

**TÜRKİYE SİNAİ KALKINMA BANKASI
ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES**

Interim Condensed Consolidated
Financial Statements
As at and for the Six-Month Period Then Ended
30 June 2020
With Independent Auditors' Report on Review of
Condensed Consolidated Interim
Financial Information

19 October 2020

This report contains 2 pages of independent auditors' report on review of interim condensed consolidated financial information and 60 pages of condensed consolidated interim financial information.

Türkiye Sınai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of
Türkiye Sınai Kalkınma Bankası Anonim Şirketi

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Türkiye Sınai Kalkınma Bankası A.Ş. and its subsidiaries (“the Group”) as at June 30, 2020, comprising of the interim consolidated statement of financial position as at June 30, 2020 and the related interim consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, “Interim financial reporting” (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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



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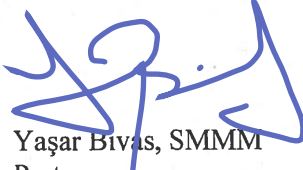
Basis for Qualified Conclusion

The accompanying interim condensed consolidated financial statements as at 30 June 2020 include a free reserve for possible risks amounting to TL 120,000 thousands which were provided in prior years by the Group management for possible results of the circumstances which may arise from possible changes in the economy and market conditions that is not permitted by IAS 37. Had the Group did not provide such provision, “Retained earnings” and “Provisions” would increase and decrease by TL 120,000 thousand respectively.

Qualified Conclusion

Based on our review, except for the effect of the matter referred in the “Basis of Qualified Conclusion” paragraph nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

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



Yaşar Bivas, SMMM
Partner

19 October 2020
Istanbul, Turkey

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

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

ASSETS	Notes	30 June 2020	31 December 2019
Cash and cash equivalents		2,517,000	791,533
Reserve deposits at Central Bank	8	206,966	795,638
Financial assets at fair value through profit or loss	11	271,285	278,918
Financial assets at fair value through other comprehensive income	11	4,514,040	4,194,688
-Financial assets measured at fair value through other comprehensive income as pledge		1,815,172	829,817
Financial assets measured at amortized cost	11	2,844,007	2,581,799
-Financial assets measured at amortized cost as pledge		803,726	431,343
Derivative financial assets	9	1,004,417	894,447
Derivative assets held for hedging purposes	9	378,552	67,884
Loans and advances to customers	10	34,105,257	30,761,544
Investments in equity-accounted investees		496,746	464,920
Goodwill		383	383
Property and equipment		345,940	347,206
Investment property		275,234	273,918
Intangible assets		4,108	4,069
Deferred tax assets		146,099	39,930
Held for sale purpose assets		64,403	64,403
Other assets		842,631	691,109
Total assets		48,017,068	42,252,389

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

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

LIABILITIES	Notes	30 June 2020	31 December 2019
Funds borrowed		29,724,623	26,628,325
Money market balances		1,136,838	1,197,367
Debt securities issued	13	7,854,389	6,277,368
Derivative financial liabilities	9	591,029	468,289
Derivatives used for hedging purposes	9	-	16,545
Current account of loan customers		48,339	58,950
Taxes and dues payable		15,953	15,750
Employee benefits		39,600	36,205
Corporate tax liability		199,717	67,608
Provisions		150,615	145,911
Lease liability		5,422	4,913
Other liabilities		477,250	226,746
Subordinated loan	14	2,152,755	1,830,045
Total liabilities		42,396,530	36,974,022
EQUITY			
Share capital			
Nominal paid in capital	16	2,800,000	2,800,000
Inflation adjustment to capital	16	13,563	13,563
Total capital		2,813,563	2,813,563
Share premium		532	530
Legal reserves		343,182	307,099
Fair value reserve		90,481	83,268
Revaluation reserve		309,478	309,478
Translation reserve		28,993	20,714
Actuarial Gain/(Loss)		(1,393)	(1,393)
Retained earnings		2,002,771	1,707,018
Total equity attributable to equity holders of the Bank		5,587,607	5,240,277
Non-controlling interests		32,931	38,090
Total equity		5,620,538	5,278,367
Total liabilities and equity		48,017,068	42,252,389
Commitments and contingencies	7	72,828,376	65,271,742

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD
THEN ENDED 30 JUNE 2020

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

	Notes	1 January – 30 June 2020	1 January – 30 June 2019
Interest income calculated using the effective interest method		1,149,004	1,208,076
Other interest and similar income		424,223	592,341
Interest expense calculated using the effective interest method		659,561	791,553
Other interest and similar income		1,502	2,155
Net interest income		912,164	1,006,709
Fee and commission income		61,168	35,012
Fee and commission expense		(2,524)	(7,370)
Net fee and commission income		58,644	27,642
Securities trading income / (loss), net		1,475	978
Derivative trading income / (loss), net		134,528	(172,325)
Foreign exchange gains / (loss), net		(146,509)	(44,284)
Net trading income / (loss), net		(10,506)	(215,631)
Net impairment loss		(454,068)	(297,049)
Net operating income after impairment loss		506,234	521,671
Other operating income		18,319	31,258
Other operating expenses		(151,550)	(124,063)
Dividend income		10,801	6,707
Share of profit of equity-accounted investees		22,649	16,005
Profit before income tax		406,453	451,578
Income tax expense		(96,113)	(98,419)
Profit for the period		310,340	353,159

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD
THEN ENDED 30 JUNE 2020

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

	Notes	1 January – 30 June 2020	1 January – 30 June 2019
Profit for the period		310,340	353,159
Items that will never be reclassified to profit or loss:			
Remeasurement of employee termination benefits		-	-
Revaluation of tangible assets		-	-
Other comprehensive income items not reclassified through profit or loss		10,506	(2,898)
Related tax		-	-
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		8,279	4,106
Net change in fair value of financial assets at fair value through other comprehensive income		(19,498)	49,583
Other comprehensive income items reclassified through profit or losses		11,880	5,660
Related tax		4,325	(10,720)
Other comprehensive income for the period, net of tax		15,492	45,731
Total comprehensive income for the period		325,832	398,890

	Notes	1 January – 30 June 2020	1 January – 30 June 2019
Profit attributable to:			
Equity holders of the Bank		314,121	355,259
Non-controlling interests		(3,781)	(2,100)
Profit for the period		310,340	353,159
Total comprehensive income attributable to:			
Equity holders of the Bank		329,613	400,990
Non-controlling interests		(3,781)	(2,100)
Total comprehensive income for the period		325,832	398,890
Earnings per share			
Basic earnings per share (in full TL)	17	0.1122	0.1269

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD THEN ENDED 30 JUNE 2020

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

	Notes	Attributable to equity holders of the Bank										Non-controlling interests	Total Equity
		Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Revaluation reserve	Actuarial Gain/(Loss)	Translation Reserve	Fair value reserve	Retained earnings	Total		
Balance at 1 January 2019		2,800,000	13,563	516	273,239	260,373	(566)	15,704	(127,817)	1,009,823	4,244,835	38,622	4,283,457
Corrections and accounting policy changes		-	-	-	-	-	-	-	-	-	-	-	-
Balance at 1 January 2019		2,800,000	13,563	516	273,239	260,373	(566)	15,704	(127,817)	1,009,823	4,244,835	38,622	4,283,457
Total comprehensive income for the period		-	-	-	-	-	-	-	-	-	-	-	-
Profit for the period		-	-	-	-	-	-	-	-	355,259	355,259	(2,100)	353,159
Other comprehensive income													
Remeasurement of defined benefit liability		-	-	-	-	-	-	-	-	-	-	-	-
Net change in fair value financial assets at fair value through other comprehensive income		-	-	-	-	-	-	4,106	49,583	-	53,689	-	53,689
Revaluation of tangible assets		-	-	-	-	-	-	-	-	-	-	-	-
Equity-accounted investees - share of OCI		-	-	-	-	-	-	-	2,762	-	2,762	-	2,762
Tax on other comprehensive income		-	-	-	-	-	-	-	(10,720)	-	(10,720)	-	(10,720)
Total other comprehensive income		-	-	-	-	-	-	4,106	41,625	-	45,731	-	45,731
Total comprehensive income for the period		-	-	-	-	-	-	4,106	41,625	355,259	400,990	(2,100)	398,890
Transactions with owners of the Bank													
Contributions and distributions													
Capital increase	16	-	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution		-	-	-	-	-	-	-	-	(134)	(134)	-	(134)
Transfer to legal reserves		-	-	-	33,860	-	-	-	-	(33,860)	-	-	-
Other changes		-	-	8	-	-	-	-	-	513	521	(3,837)	(3,316)
Total transactions with the owners of the Company		-	-	8	33,860	-	-	-	-	(33,481)	387	(3,837)	(3,450)
Balance at 30 June 2019	16	2,800,000	13,563	524	307,099	260,373	(566)	19,810	(86,192)	1,331,601	4,646,212	32,685	4,678,897

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD THEN ENDED 30 JUNE 2020

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

	Notes	Attributable to equity holders of the Bank										Non-controlling interests	Total Equity
		Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Revaluation reserve	Actuarial Gain/(Loss)	Translation Reserve	Fair value reserve	Retained earnings	Total		
Balance at 1 January 2020		2,800,000	13,563	530	307,099	309,478	(1,393)	20,714	83,268	1,707,018	5,240,277	38,090	5,278,367
Corrections and accounting policy changes		-	-	-	-	-	-	-	-	-	-	-	-
Balance at 1 January 2020		2,800,000	13,563	530	307,099	309,478	(1,393)	20,714	83,268	1,707,018	5,240,277	38,090	5,278,367
Total comprehensive income for the period		-	-	-	-	-	-	-	-	-	-	-	-
Profit for the period		-	-	-	-	-	-	-	-	314,121	314,121	(3,781)	310,340
Other comprehensive income													
Remeasurement of defined benefit liability		-	-	-	-	-	-	-	-	-	-	-	-
Net change in fair value financial assets at fair value through other comprehensive income		-	-	-	-	-	-	8,279	(8,992)	-	(713)	-	(713)
Revaluation of tangible assets		-	-	-	-	-	-	-	-	-	-	-	-
Equity-accounted investees - share of OCI		-	-	-	-	-	-	-	11,880	-	11,880	-	11,880
Tax on other comprehensive income		-	-	-	-	-	-	-	4,325	-	4,325	-	4,325
Total other comprehensive income		-	-	-	-	-	-	8,279	7,213	-	15,492	-	15,492
Total comprehensive income for the period		-	-	-	-	-	-	8,279	7,213	314,121	329,613	(3,781)	325,832
Transactions with owners of the Bank													
Contributions and distributions													
Capital increase	16	-	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution		-	-	-	-	-	-	-	-	(134)	(134)	-	(134)
Transfer to legal reserves		-	-	-	36,083	-	-	-	-	(36,083)	-	-	-
Other changes		-	-	2	-	-	-	-	-	17,849	17,851	(1,378)	16,473
Total transactions with the owners of the Company		-	-	2	36,083	-	-	-	-	(18,368)	17,717	(1,378)	16,339
Balance at 30 June 2020	16	2,800,000	13,563	532	343,182	309,478	(1,393)	28,993	90,481	2,002,771	5,587,607	32,931	5,620,538

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE INTERIM PERIOD THEN ENDED 30 JUNE 2020

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

	Notes	30 June 2020	30 June 2019
Cash flows from operating activities:			
Interests and commissions received		1,475,872	1,627,819
Other operating activities, net		(560,285)	108,034
Cash payments to employees and suppliers		(113,557)	(102,473)
Interests and commissions paid		480,257	(799,812)
Dividends received		10,801	6,707
Operating profit before changes in operating assets / liabilities		1,293,088	840,275
(Increase)/decrease in operating assets:			
Loans and advances to customers		612,879	1,014,041
Balances with central banks		588,989	(173,174)
Financial assets at fair value through profit or loss		(1,030)	(6,685)
Other assets		54,442	(16,826)
(Increase)/decrease in operating liabilities:			
Funds borrowed		(767,037)	(736,074)
Obligations under repurchase agreements and money market fundings		(63,289)	(10,637)
Other liabilities		337,269	(78,973)
Net cash outflows from operating activities before taxes and duties paid		2,055,311	831,947
Income taxes and other duties paid		(58,982)	(126,671)
Net cash outflows from operating activities		1,996,329	705,276
Cash flows from investing activities:			
Sale of financial assets measured at Fair Value through Other Comprehensive Income		(896,987)	(390,038)
Purchase of financial assets measured at Fair Value through Other Comprehensive Income		877,658	352,363
Proceeds from sale of tangible assets		(1,870)	2,814
Purchase of tangible assets		260	(3,475)
Cash paid for purchase of investment securities		(7,702)	-
Cash obtained from sale of investment securities		-	-
Sale of financial assets measured at amortized cost		(108,212)	-
Purchase of financial assets measured at amortized cost		1,577	-
Other		(1,199)	(1,013)
Net cash inflows/ outflows from investing activities		(136,475)	(39,979)
Cash flows from financing activities:			
Increase in loans and advances from banks and other institutions, net		(183,991)	98,405
Dividends paid		(134)	(134)
Payments for leases		(1,361)	(1,368)
Net cash inflows from financing activities		(185,486)	96,903
Effect of exchange rate changes		55,552	12,354
Net increase in cash and cash equivalents		1,729,920	774,554
Cash and cash equivalents at 1 January		779,802	1,385,825
Cash and cash equivalents at 30 June		2,509,722	2,160,379

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE INTERIM PERIOD THEN ENDED 30 JUNE 2020

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

Notes to the interim condensed consolidated financial statements

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TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD THEN ENDED 30 JUNE 2020

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

1. REPORTING ENTITY

Türkiye Sınai Kalkınma Bankası AŞ (“TSKB” or the “Bank”) was established on 31 May 1950 with the support of the World Bank and the cooperation of the Government of the Republic of Turkey, the Central Bank of Turkey and the leading Turkish commercial banks of Turkey. TSKB is the first investment and development bank of Turkey. TSKB is operating with the mission of providing assistance to private sector enterprises in all sectors of the economy primarily in the industrial sector, encouraging and assisting the participation of private and foreign capital incorporations established and to be established in Turkey, and assisting the development of the capital markets in Turkey. TSKB and Sınai Yatırım Bankası AŞ (“SYB”), sister bank with similar mission, were merged pursuant to the decisions of the respective shareholders as sanctioned by the Banking Regulation and Supervision Agency (“BRSA”) decision no: 659 dated 27 March 2002, in accordance with Article 18 of the Banking Act no: 4389. The registered office of the Bank is at Meclisi Mebusan Cad. 81 Fındıklı, Istanbul, Turkey.

The Bank and its subsidiaries are hereinafter referred to as the “Group”.

TSKB started its activities in 1950 financing the private sector investments in Turkey and today it provides loans and project finance with the goal of sustainable development to corporations in different fields. As a leader in meeting the long term finance needs of the private sector, TSKB also continues to offer solutions with respect to the newest needs and client demands. Furthermore, through offering the equity shares of such companies to the public, TSKB has been a significant milestone in this field and thus assumed a prominent and vital role in fostering the development of capital markets.

Türkiye İş Bankası A.Ş. has the authority of managing and controlling power of the Parent Bank directly or indirectly, alone or together with other shareholders. Shareholders of the Parent Bank are as follows:

Current Period				
Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	1,426,280	50.94	1,426,280	-
T. Vakıflar Bankası T.A.O.	234,570	8.38	234,570	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	1,139,150	40.68	1,139,150	-
Total	2,800,000	100.00	2,800,000	-

Prior Period				
Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	1,425,780	50.92	1,425,780	-
T. Vakıflar Bankası T.A.O.	234,570	8.38	234,570	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	1,139,650	40.70	1,139,650	-
Total	2,800,000	100.00	2,800,000	-

The Parent Bank shares are traded in Istanbul Stock Exchange (“BIST”) since 26 December 1986. The Parent Bank’s 50.94% of the shares belongs to İş Bank Group and 38.54% of these shares are in free floating and traded in BIST National Market with “TSKB” ticker.

The interim condensed consolidated financial statements of the Bank as at and for the period ended 30 June 2020 are available upon request from the Bank’s registered office and website.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD THEN ENDED 30 JUNE 2020

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

1. REPORTING ENTITY (Continued)

Information about the consolidated subsidiaries and equity accounted associates

Yatırım Finansman Menkul Değerler AŞ

Yatırım Finansman Menkul Değerler AŞ was established and registered with Istanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. The company's objective is to perform capital market operations specified in the Company's main contract in accordance with the Capital Markets Board ("CMB") and the related legislation. The company was merged with TSKB Menkul Değerler AŞ on 29 December 2006. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 95.78%. The company's headquarters is located at Istanbul/Turkey.

TSKB Gayrimenkul Yatırım Ortaklığı AŞ

The core business of TSKB Gayrimenkul Yatırım Ortaklığı AŞ ("TSKB GYO") is real estate trust to construct and develop a portfolio of properties and invest in capital market instruments linked to properties. The company was established on 3 February 2006. The company's shares are traded in BIST since April 2010. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 89.09%. The company's headquarters is located at Istanbul/Turkey.

İş Finansal Kiralama AŞ

İş Finansal Kiralama AŞ was established on 8 February 1988 and it has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company started its leasing operations in July 1998. The company's headquarters is located at Istanbul/Turkey. The share of the Bank in the Company is 29.46%.

İş Faktoring AŞ

İş Faktoring AŞ was incorporated in Turkey on 4 July 1993 and started its operations in October 1993 and is conducting its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company's main operation is domestic and export factoring transactions. Its parent company is İş Finansal Kiralama AŞ with 78.23% shareholding. The direct share of Türkiye Sınai Kalkınma Bankası AŞ is 21.75%. The company's headquarters is located at Istanbul/Turkey.

İş Girişim Sermayesi Yatırım Ortaklığı AŞ

The principal business of İş Girişim Sermayesi Yatırım Ortaklığı AŞ is to make long-term investments in existing companies in Turkey or to be established in Turkey, having a development potential and are in need of financing. The direct share of Türkiye Sınai Kalkınma Bankası AŞ is 16.67%. The company's headquarters is located at Istanbul/Turkey.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD THEN ENDED 30 JUNE 2020

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

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by Public Oversight Accounting and Auditing Standards Authority “POAASA” and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency (“BRSA”) and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdictions. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of presentation in accordance with IFRS. The accompanying consolidated financial statements were authorized for issue by the Bank management on 19 October 2020.

The ongoing COVID-19 pandemic, which has recently emerged in China, has spread to various countries in the world, causing potentially fatal respiratory infections, negatively affects both regional and global economic conditions, as well as it causes disruptions in operations, especially countries that are exposed to the epidemic. As a result of the spread of COVID-19 around the world, several measures have been taken in Turkey as well as in the world in order to prevent the spread of the virus and measures are still being taken. In addition to these measures, economic measures are also taken to minimize the economic impact of the virus outbreak on individuals and businesses in Turkey and worldwide.

Since it is aimed to update the most recent financial information in the interim financial statements prepared as of June 30, 2020, considering the magnitude of the economic changes due to COVID-19, the Group made certain estimates in the calculation of expected credit losses in footnote numbered 3.8.1

The COVID-19 effects on liquidity risk, capital adequacy ratio, fair value assessment and going concern effects are already disclosed in Note 2.5.

2.2. Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following;

- derivative financial instruments are measured at fair value
- financial assets at fair value through profit or loss are measured at fair value
- financial assets at fair value through other comprehensive income are measured at fair value
- investment property and property and equipment are measured at fair value.

The methods used to measure fair values are discussed further in Note 3.8, 3.10, 3.12, 3.13.

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2. BASIS OF PREPARATION (Continued)

2.2. Basis of Measurement (continued)

International Accounting Standard (“IAS”) 29, which deals with the effects of inflation in the financial statements, requires that financial statements prepared in the currency of a hyperinflationary economy to be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%.

The cumulative three-year inflation rate in Turkey has been 35.61% at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by Turkish Statistical Institute. This, together with the sustained positive trend in the quantitative factors such as financial and economical stabilization, decrease in the interest rates and the appreciation of TL against the US Dollars (“USD”), have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006. Therefore, IAS 29 has not been applied to the financial statements of the Company as at and for the year ended 31 December 2006 and thereafter.

2.3 Functional and Presentation Currency

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

2.4 Use of Estimates and Judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Critical accounting judgements made in applying the Bank’s accounting policies include:

Calculation of Expected credit Losses

Financial assets accounted for at amortized cost and at fair value through other comprehensive income are evaluated for impairment on a basis described in accounting policy Note 3.8.

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2. BASIS OF PREPARATION (Continued)

2.4 Use of Estimates and Judgments (continued)

Key sources of estimation uncertainty

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group's accounting policy on fair value measurements is discussed in Note 3.8 – *measurement*.

Income taxes

The Bank is subject to income taxes. Significant estimates are required in determining the provision for income taxes. Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly.

Reserve for employee severance payments

In accordance with the existing social legislation, the Bank is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements, the Bank uses assumptions such as discount rate, turnover of employees and future change in salaries/limits in order to make the best estimate. These estimations disclosed in Note 3.19 are reviewed regularly.

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2. BASIS OF PREPARATION (Continued)

2.5 The Covid 19 Effects

a) The covid 19 effects on liquidity risk

As a result of the financial uncertainty caused by the coronavirus outbreak, liquidity management has been one of the top priorities of the Group. According to the regulation published by the BRSA on 26 March 2020, for deposit banks; It was decided to provide flexibility in compliance with the minimum ratios of the Liquidity Coverage Ratio (LCR) and for development and investment banks ; in order to reduce the operational burden, it was decided to exempt the Liquidity Coverage Ratio (LCR) from the reporting obligations to the Agency until 31 December 2020. The Bank continues to manage LCR within the framework of risk appetite by keeping its high quality liquid assets at a sufficient level.

b) The covid 19 effects on capital adequacy ratio

Based on the announcement of BRSA as of 23 March 2020 banks are entitled to use the 2019 year-end exchange rates in calculating of the amount of subject to credit risk while calculation on amounts valued in accordance with TAS and the related specific provision except of monetary and non-monetary items in foreign currency measured in terms of the historical cost in accordance with Regulation on Measurement and Assessment of Capital Adequacy of and if the net valuation differences of the securities owned by the banks before 23 March 2020 in the portfolio of “Fair value through other comprehensive income” are negative, these negative differences may not be taken into account of calculation in accordance with the Regulation on Banks' Equity and used for capital adequacy ratio due to the fluctuations in the financial markets as a result of the COVID-19 epidemic.

The Group did not use regulation of the BRSA this period due to sum of the valuation differences of the securities in the “Fair value through other comprehensive income” portfolio is positive.

In addition, according to BRSA 16 April 2020 announcement it was decided to apply 0% risk weight in the calculation of amount subject to credit risk of the banks receivables from Central Management of Republic of Turkey and issued in FX in accordance with Standard Approach within the scope of Regulation on Measurement and Evaluation of Banks' Capital Adequacy.

The Group used the 2019 year-end Exchange rates in calculating of th amount of subject to credit risk while calculation on amounts valued in accordance with TAS.

Total capital and the Capital adequacy ratio have been calculated in accordance with the “Regulation on Equity of Banks” and “Regulation on Measurement and Assessment of Capital Adequacy of Banks” and in addition to regulations of BRSA numbered 3397 dated 23 March 2020. As of 30 June 2020 capital adequacy ratio of the Parent Bank has been calculated as 20,19% (31 December 2019: 17,39%).

c) The covid 19 effects on going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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3. SIGNIFICANT ACCOUNTING POLICIES

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.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3.1 Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling share of changes in equity since the date of the combination. The consolidated financial statements of the entities below have been consolidated with those of the Bank in the accompanying consolidated financial statements. The ownership percentages stated below comprise the total of the Group's holdings used in consolidation:

<u>Subsidiaries</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
Yatırım Finansman Menkul Değerler AŞ	Securities brokerage	95.78
TSKB Gayrimenkul Yatırım Ortaklığı AŞ	Real estate investment trust	89.76
Yatırım Varlık Kiralama AŞ	Rent certificate issuance	100.00

The financial statements of the companies below are accounted for under the equity method:

<u>Associates</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
İş Finansal Kiralama AŞ	Leasing	29.46
İş Girişim Sermayesi Yatırım Ortaklığı AŞ	Private equity	16.67
İş Faktoring AŞ	Factoring	21.75

The following equity investments have been accounted at cost; they have not been consolidated their consolidation would not have a material effect on income for the year or on equity.

<u>Entity</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
TSKB Gayrimenkul Değerleme AŞ	Real-Estate Appraiser	99.99
TSKB Sürdürülebilirlik Danışmanlığı AŞ	Consultancy	99.80

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of Consolidation (continued)

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Investments in Associates (Equity-accounted Investees)

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

As at the reporting date, the Group has investments in associates with a position to exercise significant influence through participation in the financial and operating policy decisions of the investee. Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of Consolidation (continued)

Investments in Associates (Equity-accounted Investees) (continued)

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of equity instruments measured at fair value through other comprehensive income, which are recognized directly in equity.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Foreign currency (continued)

Foreign currency transactions (continued)

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the accompanying consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira, which is the functional currency of the Group, and the presentation currency for the accompanying consolidated financial statements.

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

As at 30 June 2020 and 31 December 2019, foreign currency assets and liabilities of the Group are mainly in US Dollar and Euro. As at 30 June 2020 and 31 December 2019, exchange rates of US Dollar and Euro are as follows:

	2020		2019	
	Period End	Average	Period End	Average
1 US Dollar	6.8110	6.4443	5.9160	5.8183
1 Euro	7.6461	7.1010	6.6289	6.4652

3.3 Interest

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

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

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

- The interest income on financial assets and liabilities at amortized cost on an effective interest rate basis
- The interest income on held for trading investments and fair value through other comprehensive income investments.
- Coupons earned on fixed income securities and accrued discount and premium on treasury bills and other discounted instruments

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Fees and commissions

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

3.5 Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, the disposal of financial assets through other comprehensive income, gains and losses on derivative financial instruments held for trading purpose and foreign exchange differences.

3.6 Dividends

Dividend income is recognized when the right to receive the income is established.

3.7 Income tax

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Income tax (continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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 the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax position and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.8 Financial assets and financial liabilities

Initial measurement of financial instruments

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

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

Classification of financial instruments

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

Assessment of business model

As per IFRS 9, the Parent Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on the intent of the management on an individual financial intermediary, so the condition is not a classification approach on the basis of a financial instrument but an evaluation by combining the financial assets. When the business model used for the management of financial assets is being evaluated, all evidence is taken into account. Such evidence includes the following:

- How the performance of financial assets held by the business model and business model is reported by the key executive personnel,
- Risks affecting the performance of the business model (financial assets held within the business model) and, in particular type of management,

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Assessment of business model (continued)

- How the additional payments to the managers are determined (for example, whether additional payments are determined according to the fair value of the assets being managed or on the contractual cash flows collected).

Business model evaluation is not based on scenarios in which the operator is not expected to be at a reasonable level, such as the "worst case" or "pressure case" scenarios. The same business model does not require a change in the classification of other financial assets as long as the cash flows are realized differently from the expected future date when the business model is assessed, the error correction is made in the financial statements or all relevant information available at the time of the valuation of the business model is taken into account. However, when evaluating the business model for newly created or newly acquired financial assets, information about how past cash flows have been taken into account along with other relevant information is also taken into account. The business models that comprise the bet are composed of three categories. These categories are as follows:

- Business model aimed to hold assets in order to collect contractual cash flows: This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Business model whose objective is to hold assets in order to collect contractual cash flows: The Parent Bank may hold financial assets in this business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Other Business Model: Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

The contractual cash flows including solely principle and interest on principle

As per IFRS 9, the Parent Bank classifies a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set. When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at fair value through profit or loss.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities

Financial Assets

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

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

Financial assets measured at the fair value through profit or loss

Financial assets at fair value through profit/loss are financial assets other than the ones that are managed with business model that aimed 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 in case of 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. The Parent Bank classifies certain loans and securities issued at their origination dates, as financial assets/liabilities at fair value through profit/loss, irrevocably in order to eliminate any accounting mismatch in compliance with IFRS 9. The Bank classifies certain loans and securities issued at their origination dates, as financial assets/liabilities at fair value through profit/loss, irrevocably in order to eliminate any accounting mismatch in compliance with IFRS 9. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement. According to uniform chart of accounts explanations interest income earned on financial asset and the difference between their acquisition costs and amortized costs are recorded as interest income in the statement of profit or loss. The differences between the amortized costs and the fair values of such assets are recorded under trading account income/losses in the statement of profit or loss. In cases where such assets are sold before their maturities, the gains/losses on such sales are recorded under trading account income/losses.

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

Financial assets measured at fair value through other comprehensive income

In addition to Financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are measured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement.

“Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the “Accumulated Other Comprehensive Income or Loss Reclassified Through Profit or Loss” under shareholders’ equity. Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Financial Assets (continued)

Financial Assets at Fair Value Through Other Comprehensive Income (Continued)

During initial recognition an entity can choose in a irrevocable was 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. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

As of 30 June 2020, due to the adverse effects of the COVID-19 outbreak, the Group has reviewed the valuation of its equity instruments whose fair value difference is recognized in other comprehensive income, and no change is required in the fair valuation measurement as of the reporting date.

Financial Assets Measured at Amortized Cost

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

In the “Fair value through other comprehensive income” and “measured at amortized cost” securities portfolio of the Bank, there are Consumer Price Indexed (CPI) Bonds.

The Parent Bank considered expected inflation index of future cash flows prevailing at the reporting date while calculating internal rate of return of the Consumer Price Indexed (CPI) marketable securities. The effect of this application is accounted as interest received from marketable securities in the consolidated financial statements. These securities are valued and accounted according to the effective interest method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate. As stated in the Investor’s Guide of CPI Government Bonds by Republic of Turkey Undersecretariat of Treasury the reference indices used to calculate the actual coupon payment amounts of these securities are based on the previous two months CPI’s. The Parent Bank determines the estimated inflation rate accordingly. The inflation rate is estimated by considering the expectancies of the Central Bank and the Bank which are updated as needed within the year.

Loans and Advances to Customers

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market.

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 recognized and presented within loans and advances.

Loans and advances are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method".

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Loans and Advances to Customers (continued)

The Bank classifies its loans and advances, which do not pass solely payments of principal and interest on the principal amount test (SPPI), under Financial Assets at Fair Value Through Profit and Loss.

Explanations on expected credit losses

The Group allocates the expected loss provision for impairment on assets and loans measured at amortized cost and fair value through other comprehensive income and loan commitments not measured at fair value through profit/loss based and non cash loans on IFRS 9. IFRS 9 introduces a forward-looking expected credit loss (ECL) approach, which is intended to result in an earlier recognition of credit losses based on an ECL impairment approach compared with the incurred-loss impairment approach for financial instruments under IAS 39, Financial Instruments: Recognition and Measurement and the loss-provisioning approach for financial guarantees and loan commitments.

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

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

Stage 1:

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

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses. Calculation of expected credit losses is similar to descriptions above, but probability of default and loss given default rates are estimated through the life of the instrument.

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 and interest revenue is calculated on the net carrying amount. The probability of default is taken into account as 100%.

The default assessment of the Bank is made according to the following conditions:

Objective Default Definition: It means debt having past due more than 90 days. Current definition of default in the Bank and its consolidated financial subsidiaries is based on a more than 90 days past due definition

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Subjective Default Definition: It means a debt is considered is unlikely to be paid. Whenever an obligor is considered is unlikely to pay its credit obligations, it should be considered as defaulted regardless of the existence of any past-due amount or of the number of days past due.

With the aim of mitigating the impact of COVID-19, various international bodies (“European Banking Authority” etc.) and local regulators have made pronouncements aimed at following flexibility in the implementation of the accounting prudential frameworks. The Group previously adopted an approach that past due more than 30 days and 90 days were a qualitative indicator that required an exposure to be transferred to Stage 2 and 3. For the current period, the Group has not applied these past due days directly and also has begun applying quantitative indicators such as historic customer information (any history of missed payments, sector’s situation, staging in other Banks (any nonperforming loans record)), when making the staging decision in IFRS financials.

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

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

Debt instruments measured at fair value through other comprehensive income

The impairment requirements in accordance with IFRS 9 are applies for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income. However, the loss allowance shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position. The expected credit loss is reflected in other comprehensive income and the accumulated amount is recycled to statement of profit/loss following the derecognition of related financial asset.

Calculation of expected credit losses

The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

Risk parameters used in IFRS 9 calculations are included in the future macroeconomic information. While macroeconomic information is included, macroeconomic forecasting models and multiple scenarios used in the Internal Capital Assessment Process (“ICAAP”) are considered.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Within the scope of IFRS 9, the probability of default (PD), Loss given default (LGD) and Exposure at default (EAD) models have been developed. The models developed under IFRS 9 are based on the following segmentation elements:

- Loan portfolio (corporate /specilization)
- Product type
- Credit risk rating notes (ratings)
- Collateral type
- Duration since origination of a loan
- Remaining time to maturity
- Exposure at default

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

12-month PD: as the estimated probability of default occurring within the next 12 months.

- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

The Bank uses internal rating systems for loan portfolio. The internal rating models used include customer financial information and knowledge of survey responses based on expert judgement.

Probability of default calculation has been carried out based on past information, current conditions and forward looking macroeconomic parameters.

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

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

In the future expectations, 3 scenarios are used to as base, bad and good. Final provisions are calculated by weighing on the possibilities given to the scenarios. As of 30 June 2020, within the scope of the ECL effects of Covid-19, the weight of the base scenario was decreased of 3 scenarios, and weights of the bad and very bad scenarios was increased. Also for possible effects the Bank has established additional provisions for the sector and customers, which are considered to have a high impact on the expected credit loss calculations by making individual assessments for the risks that cannot be captured through the models.

This approach, which is preferred in expected credit losses calculations for the first half of 2020, will be revised in the following reporting periods, taking into account the impact of the pandemic, portfolio and future expectations.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Significant increase in credit risk

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

The Parent Bank makes qualitative and quantitative assessments regarding assessment of significant increase in credit risk of financial assets to be classified as stage 2 (Significant Increase in Credit Risk). Credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date.

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

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

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Financial Liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Financial liabilities are classified as either equity instruments or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

Funds borrowed, debt securities issued and subordinated liabilities

Debt securities issued and subordinated liabilities are the Group's main sources of debt funding, funds borrowed, debt securities issued and derivatives and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Offsetting, derecognition and restructuring of financial instruments

a. Offsetting of financial instruments

Financial assets and liabilities are offset when the Bank has a legally enforceable right to set off, and when the Bank has the intention of collecting or paying the net amount of related assets and liabilities or when the Bank has the right to offset the assets and liabilities simultaneously. Otherwise, there is not any offsetting transaction about financial assets and liabilities.

b. Derecognition of financial instruments

Derecognition of financial assets due to change in contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset.

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

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

Derecognition of financial assets without any change in contractual terms

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

Derecognition of financial liabilities

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

c. Reclassification of financial instruments

Based on IFRS 9, the Bank shall reclassify all affected financial assets at amortized cost to financial assets measured at fair value through other comprehensive income and fair value through profit or loss in the subsequent accounting when, and only when, it changes its business model for managing financial assets.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Offsetting, derecognition and restructuring of financial instruments (continued)

d. Restructuring and refinancing of financial instruments

The Parent Bank may change the original contractual terms of a loan (maturity, repayment structure, guarantees and sureties) which were previously signed, in case the loan cannot be repaid or if a potential payment difficulty is encountered based on the new financing power and structure of the borrower.

Restructuring is to change the financial terms of existing loans in order to facilitate the payment of debt. Refinancing is granting a new loan by the Parent Bank which will cover either the principal or the interest payment in whole or in part of one or a few existing loans due to the anticipated financial difficulty which the customer or group encounter currently or will encounter in the future. Changes in the original terms of a credit risk can be made in the current contract or through a new contract.

Restructured Loans can be classified in standard loans unless the firm has difficulty in payment. Companies which have been restructured and refinanced can be removed from the watchlist when the following conditions are met:

- Subsequent to the thorough review of company's financial data and its owners' equity position, at circumstances when it is not anticipated that the owner of the company will face financial difficulties; and it is assessed that the restructured debt will be paid on time (starting from the date when the debt is restructured all due principal and interest payments are made on time).
- At least 2 years should pass over the date of restructuring (or if it is later), the date of removal from non-performing loan category, at least 10% (or the ratio specified in the legislation) of the total principal amount at the time restructuring /refinancing shall be paid and no overdue amount (principal and interest) shall remain at the date of restructuring / refinancing.

In order for the restructured non-performing loans to be classified to the watchlist category, the following conditions must be met:

- Recovery in debt service.
- At least one year should pass over the date of restructuring
- Payment of all accrued and overdue amounts by debtor (interest and principal) since the date of restructuring /refinancing or the date when the debtor is classified as nonperforming (earlier date to be considered) and fulfillment of the payment condition of all overdue amounts as of the date of restructuring /refinancing.
- Collection of all overdue amounts, disappearance of the reasons for classification as nonperforming receivable (based on the conditions mentioned above) and having no overdue more than 30 days as of the date of reclassification.

During the follow-up period of at least two years following the date of restructuring / refinancing, if there is a new restructuring / refinancing or a delay of more than 30 days, the transactions which were non-performing at the beginning of the follow-up period are classified as non-performing loans again.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Derivatives held for risk management purposes and hedge accounting

The Parent Bank is exposed to financial risk which depends on changes in foreign exchange rates and interest rates due to activities and as part of banking activities uses derivative instruments to manage financial risk that especially associated with fluctuations in foreign exchange and interest rate. Mainly derivative instruments used by the Group are foreign currency forwards, swaps, and option agreements.

IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting in accordance with IAS 39 as a policy choice. Accordingly, the Parent Bank continue to apply hedge accounting in accordance with IAS 39 in this context. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

Fair value hedge: A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in income relating to the hedged item. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or a liability with corresponding gain or loss recognised in profit or loss. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to income from that date.

3.11 Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy for either financial assets at fair value through profit or loss, financial assets measured at amortized cost or financial assets at fair value through other comprehensive income as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accruals basis over the period of the transaction and are included in “interest income” or “interest expense”.

3.12 Property and equipment

Recognition and measurement

Items of property and equipment except land and building are measured at cost less accumulated depreciation and accumulated impairment losses.

Items of property and equipment, which have been acquired before 31 December 2005, are measured at restated cost for the effects of inflation as at 31 December 2005, less accumulated depreciation and accumulated impairment losses. Items of property and equipment acquired after 31 December 2005 are measured at cost less accumulated depreciation and accumulated impairment losses.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Property and equipment (continued)

Recognition and measurement

As of the third quarter of the 2015, the Group changed its accounting policy and adopted revaluation method for land and buildings under scope of IAS 16. The useful life of real estates are mentioned in expertise reports. In case of the cost of tangible assets are over the fair value of the assets, within the framework of “Impairment of Assets” (IAS 36), the value of the asset is reduced to its “fair value” and the impairment is recognised in expense accounts. The positive difference between the net book value of real estate property and the expertise values which are determined by the independent expert companies are recognised under shareholders’ equity. Related valuation models such as cost model, market value and discounted cash flow projections approaches are used in valuation of real estates.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized in other income/other expenses in profit or loss.

Subsequent costs

The cost of replacing a component of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

Buildings	50 years
Vehicles	5 years
Furniture and Fittings	5 years
Computer Equipment	4 years
Software	3 years
Leasehold and Leasehold Improvements	lease term or 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise. Fair value of investment properties are determined by using market value, discounted cash flow projections approach and cost model.

3.14 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.15 Intangible assets

Intangible assets acquired before 31 December 2005 are measured at restated cost for the effects of inflation as at 31 December 2005 less accumulated amortisation and accumulated impairment losses. Intangible assets acquired after 31 December 2005 are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful life of intangible assets is 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Leases

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

The Group as Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. The lease payments are allocated as principle and interest. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as Lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in profit or loss in accordance with the Group's general policy on borrowing costs. Tangible assets acquired by financial leases are amortized based on the useful lives of the assets.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

3.19 Employee benefits

Defined benefit plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his / her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A provision is maintained for the present value of the defined benefit obligation, in respect of service up to the reporting date, based on the projected unit credit method. The charge in the income statement comprises current service cost and interest on the obligation.

“T. Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı” and “T.Sınai Kalkınma Bankası AŞ Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı” (the “Pension Funds”) are separate legal entities and foundations recognized by an official decree, providing all qualified Bank employees with pension plan benefits. The Pension Funds are defined benefit plan under which the Bank pays fixed contributions as employer share of monthly premium contributions, and is not obliged to pay any other additional obligation.

The liability to be recognized in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of assets. The Bank does not have the legal right to access the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognized in the accompanying statement of financial position in respect of any surplus in the fund. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using expected interest rates for Turkish Lira.

Paragraph 1 of the provisional Article 23 of the Banking Act (“Banking Act”) No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution within 3 years as of the enactment date of the Banking Act.

Under the Banking Act, in order to account for obligations, actuarial calculations will be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions. Such calculated obligation shall be settled in equal instalments in maximum 15 years. Nonetheless, the related Article of the Banking Law was annulled by the Constitutional Court’s decision No: E. 2005/39 and K. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as of the release of the related decision, and the execution of this article was cancelled as of its publication of the decision and the underlying reasoning for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007. After the publication of the reasoning of the cancellation decision of the Constitutional Court, articles related with the transfer of banks pension fund participants to Social Security Institution based on Social Security Law numbered 5754 were accepted by the Grand National Assembly of Turkey on 17 April 2008 and published in the Official Gazette No: 26870 on 8 May 2008.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Employee benefits (continued)

Present value for the liabilities of the transferees as of the transfer date would be calculated by a commission that involves representatives of Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, SDIF, banks and banks' pension fund institutions and technical interest rate, used in actuarial account, would be 9.80%. If salaries and benefits paid by the pension fund of banks and income and expenses of the pension funds in respect of the insurance branches, stated in the Law, exceeds the salaries and benefits paid under the regulations of Social Security Institution, such differences would be considered while calculating the present value for the liabilities of the transferees and the transfers are completed within 3 years beginning from 1 January 2008.

According to the provisional Article 20 of 73th article of Law No. 5754 dated 17 April 2008, has become effective on 8 May 2008 and was published in the Official Gazette No: 26870, transfer of Pension Funds to Social Security Institution in three years has been anticipated. Related resolution of the Council of Ministers related to four-year extension was published in the Official Gazette No: 28277 dated 8 March 2012. It has been resolved that the transfer process has been extended two year with Council of Ministers' Decree, has become effective on 9 April 2011 and was published in the Official Gazette No: 27900. The transfer had to be completed until 8 May 2013. Accordingly, it has been resolved that, one more year extension with Council of Minister Decree No:2013/467, has become effective on 3 May 2013 and was published in the Official Gazette No:28636 and transfer need to be completed until 8 May 2014. However, it has been decided to extend the time related to transfer by the decision of the Council of Ministers published in the Official Gazette No. 28987 dated 30 April 2014 for one more year due to not to realize the transfer process.

In accordance with the Health and Safety Law which became effective on 4 April 2015 and published in the Official Gazette No: 29335 and dated 23 April 2015 and together with some amendments and statutory decree, Council of Ministers authorized for the determination of transfer date to the Social Security institution and there is no decision taken by the Cabinet with regards to issue date of financial statements.

Unmet social benefits and payments of the pension fund participants and other employees that receive monthly income although they are within the scope of the related settlement deeds would be met by pension funds and the institutions employ these participants after the transfer of pension funds to the Social Security Institution.

The present value of the liabilities, subject to the transfer to the Social Security Institution, of the Pension Fund as of 31 December 2019 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 17 January 2020. There is no need for technical or actual deficit to book provision as of 31 December 2019.

In addition, the Bank's management anticipates that any liability that may come out during the transfer period and after, in the context expressed above, would be financed by the assets of the Pension Fund and would not cause any extra burden on the Bank. The income tax charge is composed of the sum of current tax and deferred tax.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Employee benefits (continued)

Employment termination benefits

In accordance with the existing labour law in Turkey, the Group entities are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay maximum of pay ceiling announced by the Government per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for employee severance indemnity is computed and reflected in the consolidated financial statements on a current basis. The management of the Group used some assumptions in the calculation of the reserve for employee severance indemnity.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.20 Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated income statement is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

3.21 Fiduciary assets

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

3.22 Segment reporting

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

3.23 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the interim condensed consolidated financial statements as at 30 June 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- i) **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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 The new standards, amendments and interpretations (continued)

- i) **The new standards, amendments and interpretations which are effective as at 1 January 2020 are as follows (continued):**

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

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.

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

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the interim condensed 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 The new standards, amendments and interpretations (continued)

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

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.

Overall, the Group expects no significant impact on its balance sheet and equity.

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).

Overall, the Group expects no significant impact on its balance sheet and equity.

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.

There is no transition relief for the first time adopters. Overall, the Group expects no significant impact on its balance sheet and equity.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 The new standards, amendments and interpretations (continued)

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

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.

Overall, the Group expects no significant impact on its balance sheet and equity.

iii) 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.

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4. FINANCIAL INSTRUMENTS

Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount			Fair value			
	Loans and receivables	Investments, including derivatives	Total	Level 1	Level 2	Level 3	Total
Financial assets							
30 June 2020							
Financial assets measured at fair value							
Financial assets at fair value through profit or loss	263,097	8,188	271,285	8,188	-	263,097	271,285
Derivative financial instruments	-	1,004,417	1,004,417	-	1,004,417	-	1,004,417
Derivative assets held for hedging purposes	-	378,552	378,552	-	378,552	-	378,552
Investment securities – FVOCI (*)	-	4,514,040	4,514,040	4,273,349	96,863	107,108	4,477,320
Funds lent under repurchase agreements	-	493	493	-	-	493	493
Financial assets not measured at fair value							
Due from banks (including central banks)	1,363,563	-	1,363,563	-	-	-	-
Loans and advances to customers	34,105,257	-	34,105,257	-	-	-	-
Investment securities - Financial assets measured at amortized cost	-	2,844,007	2,844,007	-	-	-	-
	35,731,917	8,749,204	44,481,121				
31 December 2019							
Financial assets measured at fair value							
Financial assets at fair value through profit or loss	-	278,918	278,918	15,821	-	263,097	278,918
Derivative financial instruments	-	894,447	894,447	-	894,447	-	894,447
Derivative assets held for hedging purposes	-	67,884	67,884	-	67,884	-	67,884
Investment securities - FVOCI (*)	-	4,194,688	4,194,688	3,947,294	84,814	150,324	4,182,432
Funds lent under repurchase agreements	-	652	652	-	-	652	652
Financial assets not measured at fair value							
Due from banks (including central banks)	1,060,891	-	1,060,891	-	-	-	-
Loans and advances to customers	30,761,544	-	30,761,544	-	-	-	-
Investment securities - Financial assets measured at amortized cost	-	2,581,799	2,581,799	-	-	-	-
	31,822,435	8,017,736	39,840,171				

(*) As of 30 June 2020, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 36,719 (31 December 2019: TL 12,256) have been measured at cost and equity method.

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4. FINANCIAL INSTRUMENTS (Continued)

Carrying amounts and fair values (continued)

	Carrying amount			Fair value			
	Loans and borrowings	Derivatives	Total	Level 1	Level 2	Level 3	Total
Financial liabilities							
30 June 2020							
Financial liabilities measured at fair value							
Derivative financial instruments held for trading	-	591,029	591,029	-	591,029	-	591,029
Derivative liabilities held for hedge accounting	-	-	-	-	-	-	-
Financial liabilities not measured at fair value							
Obligations under repurchase agreements	744,959	-	744,959	-	-	-	-
Funds borrowed	29,724,623	-	29,724,623	-	-	-	-
Payables to stock exchange money market	391,879	-	391,879	-	-	-	-
Debt securities issued (*)	10,007,144	-	10,007,144	8,882,041	-	-	8,882,041
	40,868,605	591,029	41,459,634				
31 December 2019							
Financial liabilities measured at fair value							
Derivative financial instruments held for trading	-	468,289	468,289	-	468,289	-	468,289
Derivative liabilities held for hedge accounting	-	16,545	16,545	-	16,545	-	16,545
Financial liabilities not measured at fair value							
Obligations under repurchase agreements	1,031,214	-	1,031,214	-	-	-	-
Funds borrowed	26,628,325	-	26,628,325	-	-	-	-
Payables to stock exchange money market	166,153	-	166,153	-	-	-	-
Debt securities issued (*)	8,107,413	-	8,107,413	7,638,136	-	-	7,638,136
	35,933,105	484,834	36,417,939				

(*) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

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5. OPERATING SEGMENTS

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

For management purposes, the Group is currently organized into two operating divisions – “banking” and “stock brokerage and other”. These divisions are the basis on which the Group reports its primary segment information.

Principal activities of the Group are as follows:

Banking: investment and development bank with all corporate and commercial banking activities excluding accepting customer deposits.

Stock brokerage and other: intermediary stock brokerage activities, portfolio management and investment management and real estate investment trust activities.

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5. OPERATING SEGMENTS (Continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 30 June 2020)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	1,546,247	27,082	1,573,329	(102)	1,573,227
Interest expense	(641,094)	(24,712)	(665,806)	4,743	(661,063)
Net interest income	905,153	2,370	907,523	4,641	912,164
Net fee and commission income	29,622	29,022	58,644	-	58,644
Net securities trading income / (loss)	1,422	53	1,475	-	1,475
Net derivative trading income / (loss)	123,076	11,452	134,528	-	134,528
Net foreign currency gain / (loss)	(99,833)	(46,676)	(146,509)	-	(146,509)
Net impairment loss on financial assets	(452,447)	(1,621)	(454,068)	-	(454,068)
Net operating income after impairment losses	506,993	(5,400)	501,593	4,641	506,234
Other operating income	2,006	27,821	29,827	(11,508)	18,319
Other operating expenses	(109,417)	(50,256)	(159,673)	8,123	(151,550)
Dividend income	4,392	6,409	10,801	-	10,801
Share of profit of equity-accounted investees	22,649		22,649		22,649
Profit before income tax	426,623	(21,426)	405,197	1,256	406,453

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5. OPERATING SEGMENTS (Continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 30 June 2019)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	1,768,717	31,702	1,800,419	(2)	1,800,417
Interest expense	(744,839)	(53,697)	(798,536)	4,828	(793,708)
Net interest income	1,023,878	(21,995)	1,001,883	4,826	1,006,709
Net fee and commission income	12,989	14,653	27,642	-	27,642
Net securities trading income / (loss)	451	527	978	-	978
Net derivative trading income / (loss)	(224,072)	51,747	(172,325)	-	(172,325)
Net foreign currency gain / (loss)	(5,487)	(38,797)	(44,284)	-	(44,284)
Net impairment loss on financial assets	(295,724)	(1,325)	(297,049)	-	(297,049)
Net operating income after impairment losses	512,035	4,810	516,845	4,826	521,671
Other operating income	26,892	13,299	40,191	(8,933)	31,258
Other operating expenses	(99,290)	(30,840)	(130,130)	6,067	(124,063)
Dividend income	7,076	2,672	9,748	(3,041)	6,707
Share of profit of equity-accounted investees	16,005	-	16,005	-	16,005
Profit before income tax	462,718	(10,059)	452,659	(1,081)	451,578

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5. OPERATING SEGMENTS (Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Banking	Stock brokerage and other	Combined	Eliminations	Total
<u>At 30 June 2020</u>					
Total assets	46,807,306	1,646,093	48,453,399	(436,331)	48,017,068
Total liabilities	41,221,758	1,245,589	42,467,347	(70,817)	42,396,530
Equity before net profit & non-controlling interests	5,250,763	426,208	5,676,971	(403,485)	5,273,486
Net profit attributable to equity holders of the Bank	334,785	(25,704)	309,081	5,040	314,121
Non-controlling interests	-	-	-	32,931	32,931
Total equity	5,585,548	400,504	5,986,052	(365,514)	5,620,538
Total liabilities and equity	46,807,306	1,646,093	48,453,399	(436,331)	48,017,068
<u>At 31 December 2019</u>					
Total assets	41,207,333	1,207,177	42,414,510	(162,121)	42,252,389
Total liabilities	36,233,202	779,015	37,012,217	(38,195)	36,974,022
Equity before net profit & non-controlling interests	4,272,482	365,379	4,637,861	(128,088)	4,509,773
Net profit attributable to equity holders of the Bank	701,649	62,783	764,432	(33,928)	730,504
Non-controlling interests	-	-	-	38,090	38,090
Total equity	4,974,131	428,162	5,402,293	(123,926)	5,278,367
Total liabilities and equity	41,207,333	1,207,177	42,414,510	(162,121)	42,252,389

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6. RELATED PARTIES

For the purposes of the accompanying interim condensed consolidated financial statements, shareholders of the Group and related companies, consolidated and non-consolidated equity participations and related companies, directors and key management personnel together with their families and related companies are referred to as "Related Parties" in this report. During the conduct of its business the Group had various significant transactions and balances with Related Parties during the year.

The accompanying interim condensed consolidated financial statements include the following balances due from or due to related parties:

	30 June 2020	31 December 2019
<u>Balances with related parties</u>		
Loans and advances to customers	625,355	703,483
- <i>Balances with Parent Bank</i>	272,440	118,394
- <i>Balances with other related parties</i>	352,915	585,089
Non-cash loans	43,441	27,938
Loans and advances to banks	1,161	1,019
Financial assets at fair value through other comprehensive income investment securities	50,640	21,707
Other assets	265	31
Other liabilities	2,283	28,849
Derivative financial instruments	-	-
	1 January – 30 June 2020	1 January – 30 June 2019
<u>Transactions with related parties</u>		
Income from associates	22,649	16,005
Dividend income	10,801	6,707
Interest income / (expense), net	15,396	14,868
- <i>Balances with Parent Bank</i>	5,285	-
- <i>Balances with other related parties</i>	10,111	14,868
Foreign exchange gain (loss), net	7,076	7,534
Net fee and commission income / (expense), net	114	749
- <i>Balances with Parent Bank</i>	-	-
- <i>Balances with other related parties</i>	114	749
Other income	229	208
- <i>Balances with Parent Bank</i>	11	19
- <i>Balances with other related parties</i>	218,	189
Derivative financial instruments gains/losses	(24,772)	(19,695)

Compensation of Key Management Personnel of the Group

Benefits provided to key management personnel in the current period amount to TL 14,077 (30 June 2019: TL 12,321).

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7. COMMITMENTS AND CONTINGENCIES

	30 June 2020	31 December 2019
Swap and forward agreements	42,264,225	37,932,731
Derivative financial instruments for hedging purposes	18,289,746	16,520,430
Revocable and irrevocable commitments	6,208,361	4,398,283
Letters of credit	2,830,428	2,538,241
Letters of guarantee	1,918,637	1,819,028
Option agreements	1,031,848	1,775,800
Bank acceptances	159,842	190,447
Capital commitments for subsidiaries and associates (*)	112,322	96,782
Other commitments	12,967	-
	72,828,376	65,271,742

(*) The Bank, the European Investment Fund (European Investment Fund - EIF), to be established by Turkey, Growth and Innovation Fund (Turkish Growth and Innovation Fund - TGIF) purchase of shares of the fund established under the name situated remaining amount that commitment.

Fiduciary Activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in the accompanying consolidated financial statements.

The nominal values of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 2,837,122 as at 30 June 2020 (31 December 2019: TL 2,137,682). As at 30 June 2020, securities at custody with market value amounted to TL 7,626,081 (31 December 2019: TL 5,678,000).

Securities Blocked and Letters of Guarantee Given to Borsa Istanbul (BIST) as Collateral for Trading on Markets

As at 30 June 2020, according to the general requirements of the BIST, letters of guarantee amounting to TL 391,600 (31 December 2019: TL 336,600) had been obtained from various local banks and were provided to BIST for bond and stock market transactions. Also, as at 30 June 2020 there is no letter of guarantee were given to the CMB (31 December 2019: None).

The Group's trading securities given as collateral or blocked amounted to TL 406 at the reporting date (31 December 2019: TL 406).

Litigations

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

There are 69 legal cases against the Group which are amounting to TL 5,225 as of the reporting date (31 December 2019: TL 5,251 for 69 legal cases). Tax Audit Committee inspectors made an investigation for the years 2008-2011 about the payments made by the Bank and employees to "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" ("the Foundation") established in accordance with the decisions of the Turkish Commercial Law and the Civil Law as made to all foundations in the sector. According to this investigation it has been communicated that the amount the Bank is obliged to pay is a benefit in the nature of fee for the members of the Foundation worked at the time of payment, the amount the Foundation members are obliged to pay should not been deducted from the basis of fee; accordingly tax audit report was issued with the claim that it should be taken penalized income tax surcharge / penalized stamp duty deducted from allowance and total amount of TL 17,325 tax penalty notice relating to period in question to the Parent Bank relying on this report.

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7. COMMITMENTS AND CONTINGENCIES (Continued)

Litigations (continued)

Some of the lawsuits are decided favourable, remaining of lawsuits are decided unfavourable by the tax courts of first instance. On the other hand, appeal and objection have been requested by the Parent Bank against the decision of the Court with respect to the Parent Bank and by the administration against the decision of the Court with respect to the administration and completion of appeal process is waited. The tax and penalty notices related to the decision of the tax court of first instance against the Parent Bank are accrued by administration depending on legal process and as of 31 July 2014 the Parent Bank has made total payments amounting to TL 22,091.

A similar case has been submitted to the Constitutional Court (AYM) in the form of individual remedies by the main shareholder of the parent Bank in relation to the parent Bank's liabilities to pay, the Constitutional Court gave the decision with court file number 2014/6192. According to court decision published in the Official Gazette dated 21 February 2015 and numbered 29274, the assessments against the parent Bank was contrary to the principle of legality and the Parent Bank's property rights has been violated. This decision is considered to be a precedent for the parent Bank and an amount of TL 12,750 corresponding to the portion that the parent Bank was obliged to pay for the related period is recognised as income in the prior period.

There is a lawsuit for Pendorya Mall of TSKB GYO registered in Pendik, Doğu District, plot 105, map 865, parcel 64 against IBB and Karacan Yapı at Pendik 2nd Court of First Instance Pendorya Mall claiming the road intersects his own property and demanding compensation amounting TL 7. TSKB GYO has been involved in the lawsuit as intervening party.

Relating to immovable property, subject of litigation discovery review and expert reports were submitted to the court file. Objections to the report and statement of TSKB GYO has been given. IBB Presidency has declared that expropriation proceedings related to the subject have been initiated. For this reason, lawsuit was removed from "Possessory Actions" and converted to the "Confiscating without expropriating" by the judge.

Accepting in the new case, the plaintiff claimed compensation from the Administration and in order to determine the amount of compensation the Court decided an expert examination since the information provided by the Land Registry and the Municipality was not deemed sufficient.

Expert reports submitted to the Court on 30 May 2013 and the Court decided to add Pendik Municipality as a defendant in the case. At the latest hearing on 24 December 2013 it was decided to accept the expert reports and Pendik Municipality to pay the relevant amount (TL 645) to the plaintiff. The reasoned decision has been notified, the decision which has been appealed by the appellant and the respondent Pendik Municipality has turned deteriorate the Supreme Court decision was a request for the correction requested by the İstanbul Metropolitan Municipality (IMM). The decision has been requested adjustment by IMM and plaintiff Sağlam Satış ve Paz. A.Ş. (Malazlar A.Ş.). Breaking decision of the Supreme Court is expected to evaluate the requests for correction of decision. The Court decided to apply of Supreme Court's decision to dismiss. The notification of reasoned decision is expected.

Beyoglu Municipality approved the reclaim of TSKB GYO for the Building II which has the location as 1486 map and 76 parcel in Fındıklı in Beyoglu, Istanbul for the forfeiture because of zoning change. However, Municipality of Beyoglu sued because of no approbation by Istanbul Metropolitan Municipality, in order to keep rights on the subject.

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7. COMMITMENTS AND CONTINGENCIES (Continued)

Litigations (continued)

The court made a decision as no solution for the relevant claim due to Beyoglu Municipality approved the reclaim. However, There has to be permission by Istanbul Metropolitan Municipality, and Cultural and Natural Heritage Preservation Board for the exact result. That's why, decision was appealed by the company. The Council of State reversed the judgement based on inappropriate zoning plan changes with the decision of 28 March 2014.

In addition, a new implementation development plan covering the Fındıklı Building II, which has been canceled by the judicial authorities and which is owned by TSKB GYO, is being prepared by the Municipality of Beyoğlu on December 21, 2010, the 1/1000 Scaled Beyoğlu District Protected Urban Site Protected Development Plan. For this content, TSKB GYO's application were made in writing to the Beyoğlu Municipality on 28 October 2014 in order to plan by taking into account the 1/1000 Scale Implementation Plan which is being prepared by the Municipality of Beyoğlu and the Istanbul Metropolitan Municipality. The court requested the Municipality to ask the plan including the immovable subject to the decision of the Council of State is still in force as a result of the decision of dismissal and that the plan canceled by the court in the letter sent from the Municipality is still valid answered in the form. In the case which was started to discuss again in court; an expert opinion examination was made. The Court has ruled in favor of the Parent Bank by canceling the administrative proceeding. Against decision, within the legal period, Beyoglu Municipality has applied for the appeal law and it is expected that the file will be sent to Istanbul Regional Administrative Court for examination and, if necessary, for re-trial.

A lawsuit was filed by one of the investors of TSKB GYO on the cancellation of the 5th, 7th and 9th articles decided at the Ordinary General Assembly meeting on 27 April 2018. Although the request for the case was demanded to stop the execution of the 5th and 7th articles, the request for interim injunction requested for the suspension of the execution was rejected and an appeal was filed by the plaintiff. The trial is ongoing.

According to Legal Department of the Bank, it is not expected that the other lawsuits against the Bank will have a significant impact on the financial statements.

Other

The Group's head office and 9 branches, including branches of subsidiaries, are subject to operational leasing. Additionally, 24 cars and 341 computers are within the context of operational leasing. (31 December 2019: 9 branches and 26 cars and 345 computers are subject to operational leasing). In the current period, the Bank has Lease liability amounting to TL 5,422 related to operational lease transactions.

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8. BALANCES WITH CENTRAL BANK

As at 30 June 2020 balances with Central Bank include restricted reserve deposits amounting to TL 206,966 (31 December 2019: TL 795,638) at the Central Bank of Turkey and unrestricted reserve deposits amounting to TL 10,175 (31 December 2019: TL 7,945). As of 30 June 2020, provision amounting to TL 112 is allocated in “Balance with the Central Bank of Turkey” due to transition of IFRS 9 (31 December 2019: TL 429).

As per the Communiqué numbered 2005/1 “Reserve Deposits” of Central Bank of Republic of Turkey (CBRT), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. Reserves are calculated and set aside every two weeks on Fridays for 14-days periods. In accordance with the related communiqué, no interest is paid for reserve requirements. The CBRT has started to pay interest to the Required Reserves held in Turkish Lira according to regulation released at 5 November 2014.

In accordance with the regulation issued at 27 January 2015, CBRT has began to collect monthly commissions over daily balances of Two Days Notice Deposit Accounts and Required Reserves held in the foreign currencies, to be valid from 1 February 2015. As of 5 May 2015, the CBRT has started to pay interest to the Required reserves, reserve options and unrestricted account held in US dollars according to regulation released at 2 May 2015.

As per the “Communiqué on Amendments to be Made on Communiqué on Required Reserves” of CBRT, numbered 2011/11 and 2011/13, required reserves for Turkish Lira and Foreign currency liabilities are set at CBRT based on rates mentioned below. Reserve rates prevailing at 30 June 2020 are presented in table below:

Reserve Rates for Turkish Lira Liabilities (%)	
Original Maturity	Reserve Ratio
Until 1 year maturity (1 year include)	7
1-3 year maturity (3 year include)	3,5
More than 3 year maturity	1

Reserve Rates for FC Liabilities (%)	
Original Maturity	Reserve Ratio
Until 1 year maturity (1 year included)	21
1-2 year maturity (2 year included)	16
2-3 year maturity (3 year included)	11
3-5 year maturity (5 year included)	7
More than 5 year maturity	5

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9. DERIVATIVE FINANCIAL INSTRUMENTS

The Parent Bank has entered into extinguishing cross-currency interest rate swaps as part of its strategy to hedge TL denominated fixed rate assets. These swap arrangements provide that, on the occurrence of certain credit-related events in relation to the company (such as failure to make a payment), the swap arrangements may immediately terminate with no further payments due and payable by either party. As of 30 June 2020, the fair value of such swaps is TL 355,359 income with a total outstanding notional amount of USD 145 million. The average maturity of such swaps range between 2020 and 2023 years.

	30 June 2020	30 June 2020	31 December 2019	31 December 2019
	Assets	Liabilities	Assets	Liabilities
Currency swaps	506,908	(152,840)	663,432	(287,298)
Options	12,500	(12,500)	9,596	(9,596)
Foreign currency forward contracts	119,064	(115,289)	44,287	(41,167)
Interest rate swaps	365,942	(310,400)	177,132	(130,228)
	1,004,414	(591,029)	894,447	(468,289)

Derivatives held for risk management

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in interest rates within certain guidelines. Interest rate swaps are used for this purposes as derivative financial instruments.

In this respect, the fixed rate Eurobond issued by the Bank and a portion of fixed rate funds borrowed are subject to fair value hedge accounting. The Bank enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial liabilities. The changes in the fair value of the hedged fixed rate financial liabilities and hedging interest rate swaps are recognised under the statement of profit/loss. At the beginning and later period of the hedging transaction, the aforementioned hedging transactions are expected to offset changes occurred in the relevant period of the hedging transaction and hedged risk (attributable to hedging risk) and effectiveness tests are performed in this regard.

The fair value of derivatives designated as fair value hedges are as follows:

Instrument type	30 June 2020	30 June 2020	31 December 2019	31 December 2019
	Assets	Liabilities	Assets	Liabilities
Interest Rate Swap	269,004	-	67,884	(16,545)
Cross Currency swap	109,548	-	-	-
	378,552	-	67,884	(16,545)

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9. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

	30 June 2020	31 December 2019
Forward foreign exchange contracts – buy	3,637,042	2,695,580
Forward foreign exchange contracts – sell	3,631,563	2,692,130
Currency swaps – buy	7,883,968	7,139,121
Currency swaps – sell	7,502,422	6,708,646
Interest rate swaps – buy	9,804,615	9,348,627
Interest rate swaps – sell	9,804,615	9,348,627
Currency option – buy	515,924	887,950
Currency option – sell	515,924	887,850
Currency Futures – buy	3,421	-
Currency Futures – sell	3,485	-
Other – sell	6,061	-

10. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2020	31 December 2019
Short-term and current portion of long term loans	4,110,811	4,086,693
Long-term loans	30,051,329	26,450,285
Total performing loans	34,162,140	30,536,978
Non-performing loans	1,199,768	1,107,772
Total loans	35,361,908	31,644,750
Less: Specific provision for stage 3	(455,284)	(358,343)
Less: Generic provision for impairment losses on loans	(801,367)	(524,863)
Total loans	34,105,257	30,761,544

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10. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Movements in the reserve for impairment losses on loans for the six-month period ended 30 June 2020 and 2019 are as follows:

	1 January – 30 June 2020	1 January – 30 June 2019
Specific reserve for cash loans:		
As at 1 January	358,343	169,489
Charge for the period	125,841	197,387
Collections	(28,900)	(33,967)
Reserve released and write offs	-	-
	455,284	332,909
Portfolio reserve for cash loans:		
As at 1 January	524,863	346,677
Charge for the period	276,504	74,744
As at 30 June	801,367	421,421
Total reserve for impairment losses on loans	1,256,651	754,330

11. INVESTMENT SECURITIES

Financial assets at fair value through profit or loss

At 30 June 2020 and 31 December 2019, financial assets at fair value through profit or loss portfolio comprised the following:

	30 June 2020	31 December 2019
Government bonds and treasury bills in TL	-	-
Debt securities issued by corporations	8,182	15,820
Equity shares	6	1
Loans measured at FVPL (*)	263,097	263,097
Total	271,285	278,918

(*)Include the loan granted to the special purpose entity is accounted under loans measured at fair value through profit/loss as per IFRS 9. As of 30 June 2020, the fair value is based on the results of an independent valuation Company.

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11. INVESTMENT SECURITIES (Continued)

Financial assets at fair value through other comprehensive income

At 30 June 2020 and 31 December 2019, financial assets at fair value through other comprehensive income portfolio comprised the following:

	30 June 2020	31 December 2019
Government bonds and treasury bills in TL	1,971,848	2,001,291
Eurobonds	2,271,227	1,922,143
Debt securities issued by corporations	123,007	146,270
Equity shares	147,958	124,984
Total	4,514,040	4,194,688

Financial assets measured at amortized cost

	30 June 2020	31 December 2019
Government bonds and treasury bills in TL	2,844,007	2,581,799
Total	2,844,007	2,581,799

(*) As of 30 June 2020, provision amounting to TL 3,411 is allocated in "Financial assets at measured at amortized cost" due to IFRS 9 (31 December 2019: TL 3,360).

12. EXPECTED CREDIT LOSS

The Group allocates the expected loss provision for impairment on assets and loans measured at amortized cost and fair value through other comprehensive income and loan commitments not measured at fair value through profit/loss based and non cash loans on IFRS 9.

At 30 June 2020 the details of expected credit loss which on-balance sheet financial assets in scope of ECL requirements is as follows;

	Carrying Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank)	2,725,002	-	-	2,725,002	1,036	-	-	1,036
Securities	7,361,458	-	-	7,361,458	3,411	-	-	3,411
Loans and advances to customers	30,333,782	3,828,358	1,199,768	35,361,908	303,640	497,727	455,284	1,256,651
Other assets	147,639	-	-	147,639	1,540	-	-	1,540
Total	40,567,881	3,828,358	1,199,768	45,596,007	309,627	497,727	455,284	1,262,638

At 30 June 2020 the details of expected credit loss which off-balance sheet financial assets in scope of ECL requirements is as follows;

	Carrying Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
LCs and Acceptances	9,405,961	17,169	3,518	9,426,648	21,864	7,521	934	30,319
Total	9,405,961	17,169	3,518	9,426,648	21,864	7,521	934	30,319

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13. DEBTS SECURITIES ISSUED

	30 June 2020		31 December 2019	
	TL	FC	TL	FC
Nominal	323,973	7,151,550	255,000	5,916,000
Cost	323,973	7,110,551	251,520	5,884,485
Book Value	325,355	7,529,034	253,918	6,023,450

As of 18 May 2016, selling of Greenbond which was issued by the Bank in abroad with nominal value of full USD 300 Million, 5 years maturity and for financing the green and sustainable projects. The return of these bonds which have the redemption date of 18 May 2021 and 5 years maturity is determined as 5,048% and the coupon rate as 4,875%.

As of 16 January 2018, the Bank issued the debt instrument which have nominal value of full USD 350 Million, redemption date of 16 January 2023 with fixed interest rate of 5,608%, 5 years maturity and semiannual coupon payment.

As of 23 January 2020, the Bank issued Eurobond with the nominal amount of full USD 400 Million. Interest rate of these debt instruments determined as 6% which have the redemption date of 23 January 2025 with fixed interest rate, 5 years maturity and semiannual coupon payment.

Yatırım Varlık Kiralama A.Ş., issued its first lease certificate which was the fund user / resource institution of Palmet Gaz Grup A.Ş. with a maturity of 728 days and with an issue amounting to TL 150 million in December 2019, and the redemption of this lease certificate will be completed in December 2021.

Information on securities issued during the period are as follows :

ISIN Code	Fund User	Issue Amount(TL)	Issue Date	Redemption Date
TRDYVKS32217	Altınmarka Gıda San. ve Tic. A.Ş.	75,000,000	11/03/2020	09/03/2022
TRDYVKS62115	Zorlu Enerji Elektrik Üretim A.Ş.	50,000,000	03/06/2020	02/06/2021
TRDYVKSE2016	Zorlu Enerji Elektrik Üretim A.Ş.	80,000,000	25/06/2020	23/10/2020

(*)The amount of thousand of TL 31,128 included in the portfolio of Group is eliminated in financials.

14. SUBORDINATED LOAN

As of 28 March 2017, the Parent Bank issued the sustainable subordinated debt securities which have nominal value of USD 300 million, redemption date of 29 March 2022 with fixed interest rate of 7.625% semiannual coupon payment. As of the end of the period, the value of the borrowing instrument is TL 2,152,755 (31 December 2019: 1,830,045).

15. INCOME TAXES

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 22% (for 2018, 2019 and 2020, corporate tax income announced as 22%) on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 30 June 2020 (31 December 2019: 22%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the period.

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16. SHARE CAPITAL

	30 June 2020	31 December 2019
TL 1 (in full TL), par value	2,800,000	2,800,000
Share increase	-	-
Total number of shares	2,800,000	2,800,000
Paid-in capital	2,800,000	2,800,000
Inflation restatement effect	13,563	13,563
Shared capital issued	2,813,563	2,813,563

In the meeting of the General Assembly held on 26 March 2020, it has been resolved that, there is no capital increase in the current period.

In the prior period, in the meeting of the General Assembly held on 28 March 2019, it has been resolved that, there is no capital increase.

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17. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of shares outstanding during the period concerned.

A summary of the weighted average number of shares outstanding for the interim periods ended 30 June 2020 and 2019 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	1 January – 30 June 2020	1 January – 30 June 2019
Number of shares outstanding at 1 January	2,800,000,000	2,400,000,000
<i>New shares issued</i>		
Conversion of existing reserves	-	-
Number of shares outstanding at the period end	2,800,000,000	2,800,000,000
Weighted average number of shares during the period	2,800,000,000	2,800,000,000
Profit for equity holders of the Bank	314,121	355,259
Basic earnings per share (in full Kurus)	0.1122	0.1269

There is no dilution of shares as of 30 June 2020.

18. EVENTS AFTER THE REPORTING PERIOD

In the Board of Directors meeting of the Bank held on July 23, 2020, The Bank has decided to participate in the capital increase amounting to TL 200,000,000 (full amount) planned by TSKB GYO at the rate of its share in TSKB GYO because of the fact that the financing of borrowing debts by increasing the issued capital of the company will contribute positively to the activities and development of the Company.

On July 9 2020, The Bank signed a syndicated loan agreement amounting to USD 150,000,000 full amount with participation of 12 banks from 12 different countries. The interest rate of the loan with 367 days maturity is Euribor / Libor + 1.75% annually and the renewal rate is 85%.