-	267,180	64,602	331,782
Derivatives held for risk management	2,992	-	-	2,992	1,340	4,332
Provisions	16,715	10,061	2,893	29,669	87,761	117,430
Retirement benefit obligations	-	-	-	-	12,021	12,021
Other liabilities(**)	951,411	113,966	-	1,065,377	2,895,730	3,961,107
<b>Total liabilities</b>	<b>17,326,695</b>	<b>5,542,099</b>	<b>340,972</b>	<b>23,209,766</b>	<b>13,478,767</b>	<b>36,688,533</b>
<b>Net balance sheet position</b>	<b>(5,325,882)</b>	<b>2,552,160</b>	<b>(161,664)</b>	<b>(2,935,386)</b>	<b>2,935,386</b>	<b>-</b>
Off balance sheet derivative instruments net notional position	5,072,967	(2,440,155)	176,858	2,809,670	(3,054,543)	(244,873)
<b>Net foreign currency position</b>	<b>(252,915)</b>	<b>112,005</b>	<b>15,194</b>	<b>(125,716)</b>	<b>(119,157)</b>	<b>(244,873)</b>
<b>31 December 2019(****)</b>						
Total assets	10,001,621	7,682,278	116,436	17,800,335	12,146,349	29,946,684
Total liabilities	14,265,620	4,087,287	100,368	18,453,275	11,493,409	29,946,684
<b>Net balance sheet position</b>	<b>(4,263,999)</b>	<b>3,594,991</b>	<b>16,068</b>	<b>(652,940)</b>	<b>652,940</b>	<b>-</b>
Off-balance sheet derivative instruments net notional position	4,795,975	(3,594,308)	(15,180)	1,186,487	(1,155,253)	31,234
<b>Net foreign currency position</b>	<b>531,976</b>	<b>683</b>	<b>888</b>	<b>533,547</b>	<b>(502,313)</b>	<b>31,234</b>

(\*) Includes held for sale amount of TL 224,790 (31 December 2019: TL 321,735).

(\*\*) Other liabilities balance contains equity.

(\*\*\*)FC indexed loans and accruals are amounting to TL 234,280 (31 December 2019: TL 371,889). Lease receivables are included.

(\*\*\*\*)The table has been restated, as explained in Footnote Number 2.6

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**C. Currency Risk (Continued)**

The Group’s financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2020. The Group’s foreign currency risk sensitivity is presented below:

*Foreign currency sensitivity*

The Group is mainly exposed to EUR and USD currencies.

The following table details the Group’s sensitivity to a 10% increase and decrease in the TL against the relevant foreign currencies in 31 December 2020 and sensitivity to a 10% increase and decrease in the TL against the relevant foreign currencies in 31 December 2019. A positive number indicates an increase in profit or loss and other equity where the TL strengthens against the relevant currency.

	31 December 2020		31 December 2019(*)	
	Income statement	Equity	Income statement	Equity
USD	(25,291)	(25,291)	53,198	53,198
EUR	11,200	11,200	68	68
Other	1,519	1,519	89	89
<b>Total, net</b>	<b>(12,572)</b>	<b>(12,572)</b>	<b>53,355</b>	<b>53,355</b>

(\*)Restated

	31 December 2020		31 December 2019(*)	
	Income statement	Equity	Income statement	Equity
USD	25,291	25,291	(53,198)	(53,198)
EUR	(11,200)	(11,200)	(68)	(68)
Other	(1,519)	(1,519)	(89)	(89)
<b>Total, net</b>	<b>12,572</b>	<b>12,572</b>	<b>(53,355)</b>	<b>(53,355)</b>

(\*)Restated

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**D. Interest Rate Risk**

Even though the Bank is exposed to structural interest rate risk on its statement of financial position due to the nature of its existing activities, it ensures that this risk remains within pre-defined limits. The ALCO aims to protect the economic value of equity, while sustaining a stable earnings profile. Duration/GAP analyses, which rely on calculations of net discounted future cash flows of interest rate sensitive statement of financial position items, are conducted to manage this risk.

The Bank runs net economic value sensitivity scenarios with changes in interest rates and interest rate margins, so as to calculate their impact on net economic value, as defined in the relevant regulation published by BRSA. Beside the BRSA standard interest rate shock scenario, other internally defined scenarios are also simulated.

Trading and non-trading risks are approved separately in the policy documents and the Market Risk Committee is given discretion in defining the tools and methodology used in measuring, monitoring and managing both trading and non-trading risks.

**Interest rate sensitivity:**

<b>31 December 2020 (*)</b>	<b>Applied Shock (+/- x basis point)</b>	<b>Gains/ Losses</b>	<b>Gains/ Equity-Losses/ Equity</b>
1.TRY	+500bps	(312,065)	(5.88%)
	-400 bps	284,824	5.36%
2.EURO	+200 bps	(71,271)	(1.34%)
	-200 bps	79,027	1.49%
3.USD	+200 bps	(547)	(0.01%)
	-200 bps	(38,177)	(0.72%)
<b>Total (For Negative Shocks)</b>		<b>(383,883)</b>	<b>(7.23%)</b>
<b>Total (For Positive Shocks)</b>		<b>325,674</b>	<b>6.13%</b>

(\*) The analysis is based on Parent Bank’s financial position.

<b>31 December 2019 (*)</b>	<b>Applied Shock (+/- x basis point)</b>	<b>Gains/ Losses</b>	<b>Gains/ Equity-Losses/ Equity</b>
1.TRY	+500bps	(212,524)	(4.63%)
	-400 bps	193,399	4.21%
2.EURO	+200 bps	(64,845)	(1.41%)
	-200 bps	71,465	1.56%
3.USD	+200 bps	(103,579)	(2.26%)
	-200 bps	120,121	2.62%
<b>Total (For Negative Shocks)</b>		<b>384,985</b>	<b>8.38%</b>
<b>Total (For Positive Shocks)</b>		<b>(380,948)</b>	<b>(8.30%)</b>

(\*) The analysis is based on Parent Bank’s financial position.

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**D. Interest Rate Risk (Continued)**

<b>31 December 2020</b>	<b>Up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with the Central Bank of Turkey	3,064,102	-	-	-	530,832	3,594,934
Loans and advances to banks	1,850,900	3,057	1,768	-	476,765	2,332,490
Financial assets at fair value through profit or loss	20,535	26,155	10,622	-	-	57,312
Derivative financial assets	123,631	38,194	12,149	10,459	-	184,433
Loans and advances to customers (*)	7,454,659	9,377,507	4,593,231	1,752,092	273,980	23,451,469
Investment securities	2,832,263	2,345,455	746	-	37,048	5,215,512
- Investment securities at fair value through other comprehensive income	467,746	476,072	746	-	37,854	982,418
- Investment securities at amortised cost	2,364,517	1,869,383	-	-	(806)	4,233,094
Intangible assets	-	-	-	-	121,773	121,773
Property and equipment	-	-	-	-	365,416	365,416
Deferred income tax assets	-	-	-	-	175,953	175,953
Other assets (**)	82,279	-	-	-	1,106,962	1,189,241
<b>Total assets</b>	<b>15,428,369</b>	<b>11,790,368</b>	<b>4,618,516</b>	<b>1,762,551</b>	<b>3,088,729</b>	<b>36,688,533</b>
<b>Liabilities</b>						
Deposits from bank	981,434	-	-	-	9,664	991,098
Due to customers	15,909,877	392,247	65,210	-	1,738,775	18,106,109
Funds borrowed and subordinated liabilities	4,704,044	7,810,523	239,811	493	-	12,754,871
Debt securities issued	235,118	177,656	(2,991)	-	-	409,783
Derivative financial instruments	284,107	25,726	11,491	10,458	-	331,782
Derivatives held for risk management	-	681	3,651	-	-	4,332
Provisions	-	-	-	-	117,430	117,430
Retirement benefit obligations	-	-	-	-	12,021	12,021
Other liabilities	286,841	31,639	65,913	50,975	3,525,739	3,961,107
<b>Total liabilities</b>	<b>22,401,421</b>	<b>8,438,472</b>	<b>383,085</b>	<b>61,926</b>	<b>5,403,629</b>	<b>36,688,533</b>
<b>Net interest re-pricing gap</b>	<b>(6,973,052)</b>	<b>3,351,896</b>	<b>4,235,431</b>	<b>1,700,625</b>	<b>(2,314,900)</b>	<b>-</b>

(\*) Includes lease receivables.

(\*\*) Includes held for sale amount of TL 224,790.



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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**D. Interest Rate Risk (Continued)**

31 December 2019(***)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
<b>Assets</b>						
Cash and balances with the Central Bank of Turkey	2,425,375	-	-	-	261,049	2,686,424
Loans and advances to banks	2,527,859	-	-	-	523,210	3,051,069
Financial assets at fair value through profit or loss	12,491	1,953	-	-	-	14,444
Derivative financial assets	54,534	25,133	30,872	71,897	6,561	188,997
Loans and advances to customers (*)	5,591,601	6,132,832	5,428,848	1,098,557	405,993	18,657,831
Investment securities	2,240,705	1,718,623	-	-	7,889	3,967,217
- Investment securities at fair value through other comprehensive income	96,684	130,150	-	-	8,420	235,254
- Investment securities at amortised cost	2,144,021	1,588,473	-	-	(531)	3,731,963
Intangible assets	-	-	-	-	109,312	109,312
Property and equipment	-	-	-	-	350,790	350,790
Deferred income tax assets	-	-	-	-	137,513	137,513
Other assets (**)	26,110	-	-	-	756,977	783,087
<b>Total assets</b>	<b>12,878,675</b>	<b>7,878,541</b>	<b>5,459,720</b>	<b>1,170,454</b>	<b>2,559,294</b>	<b>29,946,684</b>
<b>Liabilities</b>						
Deposits from bank	238,065	-	-	-	2,575	240,640
Due to customers	14,018,239	524,539	19,745	-	1,269,146	15,831,669
Funds borrowed and subordinated liabilities	4,276,508	3,899,173	288,078	1,880,081	(27,520)	10,316,320
Debt securities issued	721,030	-	50,592	-	-	771,622
Derivative financial instruments	52,333	25,414	30,272	71,901	-	179,920
Derivatives held for risk management	-	14,119	-	-	-	14,119
Provisions	-	-	-	-	92,201	92,201
Retirement benefit obligations	-	-	-	-	8,850	8,850
Other liabilities	47,181	2,613	1,497	441	2,439,611	2,491,343
<b>Total liabilities</b>	<b>19,353,356</b>	<b>4,465,858</b>	<b>390,184</b>	<b>1,952,423</b>	<b>3,784,863</b>	<b>29,946,684</b>
<b>Net interest re-pricing gap</b>	<b>(6,474,681)</b>	<b>3,412,683</b>	<b>5,069,536</b>	<b>(781,969)</b>	<b>(1,225,569)</b>	<b>-</b>

(\*) Other assets include lease receivables.

(\*\*) Includes held for sale amount of TL 321,735.

(\*\*\*)The table has been restated, as explained in Footnote Number 2.6

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**D. Interest Rate Risk (Continued)**

The table below summarises weighted average interest rates for financial instruments by major currencies outstanding at 31 December 2020 and 31 December 2019 based on yearly contractual rates.

	31 December 2020 (*)			
	USD (%)	EUR (%)	Other	TL (%)
<b>Assets</b>				
Cash and balances with the Central Bank of Turkey	-	-	-	9.00
Loans and advances to banks	0.17	-	-	16.92
Money Market Placements	-	-	-	17.15
Financial assets at FVTPL	-	2.19	-	13.31
Investment securities				
- FVTOCI	4.05	-	-	11.34
- AC	5.45	-	-	7.10
Loans and advances to customers(***)	4.59	3.65	-	15.21
<b>Liabilities</b>				
Deposits from banks	1.84	-	-	16.06
Other deposits (**)	2.80	1.66	-	17.60
Money Market Funds	2.24	-	-	16.29
Due to customers	-	-	-	-
Funds borrowed and subordinated liabilities	4.30	1.47	-	10.36
Debt securities issued	-	-	-	15.52

(\*) Represents Parent Bank’s average interest rates.

(\*\*) Demand deposit amounts are included.

(\*\*\*) Average interest rates of leasing receivables are included.

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**D. Interest Rate Risk (Continued)**

	31 December 2019 <sup>(*)</sup>			
	USD (%)	EUR (%)	Other	TL (%)
<b>Assets</b>				
Cash and balances with the Central Bank of Turkey	-	-	-	10.00
Loans and advances to banks	1.55	-	-	10.75
Money Market Placements	-	-	-	11.30
Financial assets held for trading	-	-	-	11.60
Investment securities				
- FVTOCI	-	-	-	7.63
- AC	4.65	-	-	18.15
Loans and advances to customers <sup>(**)</sup>	6.06	4.23	-	16.88
<b>Liabilities</b>				
Deposits from banks	2.24	-	0.20	11.04
Other deposits	2.41	0.26	1.04	10.97
Money Market Funds	2.80	-	-	9.50
Due to customers	-	-	-	-
Funds borrowed and subordinated liabilities	5.24	1.92	-	12.52
Debt securities issued	-	-	-	12.19

<sup>(\*)</sup> Represents Parent Bank’s average interest rates

<sup>(\*\*)</sup> Average interest rates of leasing receivables are included.

**E. Liquidity Risk**

Liquidity risk refers to the possibility of an institution being unable to access necessary funds due to declining fund-raising capacity; The Group closely monitors its overall liquidity level and operates under strict limits based on stress conditions. To address liquidity risk, the Group has adopted a unified approach to TL and foreign currency fund-raising opportunities. The key limit puts a ceiling on the share of overnight borrowing in the current funding pool and acts as a warning signal for the senior management to adjust the composition and/or the pricing of the borrowing instruments.

The Group uses domestic and foreign markets for its liquidity needs, Low level of liquidity needs enables an easy way of loan borrowing from the corresponding markets (Central Bank of the Republic of Turkey (“CBRT”), ISE, Interbank money market, ISE Settlement and Custody Bank and other markets). The potential cash resources are: money market debts which can be obtained from the domestic banks and repurchase transactions in foreign markets with Eurobonds in the portfolio.

The Group’s fund resources consist mainly of deposits. The investments portfolio consists mainly of the property and equipment held for sale purpose and related to discontinued operations investments.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. In accordance with the “Communiqué on the Measurement and Assessment of Liquidity of the Banks”, liquidity ratio of the banks on a weekly and monthly basis should not be less than 80% for foreign currency denominated assets and liabilities, and for total assets and liabilities it should not be less than 100%.

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**E. Liquidity Risk (Continued)**

The following tables analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

<b>31 December 2020</b>	<b>Demand and up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Undistributed</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with the Central Bank of Turkey	3,594,934	-	-	-	-	3,594,934
Loans and advances to banks	2,328,493	3,057	1,768	-	(828)	2,332,490
Financial assets at fair value through profit or loss	15,740	24,266	10,622	6,684	-	57,312
Derivative financial assets	121,775	50,565	1,527	10,566	-	184,433
Loans and advances to customers	5,311,770	8,244,523	6,271,990	3,137,737	485,449	23,451,469
Investment securities	561,096	359,117	2,475,742	1,781,766	37,791	5,215,512
- <i>Investment securities at fair value through other comprehensive income</i>	10,514	25,098	586,105	322,104	38,597	982,418
- <i>Investment securities at amortised cost</i>	550,582	334,019	1,889,637	1,459,662	(806)	4,233,094
Intangible assets	-	-	-	-	121,773	121,773
Property and equipment	-	-	-	-	365,416	365,416
Deferred income tax assets	-	-	-	-	175,953	175,953
Other assets	164,190	27,104	9,704	6,497	981,746	1,189,241
<b>Total assets</b>	<b>12,097,998</b>	<b>8,708,632</b>	<b>8,771,353</b>	<b>4,943,250</b>	<b>2,167,300</b>	<b>36,688,533</b>
<b>Liabilities</b>						
Deposits from banks	958,464	32,634	-	-	-	991,098
Due to customers	17,648,655	392,247	65,207	-	-	18,106,109
Funds borrowed and subordinated liabilities	2,741,781	5,380,603	1,810,265	2,822,222	-	12,754,871
Debt securities issued	235,118	177,656	(2,991)	-	-	409,783
Derivative financial instruments	279,878	26,963	11,491	10,458	2,992	331,782
Derivatives held for risk management	-	681	3,651	-	-	4,332
Provisions	-	-	-	-	117,430	117,430
Retirement benefit obligations	-	-	-	-	12,021	12,021
Other liabilities	514,367	29,747	43,250	27,673	3,346,070	3,961,107
<b>Total liabilities and equity</b>	<b>22,378,263</b>	<b>6,040,531</b>	<b>1,930,873</b>	<b>2,860,353</b>	<b>3,478,513</b>	<b>36,688,533</b>
<b>Net liquidity gap</b>	<b>(10,280,265)</b>	<b>2,668,101</b>	<b>6,840,480</b>	<b>2,082,897</b>	<b>(1,311,213)</b>	<b>-</b>

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**E. Liquidity Risk (Continued)**

<b>31 December 2019(*)</b>	<b>Demand and up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Undistributed</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with the Central Bank of Turkey	2,686,424	-	-	-	-	2,686,424
Loans and advances to banks	3,051,398	-	-	-	(329)	3,051,069
Financial assets at fair value through profit or loss	7,315	1,953	5,171	5	-	14,444
Derivative financial assets	61,092	25,135	30,872	71,898	-	188,997
Loans and advances to customers	3,705,843	5,469,556	6,849,801	2,244,400	388,231	18,657,831
Investment securities	216,996	90,431	2,269,345	1,382,556	7,889	3,967,217
- Investment securities at fair value through other comprehensive income	3,049	-	183,110	40,675	8,420	235,254
- Investment securities at amortised cost	213,947	90,431	2,086,235	1,341,881	(531)	3,731,963
Intangible assets	-	-	-	-	109,312	109,312
Property and equipment	-	-	-	-	350,790	350,790
Deferred income tax assets	-	-	-	-	137,513	137,513
Other assets	165,608	16,287	19,031	9,373	572,788	783,087
<b>Total assets</b>	<b>9,894,676</b>	<b>5,603,362</b>	<b>9,174,220</b>	<b>3,708,232</b>	<b>1,566,194</b>	<b>29,946,684</b>
<b>Liabilities</b>						
Deposits from banks	240,640	-	-	-	-	240,640
Due to customers	15,287,385	524,539	19,745	-	-	15,831,669
Funds borrowed and subordinated liabilities	1,240,478	4,682,617	1,879,102	2,541,643	(27,520)	10,316,320
Debt securities issued	721,030	-	50,592	-	-	771,622
Derivative financial instruments	52,333	25,414	30,272	71,901	-	179,920
Derivatives held for risk management	-	14,119	-	-	-	14,119
Provisions	-	-	-	-	92,201	92,201
Retirement benefit obligations	-	-	-	-	8,850	8,850
Other liabilities	479,548	2,612	1,497	442	2,007,244	2,491,343
<b>Total liabilities and equity</b>	<b>18,021,414</b>	<b>5,249,301</b>	<b>1,981,208</b>	<b>2,613,986</b>	<b>2,080,775</b>	<b>29,946,684</b>
<b>Net liquidity gap</b>	<b>(8,126,738)</b>	<b>354,061</b>	<b>7,193,012</b>	<b>1,094,246</b>	<b>(514,581)</b>	<b>-</b>

(\*\*)The table has been restated, as explained in Footnote Number 2.6

The following table presents the cash flows payable by the Group under non-derivative financial liabilities remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

<b>31 December 2020</b>	<b>Demand and up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>					
Deposits from banks	994,558	-	-	-	994,558
Due to customers	17,754,315	424,075	71,750	-	18,250,140
Funds borrowed	3,248,177	6,005,130	3,722,676	3,632,323	16,608,306
Debt securities issued	245,212	186,398	(2,191)	-	429,419
<b>Total liabilities</b>	<b>22,242,262</b>	<b>6,615,603</b>	<b>3,792,235</b>	<b>3,632,323</b>	<b>36,282,423</b>

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**E. Liquidity Risk (Continued)**

<b>31 December 2019(*)</b>	<b>Demand and up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>					
Deposits from banks	242,524	-	-	-	242,524
Due to customers	15,331,717	536,361	22,194	-	15,890,272
Funds borrowed	1,323,978	5,200,291	4,389,187	810,101	11,723,557
Debt securities issued	744,725	6,387	50,800	-	801,912
<b>Total liabilities</b>	<b>17,642,944</b>	<b>5,743,039</b>	<b>4,462,181</b>	<b>810,101</b>	<b>28,658,265</b>

(\*)The table has been restated, as explained in Footnote Number 2.6

**F. Operational risk**

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational Risk is managed based on a framework for identifying, measuring, monitoring and managing all risks within the scope of the definition of operational risk. The Bank’s risk management and internal controls allow it to control and minimize operational risks effectively under a detailed set of written procedures. These procedures are readily accessible and continuously updated and include procedures to handle all contingency events.

Studies of activity-based operational risks are continuing through the Risk Control Self-Assessment. These are categorized according to cause, event and effect categories as proposed by Basel II, and action has been taken for severe risks.

The Business Continuity Management Plan, prepared in order to minimize losses due to business disruption, has been implemented. Comprehensive annual testing of the Disaster Recovery Center (DRC) is conducted with the participation of business units and IT.

The “Basic Indicator Method” that is mentioned in “Regulation on Measurement and Assessment of Capital Adequacy of Banks” Communiqué published in the Official Gazette no. 29511 on 23 October 2015 and entered into force as of 31 March 2016, is used in the annual operational risk calculation of the Bank. The amount subject to operational risk as of 31 December 2020 is based on the gross income of the Group for the years ended 2017, 2018 and 2019. As of 31 December 2020 the total amount subject to operational risk is calculated as TL 1,438,087 (31 December 2019: TL 1,122,241) and the amount of the related capital requirement is TL 115,047 (31 December 2019: TL 89,779).

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**G. Capital management**

Banks in Turkey are required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements (“BIS”), these guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures.

A bank’s capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS guidelines) minus deductions (which comprises participations to financial institutions, special and preliminary and pre-paid expenses, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk and market risk, in accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the period.

The Group’s regulatory capital position on a consolidated basis is as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Tier I capital	3,010,523	2,536,627
Tier II capital	2,359,529	2,070,977
Deductions	(1,779)	(1,396)
<b>Total regulatory capital</b>	<b>5,368,273</b>	<b>4,606,208</b>
Amount subject to credit risk	28,634,673	25,242,226
Amount subject to market risk	113,188	407,900
Amount subject to operational risk	1,438,085	1,122,241
<b>Capital adequacy ratio (%)</b>	<b>17.78</b>	<b>17.21</b>

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**H. Fair value of financial assets and liabilities measured at amortised cost**

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

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group’s statement of financial position at their fair value.

	31 December 2020		31 December 2019	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets:</b>				
Loans and advances to banks	2,332,490	2,332,490	3,051,069	3,051,069
Financial assets fair value through other comprehensive income	982,418	982,418	235,254	235,254
Investment securities at amortised cost	4,233,094	4,272,054	3,731,963	3,669,116
Loans and advances to customers	21,907,473	21,444,608	17,229,625	17,574,347
<b>Financial liabilities:</b>				
Deposits from banks	991,098	991,705	240,640	240,640
Due to customers	18,106,109	15,824,066	15,831,669	14,401,941
Funds borrowed and subordinated liabilities	12,754,871	10,903,637	10,316,320	9,278,283
Debt securities issued	409,783	409,783	771,622	771,622

The following methods and assumptions were used to estimate the fair value of the Group’s financial instruments:

**Loans and advances to banks**

The fair value of overnight loans and advances to banks are considered to approximate its carrying amounts. The estimated fair values of long term interest bearing loans and advances to banks are based on discounted cash flows using prevailing money market interest rates at the reporting date with similar credit risk and remaining maturity.

**Loans and advances to customers**

Loans and advances to customers are net of allowances for impairment. The estimated fair value of loans and advances to customers represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates with similar credit risk, currency and remaining maturity to determine their fair value.



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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**H. Fair value of financial assets and liabilities measured at amortised cost (Continued)**

**Due to customers, deposits from banks, funds borrowed**

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of other borrowings and debt securities issued without quoted market price is of estimated future cash flows expected to be paid using money market interest rates prevailing at the reporting date with similar credit risk, currency and remaining maturity.

The estimated fair value of interest bearing liabilities due to customers is based on discounted cash flows of estimated future cash flows expected to be paid.

**Fair value estimation**

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

There are not any significant transfers between Level 1 and Level 2 of the fair value hierarchy.

Level 2 trading derivatives comprise forward foreign exchange contracts, interest rate swaps and currency options. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Currency options are fair valued using by using Black & Scholes method and also active market values depending on the option type.

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**NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)**

**H. Fair value of financial assets and liabilities measured at amortised cost (Continued)**

**Fair value estimation (Continued)**

The following tables present the Group’s assets and liabilities that are measured at fair value at 31 December 2020 and 2019.

<b>31 December 2020</b>	<b>Level 1</b>	<b>Level 2 (*)</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value through profit or loss	35,476	21,836	-	57,312
Derivative financial assets	-	184,433	-	184,433
Financial assets fair value through other comprehensive income	971,908	-	10,510	982,418
Hedged Loans	-	-	-	-
<b>Total assets</b>	<b>1,007,384</b>	<b>206,269</b>	<b>10,510</b>	<b>1,224,163</b>

Derivative financial liabilities	-	336,114	-	336,114
<b>Total liabilities</b>	<b>-</b>	<b>336,114</b>	<b>-</b>	<b>336,114</b>

(\*) 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, discount rates and foreign currency exchange rates.

<b>31 December 2019</b>	<b>Level 1</b>	<b>Level 2 (*)</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value through profit or loss	5,176	9,268	-	14,444
Derivative financial assets	-	188,997	-	188,997
Financial assets fair value through other comprehensive income	232,206	-	3,048	235,254
Hedged Loans	-	-	-	-
<b>Total assets</b>	<b>237,382</b>	<b>198,265</b>	<b>3,048</b>	<b>438,695</b>

Derivative financial liabilities	-	194,039	-	194,039
<b>Total liabilities</b>	<b>-</b>	<b>194,039</b>	<b>-</b>	<b>194,039</b>

(\*) 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, discount rates and foreign currency exchange rates.

**I. Fiduciary activities**

The Group provides custody services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. Fiduciary capacity of the Group is as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Investment securities held in custody	377,949	1,801,856
Cheques received for collection	439,443	373,347
Customer investment security portfolio	2,873,750	10,247,748
Other Items Under Custody	12,310,843	9,863,092
Commercial notes received for collection	42,739	48,917
<b>Total</b>	<b>16,044,724</b>	<b>22,334,960</b>

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**NOTE 5 - CASH AND CASH EQUIVALENTS**

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Cash and cash equivalents	185,613	149,382
Demand deposits with the Central Bank of Turkey (*)	1,690,001	1,289,721
Loans and advances to banks (with original maturity less than three months) (*) (**)	2,332,879	3,050,618
<b>Cash and cash equivalents (*)</b>	<b>4,208,493</b>	<b>4,489,721</b>

(\*) Excluding accruals, restricted deposits with Central Bank of Turkey

(\*\*) Amount of TL 828 expected credit losses for banks excluded.

**NOTE 6 - CASH AND BALANCES WITH THE CENTRAL BANK OF TURKEY**

	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Cash and cash equivalents</b>		
Cash in hand - foreign currency	152,983	114,773
Cash in hand - TL	32,630	34,609
	<b>185,613</b>	<b>149,382</b>
<b>Demand deposits at central banks</b>		
Foreign currency	1,343,802	1,178,126
TL	352,128	114,146
	<b>1,695,930</b>	<b>1,292,272</b>
<b>Time deposits at central banks</b>		
TL	-	-
	-	-
<b>Reserve deposits at central banks</b>		
Foreign currency	1,713,358	1,244,698
	<b>1,713,358</b>	<b>1,244,698</b>
<b>Cash in transit</b>	<b>33</b>	<b>72</b>
<b>Total</b>	<b>3,594,934</b>	<b>2,686,424</b>

Banks that are established in Turkey or performing their operations by opening new branches in Turkey are subject to the Central Bank of the Republic of Turkey’s Communiqué numbered 2005/1 “Required Reserves”. The Bank’s total domestic liabilities excluding the items stated in the Communiqué as deductibles, the deposits accepted on behalf of foreign branches from Turkey and loans obtained by the banks but followed under foreign branches constitute the required reserves liabilities.

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**NOTE 6 - CASH AND BALANCES WITH THE CENTRAL BANK OF TURKEY (Continued)**

The required reserves may keep in reserve in Central Bank of Turkey as Turkish Lira, USD and/or Euro and standard gold. As of 31 December 2020, the Turkish lira required reserve ratios are determined to be within the range of 1%-6% depending on the maturity structure of deposits denominated in Turkish Lira (31 December 2019: 1%-7% for all Turkish Lira liabilities), and the required reserve ratios for foreign currency deposits within the range of 13% - 22% (31 December 2019: 15%-19% for all foreign currency deposits) and other foreign currency liabilities within the range of 5%-21% (31 December 2019: 5%-21% for all foreign currency liabilities). According to the Communiqué No: 2019/15, which enforcement date of 9 August 2019, the required reserve ratios application was differentiated according to the loan growth was abolished on 11 December 2020.

**NOTE 7 - LOANS AND ADVANCES TO BANK**

	31 December 2020			31 December 2019		
	Domestic	Foreign	Total	Domestic	Foreign	Total
<b>TL:</b>						
Nostro/demand deposits	2,077	-	2,077	118	-	118
Time deposits	162,626	-	162,626	20,312	-	20,312
Interbank money market	600,294	-	600,294	1,912,595	-	1,912,595
	<b>764,997</b>	<b>-</b>	<b>764,997</b>	<b>1,933,025</b>	<b>-</b>	<b>1,933,025</b>
<b>Foreign currency:</b>						
Nostro/demand deposits	15,845	457,736	473,581	56,543	353,212	409,755
Time deposits	1,057,633	37,107	1,094,740	453,772	254,846	708,618
	<b>1,073,478</b>	<b>494,843</b>	<b>1,568,321</b>	<b>510,315</b>	<b>608,058</b>	<b>1,118,373</b>
<b>Expected credit losses(-)</b>						
	<b>650</b>	<b>178</b>	<b>828</b>	<b>263</b>	<b>66</b>	<b>329</b>
<b>Total</b>	<b>1,837,825</b>	<b>494,665</b>	<b>2,332,490</b>	<b>2,443,077</b>	<b>607,992</b>	<b>3,051,069</b>

**NOTE 8 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	31 December 2020	31 December 2019
Government bonds and treasury bills(*)	57,312	14,444
<b>Total debt securities</b>	<b>57,312</b>	<b>14,444</b>
Derivative financial instruments	184,433	188,997
<b>Total financial assets at fair value through profit or loss</b>	<b>241,745</b>	<b>203,441</b>

(\*) Other financial assets amounting to TL 21,836 are included (31 December 2019: TL 9,268).

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey. Other debt securities represent corporate bonds issued by companies incorporated in Turkey.

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**NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS**

The Group utilises the following derivative instruments:

“Currency forwards” represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions.

“Currency swaps” are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The Group risks are represented by the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an on-going basis with reference to the current fair value and the liquidity of the market. To control the level of risk taken, the +Group assesses counterparties using the same techniques as for its lending activities.

Options are the right to buy or sell for the buyer and are the obligations for the writer an asset at a specified price until a specified expiration date. Options are traded for clients’ needs.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not indicate the Group’s exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

<b>31 December 2020</b>	<b>Contract/notional amount</b>	<b>Fair values</b>	
		<b>Assets</b>	<b>Liabilities</b>
<i>Derivatives held for trading</i>			
Currency forwards	2,265,541	49,021	(2,207)
Currency swaps	22,513,267	103,550	(323,373)
OTC currency options	1,088,007	24,084	(6,202)
Other	819,126	-	-
<b>Total(*)</b>	<b>26,685,941</b>	<b>176,655</b>	<b>(331,782)</b>

(\*) Derivatives for hedging purpose are excluded

<b>31 December 2019</b>	<b>Contract/ notional amount</b>	<b>Fair values</b>	
		<b>Assets</b>	<b>Liabilities</b>
<i>Derivatives held for trading</i>			
Currency forwards	969,973	3,963	(4,271)
Currency swaps	20,647,636	176,432	(168,421)
OTC currency options	3,458,224	7,460	(7,228)
Other	1,028,048	-	-
<b>Total (*)</b>	<b>26,103,881</b>	<b>187,855</b>	<b>(179,920)</b>

(\*) Derivatives for hedging purpose are excluded.

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**NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

31 December 2020	Contract/ notional amount	Fair values	
		Assets	Liabilities
<i>Derivatives held for risk management</i>			
Interest rate swaps (*)	5,787,446	7,778	4,332
<b>Total</b>	<b>5,787,446</b>	<b>7,778</b>	<b>4,332</b>

(\*) Explained in Note 2.

31 December 2019	Contract/ notional amount	Fair values	
		Assets	Liabilities
<i>Derivatives held for risk management</i>			
Interest rate swaps (*)	860,000	1,142	14,119
<b>Total</b>	<b>860,000</b>	<b>1,142</b>	<b>14,119</b>

(\*) Explained in Note 2.

The impact of cash flow hedge accounting application is summarized below:

31 December 2020					
Hedging Instrument	Asset liability hedging	Risk Hedge	Fair value gain of hedged asset	Net fair value of hedging account	
				Asset	Liability
Interest swap contract	Fixed interest, fixed payment commercial loans	Fixed interest rate risk	19	7,778	4,332

31 December 2019					
Hedging Instrument	Asset liability hedging	Risk Hedge	Fair value gain of hedged asset	Net fair value of hedging account	
				Asset	Liability
Interest swap contract	Fixed interest, fixed payment commercial loans	Fixed interest rate risk	2	1,142	14,119

The Bank evaluates the method of hedge whether to be effective on the expected changes in fair values in this process or not or each result of hedge effectiveness whether to be between the range of 80% and 125%.

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**NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

Changes in fair values of derivative transactions determined as hedge for fair value are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in “Trading gains and losses on derivative financial instruments” account. In the statement of financial position, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (amortised cost) of the hedged item, for which the risk is hedged by a portfolio hedge, are amortized with the straight line method within the time to maturity and recognized under the “Trading gains and losses on derivative financial instruments” account.

**NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS**

<b>31 December 2020</b>	<b>Corporate</b>	<b>SME</b>	<b>Consumer</b>	<b>Credit Card</b>	<b>Lease Receivables</b>	<b>Total</b>
Performing loans	14,810,536	3,575,692	193,563	40,665	987,067	19,607,523
Loans under close monitoring	1,999,758	934,857	6,802	1,900	557,965	3,501,282
Loans under legal follow-up	671,489	409,499	4,098	1,035	116,212	1,202,333
<b>Gross</b>	<b>17,481,783</b>	<b>4,920,048</b>	<b>204,463</b>	<b>43,600</b>	<b>1,661,244</b>	<b>24,311,138</b>
Less: 12 month ECL (stage 1)	89,453	38,077	1,714	806	2,444	132,494
Less: Lifetime ECL significant increase in credit risk (stage 2)	192,858	80,158	979	101	52,823	326,919
Less: Lifetime ECL impaired credits (stage 3)	242,923	95,206	11	135	61,981	400,256
<b>Total allowance for impairment</b>	<b>525,234</b>	<b>213,441</b>	<b>2,704</b>	<b>1,042</b>	<b>117,248</b>	<b>859,669</b>
<b>Net</b>	<b>16,956,549</b>	<b>4,706,607</b>	<b>201,759</b>	<b>42,558</b>	<b>1,543,996</b>	<b>23,451,469</b>
<b>31 December 2019</b>	<b>Corporate</b>	<b>SME</b>	<b>Consumer</b>	<b>Credit Card</b>	<b>Lease Receivables</b>	<b>Total</b>
Performing loans	10,309,567	3,710,711	149,431	25,173	974,906	15,169,788
Loans under close monitoring	1,692,041	866,449	8,449	2,945	447,889	3,017,773
Loans under legal follow-up	622,481	357,539	4,787	1,243	80,437	1,066,487
<b>Gross</b>	<b>12,624,089</b>	<b>4,934,699</b>	<b>162,667</b>	<b>29,361</b>	<b>1,503,232</b>	<b>19,254,048</b>
Less: 12 month ECL (stage 1)	49,458	33,625	507	493	1,449	85,532
Less: Lifetime ECL significant increase in credit risk (stage 2)	116,667	72,014	60	112	34,900	223,753
Less: Lifetime ECL impaired credits (stage 3)	188,512	57,527	1,782	434	38,677	286,932
<b>Total allowance for impairment</b>	<b>354,637</b>	<b>163,166</b>	<b>2,349</b>	<b>1,039</b>	<b>75,026</b>	<b>596,217</b>
<b>Net</b>	<b>12,269,452</b>	<b>4,771,533</b>	<b>160,318</b>	<b>28,322</b>	<b>1,428,206</b>	<b>18,657,831</b>

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**NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)**

Information on the movement of total non-performing loans as follows:

	III. Group	IV. Group	V. Group
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
<b>31 December 2019 (**)</b>	<b>157,587</b>	<b>131,838</b>	<b>777,062</b>
Addition (+)	210,122	3,596	110,594
Transfers from Other Categories of Non-performing Loans (+)	2	228,648	208,831
Transfers to Other Categories of Non-performing Loans (-)	(228,648)	(208,831)	-
Collections (-)	(23,863)	(29,851)	(130,888)
Write-offs (-) (*)	-	-	(3,866)
Sold Portfolio (-)	-	-	-
Corporate and Commercial Loans	-	-	-
Consumer Loans	-	-	-
Credit Cards	-	-	-
<b>31 December 2020</b>	<b>115,200</b>	<b>125,400</b>	<b>961,733</b>
Specific Provision (-)	27,635	70,120	302,501
<b>Net Balance on Balance Sheet</b>	<b>87,565</b>	<b>55,280</b>	<b>659,232</b>

(\*) The Parent Bank’s non-performing loans amounting to TL 3,866 have been write-off from assets due to the Board of Directors’ decisions taken in 2020.

(\*\*) Non performing financial leasing receivables amounting to TL 116,212 has included.

Reconciliation of allowance account for losses on loans and advances by class is as follows:

31 December 2020	Allowance for Impairment on Stage 1& Stage 2 Loans	Allowance for Impairment on Stage 3 Loans	Total
At January 2019	309,285	286,932	596,217
Charge for the year	475,391	171,571	646,962
Collection and Recoveries	(312,506)	(68,529)	(381,035)
Amounts written off and sold (*)	(12,757)	10,282	(2,475)
<b>Total</b>	<b>459,413</b>	<b>400,256</b>	<b>859,669</b>

(\*) The Parent Bank’s non-performing loans amounting to TL 3,866 have been write-off from assets due to the Board of Directors’ decisions taken in 2020.

31 December 2019	Allowance for Impairment on Stage 1& Stage 2 Loans	Allowance for Impairment on Stage 3 Loans	Total
At January ,2019	515,956	515,707	1,031,663
Charge for the year	275,176	737,255	1,012,431
Collection and Recoveries	(481,847)	(215,892)	(697,739)
Amounts written off and sold (*)	-	(750,138)	(750,138)
<b>Total</b>	<b>309,285</b>	<b>286,932</b>	<b>596,217</b>

(\*) The Bank has sold non-performing loans of TL 124,603 and provision amounting to TL 124,481 to an asset management company on 22 February 2019 for TL 1,200.

(\*) The Bank’s non-performing loans amounting to TL 3,866 have been write-off, due to the Board of Directors’ decisions taken in 2019. In December, Group deducted amounting to TL 621,791 which are non-performing loans notional amount and its provisions within the scope of the “Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside” published in the Official Gazette on 27 November 2019. This operation has had a 3% reduction in the non-performing conversion rate as a point.



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**NOTE 11 - INVESTMENT SECURITIES**

**(i) Investment securities at fair value through other comprehensive income**

	<b>31 December 2020</b>
Investment securities at fair value through other comprehensive income	
Government bonds and treasury bills	721,802
Government bonds and treasury bills sold under repurchase agreements	260,616
<b>Total securities at fair value through other comprehensive income</b>	<b>982,418</b>

	<b>31 December 2019</b>
Investment securities at fair value through other comprehensive income	
Government bonds and treasury bills	233,598
Government bonds and treasury bills sold under repurchase agreements	1,656
<b>Total securities at fair value through other comprehensive income</b>	<b>235,254</b>

**(ii) Investment securities at amortised cost**

	<b>31 December 2020</b>
Debt securities - at amortised cost - listed:	
Government bonds and treasury bills	2,932,623
Other financial assets	500,650
Government bonds and treasury bills sold under repurchase agreements	800,627
Expected credit losses (-)	(806)
<b>Total securities at amortised cost</b>	<b>4,233,094</b>

	<b>31 December 2019</b>
Debt securities - at amortised cost - listed:	
Government bonds and treasury bills	3,146,288
Other financial assets	462,559
Government bonds and treasury bills sold under repurchase agreements	123,647
Expected credit losses (-)	(531)
<b>Total securities at amortised cost</b>	<b>3,731,963</b>

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey.

Amortised cost securities whose total carrying amount is TL 800,627 as at 31 December 2020 (31 December 2019: TL 123,647) are pledged to banks and other financial institutions against funds obtained under repurchase agreements.

Amortised cost securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, ISE Settlement and Custody Bank and other financial institutions and amount to TL 1,536,527 (31 December 2019: TL 837,187).

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**NOTE 11 - INVESTMENT SECURITIES (Continued)**

**(ii) Investment securities at amortised cost (Continued)**

The movements in securities at amortised cost as at 31 December 2020 and 2019 are as follows:

	<b>31 December 2020</b>
Balance at 1 January	3,732,494
Foreign Exchange Differences in Monetary Items	852,975
Disposals/redemption	(304,375)
Change in amortised cost (-)	47,194
Expected credit losses (-)	(806)
<b>Total securities at amortised cost</b>	<b>4,233,094</b>

  

	<b>31 December 2019</b>
Balance at 1 January	3,427,060
Foreign Exchange Differences in Monetary Items	391,587
Disposals/redemption	(56,866)
Change in amortised cost (-)	29,287
Expected credit losses (-)	(531)
<b>Total securities at amortised cost</b>	<b>3,731,963</b>

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**NOTE 12 - INTANGIBLE ASSETS AND GOODWILL**

Carrying value and accumulated depreciation of intangible assets at the beginning and at the end of the period

	<b>31 December 2020</b>	<b>31 December 2019</b>
Cost	225,998	193,336
Accumulated amortisation	(104,225)	(84,024)
<b>Net book amount</b>	<b>121,773</b>	<b>109,312</b>

Movements of intangible assets are as follows:

**31 December 2020**

	<b>Goodwill</b>	<b>Rights and Licenses</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>					
<b>At 1 January</b>	<b>49,017</b>	<b>90,462</b>	<b>52,341</b>	<b>1,516</b>	<b>193,336</b>
Additions	-	875	31,787	-	32,662
Disposals	-	-	-	-	-
<b>At 31 December</b>	<b>49,017</b>	<b>91,337</b>	<b>84,128</b>	<b>1,516</b>	<b>225,998</b>
<b>Accumulated amortisation</b>					
<b>At 1 January</b>	-	<b>(52,589)</b>	<b>(31,669)</b>	<b>234</b>	<b>(84,024)</b>
Amortisation charge (Note 28)	-	(3,785)	(16,416)	-	(20,201)
Disposals	-	-	-	-	-
<b>At 31 December</b>	-	<b>(56,374)</b>	<b>(48,085)</b>	<b>234</b>	<b>(104,225)</b>
<b>Net carrying amount at 31 December</b>	<b>49,017</b>	<b>34,963</b>	<b>36,043</b>	<b>1,750</b>	<b>121,773</b>

**31 December 2019**

	<b>Goodwill</b>	<b>Rights and Licenses</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>					
<b>At 1 January</b>	<b>49,017</b>	<b>85,100</b>	<b>35,612</b>	<b>1,516</b>	<b>171,245</b>
Additions	-	5,362	16,729	-	22,091
Disposals	-	-	-	-	-
<b>At 31 December</b>	<b>49,017</b>	<b>90,462</b>	<b>52,341</b>	<b>1,516</b>	<b>193,336</b>
<b>Accumulated amortisation</b>					
<b>At 1 January</b>	-	<b>(48,900)</b>	<b>(21,699)</b>	<b>234</b>	<b>(70,365)</b>
Amortisation charge (Note 28)	-	(3,689)	(9,970)	-	(13,659)
Disposals	-	-	-	-	-
<b>At 31 December</b>	-	<b>(52,589)</b>	<b>(31,669)</b>	<b>234</b>	<b>(84,024)</b>
<b>Net carrying amount at 31 December</b>	<b>49,017</b>	<b>37,873</b>	<b>20,672</b>	<b>1,750</b>	<b>109,312</b>

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**NOTE 12 - INTANGIBLE ASSETS AND GOODWILL (Continued)**

Group has TL 49,017 goodwill in consolidated financial statements as of balance sheet date (31 December 2019: TL 49,017).

Goodwill is the amount that exceeds the cost of buying of fair value expressed as the amount of the group share in net identifiable assets of the Group's purchased subsidiaries. Annual impairment test is performed for goodwill every year and shown as deducting accumulated impairment from cost of goodwill. Provision for impairment on goodwill is not reversed.

As a result of the disposal of the business that gain or loss occurs includes the carrying amount goodwill related to disposed business.

Goodwill is distributed to cash generating units for impairment test. Distributions are made to benefit from the business combination in which the goodwill arose expected to cash-generating units or groups. The recoverable amount of the cash-generating unit is determined based on value in used calculations. These calculations require the use of estimates.

In accordance with the Share Transfer Agreement signed between Anadolu Endüstri Holding A.Ş (AEH) and Alternatifbank A.Ş. and the Banking Regulation and Supervision Agency’s authorization numbered 5558 dated 24 October 2013, Alternatifbank A.Ş. purchased 2,727,259,500 shares which is 95.8% of Alternatif Finansal Kiralama (“Alternatif Lease”), the associate of AEH, with a consideration amount of TL 115,585 and 115,488,748 shares from other shareholders with a consideration amount of TL 4,894. The Bank has recognised TL 49,017 goodwill and TL 1,757 intangible assets on this transaction.

The valuation of the fair value of the equity of A Lease is made by the Bank in the current year. Discounted cash flow method was used for determining fair value by using 5 year business plan prepared by management of the company. Growing the business plan of the A Lease stems from the company's opportunities in the sector in which it operates and new customer acquisitions. The important assumptions about the calculating recoverable amount are discount rates and terminal growth rates. The discount rate used in the calculation is 16.9% and terminal growth rate is 16.2%.

**NOTE 13 - PROPERTY AND EQUIPMENT**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Cost	501,559	445,703
Accumulated depreciation and impairment	(136,143)	(94,913)
<b>Net carrying amount</b>	<b>365,416</b>	<b>350,790</b>

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**NOTE 13 - PROPERTY AND EQUIPMENT (Continued)**

	Real Estates	Motor Vehicles	Other Tangible Assets	Financial Leasings	Total
Cost	241,013	6,162	132,397	66,131	445,703
Accumulated Depreciation (-)	6,679	481	67,668	20,085	94,913
<b>31 December 2019 Net Book Value</b>	<b>234,334</b>	<b>5,681</b>	<b>64,729</b>	<b>46,046</b>	<b>350,790</b>
Additions	1,207	14,214	20,384	14,925	50,730
Disposals Cost	102	-	4,846	-	4,948
Disposals Depreciation (-)	-	-	(4,472)	-	(4,472)
Impairment (*)	10,074	-	-	-	10,074
Depreciation (-)	4,354	1,849	19,587	19,912	45,702
<b>Cost at Period End</b>	<b>252,192</b>	<b>20,376</b>	<b>147,935</b>	<b>81,056</b>	<b>501,559</b>
<b>Accumulated Depreciation at Period End (-)</b>	<b>11,033</b>	<b>2,330</b>	<b>82,783</b>	<b>39,997</b>	<b>136,143</b>
<b>31 December 2020 Net Book Value</b>	<b>241,159</b>	<b>18,046</b>	<b>65,152</b>	<b>41,059</b>	<b>365,416</b>

	Real Estates	Motor Vehicles	Other Tangible Assets	Financial Leasings	Total
Cost	237,821	28	115,809	-	353,658
Accumulated Depreciation (-)	2,369	28	67,900	-	70,297
<b>31 December 2018 Net Book Value</b>	<b>235,452</b>	<b>-</b>	<b>47,909</b>	<b>-</b>	<b>283,361</b>
IFRS 16 Transition Adjustment	-	-	-	48,478	48,478
Additions	3,202	6,134	34,599	17,653	61,588
Disposals Cost	10	-	18,011	-	18,021
Disposals Depreciation (-)	-	-	(13,501)	-	(13,501)
Impairment (*)	-	-	-	-	-
Depreciation (-)	4,310	453	13,269	20,085	38,117
<b>Cost at Period End</b>	<b>241,013</b>	<b>6,162</b>	<b>132,397</b>	<b>66,131</b>	<b>445,703</b>
<b>Accumulated Depreciation at Period End (-)</b>	<b>6,679</b>	<b>481</b>	<b>67,668</b>	<b>20,085</b>	<b>94,913</b>
<b>31 December 2019 Net Book Value</b>	<b>234,334</b>	<b>5,681</b>	<b>64,729</b>	<b>46,046</b>	<b>350,790</b>

(\*) The Group has started to account head-office building under the tangible assets with its revalued amount instead of cost value in accordance with “IAS 16 Plant and Equipment” on 31 December 2020. The revaluation difference amounting to TL 34,751 arising from the valuation made by the appraisal firms authorized by CMB and BRSA, is accounted in Property and Plant Revaluation Differences line under the Shareholders’ Equity.

As at 31 December 2020, there is no provision for impairment on property and equipment.

**NOTE 14 - OTHER ASSETS**

	31 December 2020	31 December 2019
Collaterals given for derivative transactions	441,948	214,303
Prepaid expenses	51,463	49,658
Pos Receivables	371,671	108,984
Clearing cheques	70,402	78,771
Others	28,967	9,636
<b>Total</b>	<b>964,451</b>	<b>461,352</b>

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**NOTE 15 - DEPOSITS FROM BANKS**

	31 December 2020			31 December 2019		
	Demand	Term	Total	Demand	Term	Total
<b>Foreign currency:</b>						
Domestic banks	11	14,485	14,496	9	234	243
Foreign banks	7,146	108,012	115,158	410	17,251	17,661
Funds deposited under repurchase agreements	-	525,722	525,722	-	91,938	91,938
<b>Subtotal</b>	<b>7,157</b>	<b>648,219</b>	<b>655,376</b>	<b>419</b>	<b>109,423</b>	<b>109,842</b>
<b>TL:</b>						
Domestic banks	153	6,417	6,570	151	867	1,018
Foreign Banks	2,354	58,675	61,029	2,009	126,114	128,123
Funds deposited under repurchase agreements	-	268,123	268,123	-	1,657	1,657
<b>Subtotal</b>	<b>2,507</b>	<b>333,215</b>	<b>335,722</b>	<b>2,160</b>	<b>128,638</b>	<b>130,798</b>
<b>Total</b>	<b>9,664</b>	<b>981,434</b>	<b>991,098</b>	<b>2,579</b>	<b>238,061</b>	<b>240,640</b>

**NOTE 16 - DEPOSITS FROM CUSTOMERS**

	31 December 2020			31 December 2019		
	Demand	Term	Total	Demand	Term	Total
<b>Foreign currency deposits:</b>						
Saving deposits	308,332	3,847,230	4,155,562	126,656	3,811,681	3,938,337
Commercial deposits	896,118	3,764,066	4,660,184	566,157	4,017,591	4,583,748
<b>Subtotal</b>	<b>1,204,450</b>	<b>7,611,296</b>	<b>8,815,746</b>	<b>692,813</b>	<b>7,829,272</b>	<b>8,522,085</b>
<b>TL deposits:</b>						
Saving deposits	59,586	5,042,201	5,101,787	85,315	4,372,239	4,457,554
Commercial deposits	441,460	3,714,219	4,155,679	435,932	2,360,969	2,796,901
Public sector deposits	32,897	-	32,897	55,129	-	55,129
<b>Subtotal</b>	<b>533,943</b>	<b>8,756,420</b>	<b>9,290,363</b>	<b>576,376</b>	<b>6,733,208</b>	<b>7,309,584</b>
<b>Total</b>	<b>1,738,393</b>	<b>16,367,716</b>	<b>18,106,109</b>	<b>1,269,189</b>	<b>14,562,480</b>	<b>15,831,669</b>

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**NOTE 17 - FUNDS BORROWED AND SUBORDINATED LIABILITIES**

	<b>31 December 2020</b>	<b>31 December 2019(*)</b>
<b>Foreign institutions and banks</b>		
Syndication loans	150,928	150,928
Subordinated liabilities	2,821,726	2,554,736
Other	7,013,686	5,998,912
<b>Total foreign</b>	<b>9,986,340</b>	<b>8,704,576</b>
Domestic banks	2,768,531	1,611,744
<b>Total domestic</b>	<b>2,768,531</b>	<b>1,611,744</b>
<b>Total</b>	<b>12,754,871</b>	<b>10,316,320</b>

(\*)The table has been restated, as explained in Footnote Number 2.6

Reconciliation of funds borrowed as follows:

	<b>31 December 2020</b>	<b>31 December 2019(*)</b>
Balance at beginning of the year	<b>10,316,320</b>	<b>7,138,762</b>
Proceeds from funds borrowed	7,697,703	6,683,091
Payments for funds borrowed	(5,451,600)	(3,389,016)
Effects of foreign exchange-rate	192,448	(116,517)
<b>Balance at 31 December 2020</b>	<b>12,754,871</b>	<b>10,316,320</b>

(\*)The table has been restated, as explained in Footnote Number 2.6

The details of subordinated liabilities of the Bank as of 31 December 2020 are presented in the table below:

<b>Lender</b>	<b>Amount</b>		<b>Opening Date</b>	<b>Maturity</b>	<b>Interest Rate (%)</b>
	<b>USD</b>	<b>Amount TL(*)</b>			
The Commercial Bank (P.S.Q.C)	USD 297,030	2,203,784	15 April 2016	10 years+1 day	8.75
The Commercial Bank (P.S.Q.C)	USD 75,000	556,455	30 June 2015	Demand	9,85

(\*)Accruals amounting to TL 61,486 are excluded.

With regard to the letter dated 6th May 2020 and numbered 23345, the bank made an application to BRSA for the use of early redemption option of the loan agreement of the subordinated debt, which is equal to 50 Million USD and procured from United Arab Bank P.J.S.C and National Bank of Oman S.A.O.G, at the end of the 5th year of the agreement, in accordance with the Article 7.3 in the agreement. With reference to the letter of BRSA dated 25th June 2020 and numbered 5775, using the early redemption option was not considered harmful. Accordingly, subordinated debt of 50 Million USD was repaid and closed on 30 June 2020.

**NOTE 18 - DEBT SECURITIES ISSUED**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Debt securities at amortised cost-fixed interest rate	409,783	771,622
Debt securities at amortised cost-variable interest rate	-	-
<b>Total</b>	<b>409,783</b>	<b>771,622</b>

The Bank issued 250 million euro-bond with five year maturity and coupon rate of 3.13%, all sold to investors in overseas markets on 21 July 2014.

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**NOTE 19 - TAXATION**

	<b>31 December 2020</b>	<b>31 December 2019(*)</b>
Current tax expense	(69,269)	(532)
Deferred tax (expense)/income	44,932	(34,088)
	<b>(24,337)</b>	<b>(34,620)</b>

(\*)The table has been restated, as explained in Footnote Number 2.6

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

In Turkey, the corporate tax rate is 20% since January 1, 2006. With the Law, No. 7061 Amendment of Certain Taxes and Laws and Other Acts promulgated in the Official Gazette, tax rate will applied as 22% for three years between 2018 and 2020. In addition, Council of Ministers is authorised to reduce the rate from 22% to 20%.

Payments will be carried out in single instalment until the end of the month in which the tax return is to be filed.

Dividends paid to non-resident corporations, which have a fixed place of business or permanent representative in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax, Provisions of bilateral treaties are reserved.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their quarterly determined corporate income. Advance tax return is filed by the 14<sup>th</sup> of the second month following the each quarterly period and is payable on the 17<sup>th</sup> of the same month, Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to offset against other liabilities to the government.

Reconciliation of income tax expense:

	<b>31 December 2020</b>	<b>31 December 2019(*)</b>
<b>Profit before tax</b>	<b>129,900</b>	<b>141,379</b>
At Turkish statutory income tax rate of (22%-20%)	(28,578)	(42,245)
Disallowed expenses	(96,636)	(49,209)
Other non-taxable items	120,161	71,249
Other	(19,284)	(14,415)
<b>Income tax expense</b>	<b>(24,337)</b>	<b>(34,620)</b>

(\*)The table has been restated, as explained in Footnote Number 2.6

In Turkey, there is no procedure for a final and definitive agreement on tax assessments, Tax authorities have the right to audit tax declarations and accounting records for 5 years, and may issue re-assessment based on their findings for tax purposes.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years, Tax losses cannot be carried back to offset profits from previous periods.

75% of the capital gains of corporations’ from sale of participation shares and property (With the Law, No. 7061 Amendment of Certain Taxes and Laws and Other Acts promulgated in the Official Gazette, dated 5 December 2017, the exemption applied as 75% was decreased to 50% to be effective as of the promulgation of the Law for the mentioned sale of properties.) which have been in their assets at least for two years is exempt from corporate tax provided that this amount is kept in a special reserve account in the liabilities side of the statement of financial position for 5 years.



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**NOTE 19 - TAXATION (Continued)**

**Deferred taxes**

Corporate Tax Law has been amended with Article 91 of the Law, No. 7061 effective upon promulgation in the Official Gazette, No. 30261, dated 5 December 2017; and the corporate tax levied on the corporate income has been increased from 20% to 22% to be applied for the income belonging to 2018, 2019 and 2020. Therefore, deferred tax rate is used as %20 by the Group for temporary differences expected/expected to be closed after 2020. Deferred tax rate calculation has started to be measured over temporary expected provision losses differences according to IFRS 9 articles from 1 January 2018.

The temporary differences giving rise to the deferred tax assets and (deferred tax liabilities) are as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Profit before tax after monetary gain</b>		
Deferred Tax Assets/(Deferred Tax Liabilities)		
Tangible Assets Base Differences	5,253	(5,502)
Provisions	121,872	85,947
Valuation of Financial Assets	32,451	4,845
Deferred Commission Income	11,242	7,932
Investment Incentive	-	6,180
Tax Losses	52	26,530
Other	5,083	11,581
<b>Net Deferred Tax Assets</b>	<b>175,953</b>	<b>137,513</b>

The movements of deferred income taxes at 31 December were as follows:

	<b>31 December 2020</b>	<b>31 December 2019(*)</b>
<b>1 January</b>	<b>137,513</b>	<b>172,895</b>
Charge for the year	38,440	(35,382)
<i>Profit and loss</i>	44,932	(34,088)
<i>Other comprehensive income</i>	(6,492)	(1,294)
<b>31 December</b>	<b>175,953</b>	<b>137,513</b>

(\*)The table has been restated, as explained in Footnote Number 2.6

At 31 December 2020, there are no deductible temporary differences for which no deferred tax asset is recognised in the statement of financial position (31 December 2019: None).

**NOTE 20 – ASSET HELD FOR SALE**

Movement of assets held for resale and discontinued operations as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>1 January Assets Held For Resale And Discontinued Operations</b>	<b>321,735</b>	<b>186,675</b>
Disposals (-)	(156,279)	(74,144)
Additions	60,151	209,204
Current period depreciation (-)	(876)	-
Impairment provision addition/ return	59	-
<b>31 December Assets Held For Resale And Discontinued Operations</b>	<b>224,790</b>	<b>321,735</b>

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**NOTE 21 - PROVISIONS**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Provision for losses on credit related commitments	64,401	51,409
Other legal provision	22,713	17,769
Other	30,316	23,023
<b>Total</b>	<b>117,430</b>	<b>92,201</b>

**Other legal provisions**

At 31 December 2019 the Group is involved in number of legal disputes, The Group’s lawyers advise that, owing to developments in some of these cases; it is probable that the Group will be found liable. Therefore, the management has recognised a provision of TL 22,713 (31 December 2019: TL 17,769) as the best estimate of the amount to settle these potential obligations.

**NOTE 22 - RESERVE FOR EMPLOYEE BENEFITS**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Reserve for defined benefit obligation	12,021	8,850
<b>Balance at the end of the period</b>	<b>12,021</b>	<b>8,850</b>

Under the Turkish Labour Law, the Parent Bank and its subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires. There are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month’s salary limited to a maximum of full TL 7,117.17(31 December 2019: full TL 6,379.86 TL) for each year of service.

Movement of reserve for defined benefit obligation is as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Prior Period Ending Balance</b>	<b>8,850</b>	<b>8,705</b>
Current Period Service Cost	965	653
Interest Cost	1,330	853
Paid Compensation	(2,815)	(6,560)
Termination Cost	1,641	4,757
Actuarial Loss (*)	2,050	442
<b>Balance at the end of the period</b>	<b>12,021</b>	<b>8,850</b>

(\*) Actuarial losses are recognized in other comprehensive income.

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

IFRS requires actuarial valuation methods to be developed to estimate the enterprise’s obligation under defined benefit plans. In the consolidated financial statements, the Group reflected a liability calculated using the projected unit credit method and based upon the factors derived using their experience of personnel terminating their services and being eligible to receive employment termination benefits. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

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**NOTE 22 - RESERVE FOR EMPLOYEE BENEFITS (Continued)**

Accordingly the following financial and demographical actuarial assumptions were used in the calculations of the provision:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Discount rate (%)	4.61	4.50
The probability of retirement (%)	83.33	83.33

In addition, the Group has accounted bonus provision amounting to TL 24,651 (31 December 2019: TL 20,401) and for unused vacation rights provision amounting to TL 3,430 as 31 December 2020 (31 December 2019: TL 3,625).

**NOTE 23 - OTHER LIABILITIES**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Blocked accounts	1,058,037	126,994
Cheques in collection	96,562	195,668
Taxes other than income and withholdings	79,603	42,867
Collaterals received for derivatives	9,114	10,063
Bonus accrual for personnel	24,651	20,401
Vacation pay liability	3,430	3,625
Cash collaterals	123,346	39,964
Other	89,623	21,914
<b>Total</b>	<b>1,484,366</b>	<b>461,496</b>

**NOTE 24 - SHARE CAPITAL AND SHARE PREMIUM**

The historic amount of share capital of the Company consists of 2,038 million (31 December 2019: 1,730 million) authorised shares with a nominal value of TL 1 each. The Company’s authorised capital amounts to TL 2,038,390 (31 December 2019: TL 1,730,655).

With the decision of number 14 of Board of Directors on 2 March 2020 it was decided to increase the Bank's capital from TL 1,730,655 to TL 2,038,390 and BRSA approval was obtained on 23 March 2020. In the Trade Registry Gazette dated 6 May 2020 numbered 10072, it was registered that the capital increase amounting to TL 307,735 was paid by The Commercial Bank (P.S.Q.C.) in cash and the Bank’s capital was increased from TL 1,730,655 to TL 2,038,390.

With the decision of number 24 of Board of Directors on 13 March 2019 it was decided to increase the Parent Bank's capital from TL 1,167,000 to TL 1,439,725 and BRSA approval was obtained on 27 March 2019. In the Trade Registry Gazette dated 10 April 2019 numbered 9806, it was registered that the capital increase amounting to TL 272,725 was paid by The Commercial Bank (P.S.Q.C.) and the Parent Bank's capital was increased from TL 1,167,000 to TL 1,439,725.

Shareholders	<b>31 December 2020</b>		<b>31 December 2019</b>	
	<b>Participation</b>	<b>TL</b>	<b>Participation</b>	<b>TL</b>
	<b>rate (%)</b>	<b>thousand</b>	<b>rate (%)</b>	<b>thousand</b>
The Commercial Bank (P.S.Q.C.)	2,038,390	100	100	1,730,655
<b>Historical share capital</b>	<b>2,038,390</b>	<b>100</b>	<b>100</b>	<b>1,730,655</b>
Share premium	54			54
<b>Total share capital and share premium</b>	<b>2,038,444</b>			<b>1,730,709</b>

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**NOTE 25 - RETAINED EARNINGS AND OTHER RESERVES**

	<b>31 December 2020</b>	<b>31 December 2019(*)</b>
Fair value reserves	(16,614)	(38,159)
Hedge reserves	1,290	(7,930)
Revaluation Surplus	34,751	27,782
Legal reserves	56,229	46,650
Other reserves	-	-
<b>Total other reserves</b>	<b>75,656</b>	<b>28,343</b>
<b>Retained earnings</b>	<b>314,750</b>	<b>220,408</b>

(\*)The table has been restated, as explained in Footnote Number 2.6

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

**Legal Reserve**

Under the Turkish Commercial Code, the Group is required to create the following legal reserves from appropriation of earnings, which are available for distribution only in the event of liquidation or losses:

- First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.
- Second legal reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

After deducting taxes and setting aside the legal reserves as discussed above, the remaining balance of net profit is available for distribution to shareholders.

**Fair value reserve**

Information on fair value reserve is as follows:

	<b>31 December 2020</b>		<b>31 December 2019</b>	
	<b>TL</b>	<b>FC</b>	<b>TL</b>	<b>FC</b>
Fair value of debt instruments at fair value through OCI	(16,614)	-	(38,159)	-
Foreign Currency Difference	-	-	-	-
<b>Total</b>	<b>(16,614)</b>	<b>-</b>	<b>(38,159)</b>	<b>-</b>

**Other Reserve**

- As of 31 December 2019, The Parent Bank, has started to follow the subordinated loan which was obtained from its controlling shareholder The Commercial Bank (P.S.Q.C.) amounting to USD 75 million (As of 31 December 2019, its equivalent with the exchange rate determined at the first purchase of capital accounts on 31 July 2017 is TL 299,969) TIER I subordinated debt from its shareholder, The Commercial Bank (P.S.Q.C.), which was transferred to the equity account on 31 July 2017, in the "Equity" accounts, which is one of the financial statement items. Amendments have been made to the provisions of the contract regarding the said primary subordinated debt and the related amendments have been completed as of 29 March 2020. The Bank has been declared to BRSA that the related subordinated debt will be included as an additional capital in the capital adequacy calculation with the letter dated 3 April 2020 and numbered 22742.

As a result of the amendments made, under the “Subordinated Debt Instruments” retrospectively from the financial statement items, as of the first acquisition of an additional principal capital of USD 75 million in accordance with the “IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors” (“IAS 8”) started to be followed.

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**NOTE 26 - NET INTEREST INCOME**

	<b>1 January- 31 December 2020</b>	<b>1 January- 31 December 2019(*)</b>
<b>Interest income on:</b>		
Loans and advances to customers	1,948,847	2,277,763
Investment securities	254,640	197,151
Due from banks	129,036	350,671
Financial assets at fair value through profit or loss	-	4,786
Other	10,772	6,356
<b>Total interest income</b>	<b>2,343,295</b>	<b>2,836,727</b>
<b>Interest expense on:</b>		
Due to customers	901,439	1,353,073
Repurchase agreements	20,026	20,520
Deposits from banks	115,604	129,443
Debt securities issued	54,362	216,229
Funds borrowed	595,739	527,148
Other	44,803	21,476
<b>Total interest expense</b>	<b>1,731,973</b>	<b>2,267,889</b>
<b>Net interest income</b>	<b>611,322</b>	<b>568,838</b>

(\*)The table has been restated, as explained in Footnote Number 2.6

**NOTE 27 - NET FEE AND COMMISSION INCOME**

	<b>1 January- 31 December 2020</b>	<b>1 January- 31 December 2019</b>
<b>Fee and commission income on:</b>		
Letter of guarantee	55,462	66,551
Banking service and credit card fees	90,679	63,453
Insurance	12,433	8,715
Expertise	961	995
Money transfers	467	1,563
Account management	871	2,900
Other	65,644	22,229
<b>Total fee and commission income</b>	<b>226,517</b>	<b>166,406</b>
<b>Fee and commission expense on:</b>		
Debit cards	1,034	9,459
FX transactions	21,838	-
Correspondent banks	758	-
Effective and future transactions	267	988
Money transfers	1,184	-
CBRT Interbank money market transactions	5,037	405
Clearing Commissions	-	-
Other	6,940	5,382
<b>Total fee and commission expense</b>	<b>37,058</b>	<b>16,234</b>
<b>Net fee and commission income</b>	<b>189,459</b>	<b>150,172</b>

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**NOTE 28 - TRADING GAINS AND LOSSES, NET**

	<b>1 January- 31 December 2020</b>	<b>1 January- 31 December 2019</b>
Trading securities	-	-
Derivative financial transactions	(110,859)	1,580
<b>Net (Loss)/Income</b>	<b>(110,859)</b>	<b>1,580</b>

Net trading income from derivative financial instruments includes gains and losses from spot and forward contracts, options, futures, and swaps due to changes in interest rates.

**NOTE 29 - IMPAIRMENT LOSSES ON LOANS AND OTHER OPERATING EXPENSES**

	<b>1 January- 31 December 2020</b>	<b>1 January- 31 December 2019</b>
12 month expected credit loss (stage 1)	58,831	(21,229)
Significant increase in credit risk (stage 2)	98,249	(191,948)
Non-performing loans (stage 3)	112,893	543,690
<b>Impairment losses on loans and credit related commitments, net</b>	<b>269,973</b>	<b>330,513</b>

	<b>1 January- 31 December 2020</b>	<b>1 January- 31 December 2019</b>
<b>Staff costs</b>	<b>221,269</b>	<b>207,651</b>
Depreciation on property and equipment (Note 13)	(45,702)	38,117
Amortisation of intangible assets (Note 12)	20,201	13,659
<b>Depreciation and amortisation</b>	<b>(25,501)</b>	<b>51,776</b>
Operational lease expenses	1,242	1,041
Sundry taxes	18,452	26,208
Marketing and advertisement costs	9,031	8,677
Repair and maintenance expenses	3,275	2,972
Losses on sale of assets	4,162	4,278
Other	169,666	78,535
<b>Administrative expenses</b>	<b>205,828</b>	<b>121,711</b>
<b>Total</b>	<b>401,596</b>	<b>381,138</b>

Reserve for defined benefit obligation, accrual for unused vacation rights and provision for personnel bonus are included in the staff costs in the table above.

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**NOTE 30 - ASSETS PLEDGED AND RESTRICTED**

The Group has the following assets pledged as collateral:

	31 December 2020		31 December 2019	
	Assets	Related liability	Assets	Related liability
Financial assets at fair value through profit or loss (Note 9)	-	-	-	-
Investment securities (Note 11)	1,065,290	687,528	123,647	93,595
Other assets pledged (Note 14) <sup>(*)</sup>	(441,948)	9,114	(214,303)	10,063
<b>Total</b>	<b>623,342</b>	<b>696,642</b>	<b>(90,656)</b>	<b>103,658</b>

<sup>(\*)</sup> Other assets pledged are the collaterals given to the counter parties of the derivative financial instruments and other collaterals given.

financial assets measured at amortised cost whose total carrying amount is TL 800,627 as of 31 December 2020 (31 December 2019: TL 123,647) are pledged to banks and other financial institutions against funds obtained under repurchase agreements (Note 15 and Note 17).

Total amount of funds obtained under repurchase agreements is TL 793,845 of 31 December 2020 (31 December 2019: TL 93,595).

Investment securities at fair value through profit or loss, at fair value through other comprehensive income and at amortised cost are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, ISE Settlement and Custody Bank and other financial institutions and amount to TL 1,536,527 (31 December 2019: TL 837,187).

At 31 December 2020, the Group’s reserve deposits that are not available to finance the Group’s day-to-day operations amount to TL 1,713,358 (31 December 2019: TL 1,244,698).

**NOTE 31 - COMMITMENTS AND CONTINGENT LIABILITIES**

In the normal course of its activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities at 31 December 2020 and 2019.

**Legal proceedings**

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognises provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated (Note 20).

In respect of the further claims asserted against the Group, which according to the principles outlined above, have not been provided for, it is the opinion of the management and its professional advisors that such claims are either without merit, can be successfully defended or will not have a material adverse effect on the Group’s financial position.

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**NOTE 31 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

**Credit related commitments**

The primary purpose of these instruments is to ensure that funds are available to a customer as and if required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table shows the outstanding credit related commitments of the Group:

<b>31 December 2020 (*)</b>	<b>Indefinite</b>	<b>Not later than 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Letter of credits	-	-	-	2,227,284	2,227,284
Letter of guarantees	33,437	189,348	-	6,067,573	6,290,358
Acceptance credits	-	-	-	8,763	8,763
Other commitments	1,409,634	-	-	-	1,409,634
<b>Total</b>	<b>1,443,071</b>	<b>189,348</b>	<b>-</b>	<b>8,303,620</b>	<b>9,936,039</b>

<b>31 December 2019 (*)</b>	<b>Indefinite</b>	<b>Not later than 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Letter of credits	30,466	649,204	-	-	679,670
Letter of guarantees	550,786	5,623,671	8,304	5,887	6,188,648
Acceptance credits	4,114	14,265	-	-	18,379
Other commitments	711,475	-	-	-	711,475
<b>Total</b>	<b>1,296,841</b>	<b>6,287,140</b>	<b>8,304</b>	<b>5,887</b>	<b>7,598,172</b>

(\*) Based on original maturities



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**NOTE 32 - SEGMENT REPORTING**

The Group is organized into two main business segments which are organized and managed separately according to the nature of the products and services provided.

	<b>Commercial</b>	<b>Investment</b>		
<b>31 December 2020</b>	<b>Banking</b>	<b>Banking</b>	<b>Other</b>	<b>Group</b>
Net interest income <sup>(1)</sup>	521,433	89,889	-	611,322
Net fees and commission income and other operating income	130,962	58,497	-	189,459
(Provisions for) / recoveries from impairment loan receivables <sup>(1)</sup>	(255,928)	(14,045)	-	(269,973)
Net, Trading gain / loss	495	193	-	688
Other operating expenses <sup>(1)</sup>	(366,699)	(34,897)	-	(401,596)
Impairment Provision for Loans and Other Receivables (-) <sup>(*)</sup>	-	-	-	-
<b>Profit before income tax</b>	<b>30,263</b>	<b>99,637</b>	<b>-</b>	<b>129,900</b>
Tax provision	-	-	-	(24,337)
<b>Profit after income tax</b>	<b>30,263</b>	<b>99,637</b>	<b>-</b>	<b>105,563</b>

Non-controlling interest

2

<b>Net profit</b>	<b>30,263</b>	<b>99,637</b>	<b>(24,337)</b>	<b>105,563</b>
<b>Asset and liabilities</b>				
Segment assets	23,183,434	11,432,844	2,072,255	36,688,533
<b>Total assets</b>	<b>23,183,434</b>	<b>11,432,844</b>	<b>2,072,255</b>	<b>36,688,533</b>
Segment liabilities	19,582,653	10,091,356	4,585,655	34,259,664
Unallocated liabilities	-	-	2,428,869	2,428,869
<b>Total liabilities</b>	<b>19,582,653</b>	<b>10,091,356</b>	<b>7,014,524</b>	<b>36,688,533</b>

<sup>(1)</sup> Classification differences with income statement exist since business reporting of the Bank was used.

	<b>Commercial</b>	<b>Investment</b>		
<b>31 December 2019(*)</b>	<b>Banking</b>	<b>Banking</b>	<b>Other</b>	<b>Group</b>
Net interest income <sup>(1)</sup>	514,656	54,182	-	568,838
Net fees and commission income and other operating income	140,945	9,227	-	150,172
(Provisions for) / recoveries from impairment loan receivables <sup>(1)</sup>	(318,984)	(11,529)	-	(330,513)
Net, Trading gain / loss	(37,433)	171,453	-	134,020
Other operating expenses <sup>(1)</sup>	(327,760)	(53,378)	-	(381,138)
Impairment Provision for Loans and Other Receivables (-) <sup>(*)</sup>	-	-	-	-
<b>Profit before income tax</b>	<b>(28,576)</b>	<b>169,955</b>	<b>-</b>	<b>141,379</b>
Tax provision	-	-	-	(34,620)
<b>Profit after income tax</b>	<b>(28,576)</b>	<b>169,955</b>	<b>-</b>	<b>106,759</b>

Non-controlling interest

1

<b>Net profit</b>	<b>(28,576)</b>	<b>169,955</b>	<b>(34,620)</b>	<b>106,759</b>
<b>Asset and liabilities</b>				
Segment assets	18,682,920	9,905,239	1,358,525	29,946,684
<b>Total assets</b>	<b>18,682,920</b>	<b>9,905,239</b>	<b>1,358,525</b>	<b>29,946,684</b>
Segment liabilities	17,466,326	6,931,522	3,569,359	27,967,207
Unallocated liabilities	21,298	-	1,958,179	1,979,477
<b>Total liabilities</b>	<b>17,487,624</b>	<b>6,931,522</b>	<b>5,527,538</b>	<b>29,946,684</b>

<sup>(1)</sup> Classification differences with income statement exist since business reporting of the Bank was used.

(\*)The table has been restated, as explained in Footnote Number 2.6

**ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated).

**NOTE 33 - RELATED PARTY TRANSACTIONS**

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 financial or operational decisions, The Group is controlled by Commercial Bank of Qatar owning 100.00% of the ordinary shares.

The Parent Bank’s agency agreement with Alternatif Yatırım Menkul Değerler A.Ş. is cancelled on 31 December 2016.

A number of transactions were entered into with related parties in the normal course of business.

(i) Balances with related parties:

	31 December 2020		31 December 2019	
	Total	Share in total %	Total	Share in total %
Loans and advances to customers, net	632,308	2.82	437,597	1.46
<b>Total assets</b>	<b>632,308</b>		<b>437,597</b>	
Deposits from customers	77,278	0.42	45,291	0.15
<b>Total liabilities</b>	<b>77,278</b>		<b>45,291</b>	
Credit related commitments	14,684	0.17	25,888	0.42
<b>Total commitments and contingent liabilities</b>	<b>14,684</b>		<b>25,888</b>	

(ii) Transactions with related parties:

	31 December 2020		31 December 2019	
	Total	Share in total %	Total	Share in total %
Interest income on loans and advances to customers	41,896	0.22	6,626	0.22
Commission income on credit related commitments	1,562	0.01	140	0.00
<b>Total interest and fee income</b>	<b>43,458</b>		<b>6,766</b>	
Interest expense on deposits	53	0.00	2,868	0.00
Other operating expense	-	-	-	-
<b>Total interest and fee expense</b>	<b>53</b>		<b>2,868</b>	

(iii) Balances with directors and other key management personnel:

Salaries and other benefits paid to the Group’s key management approximately amount to TL 26,475 as of 31 December 2020 (31 December 2019: TL 26,568).

**NOTE 34 - AFTER THE REPORTING PERIOD EVENTS**

None.

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