

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

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

24 March 2021

*This report contains 5 pages of independent auditors' report on audit of consolidated financial information and 118 pages of consolidated financial information.*

**Türkiye Sınai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries**

**Table of Contents**

	<b>Pages</b>
Independent auditors' report	1-5
Consolidated statement of financial position	6-7
Consolidated statement of profit or loss and other comprehensive income	8-9
Consolidated statement of changes in equity	10-11
Consolidated statement of cash flows	12
Notes to the consolidated financial statements	14-118

## **REPORT ON CONSOLIDATED FINANCIAL STATEMENTS**

### **Report on the Audit of the Consolidated Financial Statements**

To the Shareholders of Türkiye Sınai Kalkınma Bankası A.Ş.:

#### **Qualified Opinion**

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

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

#### **Basis for qualified opinion**

As explained in Note 26, the accompanying consolidated financial statements as at 31 December 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 thousands respectively.

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

## Key audit matters

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

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

Key Audit Matter	How the matter is addressed in our audit
<p><i>Related important disclosures about recognition of impairment on financial assets in accordance with IFRS 9</i></p> <p>As presented in Note 3.8.2, the Group recognizes the IFRS 9 "Financial Instruments" standard. We considered the impairment of financial assets as a key audit matter due to:</p> <ul style="list-style-type: none"> <li>- Amount of on and off-balance sheet items that are subject to expected credit loss calculation is material for the financial statements</li> <li>- There are complex and comprehensive requirements of IFRS 9</li> <li>- The classification of the financial assets is based on the Group's business model and characteristics of the contractual cash flows in accordance with IFRS 9 and the Group uses significant judgment on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments</li> <li>- The Group determines the fair value of financial assets measured at fair value by level 3 related business model category non-observable in fair value measurement due to the existence of significant estimates and assumptions determination</li> <li>- The model that is established by the Group management to calculate the expected credit losses has the compliance risk whether it is established based on the requirements of IFRS 9 and other practices</li> <li>- Processes of IFRS 9 have complex and intensive control environment</li> <li>- Judgements and estimates used in expected credit loss calculation complex and comprehensive</li> <li>- Disclosure requirements of IFRS 9 are comprehensive and complex</li> </ul>	<p>Our audit procedures included among others include:</p> <ul style="list-style-type: none"> <li>-Evaluation of the compliance of the accounting policies adopted with regard to IFRS 9, the Group's past performance, local and global practices</li> <li>-Analysis and testing of processes, systems and controls originated or re-designed in order to calculate expected credit losses by the Information Systems and Process audit specialists</li> <li>-Evaluation of the key judgements, assumptions, methods used for calculation of expected credit loss determined by management and whether the data source is reasonable or not and their compliance and standard requirements and Covid-19 impacts in light of industry and global practices</li> <li>-Testing criteria used for determining the contractual cash flows including interest payments with regard to solely principal and principal balance of financial assets on a sample basis and evaluation of Group's business model</li> <li>-Examining the financial instruments classification and measurement models (fair value hierarchy Level 3 financial instruments) and comparing them with IFRS 9 standard requirements</li> <li>-Evaluation of significant increase in credit risk, definition of default, definition of restructuring, probability of default, loss given default, exposure at default and macro-economic variables and related basic and significant estimates and assumptions determined for calculation process of expected credit loss and whether these assumptions determined by financial risk management are in line with the Group's historical performance, legislation and reasonableness of the estimation process regarding future performance and investigation of credit risk portfolio on a sample basis</li> </ul>

	<ul style="list-style-type: none"> <li>-Evaluation of the accuracy and completeness of attributes of the data used for the calculation process of expected credit losses</li> <li>-Detailed testing of mathematical verification of expected credit losses calculation on a sample basis</li> <li>- Evaluation of the assumptions and estimations used for the individually assessed financial assets based on expert judgment</li> <li>- Evaluating the necessity and accuracy of the updates made or required updates after the modeling process</li> <li>-Auditing of the IFRS 9 disclosures.</li> </ul>
<b><i>Pension Fund Obligations</i></b>	
<p>As presented in Note 3.19 “Employee benefits” and Note 22 “Employee Benefits – Pension scheme”, the valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, demographic assumptions, inflation rate estimates and the impact of any changes in individual pension plans. The Bank Management uses Fund actuaries to assist in assessing these assumptions.</p> <p>Considering the subjectivity of key assumptions and estimate used in the calculations of transferrable liabilities and the effects of the potential changes in the estimates used together with the uncertainty around the transfer date and given the fact that technical interest rate is prescribed under the law, we considered this to be a key audit matter.</p>	<p>It has been addressed whether there have been any significant changes in regulations governing pension liabilities, employee benefits plan during the period, that could lead to adjust the valuation of employee benefits.</p> <p>Support from actuarial auditor who is in the same audit network within our firm, has been taken to assess the appropriateness of the actuarial assumptions and calculations performed by the external actuary. We further focused on the accuracy and adequacy of the deficit and also disclosures on key assumptions related to pension fund.</p>
<b><i>Derivative Financial Instruments</i></b>	
<p>Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency and interest rate options, futures and other derivative financial instruments which are held for trading are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Details of related amounts are explained in differences related to derivative financial assets/liabilities held-for-trading disclosures in Note 36 “Derivative financial instruments”.</p> <p>Fair value of the derivative financial instruments is determined by selecting most convenient market data and applying valuation techniques to those particular derivative products. Derivative Financial Instruments are considered by us as a key audit matter because of the subjectivity in the estimates, assumptions and judgements used.</p>	<p>Our audit procedures involve obtaining written confirmations from the third parties and comparing the details of the related derivative transactions. Our audit procedures included among others involve reviewing policies regarding fair value measurement accepted by the bank management fair value calculations of the selected derivative financial instruments which is carried out by valuation experts in our audit team and the assessment of used estimations and the judgements and testing of operating effectiveness of the key controls in the process of fair value determination.</p> <p>Our procedures included, amongst others, recalculating fair value calculation and disclosures relating to derivative financial instruments considering the requirements of International Accounting Standards (“IAS”) and International Financial Reporting Standards (“IFRS”).</p>

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

The Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary

to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors
- Conclude on the appropriateness of the Board of Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial



statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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



Yaşar Bivas, SMMM  
Partner

24 March 2021  
Istanbul, Turkey

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2020**

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

<b>ASSETS</b>	<b>Notes</b>	<b>Current Period 31 December 2020</b>	<b>Prior Period 31 December 2019</b>
Cash and cash equivalents	7	1,864,862	791,533
Reserve deposits at Central Bank	7	1,010,697	795,638
Financial assets measured at fair value through profit or loss	8, 10	279,851	278,918
Financial assets measured at fair value through other comprehensive income	10	4,630,211	4,194,688
-Financial assets measured at fair value through other comprehensive income as pledge	18	1,906,650	829,817
Financial assets measured at amortized cost	10	3,079,864	2,581,799
-Financial assets measured at amortized cost as pledge	18	860,968	431,343
Derivative financial assets	36	1,077,807	894,447
Derivatives used for hedging purposes	36	262,699	67,884
Loans and advances to customers	9	37,621,589	30,761,544
Investments in equity-accounted investees	11	623,770	464,920
Goodwill	12	383	383
Property and equipment	13	380,662	347,206
Investment property	14	279,523	273,918
Intangible assets	15	4,061	4,069
Deferred tax assets	22	175,419	39,930
Assets held for sale	17	64,403	64,403
Other assets	16	1,074,493	691,109
<b>Total assets</b>		<b>52,430,294</b>	<b>42,252,389</b>

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



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2020**

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

<b>LIABILITIES</b>	<b>Notes</b>	<b>Current Period 31 December 2020</b>	<b>Prior Period 31 December 2019</b>
Funds borrowed	19	32,332,210	26,628,325
Money market balances	25	1,390,126	1,197,367
Debt securities issued	20	8,462,386	6,277,368
Derivative financial liabilities	36	720,931	468,289
Derivatives used for hedging purposes	36	154,049	16,545
Current account of loan customers		122,105	58,950
Taxes and dues payable		18,406	15,750
Employee benefits	23	43,646	36,205
Corporate tax liability	22	136,723	67,608
Provisions	26	153,477	145,911
Lease liability		4,394	4,913
Other liabilities	21	360,687	226,746
Subordinated debt instrument	24	2,299,503	1,830,045
Deferred Tax Liabilities		1,508	-
<b>Total liabilities</b>		<b>46,200,151</b>	<b>36,974,022</b>
<b>EQUITY</b>			
Share capital			
Nominal paid in capital	27	2,800,000	2,800,000
Inflation adjustment to capital	27	13,563	13,563
Total capital	27	2,813,563	2,813,563
Share premium		776	530
Legal reserves		343,182	307,099
Fair value reserve		235,892	83,268
Revaluation reserve		341,304	309,478
Translation reserve		39,852	20,714
Actuarial gain/(loss)		1,392	(1,393)
Retained earnings		2,400,012	1,707,018
<b>Total equity attributable to equity holders of the Bank</b>		<b>6,175,973</b>	<b>5,240,277</b>
Non-controlling interests	27	54,170	38,090
<b>Total equity</b>		<b>6,230,143</b>	<b>5,278,367</b>
<b>Total liabilities and equity</b>		<b>52,430,294</b>	<b>42,252,389</b>
<b>Commitments and contingencies</b>	<b>37</b>	<b>67,887,160</b>	<b>65,271,742</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND**  
**OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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

	Notes	Current Period 1 January – 31 December 2020	Prior Period 1 January – 31 December 2019
Interest income calculated using the effective interest method		2,422,360	2,260,048
Other interest and similar income		914,314	1,052,953
Interest expense calculated using the effective interest method		1,311,649	1,392,967
Other interest and similar expense		2,640	8,750
<b>Net interest income</b>	<b>30</b>	<b>2,022,385</b>	<b>1,911,284</b>
Fee and commission income		137,281	78,154
Fee and commission expense		(18,366)	(13,051)
<b>Net fee and commission income</b>	<b>31</b>	<b>118,915</b>	<b>65,103</b>
Securities trading income / (loss), net		5,119	3,737
Derivative trading income / (loss), net		(61,198)	(489,078)
Foreign exchange gains / (loss), net		45,272	66,218
<b>Net trading income / (loss), net</b>		<b>(10,807)</b>	<b>(419,123)</b>
Net impairment loss	32	(1,011,664)	(460,631)
<b>Net operating income after impairment loss</b>		<b>1,118,829</b>	<b>1,096,633</b>
Other operating income	33	138,534	65,550
Other operating expenses	35	(406,524)	(255,408)
Dividend income	34	10,857	6,754
Share of profit of equity-accounted investees	11	74,651	19,944
<b>Profit before income tax</b>	<b>22</b>	<b>936,347</b>	<b>933,473</b>
Income tax expense	22	(226,874)	(197,332)
<b>Profit for the period</b>		<b>709,473</b>	<b>736,141</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND**  
**OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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

	Notes	Current Period 1 January – 31 December 2020	Prior Period 1 January – 31 December 2019
<b>Profit for the year</b>		<b>709,473</b>	<b>736,141</b>
<b>Items that will not be reclassified to profit or loss:</b>			
Remeasurement of employee termination benefits		3,507	(1,034)
Revaluation of tangible assets		32,407	49,105
Other comprehensive income items not reclassified through profit or loss		18,194	4,339
Income Tax related to the above		(1,303)	207
<b>Items that are or will be reclassified subsequently to profit or loss:</b>			
Foreign currency translation differences		19,138	5,010
Net change in fair value of financial assets at fair value through other comprehensive income		57,571	243,694
Other comprehensive income items reclassified through profit or losses		87,426	16,678
Income Tax related to the above		(10,567)	(53,626)
<b>Other comprehensive income for the year, net of tax</b>		<b>206,373</b>	<b>264,373</b>
<b>Total comprehensive income for the year</b>		<b>915,846</b>	<b>1,000,514</b>

	Notes	Current Period 1 January – 31 December 2020	Prior Period 1 January – 31 December 2019
<b>Profit attributable to:</b>			
Equity holders of the Bank		712,294	730,504
Non-controlling interests		(2,821)	5,637
<b>Profit for the period</b>		<b>709,473</b>	<b>736,141</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Bank		918,667	994,877
Non-controlling interests		(2,821)	5,637
<b>Total comprehensive income for the period</b>		<b>915,846</b>	<b>1,000,514</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (in full TL)	29	0.2544	0.2609

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 CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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

Attributable to equity holders of the Bank													
Prior Period	Notes	Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Revaluation reserve	Actuarial Gain/(Loss)	Translation Reserve	Fair value reserve	Retained earnings	Total	Non-controlling interests	Total Equity
<b>Balance at 1 January 2019</b>		<b>2,800,000</b>	<b>13,563</b>	<b>516</b>	<b>273,239</b>	<b>260,373</b>	<b>(566)</b>	<b>15,704</b>	<b>(127,817)</b>	<b>1,009,823</b>	<b>4,244,835</b>	<b>38,622</b>	<b>4,283,457</b>
<b>Corrections and accounting policy changes</b>		-	-	-	-	-	-	-	-	-	-	-	-
<b>Balance at 1 January 2019</b>		<b>2,800,000</b>	<b>13,563</b>	<b>516</b>	<b>273,239</b>	<b>260,373</b>	<b>(566)</b>	<b>15,704</b>	<b>(127,817)</b>	<b>1,009,823</b>	<b>4,244,835</b>	<b>38,622</b>	<b>4,283,457</b>
<b>Total comprehensive income for the period</b>													
Profit for the period		-	-	-	-	-	-	-	-	730,504	730,504	5,637	736,141
<b>Other comprehensive income</b>													
Remeasurement of defined benefit liability		-	-	-	-	-	(1.034)	-	-	-	(1.034)	-	(1.034)
Net change in fair value financial assets at fair value through other comprehensive income		-	-	-	-	-	-	5,010	243,694	-	248,704	-	248,704
Revaluation of tangible assets		-	-	-	-	49,105	-	-	-	-	49,105	-	49,105
Equity-accounted investees - share of OCI		-	-	-	-	-	-	-	21,017	-	21,017	-	21,017
Tax on other comprehensive income		-	-	-	-	-	207	-	(53,626)	-	(53,419)	-	(53,419)
<b>Total other comprehensive income</b>		-	-	-	-	<b>49,105</b>	<b>(827)</b>	<b>5,010</b>	<b>211,085</b>	-	<b>264,373</b>	-	<b>264,373</b>
<b>Total comprehensive income for the period</b>		-	-	-	-	<b>49,105</b>	<b>(827)</b>	<b>5,010</b>	<b>211,085</b>	<b>730,504</b>	<b>994,877</b>	<b>5,637</b>	<b>1,000,514</b>
<b>Transactions with owners of the Bank</b>													
<b>Contributions and distributions</b>													
Dividend distribution		-	-	-	-	-	-	-	-	(134)	(134)	-	(134)
Transfer to legal reserves		-	-	-	33,860	-	-	-	-	(33,860)	-	-	-
Other changes		-	-	14	-	-	-	-	-	685	699	(6,169)	(5,470)
<b>Total transactions with the owners of the Company</b>		-	-	<b>14</b>	<b>33,860</b>	-	-	-	-	<b>(33,309)</b>	<b>565</b>	<b>(6,169)</b>	<b>(5,604)</b>
<b>Balance at 31 December 2019</b>	<b>27</b>	<b>2,800,000</b>	<b>13,563</b>	<b>530</b>	<b>307,099</b>	<b>309,478</b>	<b>(1,393)</b>	<b>20,714</b>	<b>83,268</b>	<b>1,707,018</b>	<b>5,240,277</b>	<b>38,090</b>	<b>5,278,367</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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

Attributable to equity holders of the Bank													
		Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Revaluation reserve	Actuarial Gain/(Loss)	Translation Reserve	Fair value reserve	Retained earnings	Total	Non-controlling interests	Total Equity
Current Period	Notes												
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		-	-	-	-	-	-	-	-	712,294	712,294	(2,821)	709,473
Other comprehensive income													
Remeasurement of defined benefit liability		-	-	-	-	-	3,507	-	-	-	3,507	-	3,507
Net change in fair value financial assets at fair value through other comprehensive income		-	-	-	-	-	-	19,138	75,765	-	94,903	-	94,903
Revaluation of tangible assets		-	-	-	-	32,407	-	-	-	-	-	-	32,407
Equity-accounted investees - share of OCI		-	-	-	-	-	-	-	87,426	-	87,426	-	87,426
Tax on other comprehensive income		-	-	-	-	(581)	(722)	-	(10,567)	-	(11,289)	-	(11,870)
Total other comprehensive income		-	-	-	-	31,826	2,785	19,138	152,624	-	174,547	-	206,373
Total comprehensive income for the period		-	-	-	-	31,826	2,785	19,138	152,624	712,294	886,841	(2,821)	915,846
Transactions with owners of the Bank													
Contributions and distributions													
Dividend distribution		-	-	-	-	-	-	-	-	(134)	(134)	-	(134)
Transfer to legal reserves		-	-	-	36,083	-	-	-	-	(36,083)	-	-	-
Other changes		-	-	246	-	-	-	-	-	16,917	17,163	18,901	36,064
Total transactions with the owners of the Company													
		-	-	246	36,083	-	-	-	-	(19,300)	17,029	18,901	35,930
Balance at 31 December 2020	27	2,800,000	13,563	776	343,182	341,304	1,392	39,852	235,892	2,400,012	6,175,973	54,170	6,230,143

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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

	Current Period 31 December 2020	Prior Period 31 December 2019
Notes		
<b>Cash flows from operating activities:</b>		
Interests and commissions received	3,122,603	3,049,927
Other operating activities, net	(1,224,002)	(1,250,464)
Cash payments to employees and suppliers	478,063	(216,759)
Interests and commissions paid	(210,323)	(182,369)
Dividends received	10,857	6,754
<b>Operating profit before changes in operating assets / liabilities</b>	<b>2,177,198</b>	<b>1,407,089</b>
<b>(Increase)/decrease in operating assets:</b>		
Loans and advances to customers	428,298	310,064
Balances with central banks	(215,177)	(65,793)
Financial assets at fair value through profit or loss	(19,143)	(5,157)
Other assets	(100,649)	185,842
<b>(Increase)/decrease in operating liabilities:</b>		
Funds borrowed	(1,518,465)	(319,292)
Obligations under repurchase agreements and money market fundings	(272)	794,965
Other liabilities	740,416	(217,282)
<b>Net cash outflows from operating activities before taxes and duties paid</b>	<b>1,492,206</b>	<b>2,090,436</b>
<b>Income taxes and other duties paid</b>	<b>(284,929)</b>	<b>(288,619)</b>
<b>Net cash outflows from operating activities</b>	<b>1,207,277</b>	<b>1,801,817</b>
<b>Cash flows from investing activities:</b>		
Cash paid for purchase of investment securities	-	(990)
Proceeds from sale of tangible assets	280	5,592
Purchase of tangible assets	(10,965)	(9,698)
Sale of financial assets measured at Fair Value through Other Comprehensive Income	1,142,753	772,368
Purchase of financial assets measured at Fair Value through Other Comprehensive Income	(998,063)	(1,048,151)
Sale of financial assets measured at amortized cost	1,577	195,251
Purchase of financial assets measured at amortized cost	(149,670)	(433,812)
Other	(2,342)	(2,080)
<b>Net cash inflows/ outflows from investing activities</b>	<b>(16,430)</b>	<b>(521,520)</b>
<b>Cash flows from financing activities:</b>		
Increase in loans and advances from banks and other institutions, net	(148,084)	(1,895,354)
Increase in bonds payable, net	20,534	-
Dividends paid	(134)	(134)
Other	(2,654)	(1,753)
<b>Net cash inflows from financing activities</b>	<b>(130,338)</b>	<b>(1,897,241)</b>
<b>Effect of exchange rate changes</b>	<b>24,313</b>	<b>4,354</b>
Net increase in cash and cash equivalents	1,084,822	(606,023)
<b>Cash and cash equivalents at 1 January</b>	<b>(7)</b>	<b>1,385,825</b>
<b>Cash and cash equivalents at 31 December</b>	<b>(7)</b>	<b>779,802</b>

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

<b>Notes to the consolidated financial statements</b>	<b>Page</b>
<b>1</b> Reporting entity	14-15
<b>2</b> Basis of preparation	16-18
<b>3</b> Significant accounting policies	19-48
<b>4</b> Financial risk management	49-76
<b>5</b> Financial instruments	77-78
<b>6</b> Operating segments	79-82
<b>7</b> Cash and cash equivalents, balances with central bank, loans and advances to banks, money market placements	83-85
<b>8</b> Financial assets at fair value through profit or loss	86
<b>9</b> Loans and advances to customers	86-88
<b>10</b> Investment securities	88-90
<b>11</b> Investments in equity-accounted investees	90-91
<b>12</b> Goodwill	91
<b>13</b> Property and equipment	92-93
<b>14</b> Investment property	93-94
<b>15</b> Intangible assets	95
<b>16</b> Other assets	95
<b>17</b> Assets held for sale	96
<b>18</b> Obligations under repurchase agreements	97
<b>19</b> Funds Borrowed	97-99
<b>20</b> Debt securities issued	100
<b>21</b> Other Liabilities	100
<b>22</b> Taxation	101-105
<b>23</b> Employee Benefits	105-106
<b>24</b> Subordinated Loan	106
<b>25</b> Payables to money market	106
<b>26</b> Provisions	107
<b>27</b> Capital and reserves	107-109
<b>28</b> Dividends	109
<b>29</b> Earnings per share	109
<b>30</b> Net interest income	110
<b>31</b> Net fee and commission income	110
<b>32</b> Net impairment loss on financial assets	111
<b>33</b> Other operating income	111
<b>34</b> Dividend income	111
<b>35</b> Other operating expenses	111
<b>36</b> Derivative financial instruments	112-113
<b>37</b> Commitments and contingencies	113-116
<b>38</b> Related Parties	117
<b>39</b> Ratings	118
<b>40</b> Events after the reporting period	118



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 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:

<b>Current Period</b>				
<b>Name Surname/Commercial Title</b>	<b>Share Capital</b>	<b>Shareholding Rate (%)</b>	<b>Paid in Capital</b>	<b>Unpaid Capital</b>
T. İş Bankası A.Ş. Group	1,425,781	50.92	1,425,781	-
T. Vakıflar Bankası T.A.O.	234,570	8.38	234,570	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	1,139,649	40.70	1,139,649	-
<b>Total</b>	<b>2,800,000</b>	<b>100.00</b>	<b>2,800,000</b>	<b>-</b>

<b>Prior Period</b>				
<b>Name Surname/Commercial Title</b>	<b>Share Capital</b>	<b>Shareholding Rate (%)</b>	<b>Paid in Capital</b>	<b>Unpaid Capital</b>
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	-
<b>Total</b>	<b>2,800,000</b>	<b>100.00</b>	<b>2,800,000</b>	<b>-</b>

The Parent Bank shares are traded in Istanbul Stock Exchange (“BIST”) since 26 December 1986. The Parent Bank’s 50.92% of the shares belongs to İş Bank Group and 38.88% of these shares are in free floating and traded in BIST Star Market with “TSKB” ticker.

The consolidated financial statements of the Bank as at and for the period ended 31 December 2020 are available upon request from the Bank’s registered office and website.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 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 89.13%. The company's headquarters is located at Istanbul/Turkey.

**Yatırım Varlık Kiralama AŞ**

Yatırım Varlık Kiralama A.Ş. was established on 20 September 2019. Core business of the Company is to issue a lease certificate exclusively in accordance with the provisions of the Capital Market Law and the relevant Communiqué. The share of Yatırım Finansman Menkul Değerler A.Ş. is 100%.

**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. 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 CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 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 24 March 2021.

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 December 31, 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 measured at fair value through profit or loss are measured at fair value
- financial assets measured at fair value through other comprehensive income are measured at fair value
- investment property and property and equipment are measured at fair value.
- debt and equity instruments at fair value through other comprehensive income (FVOCI)

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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 3.8.2.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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.

**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 Bank. 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 1 January 2021.

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; with the decision dated 8 December 2020 and numbered 9312, the Central Bank of the last 252 business days before the calculation date enabled the use of the simple arithmetic average of the foreign exchange buying rates.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**2. BASIS OF PREPARATION (Continued)**

**2.5 The Covid 19 Effects**

In addition, based on the decision dated 23 March 2020, 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.

Since the sum of the valuation differences of the securities included in the portfolio of "Securities with Fair Value Differences Reflected in Other Comprehensive Income" is positive, the Bank did not use the regulation of the BRSA in this period.

In addition, according to BRSA 16 April 2020 judgment 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.

*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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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	89.13
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	21.75
İş Faktoring AŞ	Factoring	16.67

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	80.17



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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 amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised 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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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 31 December 2020 and 31 December 2019, foreign currency assets and liabilities of the Group are mainly in US Dollar and Euro. As at 31 December 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	7.3350	6.9761	5.9160	5.6493
1 Euro	9.0193	7.9853	6.6289	6.3226

**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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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,

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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 shortterm fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and 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 31 December 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.

On the other hand, the Bank has assessed the effects of the COVID-19 outbreak with respect to its financial instruments which are classified in Level 3 as inputs for these instruments are highly dependent on estimates and judgments and deemed that no change is required as of the reporting date.

***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.



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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)***

“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.

As of 31 December 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.

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.

***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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.8 Financial assets and financial liabilities (continued)**

**Loans and Advances to Customers (continued)**

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.

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.

**3.8.2 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%.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.8 Financial assets and financial liabilities (continued)**

**3.8.2 Explanations on expected credit losses (continued)**

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

1. 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.

2. 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.

***The measures by the local regulator***

In accordance with the decisions of BRSA dated 17 March 2020, 27 March 2020 and 8 December 2020 the following measures would be in force until 30 June 2021: i. The 30-day past due criteria used for loans to be classified under group 2 loans pursuant to the BRSA Regulation on Classification of Loans and Provisions, has been changed to 90 days, ii. The 90-day past due criteria used for loans to be classified as non-performing loans has been changed to 180 days.

As of 31 December 2020 and 2019, the breakdowns of individually and collectively assessed expected credit losses for loans, financial lease receivables and non-cash loans are as follows:

31 December 2020	Stage 1		Stage 2		Stage 3	
	Individual	Collective	Individual	Collective	Individual	Collective
Cash Loans	160,418	264,958	553,463	-	756,354	-
Financial lease receivables	-	454	22,371	-	-	-
Non-cash loans	8	20,252	11,702	-	1,220	-
<b>Total</b>	<b>160,426</b>	<b>285,664</b>	<b>587,536</b>	<b>-</b>	<b>757,574</b>	<b>-</b>

  

31 December 2019	Stage 1		Stage 2		Stage 3	
	Individual	Collective	Individual	Collective	Individual	Collective
Cash Loans	1,097	171,812	330,628	834	358,343	-
Financial lease receivables	-	1,147	19,345	-	-	-
Non-cash loans	-	17,558	6,131	168	838	-
<b>Total</b>	<b>1,097</b>	<b>190,517</b>	<b>356,104</b>	<b>1,002</b>	<b>359,181</b>	<b>-</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.8 Financial assets and financial liabilities (continued)**

**3.8.2 Explanations on expected credit losses (continued)**

**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.

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)
- Colleteral 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 within a specified time horizon given certain characteristics. Based on IFRS 9, two different PDs are used in order to calculate expected credit losses:

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.8 Financial assets and financial liabilities (continued)**

**3.8.2 Explanations on expected credit losses (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 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.

If there is a significant deterioration in PD, it is considered that there is a significant increase in credit risk and the financial asset is classified as stage 2. In this context, the Bank has calculated thresholds at which point the relative change is a significant deterioration.

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

The 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

**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 subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised 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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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 Parent Bank shall reclassify all affected financial assets at amortised 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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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 standart 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 through 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.



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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 amortised 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 amortised 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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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.

**a. Finance leases**

Assets acquired under finance lease agreements are capitalised at the commencement of the lease at the fair value of the leased asset, which is the amount of cash consideration given for the leased asset. Lease payments are treated as comprising capital and interest elements; the capital element is treated as reducing the capitalised obligation under the lease and the interest element is charged to income. Depreciation on the leased asset is also charged to income on a straight-line basis over the useful life of the asset.

**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. 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. Lease receivables are classified under loans in the accompanying statement of financial position.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

**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 statement of financial position 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 charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

**b. Operating leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit and loss on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

Explanations on "IFRS 16 Leases" are explained in Note 3.23

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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 transfuer 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 2020 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 18 January 2021. There is no need for technical or actual deficit to book provision as of 31 December 2020.

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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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.



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2020 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2020. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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 2019 are as follows (continued)**

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

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

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments did not have a significant impact on the financial position or performance of the Group.

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

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

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

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

A lessee will apply the amendment for annual reporting periods beginning on or after 1 June 2020. Early application of the amendments is permitted. The amendments did not have a significant impact on the financial position or performance of the Group.

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

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

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

The Group will wait until the final amendment to assess the impacts of the changes.

**IFRS 17 - The new Standard for insurance contracts**

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. 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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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 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 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.

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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)**

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

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

***Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform***

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

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

***Relief from discontinuing hedging relationships***

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

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

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

***Separately identifiable risk components***

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**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)**

*Additional disclosures*

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

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

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

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT**

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

- credit risk,
- liquidity risk,
- market risk,
- operational risk.

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

*Risk management framework*

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the Audit Committee. Consequently, the Risk Management Department of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

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

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. The risk management group exercises its functions according to the International Regulations of the Risk Management Group, and directly reports to the Board of Directors. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Bank's general management and appropriate sub-committees.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Credit risk**

The sectoral breakdown of loans is documented monthly and limitations are made according to evaluations. There is no limitation applied geographically. Monitoring and checking is made for the treasury operations. Risk limits are identified for the operations implemented.

The credit monitoring department screens the creditworthiness of loan customers once every six months regularly. The debtors' creditworthiness is screened regularly in accordance with the related legislation. Their financial statements are obtained as prescribed in the legislation. The credit limits have been set by the Board of Directors, the Banks credit committee and the credit management. The Bank takes enough collateral for the loans and other receivables extended. The collaterals obtained consist of personal surety ship, mortgage, cash blockage and client checks.

Limits have also been set for transactions with banks. Credit risks are managed on the counterparty's creditworthiness and limits.

The definitions of past due and impaired loans and information related to impairment and provisions are provided in Section 3.8.2 Explanations on expected credit losses.

*Credit risk by risk groups*

Set out below is an analysis of loans as at 31 December 2020 by customer groups and impairment:

<b>31 December 2020</b>	<b>Corporate</b>	<b>Small Business</b>	<b>Other</b>	<b>Total</b>
Stage 1 loans to customers	26,666,535	6,320,405	355,611	33,342,551
Stage 2 loans to customers	3,628,755	718,513	-	4,347,268
Stage 3 loans to customers	1,468,979	215,964	4,845	1,689,788
Loans measured at FVPL (*)	263,097	-	-	263,097
<b>Total gross loans to customers</b>	<b>32,027,366</b>	<b>7,254,882</b>	<b>360,456</b>	<b>39,642,704</b>
Less: Stage 1 expected credit loans	(56,893)	(364,802)	(4,135)	(425,830)
Less: Stage 2 expected credit loans	(96,932)	(478,902)	-	(575,834)
Less: Stage 3 expected credit loans	(630,882)	(120,627)	(4,845)	(756,354)
<b>Total expected credit loss</b>	<b>(784,707)</b>	<b>(964,331)</b>	<b>(8,980)</b>	<b>(1,758,018)</b>
<b>Total loans and advances to customer</b>	<b>31,752,914</b>	<b>5,780,296</b>	<b>351,476</b>	<b>37,884,686</b>

Set out below is an analysis of loans as at 31 December 2019 by customer groups and impairment:

<b>31 December 2019</b>	<b>Corporate</b>	<b>Small Business</b>	<b>Other</b>	<b>Total</b>
Stage 1 loans to customers	21,019,486	5,901,720	216,421	27,137,627
Stage 2 loans to customers	2,966,495	432,856	-	3,399,351
Stage 3 loans to customers	1,028,111	74,763	4,898	1,107,772
Loans measured at FVPL (*)	263,097	-	-	263,097
<b>Total gross loans to customers</b>	<b>25,277,189</b>	<b>6,409,339</b>	<b>221,319</b>	<b>31,907,847</b>
Less: Stage 1 expected credit loans	(37,185)	(135,483)	(1,388)	(174,056)
Less: Stage 2 expected credit loans	(66,932)	(283,875)	-	(350,807)
Less: Stage 3 expected credit loans	(290,666)	(62,779)	(4,898)	(358,343)
<b>Total expected credit loss</b>	<b>(394,783)</b>	<b>(482,137)</b>	<b>(6,286)</b>	<b>(883,206)</b>
<b>Total loans and advances to customer</b>	<b>24,882,406</b>	<b>5,927,202</b>	<b>215,033</b>	<b>31,024,641</b>

(\*)Include the loan granted to the special purpose entity is accounted under loans measured at fair value through profit/loss as per IFRS 9.



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Credit risk (continued)**

*Impairment allowance for loans and advances to customers as at 31 December 2020:*

Impairment allowance for loans and advances to customers	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
<b>Internal rating grade</b>				
<b>Performing</b>				
Above Average Grade	4,696	-	-	4,696
Average Grade	176,443	36,796	-	213,239
Below Grade	234,322	538,431	-	772,753
Past due but not impaired	10,369	607	-	10,976
<b>Non-performing</b>				
Individually impaired	-	-	756,354	756,354
<b>Total</b>	<b>425,830</b>	<b>575,834</b>	<b>756,354</b>	<b>1,758,018</b>

*Impairment allowance for loans and advances to customers as at 31 December 2019:*

Impairment allowance for loans and advances to customers	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Internal rating grade</b>				
<b>Performing</b>				
Above Average Grade	3,717	-	-	3,717
Average Grade	108,759	3,121	-	111,880
Below Grade	61,080	328,997	-	390,077
Past due but not impaired	500	18,689	-	19,189
<b>Non-performing</b>				
Individually impaired	-	-	358,343	358,343
<b>Total</b>	<b>174,056</b>	<b>350,807</b>	<b>358,343</b>	<b>883,206</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Credit risk (continued)**

*Impairment allowance for off-balance sheet financial assets as at 31 December 2020:*

Impairment allowance for loans and advances to customers	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
<b>Internal rating grade</b>				
<b>Performing</b>				
Above Average Grade	1,149	-	-	1,149
Average Grade	17,201	366	-	17,567
Below Grade	1,910	11,336	-	13,246
Past due but not impaired	-	-	-	-
<b>Non-performing</b>				
Individually impaired	-	-	1,220	1,220
<b>Total</b>	<b>20,260</b>	<b>11,702</b>	<b>1,220</b>	<b>33,182</b>

*Impairment allowance for off-balance sheet financial assets as at 31 December 2019:*

Impairment allowance for loans and advances to customers	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Internal rating grade</b>				
<b>Performing</b>				
Above Average Grade	1,379	-	-	1,379
Average Grade	15,165	153	-	15,318
Below Grade	1,014	6,146	-	7,160
Past due but not impaired	-	-	-	-
<b>Non-performing</b>				
Individually impaired	-	-	838	838
<b>Total</b>	<b>17,558</b>	<b>6,299</b>	<b>838</b>	<b>24,695</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Credit risk (continued)**

*Exposure to credit risk*

	Due from banks	Loans and advances to customers
	31 December 2020	31 December 2020
<i>Notes</i>		
<b>Carrying amount (1)</b>	<b>428,446</b>	<b>37,621,589</b>
Non-performing financial assets	-	1,689,788
<b>Gross amount</b>	<b>-</b>	<b>1,689,788</b>
Specific provision for Stage 3	-	(756,354)
Generic provision for Stage 1 and 2	-	(1,001,664)
Neither past due nor impaired	428,446	33,958,744
Past due but not impaired	-	728
<b>Carrying amount</b>	<b>428,446</b>	<b>33,891,242</b>
Restructured and rescheduled loans and other receivables	-	3,730,347
<b>Carrying amount</b>	<b>-</b>	<b>3,730,347</b>
<b>Carrying amount (amortised cost)</b>	<b>428,446</b>	<b>37,621,589</b>
	Due from banks	Loans and advances to customers
	31 December 2019	31 December 2019
<i>Notes</i>		
<b>Carrying amount (1)</b>	<b>257,308</b>	<b>31,024,641</b>
Non-performing financial assets	-	1,107,772
<b>Gross amount</b>	<b>-</b>	<b>1,107,772</b>
Specific provision for Stage 3	-	(358,343)
Generic provision for Stage 1 and 2	(384)	(524,863)
Neither past due nor impaired	257,308	28,007,735
Past due but not impaired	-	1,986
<b>Carrying amount</b>	<b>257,308</b>	<b>28,234,287</b>
Restructured and rescheduled loans and other receivables	-	2,527,257
<b>Carrying amount</b>	<b>-</b>	<b>2,527,257</b>
<b>Carrying amount (amortised cost)</b>	<b>257,308</b>	<b>30,761,544</b>

(1) Include the loan granted to the special purpose entity is accounted under loans measured at fair value through profit/loss as per IFRS 9 amounting to TL 263,097 (31 December 2019: TL 263,097).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

***Credit risk (continued)***

*Information by major sectors and type of counterparties as at 31 December 2020 is as follows:*

<b>Sectors</b>	<b>Loans<sup>(1)</sup> Significant increase in credit risk (Stage 2)</b>	<b>Defaulted (Stage 3)</b>	<b>Expected Credit Losses (IFRS 9)</b>
<b>Agriculture</b>	-	<b>27,899</b>	<b>23,714</b>
Farming and Stockbreeding	-	27,899	23,714
Forestry	-	-	-
Fishery	-	-	-
<b>Manufacturing</b>	<b>2,856,472</b>	<b>1,273,148</b>	<b>911,367</b>
Mining and Quarrying	-	197	197
Production	1,315,485	19,776	163,186
Electricity, Gas and Water	1,540,987	1,253,175	747,984
<b>Services</b>	<b>1,164,810</b>	<b>344,373</b>	<b>329,532</b>
Wholesale and Retail Trade	169,817	129,131	94,979
Accommodation and Dining	-	679	679
Transportation and Telecommunication	275,084	206,029	137,951
Financial Institutions	-	2,536	2,536
Real Estate, Rental and Management	111,867	5,814	13,914
Professional Services	-	184	184
Educational Services	-	-	-
Health and Social Services	608,042	-	79,289
<b>Others</b>	<b>325,986</b>	<b>44,368</b>	<b>67,575</b>
<b>Total</b>	<b>4,347,268</b>	<b>1,689,788</b>	<b>1,332,188</b>

*(1) Breakdown of cash loans measured at amortised cost..*

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

***Credit risk (continued)***

*Information by major sectors and type of counterparties as at 31 December 2019 is as follows:*

<b>Sectors</b>	<b>Loans<sup>(1)</sup> Significant increase in credit risk (Stage 2)</b>	<b>Defaulted (Stage 3)</b>	<b>Expected Credit Losses (IFRS 9)</b>
<b>Agriculture</b>	-	<b>27,898</b>	<b>25,108</b>
Farming and Stockbreeding	-	27,898	25,108
Forestry	-	-	-
Fishery	-	-	-
<b>Manufacturing</b>	<b>1,650,408</b>	<b>957,369</b>	<b>465,954</b>
Mining and Quarrying	-	196	196
Production	336,505	18,277	38,327
Electricity, Gas and Water	1,313,903	938,896	427,431
<b>Services</b>	<b>1,547,731</b>	<b>117,890</b>	<b>205,151</b>
Wholesale and Retail Trade	69,088	108,615	53,538
Accommodation and Dining	-	719	719
Transportation and	164,354	64	53,293
Financial Institutions	-	2,504	2,504
Real Estate, Rental and Management	926,288	5,814	46,196
Professional Services	-	174	174
Educational Services	-	-	-
Health and Social Services	388,001	-	48,727
<b>Others</b>	<b>201,212</b>	<b>4,615</b>	<b>12,937</b>
<b>Total</b>	<b>3,399,351</b>	<b>1,107,772</b>	<b>709,150</b>

*(1) Breakdown of cash loans measured at amortised cost.*

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Credit risk (continued)**

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

	<b>31 December 2020</b>	<b>31 December 2019</b>
<b><u>Gross maximum exposure</u></b>		
Cash and cash equivalents, balances and reserve deposit at the Central Bank and other banks	2,875,559	1,587,171
Financial assets at fair value through profit or loss	279,851	278,918
Financial assets at fair value through other comprehensive income	4,630,211	4,194,688
Financial assets measured at amortized cost	3,079,864	2,581,799
Derivative financial assets	1,077,807	894,447
Derivative assets held for hedging purposes	262,699	67,884
Loans and advances to customers	37,621,589	30,761,544
Guarantees and collaterals	4,938,838	4,547,716
Other Assets	1,074,493	691,109
<b>Total</b>	<b>55,840,911</b>	<b>45,605,276</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Credit risk (continued)**

Credit quality per class of loans and advances as at 31 December 2020 is as follows:

	Carrying Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>On-Balance Sheet Financial Assets</b>								
Cash and cash equivalents (including reserves at Central Bank)	2,877,270	-	-	2,877,270	1,711	-	-	1,711
Securities	7,713,486	-	-	7,713,486	3,411	-	-	3,411
Loans and advances to customers	33,342,551	4,347,268	1,689,788	39,379,607	425,830	575,834	756,354	1,758,018
Other assets	176,959	-	-	176,959	1,540	-	-	1,540
<b>Total</b>	<b>44,110,266</b>	<b>4,347,268</b>	<b>1,689,788</b>	<b>50,147,322</b>	<b>432,492</b>	<b>575,834</b>	<b>756,354</b>	<b>1,764,680</b>

<b>Off-Balance Sheet Financial Assets</b>								
LCs, Acceptances and Other	10,187,867	10,977	4,442	10,203,286	20,260	11,702	1,220	33,182
<b>Total</b>	<b>10,187,867</b>	<b>10,977</b>	<b>4,442</b>	<b>10,203,286</b>	<b>20,260</b>	<b>11,702</b>	<b>1,220</b>	<b>33,182</b>

Credit quality per class of loans and advances as at 31 December 2019 is as follows:

	Carrying Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>On-Balance Sheet Financial Assets</b>								
Cash and cash equivalents (including reserves at Central Bank)	1,588,019	-	-	1,588,019	848	-	-	848
Securities	6,783,339	-	-	6,783,339	6,852	-	-	6,852
Loans and advances to customers	27,137,627	3,399,351	1,107,772	31,644,750	174,056	350,807	358,343	883,206
Other assets	692,537	-	-	692,537	1,429	-	-	1,429
<b>Total</b>	<b>36,201,522</b>	<b>3,399,351</b>	<b>1,107,772</b>	<b>40,708,645</b>	<b>183,185</b>	<b>350,807</b>	<b>358,343</b>	<b>892,335</b>

<b>Off-Balance Sheet Financial Assets</b>								
LCs, Acceptances and Other	7,715,199	19,897	3,326	7,738,422	17,558	6,299	838	24,695
<b>Total</b>	<b>7,715,199</b>	<b>19,897</b>	<b>3,326</b>	<b>7,738,422</b>	<b>17,558</b>	<b>6,299</b>	<b>838</b>	<b>24,695</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

***Credit risk (continued)***

Movement for impairment allowance for off-balance sheet financial assets as at 31 December 2020 is as follows:

	<b>31 December 2020</b>			
	<b>Letters of quarantee and acceptances</b>	<b>Letters of credit</b>	<b>Other undrawn commitments</b>	<b>Total</b>
Balances at 1 January 2020	8,662	8,019	8,014	24,695
Charge for the year	10,743	9,893	18,963	39,599
Recoveries	(10,403)	(9,622)	(11,087)	(31,112)
Amounts written off	-	-	-	-
Unwind of transformed into cash	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
<b>At 31 December 2020</b>	<b>9,002</b>	<b>8,290</b>	<b>15,890</b>	<b>33,182</b>

	<b>31 December 2020</b>		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
Balances at 1 January 2020	17,558	6,299	838
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(25,212)	(5,580)	(320)
Provision for the period	23,677	9,175	702
Effects of movements in exchange rates	4,237	1,808	-
<b>Balances at the end of the period</b>	<b>20,260</b>	<b>11,702</b>	<b>1,220</b>



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

***Credit risk (continued)***

Movement for impairment allowance for off-balance sheet financial assets as at 31 December 2019 is as follows:

	<b>31 December 2019</b>			
	<b>Letters of quarantee and acceptances</b>	<b>Letters of credit</b>	<b>Other undrawn commitments</b>	<b>Total</b>
Balances at 1 January 2019	5,104	3,481	3,402	11,987
Charge for the year	17,916	28,861	26,003	72,780
Recoveries	(14,358)	(24,323)	(21,391)	(60,072)
Amounts written off	-	-	-	-
Unwind of transformed into cash	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
<b>At 31 December 2019</b>	<b>8,662</b>	<b>8,019</b>	<b>8,014</b>	<b>24,695</b>

	<b>31 December 2019</b>		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
Balances at 1 January 2019	8,838	2,414	736
Transfer to Stage 1	(3)	3	-
Transfer to Stage 2	-	(70)	70
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(43,823)	(16,179)	-
Provision for the period	51,005	19,847	32
Effects of movements in exchange rates	1,541	284	-
<b>Balances at the end of the period</b>	<b>17,558</b>	<b>6,299</b>	<b>838</b>

Carrying amount per class of financial assets whose terms have been renegotiated:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Loans and advances to customers		
Corporate lending	3,183,568	2,169,127
Small business lending	546,779	358,130
<b>Total</b>	<b>3,730,347</b>	<b>2,527,257</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

***Credit risk (continued)***

Credit risk is evaluated according to the Bank's internal rating. Non-financial service customers included in credit portfolio are rated with respect to the Bank's internal rating and ratings of the financial service customers, which are rated by external rating firms, are matched to the Bank's internal ratings. With the transition to IFRS 9, the Bank changed its internal rating model in 2018. Due to the preparation of internal rating models in the current period and prior period on different principles, the previous period has not been included in footnote.

Information of credit amounts rated by internal rating model is given table below for the current period.

<b>Loan Quality Categories</b>	<b>Current Period</b>	<b>Prior Period</b>
Above Average Grade	9,921,945	9,281,586
Average Grade	23,514,681	20,299,648
Below Average Grade	8,051,381	5,408,531
Impaired (1)	1,693,083	1,109,953
<b>Total</b>	<b>43,181,090</b>	<b>36,099,718</b>

(1) Loans belong to the financial subsidiaries subject to line-by-line consolidation method are considered as unrated. Impaired loans are presented in the table above.

As of the reporting date, the total of the Bank's cash and non-cash loans and financial lease receivables (gross amount including the non performing loans, excluding the expected credit losses) is TL 44,581,542 (31 December 2019: TL 36,455,563) and TL 1,400,452 (31 December 2019: TL 355,845) of these customers have not been rated.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Liquidity risk**

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. The Group is exposed to a certain degree of mismatch between the maturities of its assets and liabilities.

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis, and maintains liquid assets which it judges sufficient to meet its commitments.

The Group uses various methods, including predictions of daily cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. For the purposes of monitoring and assessing the liquidity position of the Bank's assets and liabilities, the liquidity rate is weekly calculated. The ratio during the year was as follows:

	<b>31 December 2020 %</b>	<b>31 December 2019 %</b>
Average during the period	342.98	418.08

The table below presents the last three months' liquidity ratios in accordance with the BRSA regulations:

<b>Period</b>	<b>TL+FC</b>	<b>FC</b>
31 October 2020	271.58%	306.72%
30 November 2020	314.83%	336.85%
31 December 2020	305.62%	399.40%

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

***Liquidity risk (continued)***

As at 31 December 2020 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
<b>ASSETS</b>					
Cash and cash equivalents	-	-	-	20	20
Balances with Central Bank	12,365	-	-	-	12,365
Reserve deposits at Central Bank	1,010,697	-	-	-	1,010,697
Loans and advances to banks	298,651	-	-	129,795	428,446
Interbank money market placements	1,053,087	370,281	-	-	1,423,368
Funds lent under securities repurchase agreements	663	-	-	-	663
Trading financial assets	4,734	258,790	-	16,327	279,851
Derivative financial instruments	816,723	249,676	11,408	-	1,077,807
Derivative assets used for hedging purposes	250,312	12,387	-	-	262,699
Loans and advances to customers	5,123,262	5,492,097	27,006,230	-	37,621,589
Financial assets at fair value through other comprehensive income	395,105	429,959	3,607,741	197,406	4,630,211
Financial assets measured at amortized cost	304,369	-	2,775,495	-	3,079,864
<b>Total</b>	<b>9,269,968</b>	<b>6,813,190</b>	<b>33,400,874</b>	<b>347,609</b>	<b>49,827,580</b>
<b>LIABILITIES</b>					
Obligations under repurchase agreements	1,045,103	-	-	-	1,045,103
Derivative liabilities	440,824	269,318	10,789	-	720,931
Derivative liabilities held for hedging purposes	154,049	-	-	-	154,049
Funds borrowed	1,156,021	5,003,422	26,172,767	-	32,332,210
Debt securities issued (1)	465,988	2,458,324	7,837,577	-	10,761,889
Payables to money market	345,023	-	-	-	345,023
Current account of loan customers	122,105	-	-	-	122,105
Taxes and dues payable	18,406	-	-	-	18,406
Corporate tax liability	136,723	-	-	-	136,723
Employee benefits	-	-	-	43,646	43,646
<b>Total</b>	<b>3,884,242</b>	<b>7,731,064</b>	<b>34,021,133</b>	<b>43,646</b>	<b>45,680,085</b>

(1) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated debt instruments.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Liquidity risk (continued)**

As at 31 December 2019 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
<b>ASSETS</b>					
Cash and cash equivalents	-	-	-	29	29
Balances with Central Bank	-	-	-	7,945	7,945
Reserve deposits at Central Bank	795,638	-	-	-	795,638
Loans and advances to banks	212,090	-	-	45,218	257,308
Interbank money market placements	525,599	-	-	-	525,599
Funds lent under securities repurchase agreements	652	-	-	-	652
Trading financial assets	34	266,736	5,013	7,135	278,918
Derivative financial instruments	736,547	132,830	25,070	-	894,447
Derivative assets used for hedging purposes	67,884	-	-	-	67,884
Loans and advances to customers	4,790,046	5,011,116	20,960,382	-	30,761,544
Financial assets at fair value through other comprehensive income	433,481	574,908	3,061,315	124,984	4,194,688
Financial assets measured at amortized cost	-	-	2,581,799	-	2,581,799
<b>Total</b>	<b>7,561,971</b>	<b>5,985,590</b>	<b>26,633,579</b>	<b>185,311</b>	<b>40,366,451</b>
<b>LIABILITIES</b>					
Obligations under repurchase agreements	1,031,214	-	-	-	1,031,214
Derivative liabilities	342,007	105,156	21,126	-	468,289
Derivative liabilities held for hedging purposes	-	16,545	-	-	16,545
Funds borrowed	1,452,007	3,904,466	21,271,852	-	26,628,325
Debt securities issued (1)	268,952	2,105,085	5,733,376	-	8,107,413
Payables to money market	166,153	-	-	-	166,153
Current account of loan customers	58,950	-	-	-	58,950
Taxes and dues payable	15,750	-	-	-	15,750
Corporate tax liability	67,608	-	-	-	67,608
Employee benefits	17,950	-	-	18,255	36,205
<b>Total</b>	<b>3,420,591</b>	<b>6,131,252</b>	<b>27,026,354</b>	<b>18,255</b>	<b>36,596,452</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Liquidity risk (continued)**

Analysis of financial liabilities by remaining contractual maturities;

<b>As at 31 December 2020</b>	<b>Up to 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Adjustments</b>	<b>Total</b>
<b>Liabilities</b>							
Payables to stock exchange money market	345,023	-	-	-	-	-	345,023
Funds borrowed	465,626	680,570	5,302,500	14,474,510	13,401,621	(1,992,617)	32,332,210
Obligations under repurchase agreements	1,047,425	-	-	-	-	(2,322)	1,045,103
Debt securities issued (1)	213,336	137,145	2,771,826	8,779,006	-	(1,139,424)	10,761,889
Current account of customers	122,105	-	-	-	-	-	122,105
Leasing Liabilities	1,400	2,800	15,472	24,405	-	(39,683)	4,394
<b>Total</b>	<b>2,194,915</b>	<b>820,515</b>	<b>8,089,798</b>	<b>23,277,921</b>	<b>13,401,621</b>	<b>(3,174,046)</b>	<b>44,610,724</b>

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

<b>As at 31 December 2019</b>	<b>Up to 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Adjustments</b>	<b>Total</b>
<b>Liabilities</b>							
Payables to stock exchange money market	166,281	-	-	-	-	(128)	166,153
Funds borrowed	941,370	557,184	4,268,233	12,517,865	11,451,760	(3,108,087)	26,628,325
Obligations under repurchase agreements	1,032,377	-	-	-	-	(1,163)	1,031,214
Debt securities issued (1)	56,942	175,394	2,353,430	6,326,035	-	(804,388)	8,107,413
Current account of customers	58,950	-	-	-	-	-	58,950
Leasing Liabilities	17	33	1559	3639	17	(334)	4,931
<b>Total</b>	<b>2,255,937</b>	<b>732,611</b>	<b>6,623,222</b>	<b>18,847,539</b>	<b>11,451,777</b>	<b>(3,914,100)</b>	<b>35,996,986</b>

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

Analysis of contractual expiry by maturity of the Bank's derivative financial instruments;

<b>As at 31 December 2020</b>	<b>Up to 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Gross settled:</b>						
Swap agreements	3,375,099	3,913,863	10,447,985	30,349,253	6,351,726	54,437,926
Forward contracts	312,066	204,528	692,882	142,322	-	1,351,798
Options	200,474	77,460	-	-	-	277,934
Other	70	7,955	4,549	-	-	12,574
<b>Total</b>	<b>3,887,709</b>	<b>4,203,806</b>	<b>11,145,416</b>	<b>30,491,575</b>	<b>6,351,726</b>	<b>56,080,232</b>

<b>As at 31 December 2019</b>	<b>Up to 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Gross settled:</b>						
Swap agreements	5,305,067	3,207,161	8,293,852	24,774,091	7,485,280	49,065,451
Forward contracts	727,240	552,169	3,455,183	653,118	-	5,387,710
Options	813,030	492,912	428,278	41,580	-	1,775,800
Other	-	-	-	-	-	-
<b>Total</b>	<b>6,845,337</b>	<b>4,252,242</b>	<b>12,177,313</b>	<b>25,468,789</b>	<b>7,485,280</b>	<b>56,228,961</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Market risk**

Market risk is the possibility of a risk being incurred by the portfolio or position accepted within the scope of trading portfolio as a result of interest rates, equity prices, commodity prices in financial markets and exchange rate fluctuations. The purpose of market risk management is to manage, within the appropriate parameters, the risks which the Bank might be exposed to with a proactive approach and thus maximize the Bank's risk adjusted return.

Interest rate , exchange rate, stock and commodity price risks are the major elements of market risk. In order to control these risks in a healthy manner the core principal is to manage transactions carried out in money and capital markets such that they do not form concentration in terms of instrument, maturity, currency, interest type and other similar parameters, and in a "well diversified" manner in accordance with their risk levels. Moreover, the creditworthiness of issuers of financial instruments causing market risk is monitored carefully. Market Risk is managed by using consistent risk measurements and criteria fluctuation level of interest rates and/or prices and Value at Risk calculations, establishing appropriate procedures for control and monitoring compliance with identified risk limits and risk appetite. Market risk is measured, monitored and reported by the Department of Risk Management. The Bank uses two main approaches in the calculation of market risk BRSA Standard Method and Value at Risk (VaR) approach.

Market risk measurement, monitoring and reporting is carried out by the Risk Management Department. In the calculation of the market risk, the Bank uses two basic approaches as the BRSA Standard Method and Risk Value of Return (VaR) approach. The standard method is applied in the calculation of capital adequacy on a monthly basis. VaR calculations are performed periodically and are reported to the senior management. Monte Carlo simulation method is used for VaR calculations. The VaR model is based on the assumptions of a 99% confidence interval and a 1-day holding period, and the accuracy of the model is assured by back-testing which is based on the comparison of calculated VaR Value against incurred losses. Besides, stress tests are conducted so as to identify the impacts on VaR which will be highly damaging, although their occurrence is a low possibility.

**Interest Rate Risk**

The Group is exposed to interest rate risk either through market value fluctuations of statement of financial position items, i.e. price risk, or the impact of rate changes on interest sensitive assets and liabilities. In Turkey, interest rates are highly volatile and this may result in significant changes in prices of financial instruments including government bonds and treasury bills. The major sources of funding are borrowings. Interest rate sensitivity of the assets, liabilities and off-balance sheet items are managed by the Group. Progressive forecasting is determined with simulation reports, interest rate fluctuation effects are identified with sensitivity reports and scenario analyses.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Market risk (continued)**

**Interest Rate Risk (continued)**

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2020:

	Up to 3 Months	3 to 12 Months	Over 1 Year	Non Interest Bearing	Total
<b>ASSETS</b>					
Cash and cash equivalents	-	-	-	20	20
Balance with the Central Bank	2,166	-	-	10,199	12,365
Reserve deposits at Central Bank	-	-	-	1,010,697	1,010,697
Loans and advances to banks	298,651	-	-	129,795	428,446
Interbank money market placements	1,053,087	370,281	-	-	1,423,368
Funds lent under securities resale agreements	663	-	-	-	663
Trading assets	4,734	258,790	-	16,327	279,851
Derivative assets	463,544	72,936	541,327	-	1,077,807
Derivative assets used for hedging purposes	-	12,388	250,311	-	262,699
Loans and advances to customers	13,402,761	10,332,942	13,885,886	-	37,621,589
Financial assets at fair value through other comprehensive income	491,797	795,592	3,145,416	197,406	4,630,211
Financial assets measured at amortized cost	1,532,046	1,185,037	362,781	-	3,079,864
<b>Total</b>	<b>17,249,449</b>	<b>13,027,966</b>	<b>18,185,721</b>	<b>1,364,444</b>	<b>49,827,580</b>
<b>LIABILITIES</b>					
Obligations under repurchase agreements	1,045,103	-	-	-	1,045,103
Derivative liabilities	155,072	100,039	465,820	-	720,931
Derivative liabilities used for hedging purposes	-	-	154,049	-	154,049
Funds borrowed	11,420,360	12,897,663	8,014,187	-	32,332,210
Debt securities issued (1)	50,966	2,221,421	8,099,357	390,145	10,761,889
Payables to stock exchange money market	345,023	-	-	-	345,023
Current account of loan customers	122,105	-	-	-	122,105
Taxes and dues payable	-	-	-	18,406	18,406
Corporate tax liability	-	-	-	136,723	136,723
Employee benefits	-	-	-	43,646	43,646
<b>Total</b>	<b>13,138,629</b>	<b>15,219,123</b>	<b>16,733,413</b>	<b>588,920</b>	<b>45,680,085</b>
<b>Total Balance Sheet Position</b>	<b>4,110,820</b>	<b>(2,191,157)</b>	<b>1,452,308</b>	<b>775,524</b>	<b>4,147,495</b>
<b>Total Off Balance Sheet Position</b>	<b>(4,346,361)</b>	<b>405,243</b>	<b>4,053,885</b>	<b>-</b>	<b>112,767</b>
<b>Total Position</b>	<b>235,541</b>	<b>(1,785,914)</b>	<b>5,506,193</b>	<b>775,524</b>	<b>4,260,262</b>

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



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Market risk (continued)**

**Interest Rate Risk (continued)**

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2019:

	Up to 3 Months	3 to 12 Months	Over 1 Year	Non Interest Bearing	Total
<b>ASSETS</b>					
Cash and cash equivalents	-	-	-	29	29
Balance with the Central Bank	-	-	-	7,945	7,945
Reserve deposits at Central Bank	795,638	-	-	-	795,638
Loans and advances to banks	212,090	-	-	45,218	257,308
Interbank money market placements	525,599	-	-	-	525,599
Funds lent under securities resale agreements	652	-	-	-	652
Trading assets	34	266,736	5,013	7,135	278,918
Derivative assets	588,645	53,544	252,258	-	894,447
Derivative assets used for hedging purposes	-	-	67,884	-	67,884
Loans and advances to customers	12,978,274	8,697,138	9,086,132	-	30,761,544
Financial assets at fair value through other comprehensive income	596,631	1,147,301	2,325,772	124,984	4,194,688
Financial assets measured at amortized cost	1,332,388	950,535	298,876	-	2,581,799
<b>Total</b>	<b>17,029,951</b>	<b>11,115,254</b>	<b>12,035,935</b>	<b>185,311</b>	<b>40,366,451</b>
<b>LIABILITIES</b>					
Obligations under repurchase agreements	1,031,214	-	-	-	1,031,214
Derivative liabilities	202,711	31,768	233,810	-	468,289
Derivative liabilities used for hedging purposes	-	16,545	-	-	16,545
Funds borrowed	10,104,087	9,490,539	7,033,699	-	26,628,325
Debt securities issued (1)	108,662	2,087,826	5,765,669	145,256	8,107,413
Payables to stock exchange money market	166,153	-	-	-	166,153
Current account of loan customers	58,950	-	-	-	58,950
Taxes and dues payable	-	-	-	67,608	67,608
Corporate tax liability	-	-	-	15,750	15,750
Employee benefits	-	-	-	36,205	36,205
<b>Total</b>	<b>11,671,777</b>	<b>11,626,678</b>	<b>13,033,178</b>	<b>264,819</b>	<b>36,596,452</b>
<b>Total Balance Sheet Position</b>	<b>5,358,174</b>	<b>(511,424)</b>	<b>(997,243)</b>	<b>(79,508)</b>	<b>3,769,999</b>
<b>Total Off Balance Sheet Position</b>	<b>(2,502,841)</b>	<b>(1,773,188)</b>	<b>4,708,945</b>	<b>-</b>	<b>432,916</b>
<b>Total Position</b>	<b>2,855,333</b>	<b>(2,284,612)</b>	<b>3,711,703</b>	<b>(79,508)</b>	<b>4,202,915</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Market risk (continued)**

**Interest Rate Sensitivity (continued)**

As at 31 December 2020, a summary of average interest rates for different assets and liabilities are as follows:

	<b>TL</b> <b>%</b>	<b>Euro</b> <b>%</b>	<b>US Dollar</b> <b>%</b>
<b><u>Assets</u></b>			
Cash & Balances with Central Bank	12.00	-	-
Banks	16.57	1.64	1.11
Money market placements	17.15	-	-
Loans and advances to customers	15.35	4.70	5.57
Financial assets at FVOPL	13.91	-	4.34
Financial assets at FVOCI	11.91	2.68	5.19
Financial assets measured at amortized cost	13.31	-	5.60
<b><u>Liabilities</u></b>			
Funds borrowed	11.81	1.06	1.49
Money market balances	17.08	0.12	0.26
Marketable securities issued	16.33	-	4.29
Current account of loan customers	12.50	0.10	0.20

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

	<b>TL</b> <b>%</b>	<b>Euro</b> <b>%</b>	<b>US Dollar</b> <b>%</b>
<b><u>Assets</u></b>			
Cash & Balances with Central Bank	-	-	-
Banks	7.60	0.80	1.55
Money market placements	13.49	-	-
Loans and advances to customers	17.04	4.59	6.72
Financial assets at FVOPL	14.70	-	10.05
Financial assets at FVOCI	17.49	4.24	4.76
Financial assets measured at amortized cost	12.45	-	5.59
<b><u>Liabilities</u></b>			
Funds borrowed	10.79	1.11	2.88
Money market balances	10.96	0.12	2.24
Marketable securities issued	13.10	-	5.71
Current account of loan customers	7.50	0.10	1.25

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Market risk (continued)**

**Interest Rate Sensitivity (continued)**

The economic valuation differences of the Bank arising from fluctuations on interest rates, in different currencies that is calculated in accordance with the communiqué are presented in the table below.

Current Period Currency	Applied Shock (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss / Shareholders' Equity
TL	+500 / (400) basis point	(230,463) / 223,105	(2.63%) / 2.54%
Euro	+200 / (200) basis point	81,243 / 20,836	0.93% / 0.24%
US Dollar	+200 / (200) basis point	(477,883) / 178,020	(5.45)% / 2.03%
<b>Total (for Negative Shocks)</b>		<b>421,961</b>	<b>4.81%</b>
<b>Total (for Positive Shocks)</b>		<b>(627,103)</b>	<b>(7.15)%</b>

Prior Period Currency	Applied Shock (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss/ Shareholders' Equity
TL	+500 / (400) basis point	(157,080) / 144,247	(2.08%) / 1.91%
Euro	+200 / (200) basis point	57,159 / (4,926)	0.76% / (0.07%)
US Dollar	+200 / (200) basis point	(258,991) / 276,863	(3.42%) / 3.66%
<b>Total (for Negative Shocks)</b>		<b>416,184</b>	<b>5.50%</b>
<b>Total (for Positive Shocks)</b>		<b>(358,912)</b>	<b>(4.74%)</b>

**Other Price Risks**

**Equity price sensitivity**

The sensitivity analysis below has been determined based on the exposure to stock price risks at the reporting date.

The Group is exposed to equity price risks arising from equity investments of firms traded in Istanbul Stock Exchange. Since these investments are classified as financial assets held for trading, only the net profit/loss will be affected.

As at the reporting date, equity price sensitivity of the Group has been analyzed. The analysis has been based on the assumption that the inputs (equity prices) to the valuation model are 20% higher/lower while all other variables are constant.

The Group classifies its equity investments both as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. Therefore, the net profit/loss is not affected as long as the Group does not sell its equity investments classified as financial assets at fair value through other comprehensive income.

Unless the equity share investments classified as assets financial assets at fair value through other comprehensive income are disposed of or impaired, the net profit/loss will not be affected.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Market risk (continued)**

**Currency risk (continued)**

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

*Management of currency risk*

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

The below table summarizes the foreign currency position of the Group as at 31 December 2020:

	<b>Euro</b>	<b>US Dollar</b>	<b>Other Foreign Currencies</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents including Central Bank	10,008	130	-	10,138
Reserve deposits at Central Bank	432,435	578,809	-	1,011,244
Loans and advances to banks	108,757	229,360	4,416	342,533
Derivative financial instruments	119,055	526,614	561	646,230
Loans and advances to customers	16,192,854	18,387,438	-	34,580,292
Financial assets at fair value through other comprehensive income	77,394	2,619,336	-	2,696,730
Financial assets measured at amortized cost	-	363,157	-	363,157
Derivative assets held for hedging purposes	-	334,421	-	334,421
Other assets	259,410	199,865	-	459,275
<b>Total Assets</b>	<b>17,199,913</b>	<b>23,239,130</b>	<b>4,977</b>	<b>40,444,020</b>
<b>Liabilities</b>				
Obligations under repurchase agreements	213,896	109,809	-	323,705
Derivative financial liabilities held for trading	95,274	222,293	-	317,567
Funds borrowed	14,234,091	17,978,134	-	32,212,225
Marketable securities issued (1)	-	10,320,778	-	10,320,778
Current account of loan customers	35,694	81,451	-	117,145
Derivative liabilities held for hedging purposes	-	-	-	-
Other liabilities	18,220	187,816	652	206,688
<b>Total Liabilities</b>	<b>14,597,175</b>	<b>28,900,281</b>	<b>652</b>	<b>43,498,108</b>
<b>Net Statement of Financial Position</b>	<b>2,602,738</b>	<b>(5,661,151)</b>	<b>4,325</b>	<b>(3,054,088)</b>
<b>Off Balance Sheet Position</b>				
Derivatives to sell	1,479,327	7,944,254	149,341	9,572,922
Derivatives to buy	(3,688,785)	(1,676,056)	(151,674)	(5,516,515)
	<b>(2,209,458)</b>	<b>6,268,198</b>	<b>(2,333)</b>	<b>4,056,407</b>
<b>Net Position</b>	<b>393,280</b>	<b>607,047</b>	<b>1,992</b>	<b>1,002,319</b>

(1) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated debt instruments.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Market risk (continued)**

**Currency risk (continued)**

The below table summarizes the foreign currency position of the Group as at 31 December 2019:

	<b>Euro</b>	<b>US Dollar</b>	<b>Other Foreign Currencies</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents including Central Bank	7,355	106	-	7,461
Reserve deposits at Central Bank	319,060	477,007	-	796,067
Loans and advances to banks	164,909	71,655	8,155	244,719
Derivative financial instruments	74,570	378,039	1,012	453,621
Money market placements	-	-	-	-
Loans and advances to customers	13,526,294	14,764,672	-	28,290,966
Financial assets at fair value through other comprehensive income	61,199	1,915,940	-	1,977,139
Financial assets measured at amortized cost	-	299,266	-	299,266
Derivative assets held for hedging purposes	-	67,884	-	67,884
Other assets	76,468	323,092	-	399,560
<b>Total Assets</b>	<b>14,229,855</b>	<b>18,297,661</b>	<b>9,167</b>	<b>32,536,683</b>
<b>Liabilities</b>				
Obligations under repurchase agreements	128,954	533,217	-	662,171
Derivative financial liabilities held for trading	61,397	83,223	-	144,620
Funds borrowed	12,069,597	13,923,090	-	25,992,687
Marketable securities issued (1)	-	7,853,495	-	7,853,495
Current account of loan customers	23,430	34,662	-	58,092
Derivative liabilities held for hedging purposes	-	16,545	-	16,545
Other liabilities	14,661	68,886	1,363	84,910
<b>Total Liabilities</b>	<b>12,298,039</b>	<b>22,513,118</b>	<b>1,363</b>	<b>34,812,520</b>
<b>Net Statement of Financial Position</b>	<b>1,931,816</b>	<b>(4,215,457)</b>	<b>7,804</b>	<b>(2,275,837)</b>
<b>Off Balance Sheet Position</b>				
Derivatives to sell	1,037,523	7,074,810	149,898	8,262,231
Derivatives to buy	(3,107,098)	(2,614,729)	(157,686)	(5,879,513)
	<b>1,037,523</b>	<b>7,074,810</b>	<b>149,898</b>	<b>8,262,231</b>
<b>Net Position</b>	<b>(137,759)</b>	<b>244,624</b>	<b>16</b>	<b>106,881</b>

(1) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated debt instrument.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

**Market risk (continued)**

**Foreign currency sensitivity**

No long or short position is taken due to the uncertainties and changes in the markets therefore; no exposure to foreign currency risk is expected. However, possible foreign currency risks are calculated on a weekly and monthly basis under the standard method in the foreign currency risk table and their results are reported to the official authorities and the Group's top management.

Thus, foreign currency risk is closely monitored. Foreign currency risk, as a part of general market risk, is also taken into consideration in the calculation of Capital Adequacy Standard Ratio.

No short position is taken regarding foreign currency risk, whereas, counter position is taken for any foreign currency risks arising from customer transactions as to avoid foreign currency risk.

The Group is mostly exposed to Euro and US Dollar currencies.

The following table details the Group's sensitivity to 10% increase/decrease in the TL against US Dollar, Euro and other currencies.

	% Increase	Effect on profit or loss (1)		Effect on equity (2)	
		31 December 2020	31 December 2019	31 December 2020	31 December 2019
US Dollar	10%	48,573	23,918	12,132	544
Euro	10%	39,328	(13,807)	-	31
Other	10%	199	2	-	-

  

	% Decrease	Effect on profit or loss (1)		Effect on equity (2)	
		31 December 2020	31 December 2019	31 December 2020	31 December 2019
US Dollar	10%	(48,573)	(23,918)	(12,132)	(544)
Euro	10%	(39,328)	13,807	-	(31)
Other	10%	(199)	(2)	-	-

(1) Values expressed are before the tax effect.

(2) Effect on equity does not include effect on profit/loss.

The Group's sensitivity to foreign currency has increased during the current period mainly due to the change in currency position.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

***Capital management – regulatory capital***

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The BRSA also requires the banks to maintain prescribed ratios of minimum 4.5% Common Equity Tier 1 and 6% Tier 1 to total value at credit, market and operational risks starting from 1 January 2016.

Total capital and 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”. As of 31 December 2020, the capital adequacy ratio of the Group has been calculated as 19.37% (31 December 2019:17.39%).

The Bank and its financial subsidiaries’ consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of financial assets at fair value through other comprehensive income and equity investments, subordinated loans received and free reserves set aside for contingencies.
- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, other comprehensive income, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, leasehold improvements on operational leases and other certain costs.
- Tier 2 capital, which includes qualifying subordinated liabilities and general provisions.

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

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

***Capital management – regulatory capital (continued)***

The Bank's and its financial subsidiaries' regulatory capital position on a consolidated basis at 31 December 2020 and 31 December 2019 was as follows:

	<b>2020</b>	<b>2019</b>
Tier 1 capital	6,061,535	5,171,309
Tier 2 capital	2,718,626	2,279,212
Deductions from capital	-	-
<b>Total regulatory capital</b>	<b>8,780,161</b>	<b>7,450,521</b>
 Total Risk Weighted Assets	 45,335,598	 42,842,113
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total credit risk, counterparty credit risk, market risk and operational risk	19.37%	17.39%
Total Tier 1 capital expressed as a percentage of total credit risk, counterparty credit risk, market risk and operational risk	13.37%	12.07%

As at 31 December 2020, the Bank's capital adequacy ratio on an unconsolidated basis is 19.41% (31 December 2019: 17.79%). The Group's consolidated capital adequacy ratio as at 31 December 2020 is 19.37% (31 December 2019: 17.39%).

Total capital and capital adequacy ratio as of 31 December 2020 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.

***Operational risk***

Operational risk amount of the Group is measured with Basic Indicator Method referring to "Regulation on Measurement and Assessment of Capital Adequacy of Banks" According to this method; the calculation is performed parallel to the practice within the country, by multiplying 15% of the Group's last three years' average gross revenue with 12.5. The amount, calculated as TL 2,526,013 as at 31 December 2020 (31 December 2019: TL 2,029,776) represents the operational risk.

Yearly gross income, as presented on the income statement; is calculated with net interest income plus net fee and commission, dividend income except from subsidiaries and associates, trading profit/loss and other operational income minus profit/loss gain on sale of assets other than of trading accounts, extraordinary income, operational expense for support service from a bank and recoveries from insurance.

***Fair values of financial instruments***

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

***Fair values of financial instruments (continued)***

• Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The consolidated financial statements include holdings in unlisted shares which are measured at their historical costs as fair values could not be determined reliably.

Based on the fair value hierarchy, the Group's financial assets and liabilities are categorized as follow:

<b>31 December 2020</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial Assets</b>				
<b>Financial assets at FVPL</b>	<b>279,851</b>	<b>16,754</b>	<b>-</b>	<b>263,097</b>
Loans	263,097	-	-	263,097
Government bonds and Treasury bills	-	-	-	-
Equity shares	4,152	4,152	-	-
Mutual funds	12,175	12,175	-	-
Debt securities issued by corporations	427	427	-	-
<b>Derivative assets</b>	<b>1,077,807</b>	<b>-</b>	<b>1,077,807</b>	<b>-</b>
<b>Derivatives used for hedging purposes</b>	<b>262,699</b>	<b>-</b>	<b>262,699</b>	<b>-</b>
<b>Financial assets at FVOCI <sup>(1)</sup></b>	<b>4,618,362</b>	<b>4,387,531</b>	<b>108,160</b>	<b>122,671</b>
Government bonds and Treasury bills	1,724,827	1,724,827	-	-
Eurobonds	2,619,578	2,619,578	-	-
Equity shares	181,969	39,539	108,160	34,270
Mutual funds	3,587	3,587	-	-
Debt securities issued by corporations	88,401	-	-	88,401
<b>Financial Liabilities</b>				
<b>Derivative liabilities</b>	<b>720,931</b>	<b>-</b>	<b>720,931</b>	<b>-</b>
<b>Derivatives used for hedging purposes</b>	<b>154,049</b>	<b>-</b>	<b>154,049</b>	<b>-</b>

<sup>(1)</sup> As of 31 December 2020, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 11,850 have been measured at cost.

<b>31 December 2019</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial Assets</b>				
<b>Financial assets at FVPL</b>	<b>278,918</b>	<b>7,135</b>	<b>8,686</b>	<b>263,097</b>
Loans	263,097	-	-	263,097
Government bonds and Treasury bills	-	-	-	-
Equity shares	1	1	-	-
Mutual funds	7,134	7,134	-	-
Debt securities issued by corporations	8,686	-	8,686	-
<b>Derivative assets</b>	<b>894,447</b>	<b>-</b>	<b>894,447</b>	<b>-</b>
<b>Derivatives used for hedging purposes</b>	<b>67,884</b>	<b>-</b>	<b>67,884</b>	<b>-</b>
<b>Financial assets at FVOCI <sup>(1)</sup></b>	<b>4,182,432</b>	<b>3,947,295</b>	<b>84,813</b>	<b>150,324</b>
Government bonds and Treasury bills	2,001,291	2,001,291	-	-
Eurobonds	1,922,143	1,922,143	-	-
Equity shares	112,728	20,662	84,813	7,253
Debt securities issued by corporations	146,270	3,199	-	143,071
<b>Financial Liabilities</b>				
<b>Derivative liabilities</b>	<b>467,798</b>	<b>-</b>	<b>467,798</b>	<b>-</b>
<b>Derivatives used for hedging purposes</b>	<b>16,545</b>	<b>-</b>	<b>16,545</b>	<b>-</b>

<sup>(1)</sup> As of 31 December 2019, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 12,256 have been measured at cost.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**4. FINANCIAL RISK MANAGEMENT (Continued)**

*Fair values of financial instruments (continued)*

The reconciliation from the beginning balances to ending balances for fair value measurements in Level 3 for the year ended 31 December 2019.

	<b>31 December 2020</b>	<b>31 December 2019</b>
Balance at the beginning of the year	413,422	379,269
Purchases	-	105,976
Redemption or sales	(58,896)	(55,240)
Valuation differences	31,242	(16,583)
Transfer	-	-
<b>Balance at the end of the year <sup>(1)</sup></b>	<b>385,768</b>	<b>413,422</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020

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

#### 5. 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			Total
	Loans and receivables	Investments, including derivatives	Total	Level 1	Level 2	Level 3	
<b>Financial assets</b>							
<b>31 December 2020</b>							
<b>Financial assets measured at fair value</b>							
Financial assets at FVPL	-	279,851	279,851	16,754	-	263,097	279,851
Derivative financial instruments	-	1,077,807	1,077,807	-	1,077,807	-	1,077,807
Derivative assets held for hedging purposes	-	262,699	262,699	-	262,699	-	262,699
Investment securities - FVOCI <sup>(1)</sup>	-	4,630,211	4,630,211	4,387,531	108,160	122,670	4,618,361
<b>Financial assets not measured at fair value</b>							
Cash and cash equivalents and due from banks (including central banks, excluding cash on hand)	1,451,508	-	1,451,508	-	-	-	-
Loans and advances to customers	37,621,589	-	37,621,589	-	-	-	-
Financial assets measured at amortized cost	-	3,079,864	3,079,864	-	-	-	-
	<b>39,073,097</b>	<b>9,330,432</b>	<b>48,403,529</b>				
<b>31 December 2019</b>							
<b>Financial assets measured at fair value</b>							
Financial assets at FVPL	-	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 <sup>(1)</sup>	-	4,194,688	4,194,688	3,947,294	84,814	150,324	4,182,432
<b>Financial assets not measured at fair value</b>							
Cash and cash equivalents and due from banks (including central banks, excluding cash on hand)	1,060,891	-	1,060,891	-	-	-	-
Loans and advances to customers	30,761,544	-	30,761,544	-	-	-	-
Financial assets measured at amortized cost	-	2,581,799	2,581,799	-	-	-	-
	<b>31,822,435</b>	<b>8,017,736</b>	<b>39,840,171</b>				

<sup>(1)</sup> As of 31 December 2020, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 12,256 (31 December 2019: TL 12,256) have been measured at cost.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**5. 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
<b>31 December 2020</b>							
<b>Financial liabilities measured at fair value</b>							
Derivative financial instruments held for trading	-	720,931	720,931	-	720,931	-	720,931
Derivative liabilities held for hedge accounting	-	154,049	154,049	-	154,049	-	154,049
<b>Financial liabilities not measured at fair value</b>							
Obligations under repurchase agreements	1,045,103	-	1,045,103	-	-	-	-
Funds borrowed	32,332,210	-	32,332,210	-	-	-	-
Payables to stock exchange money market	345,023	-	345,023	-	-	-	-
Debt securities issued <sup>(1)</sup>	10,761,889	-	10,761,889	9,864,298	-	-	9,864,298
	<b>44,484,225</b>	<b>874,980</b>	<b>45,359,205</b>				
<b>31 December 2019</b>							
<b>Financial liabilities measured at fair value</b>							
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
<b>Financial liabilities not measured at fair value</b>							
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 <sup>(1)</sup>	8,107,413	-	8,107,413	7,638,136	-	-	7,638,136
	<b>35,933,105</b>	<b>484,834</b>	<b>36,417,939</b>				

<sup>(1)</sup> Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**6. 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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**6. OPERATING SEGMENTS (Continued)**

<b>CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 31 December 2020)</b>	<b>Banking</b>	<b>Stock brokerage and other</b>	<b>Combined</b>	<b>Eliminations</b>	<b>Total</b>
Interest income	3,266,501	71,338	3,337,839	(1,165)	3,336,674
Interest expense	(1,267,018)	(56,660)	(1,323,678)	9,389	(1,314,289)
<b>Net interest income</b>	<b>1,999,483</b>	<b>14,678</b>	<b>2,014,161</b>	<b>8,224</b>	<b>2,022,385</b>
Net fee and commission income	50,145	68,770	118,915	-	118,915
Net securities trading income / (loss)	7,122	1,862	8,984	(3,865)	5,119
Net derivative trading income / (loss)	(105,898)	44,700	(61,198)	-	(61,198)
Net foreign currency gain / (loss)	138,944	(93,672)	45,272	-	45,272
Net impairment loss on financial assets	(1,008,512)	(3,152)	(1,011,664)	-	(1,011,664)
<b>Net operating income after impairment losses</b>	<b>1,081,284</b>	<b>33,186</b>	<b>1,114,470</b>	<b>4,359</b>	<b>1,118,829</b>
Other operating income	5,891	174,566	180,457	(41,923)	138,534
Other operating expenses	(221,899)	(202,356)	(424,255)	17,731	(406,524)
Dividend income	4,392	6,465	10,857	-	10,857
Share of profit of equity-accounted investees	74,651	-	74,651	-	74,651
<b>Profit before income tax</b>	<b>944,319</b>	<b>11,861</b>	<b>956,180</b>	<b>(19,833)</b>	<b>936,347</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**6. OPERATING SEGMENTS (Continued)**

<b>CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 31 December 2019)</b>	<b>Banking</b>	<b>Stock brokerage and other</b>	<b>Combined</b>	<b>Eliminations</b>	<b>Total</b>
Interest income	3,254,968	58,058	3,313,026	(25)	3,313,001
Interest expense	(1,323,131)	(88,511)	(1,411,642)	9,925	(1,401,717)
<b>Net interest income</b>	<b>1,931,837</b>	<b>(30,453)</b>	<b>1,901,384</b>	<b>9,900</b>	<b>1,911,284</b>
Net fee and commission income	29,758	35,345	65,103	-	65,103
Net securities trading income / (loss)	1,320	2,417	3,737	-	3,737
Net derivative trading income / (loss)	(553,297)	64,219	(489,078)	-	(489,078)
Net foreign currency gain / (loss)	106,317	(40,099)	66,218	-	66,218
Net impairment loss on financial assets	(458,882)	(1,749)	(460,631)	-	(460,631)
<b>Net operating income after impairment losses</b>	<b>1,057,053</b>	<b>29,680</b>	<b>1,086,733</b>	<b>9,900</b>	<b>1,096,633</b>
Other operating income	31,614	100,977	132,591	(67,041)	65,550
Other operating expenses	(201,559)	(65,796)	(267,355)	11,947	(255,408)
Dividend income	7,123	2,672	9,795	(3,041)	6,754
Share of profit of equity-accounted investees	19,944	-	19,944	-	19,944
<b>Profit before income tax</b>	<b>914,175</b>	<b>67,533</b>	<b>981,708</b>	<b>(48,235)</b>	<b>933,473</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**6. OPERATING SEGMENTS (Continued)**

<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	<b>Banking</b>	<b>Stock brokerage and other</b>	<b>Combined</b>	<b>Eliminations</b>	<b>Total</b>
<b><u>At 31 December 2020</u></b>					
<b>Total assets</b>	<b>51,410,971</b>	<b>1,736,130</b>	<b>53,147,101</b>	<b>(716,807)</b>	<b>52,430,294</b>
<b>Total liabilities</b>	<b>45,261,803</b>	<b>1,110,553</b>	<b>46,372,356</b>	<b>(172,205)</b>	<b>46,200,151</b>
Equity before net profit & non-controlling interests	5,418,203	627,240	6,045,443	(581,764)	5,463,679
Net profit attributable to equity holders of the Bank	730,965	(1,663)	729,302	(17,008)	712,294
Non-controlling interests	-	-	-	54,170	54,170
<b>Total equity</b>	<b>6,149,168</b>	<b>625,577</b>	<b>6,774,745</b>	<b>(544,602)</b>	<b>6,230,143</b>
<b>Total liabilities and equity</b>	<b>51,410,971</b>	<b>1,736,130</b>	<b>53,147,101</b>	<b>(716,807)</b>	<b>52,430,294</b>
<b><u>At 31 December 2019</u></b>					
<b>Total assets</b>	<b>41,207,333</b>	<b>1,207,177</b>	<b>42,414,510</b>	<b>(162,121)</b>	<b>42,252,389</b>
<b>Total liabilities</b>	<b>36,233,202</b>	<b>779,015</b>	<b>37,012,217</b>	<b>(38,195)</b>	<b>36,974,022</b>
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
<b>Total equity</b>	<b>4,974,131</b>	<b>428,162</b>	<b>5,402,293</b>	<b>(123,926)</b>	<b>5,278,367</b>
<b>Total liabilities and equity</b>	<b>41,207,333</b>	<b>1,207,177</b>	<b>42,414,510</b>	<b>(162,121)</b>	<b>42,252,389</b>



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**7. CASH AND CASH EQUIVALENTS, BALANCES WITH CENTRAL BANK, LOANS AND ADVANCES TO BANKS, MONEY MARKET PLACEMENTS**

Cash and cash equivalent comprise balances with less than three months' maturity from the date of acquisition, including cash on hand, deposits from banks and other short-term highly liquid investments with original maturities of three months or less.

	<b>31 December 2020</b>	<b>31 December 2019</b>
Cash on hand	20	29
Loans and advances to banks (with original maturity of less than 3 months) <sup>(1)</sup>	428,446	257,308
Unrestricted balances with the Central Bank	12,365	7,945
Funds lent under repurchase agreements	663	652
Interbank money market placements <sup>(2)</sup>	1,423,368	525,599
<b>Total cash and cash equivalents in the consolidated statement of financial position</b>	<b>1,864,862</b>	<b>791,533</b>
Accruals on cash and cash equivalents	(238)	(11,731)
<b>Total cash and cash equivalents in the consolidated statement of cash flows</b>	<b>1,864,624</b>	<b>779,802</b>

<sup>(1)</sup> As of 31 December 2020, provision amounting to TL 1,019 is allocated in "Loans and advances to banks" due to transition of IFRS 9 (31 December 2019: TL 384).

<sup>(2)</sup> As of 31 December 2020, provision amounting to TL 145 is allocated in "Interbank Money Market Placements" due to transition of IFRS 9 (31 December 2019: TL 35).

**Cash And Cash Equivalents**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Cash on hand – Turkish Lira ("TL")	20	29
<b>Total cash on hand</b>	<b>20</b>	<b>29</b>

There is no blockage on the use of cash and cash equivalents as of 31 December 2020 (31 December 2019: None).

**Balances With Central Bank**

**a) Unrestricted balances with Central Bank**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Demand deposits – TL	2,227	484
Demand deposits – FC	10,138	7,461
<b>Total</b>	<b>12,365</b>	<b>7,945</b>

**b) Reserve Deposits at Central Bank**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Foreign currency reserves <sup>(1)</sup>	1,011,244	796,067
<b>Total</b>	<b>1,011,244</b>	<b>796,067</b>

<sup>(1)</sup> As of 31 December 2020, provision amounting to TL 546 is allocated in "Balance with the Central Bank of Turkey" due to transition of IFRS 9 (31 December 2019: 429)

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**7. CASH AND CASH EQUIVALENTS, BALANCES WITH CENTRAL BANK, LOANS AND ADVANCES TO BANKS (Continued)**

**Balances With Central Bank (continued)**

**b) Reserve Deposits at Central Bank (continued)**

As per the Communiqué numbered 2005/1 “Reserve Deposits” of the 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. Interest rate for the required reserves in Turkish Lira is paid by 12% effective rate since 21 September 2018.

The CBRT Required reserves of 2 May 2015 has started to pay interest to the Required reserves, reserve options and unrestricted account held in US dollars according to regulation released at 5 May 2015.

As per the “Communiqué on Amendments to be Made on Communiqué on Required Reserves” of Central Bank of Turkey, numbered 2011/11 and 2011/13, required reserves for Turkish Lira and Foreign currency liabilities are set at Central Bank of Turkey based on rates mentioned below. Reserve rates prevailing at 31 December 2020 are presented in table below:

Reserve Rates for Turkish Lira Liabilities (%)	
Original Maturity	Reserve Ratio
Until 1 year maturity (1 year include)	6
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

**Loans And Advances To Banks**

	31 December 2020	31 December 2019
<b><u>Domestic Banks</u></b>		
Demand deposits – TL	58,059	7,583
Time deposits – TL	28,873	5,732
Demand deposits – FC	94,918	45,220
Time deposits – FC	80,540	139,668
	<b>262,390</b>	<b>198,203</b>
<b><u>Foreign Banks</u></b>		
Time deposits – TL	-	-
Demand deposits – FC	167,075	59,489
Time deposits – FC	-	-
	<b>167,075</b>	<b>59,489</b>
<b>Total</b>	<b>429,465</b>	<b>257,692</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**7. CASH AND CASH EQUIVALENTS, BALANCES WITH CENTRAL BANK, LOANS AND ADVANCES TO BANKS (Continued)**

**Loans And Advances To Banks (continued)**

The time deposits above mature within 4 - 359 days and earn interest at rates 15.00 – 16.57% for TL balances, 2.50 – 3.40% for foreign currency balances as at the reporting date (31 December 2019: Maturity: 2 – 44 days; interest 7.60% for TL balances and 0.33-1.55% for foreign currency).

Expected credit loss for balances with Central Bank at 31 December 2020 is as follows:

	<b>31 December 2020</b>		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
Balances at 1 January 2020	429	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(408)	-	-
Provision for the period	525	-	-
Effects of movements in exchange rates	-	-	-
<b>Balances at the end of the period</b>	<b>546</b>	<b>-</b>	<b>-</b>

Expected credit loss for banks as at 31 December 2020 is as follows:

	<b>31 December 2020</b>		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
Balances at 1 January 2020	384	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(1,360)	-	-
Provision for the period	1,995	-	-
Effects of movements in exchange rates	-	-	-
<b>Balances at the end of the period</b>	<b>1,019</b>	<b>-</b>	<b>-</b>

Expected credit loss for interbank money market placements as at 31 December 2020 is as follows:

	<b>31 December 2020</b>		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
Balances at 1 January 2020	35	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	(159)	-	-
Provision for the period	269	-	-
Effects of movements in exchange rates	-	-	-
<b>Balances at the end of the period</b>	<b>145</b>	<b>-</b>	<b>-</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Debt securities issued by corporations	427	8,686
Equity shares	4,152	1
Mutual funds	12,175	7,134
Loans measured at FVPL (*)	263,097	263,097
<b>Total</b>	<b>279,851</b>	<b>278,918</b>

(\*)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 31 December 2020, the fair value is based on the results of an independent valuation Company.

There are no government bonds and treasury bills include securities given as collateral or blocked as at the reporting date (31 December 2019: None).

**9. LOANS AND ADVANCES TO CUSTOMERS**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Short-term and current portion of long term loans	4,476,560	4,086,693
Long-term loans	33,213,259	26,450,285
<b>Total performing loans</b>	<b>37,689,819</b>	<b>30,536,978</b>
Non-performing loans	1,689,788	1,107,772
<b>Total loans</b>	<b>39,379,607</b>	<b>31,644,750</b>
Less: Specific provision for stage 3	(756,354)	(358,343)
Less: Generic provision for impairment losses on loans	(1,001,664)	(524,863)
<b>Total loans</b>	<b>37,621,589</b>	<b>30,761,544</b>

Movements in the reserve for impairment losses on loans for the year ended 2020 and 2019 are as follows:

	<b>1 January – 31 December 2020</b>	<b>1 January – 31 December 2019</b>
Specific provision for cash loans:		
As at 1 January 2020	358,343	169,489
Charge for the year	431,607	273,871
Collections	(33,596)	(85,017)
Reserve released and write offs	-	-
<b>As at 31 December</b>	<b>756,354</b>	<b>358,343</b>
Collective provision for cash loans:		
As at 1 January 2020	524,863	346,677
Charge for the year	476,801	178,186
Provision released and write offs	-	-
<b>As at 31 December</b>	<b>1,001,664</b>	<b>524,863</b>
<b>Total reserve for impairment losses on loans</b>	<b>1,758,018</b>	<b>883,206</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**9. LOANS AND ADVANCES TO CUSTOMERS (Continued)**

Loans can be further analysed by customer groups as follows:

	<b>31 December 2020</b>
Corporate customers	31,764,269
SME bussiness	7,254,882
Other	360,456
Less: Allowance for ECL/impairment losses	(1,758,018)
<b>Total</b>	<b>37,621,589</b>
	<b>31 December 2019</b>
Corporate customers	25,014,092
SME bussiness	6,409,339
Other	221,319
Less: Allowance for ECL/impairment losses	(883,206)
<b>Total</b>	<b>30,761,544</b>

	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Currency</b>		
US Dollar	18,268,735	12,889,567
Euro	15,743,774	14,617,058
Turkish Lira	3,956,454	2,587,774
Foreign currency indexed TL loans	1,410,644	1,550,351
<b>Total</b>	<b>39,379,607</b>	<b>31,644,750</b>

Foreign currency indexed loans represent loans extended in Turkish Lira but the related principal and interest are repaid in Turkish Lira equivalent of the currency to which they are indexed.

As at 31 December 2020 and 31 December 2019, the aging analysis of past due but not impaired loans per customer groups is as follows:

	<b>31 December 2020</b>				
	<b>Less than 30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>More than 91 days</b>	<b>Total</b>
<b>Current Period</b>					
Corporate and Commercial Loans	5	-	-	5	5
SME Loans	723	-	-	723	723
Others	-	-	-	-	-
<b>Total</b>	<b>728</b>	<b>-</b>	<b>-</b>	<b>728</b>	<b>728</b>
	<b>31 December 2019</b>				
	<b>Less than 30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>More than 91 days</b>	<b>Total</b>
<b>Prior Period</b>					
Corporate and Commercial Loans	1,255	-	-	-	1,255
SME Loans	731	-	-	-	731
Others	-	-	-	-	-
<b>Total</b>	<b>1,986</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,986</b>

Of the total aggregate amount of gross past due but not yet impaired loans and advances to customers, the fair value of collaterals, capped with the respective outstanding loan balances including those not past due, that Parent Bank has TL 7,585 of loans as of 31 December 2020 (31 December 2019: TL 27,724).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**9. LOANS AND ADVANCES TO CUSTOMERS (Continued)**

Loans and advances to customers not impaired amounting to TL 19,135,485 have floating interest rates (31 December 2019: TL 17,632,456) and the remaining TL 18,554,334 have fixed interest rates (31 December 2019: TL 12,904,522).

Expected credit loss of loans and advances to customers movement as at 31 December 2020 is as follows:

	<b>31 December 2020</b>		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
Balances at 1 January 2020	174,056	350,807	358,343
Transfer to Stage 1	-	-	-
Transfer to Stage 2	(67,471)	67,471	-
Transfer to Stage 3	-	(198,316)	198,316
Debt sales and write offs	-	-	-
Recoveries and reversals	(1,120,702)	(562,118)	(267,429)
Provision for the period	1,375,899	830,843	428,534
Effects of movements in exchange rates	64,048	87,147	38,590
<b>Balances at the end of the period</b>	<b>425,830</b>	<b>575,834</b>	<b>756,354</b>

**10. INVESTMENT SECURITIES**

*Financial assets at fair value through profit or loss*

	<b>31 December 2020</b>	<b>31 December 2019</b>
Government bonds and treasury bills in TL	-	-
Debt securities issued by corporations	12,602	15,820
Equity shares	4,152	1
Loans measured at FVPL (*)	263,097	263,097
<b>Total</b>	<b>279,851</b>	<b>278,918</b>

(\*)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 31 December 2020, the fair value is based on the results of an independent valuation Company.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**10. INVESTMENT SECURITIES (Continued)**

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

	<b>31 December 2020</b>	<b>31 December 2019</b>
Government bonds and treasury bills in TL	1,695,394	2,001,291
Eurobonds	2,619,578	1,922,143
Debt securities issued by corporations	121,420	146,270
Equity shares	193,819	124,984
<b>Total</b>	<b>4,630,211</b>	<b>4,194,688</b>

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 351,821 as at the reporting date (31 December 2019: TL 265,496).

The blocked securities kept in the Central Bank, the Istanbul Stock Exchange and Takasbank ISE Settlement and Custody Bank Inc. (Clearing House) for the purposes of liquidity requirement and trading guarantee on interbank, bond, repurchase and reverse repurchase markets as at 31 December 2020 and 31 December 2019 are as follows:

	<b>2020 Nominal Value</b>	<b>2020 Carrying Value</b>	<b>2019 Nominal Value</b>	<b>2019 Carrying Value</b>
<b><u>Government Bonds and Treasury Bills</u></b>				
Central Bank- Open Market Operations	365,000	391,755	276,437	301,913
Clearing House – Blocked Securities	308,100	300,026	274,700	281,610
Other (International Bank) Foreign Currency	1,211,724	1,214,869	1,272,511	1,244,173
	<b>1,884,824</b>	<b>1,906,650</b>	<b>1,823,648</b>	<b>1,827,696</b>

The Group's equity shares in Financial assets at fair value through other comprehensive income investment securities are as follows:

	<b>Ownership %</b>	<b>31 December 2020</b>	<b>Ownership %</b>	<b>31 December 2019</b>
<b><u>Investee</u></b>				
İstanbul Takas ve Saklama AŞ	1.62	27,481	1.62	27,481
İş Yatırım Ortaklığı AŞ	6.95	39,539	6.94	20,662
European Investment Fund-EIF	0.18	31,457	0.17	23,147
Turkish Growth and Innovation Fund-TGIF	10.00	45,695	10.00	30,659
İş Portföy Yönetimi AŞ	9.90	6,197	9.90	6,197
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ	10.05	2,123	10.05	1,056
TSKB Gayrimenkul Değerleme AŞ <sup>(1)</sup>	99.99	23,719	99.99	379
Borsa İstanbul A.Ş.	0.10	3,527	0.10	3,527
TSKB Sürdürülebilirlik Danışmanlığı AŞ <sup>(1)</sup>	99.85	1,634	99.76	4,730
JCR Avrasya Derecelendirme AŞ	2.86	2,786	-	-
Birleşik İpotek Finansmanı AŞ	8.33	4,167	-	-
Kredi Garanti Fonu	1.49	4,897	1.49	4,897
Others	<1.00	597	<1.00	2,249
<b>Total equity shares in financial assets at fair value through other comprehensive income</b>		<b>193,819</b>		<b>124,984</b>

The investments in TSKB Gayrimenkul Değerleme AŞ and TSKB Sürdürülebilirlik Danışmanlığı AŞ have not been consolidated since their effect on consolidated income and net assets is not significant.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**10. INVESTMENT SECURITIES (Continued)**

**Financial assets measured at amortized cost**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Government bonds and treasury bills in TL	3,079,864	2,581,799
<b>Total</b>	<b>3,079,864</b>	<b>2,581,799</b>

<sup>(1)</sup> As of 31 December 2020, provision amounting to TL 3,195 is allocated in "Financial assets measured at amortized cost" due to transition of IFRS 9.

**11. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES**

As at 31 December 2020 and 31 December 2019, the following entities are accounted for under the equity method in the accompanying consolidated financial statements:

	<b>Ownership (%)</b>	<b>Nominal</b>	<b>31 December 2020</b>
<b><u>Investee</u></b>			
İş Finansal Kiralama AŞ	29.46	204,850	475,792
İş Faktoring AŞ	21.75	13,811	104,009
İş Girişim Serm. Yat. Ort. AŞ	16.67	12,442	43,968
		<b>231,103</b>	<b>623,769</b>

  

	<b>Ownership (%)</b>	<b>Nominal</b>	<b>31 December 2019</b>
<b><u>Investee</u></b>			
İş Finansal Kiralama AŞ	29.46	204,850	355,956
İş Faktoring AŞ	21.75	13,811	65,335
İş Girişim Serm. Yat. Ort. AŞ	16.67	12,442	43,629
		<b>231,103</b>	<b>464,920</b>

The Group's share of profit in its equity-accounted investees for the year ended 31 December 2020 was TL 37,982 (31 December 2019: TL 19,944). In 2020 the Group has received no cash dividends from its investments in equity-accounted investees (31 December 2019: None).

The Group's equity-accounted investees are listed on BIST, except for İş Faktoring AŞ. Based on their closing prices of TL 3.90 of İş Finansal Kiralama AŞ and TL 19.09 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment in listed entities is TL 1,035,543 (31 December 2019: TL 3.84 of İş Finansal Kiralama AŞ and TL 3.91 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment is TL 834,455).

Summary financial information for equity-accounted investees is as follows:

<b>31 December 2020</b>	<b>Total assets</b>	<b>Equity</b>	<b>Current Period Profit</b>	<b>Fair Value</b>
İş Finansal Kiralama AŞ	12,762,218	1,719,238	198,772	798,024
İş Faktoring AŞ	4,646,794	478,204	56,926	104,009
İş Girişim Serm. Yat. Ort. AŞ	267,841	263,814	2,050	237,519
	<b>17,676,853</b>	<b>2,461,256</b>	<b>257,748</b>	<b>1,139,552</b>



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**11. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES (Continued)**

<b>31 December 2019</b>	<b>Total assets</b>	<b>Equity</b>	<b>Current Period Profit</b>	<b>Fair Value</b>
İş Finansal Kiralama AŞ	9,088,358	1,273,725	84,106	785,806
İş Faktoring AŞ	3,265,258	300,390	(23,452)	78,535
İş Girişim Serm. Yat. Ort. AŞ	265,801	261,774	1,736	48,649
	<b>12,619,417</b>	<b>1,835,889</b>	<b>62,390</b>	<b>912,990</b>

  

	<b>Current Period</b>	<b>Prior Period</b>
<b>Balance at the Beginning of the Period</b>	<b>464,920</b>	<b>428,490</b>
<b>Effect of IFRS 9</b>	-	-
<b>Balance at January 1, 2020</b>	<b>464,920</b>	<b>428,490</b>
Movements During the Period	158,849	36,430
Purchases	-	-
Bonus Shares Received	-	-
Current Year Share of Profit	-	-
Sales	-	-
Revaluation Increase/Decrease <sup>(1)</sup>	158,849	36,430
Provision for Impairment / Reversals	-	-
Other	-	-
<b>Balance at the End of the Period</b>	<b>623,769</b>	<b>464,920</b>
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	-	-

<sup>(1)</sup> Includes the differences of the equity method accounting.

**12. GOODWILL**

**Cost**

Balance at 1 January 2019	383
Balance at 31 December 2019	383
Balance at 31 December 2020	<b>383</b>

**Impairment**

At 1 January 2019	-
At 31 December 2019	-
At 31 December 2020	-

**Carrying Amount**

Balance at 1 January 2019	383
Balance at 31 December 2019	383
Balance at 31 December 2020	<b>383</b>

The above goodwill is attributable to Yatırım Finansman Menkul Değerler AŞ.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the investees are determined from cash flows projections. The Bank's management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the investees. The growth rates are based on industry growth forecasts. As at 31 December 2020, the recoverable amount of the investee is higher than the amount of goodwill; therefore, no impairment on goodwill is realized.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**13. PROPERTY AND EQUIPMENT**

<b>Current Period</b>	<b>Prior Period End</b>	<b>Current Period Additions</b>	<b>Current Period Disposals</b>	<b>Revaluation Surplus</b>	<b>Current Period End</b>
<b>Cost</b>					
Land and buildings	341,070	-	-	32,407	373,477
Assets held under finance leases	-	-	-	-	-
Vehicles	2,535	-	-	-	2,535
Right of use Assets	6,542	1,565	(408)	-	7,699
Assets held for resale	-	-	-	-	-
Other	28,399	6,919	(274)	-	35,044
<b>Total Cost</b>	<b>378,546</b>	<b>8,484</b>	<b>(682)</b>	<b>32,407</b>	<b>418,755</b>
<b>Accumulated depreciation</b>					
Land and buildings	(1,054)	(179)	-	-	(1,233)
Assets held under finance leases	-	-	-	-	-
Vehicles	(272)	(478)	-	-	(750)
Right of use Assets	(1,925)	(2,189)	-	-	(4,114)
Assets held for resale	-	-	-	-	-
Other	(28,089)	(4,155)	248	-	(31,996)
<b>Total accumulated depreciation</b>	<b>(31,340)</b>	<b>(7,001)</b>	<b>248</b>	<b>-</b>	<b>(38,093)</b>
<b>Impairment provision</b>					
Land and buildings	-	-	-	-	-
Assets held under finance leases	-	-	-	-	-
Vehicles	-	-	-	-	-
Right to use Securities	-	-	-	-	-
Assets held for resale	-	-	-	-	-
Other	-	-	-	-	-
<b>Total impairment provision</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net book value</b>	<b>347,206</b>	<b>1,483</b>	<b>(434)</b>	<b>32,407</b>	<b>380,662</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**13. PROPERTY AND EQUIPMENT (Continued)**

	Prior Period	Prior Period End	Current Period Additions	Current Period Disposals	Revaluation Surplus	Current Period End
<b>Cost</b>						
Land and buildings		291,924	41	-	49,105	341,070
Assets held under finance leases		5,192	-	(2,330)	-	2,862
Vehicles		1,000	2,348	(813)	-	2,535
Right to use Assets			6,997	(455)	-	6,542
Assets held for resale		-	-	-	-	-
Other		30,040	5,652	(7,280)	-	28,412
<b>Total Cost</b>		<b>328,156</b>	<b>15,038</b>	<b>(10,878)</b>	<b>49,105</b>	<b>381,421</b>
<b>Accumulated depreciation</b>						
Land and buildings		(818)	(236)	-	-	(1,054)
Assets held under finance leases		(5,096)	-	208	2,013	(2,875)
Vehicles		(852)	(191)	771	-	(272)
Right to use Assets			(1,949)	24	-	(1,925)
Assets held for resale		-	-	-	-	-
Other		(28,739)	(4,335)	6,998	(2,013)	(28,089)
<b>Total accumulated depreciation</b>		<b>(35,505)</b>	<b>(6,711)</b>	<b>8,001</b>	<b>-</b>	<b>(34,215)</b>
<b>Impairment provision</b>						
Land and buildings		-	-	-	-	-
Assets held under finance leases		-	-	-	-	-
Vehicles		-	-	-	-	-
Right to use Securities		-	-	-	-	-
Assets held for resale		-	-	-	-	-
Other		-	-	-	-	-
<b>Total impairment provision</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net book value</b>		<b>292,651</b>	<b>8,327</b>	<b>(2,877)</b>	<b>49,105</b>	<b>347,206</b>

(1) Impairment on assets for resale is classified under other assets from tangible assets in prior period.

**14. INVESTMENT PROPERTY**

	31 December 2020	31 December 2019
Fair value of investment properties	279,523	273,918
	<b>279,523</b>	<b>273,918</b>

The Group's investment properties are held under freehold interests.

In the current period, the Group has 3 investment properties with a total net book value of TL 279,523 (31 December 2019: TL 273,918) belonging to the Bank's subsidiary operating in the real-estate investment trust sector.

The total external rent income earned by the Group from its investment properties is TL 5,558 in the current period (31 December 2019: TL 7,819).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**14. INVESTMENT PROPERTY (Continued)**

The movement of investment properties as at 31 December 2020 and 31 December 2019 are as follows:

<b><u>Current Period</u></b>	<b>Closing Balance of Prior Period</b>	<b>Additions</b>	<b>Disposals</b>	<b>Change in Fair Value</b>	<b>Closing Balance of Current Period</b>
Tahir Han	36,960	-	-	235	37,195
Pendorya Mall	155,555	4,046	-	(1,171)	158,430
Adana Hotel Project	81,403	-	(172)	2,667	83,898
<b>Total</b>	<b>273,918</b>	<b>4,046</b>	<b>(172)</b>	<b>1,731</b>	<b>279,523</b>

  

<b><u>Prior Period</u></b>	<b>Closing Balance of Prior Period</b>	<b>Additions</b>	<b>Disposals</b>	<b>Change in Fair Value</b>	<b>Closing Balance of Current Period</b>
Tahir Han	28,130	-	-	8,830	36,960
Pendorya Mall	154,155	1,657	-	(257)	155,555
Adana Hotel Project	65,508	-	(2,121)	18,016	81,403
<b>Total</b>	<b>247,793</b>	<b>1,657</b>	<b>(2,121)</b>	<b>26,589</b>	<b>273,918</b>

**Fair value measurement**

The Group's investment properties are valued annually by an independent real estate appraisal company. The fair value of investment properties are within the scope of Level 3 according to valuation techniques. Reconciliation of Level 3 is given at the following table:

	<b>1 January – 31 December 2020</b>	<b>1 January – 31 December 2019</b>
Balance 1 January	236,958	219,662
Addition	4,046	1,657
Disposal	(172)	(2,120)
<b>Recognized in other income from other operations</b>		
Change in fair value	-	-
<b>Recognized in other expense from other operations</b>		
Change in fair value	1,496	17,759
Transfer	-	-
<b>Total</b>	<b>242,328</b>	<b>236,958</b>

Tahir Han has considered as Level 2 as of December 31, 2020.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**15. INTANGIBLE ASSETS**

The intangible fixed assets include software that are amortised principally on straight line basis which amortise the assets over their expected useful lives.

	31 December 2020	31 December 2019
<b><u>Acquisition cost</u></b>		
Balance at 1 January	10,935	9,042
Additions	2,342	2,080
Disposals	(539)	(187)
<b>Balance at 31 December</b>	<b>12,738</b>	<b>10,935</b>
<b><u>Accumulated amortisation</u></b>		
Balance at 1 January	(6,866)	(5,175)
Charge for the year	(2,350)	(1,878)
Disposals	539	187
<b>Balance at 31 December</b>	<b>(8,677)</b>	<b>(6,866)</b>
<b>Net Book Value, as at 31 December</b>	<b>4,061</b>	<b>4,069</b>

**16. OTHER ASSETS**

	31 December 2020	31 December 2019
Cash guarantees given	456,097	394,674
Prepaid expenses	105,224	88,189
VAT carried forward	1,690	2,539
Deposits, guarantees and collaterals given	69	25,256
Prepaid taxes	19,665	247
Trade receivables	34,758	147,703
Receivables from brokerage customers	-	1,670
Other (1)	456,990	30,831
<b>Total</b>	<b>1,074,493</b>	<b>691,109</b>

(1) Current period includes 425,000 TL Securities issued by private sector under the brokerage services Yatırım Varlık Kiralama A. Ş. are presented in the "OtherAssets" account.

Expected credit loss for other assets at 31 December 2020 is as follows:

	31 December 2020		
	Stage 1	Stage 2	Stage 3
Balances at 1 January 2020	1,376	54	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write offs	-	-	-
Recoveries and reversals	-	(42)	-
Provision for the period	2,617	-	-
Effects of movements in exchange rates	-	-	-
<b>Balances at the end of the period</b>	<b>3,993</b>	<b>12</b>	<b>-</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**17. ASSETS HELD FOR SALE**

	<b>Current Period</b>	<b>Prior Period</b>
<b>Net book value at beginning of period</b>	<b>64,403</b>	<b>1</b>
Cash Paid for Purchase	-	64,402
Expected Loss (-)	-	-
<b>Net book value at end of period</b>	<b>64,403</b>	<b>64,403</b>

The Bank have reached an agreement on restructuring the debts of Ojer Telekomünikasyon A.Ş. (OTAŞ), the major shareholder of Türk Telekomünikasyon A.Ş. (Türk Telekom) provided under the loan agreements. It was completed that 192,500,000,000 Class A shares owned by OTAŞ in Türk Telekom, representing 55% of Türk Telekom's issued share capital, which have been pledged as security for the existing loan facilities of OTAŞ, would be taken over by a special purpose vehicle incorporated or to be incorporated in the Republic of Turkey, owned directly or indirectly by the creditors. The Bank has participated in LYY Telekomünikasyon A.Ş. which was established within this context with 1.6172% stake and amounting to TL 64,403. The Bank considered the related investment within the scope of IFRS 5 "Assets Held for Sale and Discontinued Operations" (31 December 2019: TL 64,403).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**18. OBLIGATIONS UNDER REPURCHASE AGREEMENTS**

The securities sold under repurchase agreements and corresponding obligations are as follows:

	<b>2020</b>	<b>2020</b>	<b>2020</b>
	<b>Carrying</b>	<b>Carrying</b>	<b>Repurchase</b>
	<b>Value of</b>	<b>Value of</b>	<b>Value</b>
	<b>Underlying</b>	<b>Corresponding</b>	
	<b>Securities</b>	<b>Liability</b>	
Financial assets at fair value through other comprehensive income	384,612	351,817	351,821
Financial assets measured at amortized cost	603,584	608,001	608,393
	<b>988,196</b>	<b>959,818</b>	<b>960,214</b>

	<b>2019</b>	<b>2019</b>	<b>2019</b>
	<b>Carrying</b>	<b>Carrying</b>	<b>Repurchase</b>
	<b>Value of</b>	<b>Value of</b>	<b>Value</b>
	<b>Underlying</b>	<b>Corresponding</b>	
	<b>Securities</b>	<b>Liability</b>	
Financial assets at fair value through other comprehensive income	829,817	644,084	644,189
Financial assets measured at amortized cost	431,343	387,348	387,367
	<b>1,261,160</b>	<b>1,031,432</b>	<b>1,031,556</b>

The repurchase agreements have maturity periods between 1-7 days (31 December 2019: 1-24 days). The Group has applied interest rates of 0.10%-0.30% for foreign currency, 7.50-17.00% for Turkish Lira agreements (31 December 2019: 0.10%-2.43% for foreign currency, 8.00-11.51% for Turkish Lira). Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounts to TL 396 (31 December 2019: TL 123).

**19. FUNDS BORROWED**

	<b>31 December</b>	<b>31 December</b>
	<b>2020</b>	<b>2019</b>
Short-term funds	129,498	1,187,578
Short-term portion of medium and long-term funds	5,843,133	4,031,835
Medium and long-term funds	26,359,579	21,408,912
<b>Total</b>	<b>32,332,210</b>	<b>26,628,325</b>
	<b>31 December</b>	<b>31 December</b>
	<b>2020</b>	<b>2019</b>
Foreign currencies	32,212,225	25,992,686
Turkish Lira	119,985	635,639
<b>Total</b>	<b>32,332,210</b>	<b>26,628,325</b>

The Group did not have any default of principal, interest on redemption amounts or other breaches of loan covenants as of 31 December 2020 (31 December 2019: None).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**19. FUNDS BORROWED (Continued)**

As at 31 December 2020, interest rates and maturities of bank borrowings are as follows:

<u>31 December 2020</u>	Amount	Maturity		Interest Rate (%)	
		Min	Max	Min	Max
<u><b>Foreign Currency Borrowings</b></u>					
International Bank for Reconstruction and Development (IBRD)					
-EFIL III	110,181	15/01/2021	15/01/2021	0.59	0.59
-EFIL IV	1,514,783	15/07/2036	15/07/2036	0.39	0.39
-IBRD SME	44,744	15/03/2021	15/03/2021	0.33	0.33
-IBRD-Renewable Energy Loan	6,141,198	15/03/2029	15/04/2047	0.18	1.18
-IBRD EFIL IV Limit Increase	1,811,101	15/12/2038	15/12/2038	0.18	0.95
-IBRD Innovative Access to Finance	1,796,441	15/03/2042	15/03/2042	0.24	0.98
	<u><b>11,418,448</b></u>				
European Investment Bank (EIB)	6,346,474	15/03/2022	26/10/2030	0.06	2.21
Kreditanstalt Für Wiederaufbau (KfW)	3,443,081	30/12/2022	30/12/2032	1.29	3.35
Council of European Development Bank (CEB)	1,001,467	26/03/2021	29/05/2026	0.14	1.20
Association of French Development (AFD)	1,592,605	31/07/2021	31/10/2029	0.25	2.49
Domestic bank borrowings	236,064	04/01/2021	04/01/2021	0.01	0.06
Foreign bank borrowings	322,002	01/03/2021	20/12/2021	0.73	2.05
Syndicated Loan	1,363,355	26/07/2021	29/11/2021	1.75	2.24
European Bank for Reconstruction and Development EBRD	304,974	10/03/2022	27/01/2025	2.95	3.25
Islam Development Bank (IDB)	1,684,552	19/02/2023	24/03/2030	2.72	3.95
International Finance Corporation (IFC)	520,926	15/12/2022	17/03/2025	3.03	3.10
Credit Suisse	733,829	23/03/2023	23/03/2023	2.00	2.09
Banco De Sabadell	208,381	27/11/2028	03/01/2029	1.37	1.37
Oesterreichische Entwicklungsbank AG (OEB)	103,198	15/12/2026	15/12/2026	2.60	2.60
Citibank	74,004	26/09/2022	26/09/2022	1.12	1.12
Japan Bank for International Cooperation (JBIC)	845,255	27/03/2027	27/03/2027	1.77	1.77
Asya Altyapı Yatırım Bankası (AIIB)	1,168,818	15/10/2024	15/10/2033	0.90	1.15
China Development Bank (CDB)	844,792	06/03/2028	06/03/2028	2.54	2.60
	<u><b>20,793,777</b></u>				
<b>Total foreign currency borrowings</b>	<u><b>32,212,225</b></u>				
<u><b>Turkish Lira Borrowings</b></u>					
Credit Suisse	90,985	23/09/2021	23/09/2021	9.95	9.95
Domestic bank borrowings	29,000	04/01/2021	04/01/2021	17.00	17.80
<b>Total Turkish Lira borrowings</b>	<u><b>119,985</b></u>				
<b>Total</b>	<u><b>32,332,210</b></u>				



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**19. FUNDS BORROWED (Continued)**

As at 31 December 2019, interest rates and maturities of bank borrowings are as follows:

<u>31 December 2019</u>	<u>Amount</u>	<u>Maturity</u>		<u>Interest Rate (%)</u>	
		Min	Max	Min	Max
<u><b>Foreign Currency Borrowings</b></u>					
International Bank for Reconstruction and Development (IBRD)					
-EFIL II	90,665	15/01/2020	15/01/2020	2.46	2.46
-EFIL III	260,527	15/01/2021	15/01/2021	2.46	2.46
-EFIL IV	1,273,230	15/07/2036	15/07/2036	2.26	2.26
-IBRD SME	102,680	15/03/2021	15/03/2021	2.10	2.10
-IBRD-Renewable Energy Loan	4,411,769	15/03/2020	15/04/2047	2.94	2.94
-IBRD EFIL IV Limit Increase	1,491,291	15/12/2038	15/12/2038	0.35	2.58
-IBRD Innovative Access to Finance	1,426,748	15/03/2042	15/03/2042	0.28	2.74
	<u><b>9,056,910</b></u>				
European Investment Bank (EIB)	5,923,669	15/03/2022	26/10/2030	3.62	3.62
Kreditanstalt Für Wiederaufbau (KfW)	2,926,184	30/06/2020	30/12/2032	1.29	3.35
Council of European Development Bank (CEB)	1,010,456	14/05/2020	29/05/2026	2.87	2.87
Association of French Development (AFD)	1,031,244	31/07/2021	30/11/2026	0.25	1.15
Domestic bank borrowings	380,605	02/01/2020	03/01/2020	5.00	5.50
Foreign bank borrowings	61,219	27/08/2020	27/08/2020	3.47	3.47
Syndicated Loan	1,059,342	20/07/2020	20/07/2020	2.00	4.21
European Bank for Reconstruction and Development EBRD	332,616	10/03/2022	27/01/2025	2.95	4.98
Islam Development Bank (IDB)	1,545,177	19/02/2023	24/03/2030	2.72	3.95
International Finance Corporation (IFC)	529,307	15/12/2022	17/03/2025	4.65	4.80
Credit Suisse	591,865	23/03/2023	23/03/2023	2.00	2.09
Banco De Sabadell	171,887	27/11/2028	03/01/2029	1.37	1.37
JP Morgan Securities	140,680	05/06/2020	05/06/2020	2.90	2.90
Oesterreichische Entwicklungsbank AG (OEB)	88,480	15/12/2026	15/12/2026	2.60	2.60
Citibank	89,954	26/09/2022	26/09/2022	2.91	2.91
Japan Bank for International Cooperation (JBIC)	589,860	27/03/2027	27/03/2027	3.42	3.54
Intesa İstanbul	132,621	24/06/2020	24/06/2020	1.70	1.70
Asya Altyapı Yatırım Bankası (AIIB)	330,610	15/10/2033	15/10/2033	2.88	3.53
	<u><b>16,935,776</b></u>				
<b>Total foreign currency borrowings</b>	<u><b>25,992,686</b></u>				
<u><b>Turkish Lira Borrowings</b></u>					
Credit Suisse	90,939	23/09/2021	23/09/2021	9.95	9.95
JP Morgan Securities	31,092	08/07/2020	08/07/2020	9.05	9.05
Domestic bank borrowings	513,608	02/01/2020	02/01/2020	11.00	11.20
<b>Total Turkish Lira borrowings</b>	<u><b>635,639</b></u>				
<b>Total</b>	<u><b>26,628,325</b></u>				

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**20. DEBT SECURITIES ISSUED**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Debt securities issued	8,462,386	6,277,368
<b>Total</b>	<b>8,462,386</b>	<b>6,277,368</b>

Selling of Greenbond which was issued by the Bank in abroad with nominal value of USD 300 Million, 5 years maturity and for financing the green and sustainable projects has been completed on 18 May 2016. 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 Parent Bank issued the debt instruments which have nominal value of 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 Parent 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 Finansman Menkul Değerler A.Ş. Has issued debt instruments with a nominal amount of TL 51,500,000 as of 2 November 2020 and a maturity of 86 days at a simple interest rate of 15,05 with a maturity date of 27 January 2021.

**Cash Flow Movement**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Balance as at 1 January 2020	6,277,368	6,949,189
Proceed during the year	2,658,089	441,521
Repayments during the year	2,558,503	(2,194,016)
Other non-cash movements	2,085,432	1,080,674
<b>Balances as at 31 December 2020</b>	<b>8,462,386</b>	<b>6,277,368</b>

**21. OTHER LIABILITIES**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Unearned revenue	113,500	100,698
Payables to clearing accounts	143,033	65,381
Guarantees given	101,972	48,081
Other	2,182	12,586
<b>Total</b>	<b>360,687</b>	<b>226,746</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**22. TAXATION**

**Corporate Tax**

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 31 December 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 year.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax.

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

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2020 is 22% (31 December 2019: 22%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

There is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

**Income Withholding Tax**

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 23 July 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no.27 dated 3 February 2009, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**22. TAXATION (Continued)**

**Transfer Pricing**

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

**Deferred Tax**

Taxes on income for the year also comprise deferred taxes. Deferred income tax is provided, using the balance sheet method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability and asset are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Currently enacted or substantively enacted tax rates are used to determine deferred taxes on income. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

As explained above, this rate is determined as 22% to be applied to corporate earnings for the taxation periods of 2018, 2019 and 2020. In addition, the Council of Ministers is authorized to reduce the corresponding rate from 22% to 20%. As deferred tax assets or liabilities within the scope of IAS 12, are calculated by using the tax rates based on the effective tax rates or tax rates (and tax laws) expected to enter into force as of the reporting period (balance sheet date), to be applied in the periods when the assets turn into income or the debts are paid, the Bank made deferred tax calculation according to the rate of 20% for assets and liabilities as of 31 December 2020.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**22. TAXATION (Continued)**

**Deferred Tax (continued)**

**a) Statement of financial position:**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Corporate tax provision	369,402	286,837
Corporate tax paid in advance	(232,679)	(219,229)
<b>Corporate tax liability</b>	<b>136,723</b>	<b>67,608</b>

**b) Statement of Profit or Loss:**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Corporate tax expense	372,725	286,837
Deferred tax (income)/expense	(145,851)	(89,505)
	<b>226,874</b>	<b>197,332</b>

The deferred taxes on major temporary differences as at the reporting dates are as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Loan commissions	22,687	22,138
Impairment losses on loans	234,627	129,195
Reserve for employee severance indemnity and unused vacation provision	4,178	3,897
Valuation of marketable securities	28,888	2,028
Others	14,565	9,179
<b>Total deferred tax asset</b>	<b>304,945</b>	<b>166,437</b>
Valuation of marketable securities	(1,142)	(905)
Borrowing commissions	(16,122)	(14,744)
Accruals on derivative financial instruments	(102,189)	(104,207)
Useful life differences on property and equipment	(561)	(846)
Others	(11,020)	(5,805)
<b>Total deferred tax liability</b>	<b>(131,034)</b>	<b>(126,507)</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**22. TAXATION (Continued)**

**Deferred Tax (continued)**

Reflected as:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Deferred tax assets	304,945	166,437
Deferred tax liabilities (-)	(131,034)	(126,507)
<b>Total deferred tax assets, net</b>	<b>173,911</b>	<b>39,930</b>

Taxation can be reconciled to the profit per the income statement as follows:

	<b>%</b>	<b>31 December 2020</b>	<b>%</b>	<b>31 December 2019</b>
<b><u>Reconciliation of Taxation</u></b>				
Income before taxation		936,347		933,473
Tax at the statutory income tax rate	22.00	(205,996)	22.00	(205,364)
Tax effect of income that is deductible in determining taxable income	(0.31)	2,905	(0.95)	8,890
Tax effect of non-deductible expenses	0.28	(2,642)	(0.19)	1,790
Tax effect of dividend income	(0.03)	261	0.38	(3,558)
Other	(2.29)	(21,402)	(0.10)	910
<b>Income tax expense</b>	<b>24.23</b>	<b>(226,874)</b>	<b>21.14</b>	<b>(197,332)</b>

Movements in temporary differences for the years ended 31 December 2020 and 2019 are as follows:

	<b>Balance at 1 January</b>	<b>Recognized in profit or loss</b>	<b>Recognized in other comprehensive income</b>	<b>Balance at 31 December</b>
<b>2020</b>				
Loan commissions	22,138	549	-	22,687
Impairment losses on loans	129,195	105,432	-	234,627
Reserve for employee severance indemnity and unused vacation provision	3,897	1,003	(722)	4,178
Valuation of marketable securities	1,123	37,190	(10,567)	27,746
Useful life differences on property and equipment	(846)	285	-	(561)
Borrowing commissions	(14,744)	(1,378)	-	(16,122)
Accruals on derivative financial instruments	(104,207)	2,018	-	(102,189)
Other	3,374	752	(581)	3,545
<b>Net deferred tax asset / (liability)</b>	<b>39,930</b>	<b>145,851</b>	<b>-11,870</b>	<b>173,911</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**22. TAXATION (Continued)**

	Balance at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
<b>2019</b>				
Loan commissions	23,032	(894)	-	22,138
Impairment losses on loans	79,690	49,505	-	129,195
Reserve for employee severance indemnity and unused vacation provision	3,258	639	-	3,897
Valuation of marketable securities	(38,458)	93,207	(53,626)	1,123
Useful life differences on property and equipment	(787)	(59)	-	(846)
Borrowing commissions	(12,329)	(2,415)	-	(14,744)
Accruals on derivative financial instruments	(43,533)	(60,674)	-	(104,207)
Other	(7,029)	10,196	207	3,374
<b>Net deferred tax asset / (liability)</b>	<b>3,844</b>	<b>89,505</b>	<b>(53,419)</b>	<b>39,930</b>

**23. EMPLOYEE BENEFITS**

	2020	2019
<b><u>Movement of reserve for employee severance indemnity</u></b>		
Balance at 1 January	14,568	12,227
Interest cost	1,570	1,596
Service cost	5,144	1,443
Loss/(Gain) due to Settlements / Reductions / Terminations	103	99
Payment during the year	(1,410)	(1,831)
Actuarial difference	(3,507)	1,034
<b>Balance at 31 December</b>	<b>16,468</b>	<b>14,568</b>
<b><u>Movement of provision for unused vacations</u></b>		
Balance at 1 January	3,526	2,827
Provision for the year	2,572	1,796
Provisions released	(1,425)	(1,097)
<b>Balance at 31 December</b>	<b>4,673</b>	<b>3,526</b>
<b><u>Movement of provision for bonus payments</u></b>		
Balance at 1 January	18,108	28,551
Provision for the year	21,456	16,546
Bonus paid	(17,059)	(26,986)
Income and expenses of the prior period	-	-
<b>Balance at 31 December</b>	<b>22,505</b>	<b>18,111</b>
<b>Employee benefits</b>	<b>43,646</b>	<b>36,205</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**23. EMPLOYEE BENEFITS (Continued)**

**a) Pension scheme**

The Parent Bank has established two pension schemes, “Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı” and “Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı” which are funded defined benefit plans covering substantially all employees. The assets of the plan are held independently of the Group’s assets in the Pension Funds. As per the latest actuarial valuation carried out as at 31 December 2020, the Bank has no obligation to book any provision for the Pension Fund “Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı”.

**b) Reserve for employee severance indemnity**

Under the Turkish Labour Law, the Group entities are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and reaches the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to the length of service prior to retirement.

Such payments are calculated on the basis of 30 days pay maximum full TL 7,117 as at 31 December 2020 (31 December 2019: full TL 6,380) per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the consolidated financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Group arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the Government.

The principal assumptions used for the purpose of the calculations are as follows:

	<b>2020</b>	<b>2019</b>
Interest rate	11.70%	11.70%
Expected rate of increase in salaries and eligible ceiling	18.00%	18.00%
Discount rate	4.20%	4.20%

**24. SUBORDINATED DEBT INSTRUMENT**

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 2,299,503 (31 December 2019: TL 1,830,045).

**25. PAYABLES TO MONEY MARKET**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Interbank money market transactions	-	-
Istanbul Stock Exchange money market transactions	430,050	166,153
Obligations under repurchase agreements	960,076	1,031,214
<b>Total</b>	<b>1,390,126</b>	<b>1,197,367</b>

Payables to stock exchange money markets have a maturity of 4-95 days (31 December 2019: 2-17 days) with between 0.10% and 17.90% (31 December 2019: between 10.80% and 11.00%) of interest rates.



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**26. PROVISIONS**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Free Provision	120,000	120,000
Legal Cases	295	1,216
Unindemnified non-cash loans	1,220	838
Expected credit loss for non-cash loans	31,962	23,857
	<b>153,477</b>	<b>145,911</b>

Free provision amounting to TL 120,000 has been provided by the Bank management in the current period for possible results of the circumstances which may arise from possible changes in the economy and market conditions (31 December 2019: TL 120,000).

**27. CAPITAL AND RESERVES**

**Share Capital**

As at 31 December 2020, the authorized and issued capital consists of 280,000,000,000 shares of 0.01 Turkish Lira (full) each as reflected in the statutory consolidated financial statements. Ordinary shares carry voting rights in proportion to their nominal value.

<b>31 December 2020</b>	<b>%</b>	<b>Authorized Capital</b>	<b>Paid-In Capital</b>
<b><u>Shareholders</u></b>			
T. İş Bankası AŞ <sup>(1)</sup>	50.92	1,425,781	1,425,781
T. Vakıflar Bankası T.A.O.	8.38	234,570	234,570
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	40.70	1,139,649	1,139,649
	<b>100.00</b>	<b>2,800,000</b>	<b>2,800,000</b>
<b><u>Components of Capital:</u></b>			
Nominal capital		2,800,000	2,800,000
Effect of inflation		13,563	13,563
		<b>2,813,563</b>	<b>2,813,563</b>
<hr/>			
<b>31 December 2019</b>	<b>%</b>	<b>Authorized Capital</b>	<b>Paid-In Capital</b>
<b><u>Shareholders</u></b>			
T. İş Bankası AŞ <sup>(1)</sup>	50.92	1,425,780	1,425,780
T. Vakıflar Bankası T.A.O.	8.38	234,570	234,570
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	40.70	1,139,650	1,139,650
	<b>100.00</b>	<b>2,800,000</b>	<b>2,800,000</b>
<b><u>Components of Capital:</u></b>			
Nominal capital		2,800,000	2,800,000
Effect of inflation		13,563	13,563
		<b>2,813,563</b>	<b>2,813,563</b>

<sup>(1)</sup> T. İş Bankası A.Ş. Group share is calculated by considering T. İş Bankası A.Ş.'s purchases in free floating of BIST as of 31 December 2020 of Bank shares.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**27. CAPITAL AND RESERVES (Continued)**

In the meeting of the General Assembly held on 26 March 2020, it has been resolved that the Parent Bank has no capital increase.

Prior period, in the meeting of the General Assembly held on 28 March 2019, it has been resolved that, the Parent Bank has no capital increase.

**Legal reserves**

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

**Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of financial assets at fair value through other comprehensive income, until the assets are derecognised or impaired.

**Revaluation reserve**

As of the third quarter of 2015, the Bank, has changed its accounting policies from historical cost method to revaluation method for the real estate properties which are held for own use in accordance with "IAS 16 - Property, Plant and Equipment". The positive difference between the net book value of real estate property values and the expertise values which are determined by the certified valuation companies are recorded in "Revaluation surplus on tangible assets" under the shareholders' equity.

**Dividends**

None.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**27. CAPITAL AND RESERVES (Continued)**

**Non-controlling interests**

As at the reporting date the non-controlling interests are as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Capital	56,267	37,252
Share premium	88	63
Fair value reserve	1,055	927
Legal reserve	204	160
Retained earnings	(608)	(5,929)
Actuarial gain/loss	(15)	(20)
Current period net income	(2,821)	5,637
	<b>54,170</b>	<b>38,090</b>

**28. DIVIDENDS**

In March 2020, dividends amounting to TL 134 were paid. In March 2019, the dividends paid were TL 134.

**29. 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 year ended 31 December 2020 and 2019 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	<b>1 January – 31 December 2020</b>	<b>1 January – 31 December 2019</b>
Number of shares outstanding at 1 January	2,400,000,000	2,400,000,000
<i>New shares issued</i>		
Conversion of existing reserves <sup>(1)</sup>	400,000,000	400,000,000
<b>Number of shares outstanding at the period end</b>	<b>2,800,000,000</b>	<b>2,800,000,000</b>
<b>Weighted average number of shares during the period</b>	<b>2,800,000,000</b>	<b>2,800,000,000</b>
Profit for equity holders of the Bank	712,294	730,504
<b>Basic earnings per share (in full TL)</b>	<b>0.2544</b>	<b>0.2609</b>

<sup>(1)</sup> Capital increase is made through internal resources and prior period's earnings per share figure is revised by using the number of shares subsequent to the capital increase.

There is no dilution of shares as of 31 December 2020 and 2019.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**30. NET INTEREST INCOME**

	<b>1 January- 31 December 2020</b>	<b>1 January- 31 December 2019</b>
Interest income		
Interest income on loans and advances to customers	2,422,360	2,260,048
Interest on money market placements	90,413	290,429
Interest income on securities	774,466	670,421
Interest income on loans and advances to banks	32,779	60,321
Interest income on reserve deposits at central banks	72	7,101
Interest income on finance leases	8,460	6,406
Other interest income	8,124	18,275
<b>Total interest income</b>	<b>3,336,674</b>	<b>3,313,001</b>
Interest expenses		
Interest expense on obligations under repurchase agreements and money market borrowings	(56,029)	(157,818)
Interest expense on funds borrowed and subordinated loan	(606,235)	(669,318)
Interest expense on debt securities issued	(649,385)	(565,831)
Other interest expenses	(2,640)	(8,750)
<b>Total interest expense</b>	<b>(1,314,289)</b>	<b>(1,401,717)</b>
<b>Net interest income</b>	<b>2,022,385</b>	<b>1,911,284</b>

**31. NET FEE AND COMMISSION INCOME**

	<b>1 January- 31 December 2020</b>	<b>1 January- 31 December 2019</b>
Non-Cash Loans	35,030	24,400
Gains on Brokerage Commissions	71,904	38,201
Commissions from Initial Public Offering	2,904	778
Investment Fund Management Income	4,408	2,713
Other	23,035	12,062
<b>Fee and commission income</b>	<b>137,281</b>	<b>78,154</b>
Non-Cash Loans	(2,859)	(2,916)
Other	(15,507)	(10,135)
<b>Fee and commission expense</b>	<b>(18,366)</b>	<b>(13,051)</b>
<b>Net fee and commission income</b>	<b>118,915</b>	<b>65,103</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**32. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS**

	<b>1 January- 31 December 2020</b>	<b>1 January- 31 December 2019</b>
Expected credit loss for stage 1 and 2	488,039	194,601
Free provision	-	-
Expected credit loss for stage 3	399,955	223,917
Marketable securities impairment expenses	123,670	42,113
Associates and subsidiaries	-	-
	<b>1,011,664</b>	<b>460,631</b>

**33. OTHER OPERATING INCOME**

	<b>1 January- 31 December 2020</b>	<b>1 January- 31 December 2019</b>
Rent income	3,856	5,871
Increase in value of investment properties	1,731	26,588
Provisions released	1,997	27,199
Gain on sale of assets	85	1,025
Other (1)	130,865	4,867
	<b>138,534</b>	<b>65,550</b>

(1) Includes 126.963 TL of income regarding the intermediary issues of Yatırım Varlık Kiralama A.Ş. The same amount is included in other operating expenses as well, and is shown as gross without netting for reporting purposes.

**34. DIVIDEND INCOME**

	<b>1 January- 31 December 2020</b>	<b>1 January- 31 December 2019</b>
Financial assets at FVOCI	10,857	5,707
Other	-	1,047
	<b>10,857</b>	<b>6,754</b>

**35. OTHER OPERATING EXPENSES**

	<b>1 January- 31 December 2020</b>	<b>1 January- 31 December 2019</b>
Personnel expenses	184,356	158,168
Other administrative expenses	59,251	52,391
Depreciation, impairment and amortisation	9,351	8,589
Marketing expenses	1,069	1,469
Taxes and dues other than on income	7,212	13,549
Other (1)	145,285	21,242
	<b>406,524</b>	<b>255,408</b>

(1) Includes 126.963 TL of income regarding the intermediary issues of Yatırım Varlık Kiralama A.Ş. The same amount is included in other operating income as well, and is shown as gross without netting for reporting purposes.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**36. DERIVATIVE FINANCIAL INSTRUMENTS**

The Group is party to a variety of foreign currency forward contracts, swaps and options in the management of its exchange rate exposures. The instruments are primarily denominated in TL, US Dollar and Euro.

As part of its economic hedging strategy, the Parent Bank has implemented TL cross currency interest rate swap transactions in which the Bank's default risk is the reference. These swap agreements are subject to a direct closing condition for both the Bank and the counterparty, in the event of a credit default event (such as a non-payment) related to the Bank, to cancel the amounts accrued in the contract and all future payments. The market rediscount value of these swaps with a nominal value of USD 145 million as of 31 December 2020 is TL 426,221 and the average maturities are between 2021 and 2023.

	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2019</b>
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Currency swaps	630,624	(340,386)	663,432	(287,298)
Options	4,070	(4,070)	9,596	(9,596)
Foreign currency forward contracts	66,249	(64,964)	44,287	(41,167)
Interest rate swaps	376,864	(311,511)	177,132	(130,228)
	<b>1,077,807</b>	<b>(720,931)</b>	<b>894,447</b>	<b>(468,289)</b>

*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:

<b>Instrument type</b>	<b>31 December</b>	<b>30 December</b>	<b>31 December</b>	<b>31 December</b>
	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2019</b>
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Interest Rate Swap	262,699	-	67,884	(16,545)
Cross Currency swap	-	(154,049)	-	-
	<b>262,699</b>	<b>(154,049)</b>	<b>67,884</b>	<b>(16,545)</b>

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**36. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

At the reporting date, the total amounts of outstanding derivatives to which the Group is committed are as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Forward foreign exchange contracts – buy	677,121	2,695,580
Forward foreign exchange contracts – sell	674,677	2,692,130
Currency swaps – buy	7,203,349	7,139,121
Currency swaps – sell	6,944,555	6,708,646
Interest rate swaps – buy	10,224,628	9,348,627
Interest rate swaps – sell	10,224,628	9,348,627
Currency option – buy	138,967	887,950
Currency option – sell	138,967	887,850
Other – sell	12,574	-

**37. COMMITMENTS AND CONTINGENCIES**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Swap and forward agreements	35,961,532	37,932,731
Revocable and irrevocable commitments	6,740,918	4,398,283
Derivative financial instruments for hedging purposes	19,840,766	16,520,430
Option agreements	277,934	1,775,800
Letters of guarantee	2,086,162	1,819,028
Letters of credit	2,681,761	2,538,241
Capital commitments for subsidiaries and associates (*)	127,172	96,782
Bank acceptances	170,915	190,447
Other commitments	-	-
	<b>67,887,160</b>	<b>65,271,742</b>

(\*) 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 2,359,781 as at 31 December 2019 (31 December 2019: TL 2,137,682). As at 31 December 2019, securities at custody with market value amounted to TL 10,755,000 (31 December 2019: TL 5,678,000).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**37. COMMITMENTS AND CONTINGENCIES (Continued)**

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

As at 31 December 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 31 December 2020 there is no letter of guarantee were given to the CMB (31 December 2019: none).

There is no The Group's trading securities given as collateral or blocked amount 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 70 legal cases against the Group which are amounting to TL 6,024 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 Bank relying on this report.

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 2<sup>nd</sup> 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.



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**37. COMMITMENTS AND CONTINGENCIES (Continued)**

**Litigations (continued)**

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.

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.

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, no decision was taken as of 31 December 2018. Responded with a petition and a legal opinion presented to lawsuit. 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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**37. 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, no decision was taken as of 31 December 2018. Responded with a petition and a legal opinion presented to lawsuit. 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 8 branches, including branches of subsidiaries, are subject to operational leasing. Additionally, 24 cars and 327 computers are within the context of operational leasing. The Group has no liability for operational leases as of the reporting date (31 December 2019: 9 branches and 24 cars and 327 computers are subject to operational leasing).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**38. RELATED PARTIES**

For the purposes of the accompanying 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 consolidated financial statements include the following balances due from or due to related parties:

	<b>31 December 2020</b>	<b>31 December 2019</b>
<b><u>Balances with related parties</u></b>		
Funds Borrowed	36,077	-
Loans and advances to customers	948,273	703,483
<i>Balances with Parent Bank</i>	293,400	118,394
<i>Balances with other related parties</i>	654,873	585,089
Non-cash loans	515	27,938
Loans and advances to banks	1,291	1,019
Financial assets at fair value through other comprehensive income investment securities	63,608	21,707
Other assets	280	31
Other liabilities	1,211	28,849
Derivative financial instruments	15,247	-
	<b>1 January – 31 December 2020</b>	<b>1 January – 31 December 2019</b>
<b><u>Transactions with related parties</u></b>		
Income from associates	74,651	19,944
Dividend income	10,857	6,754
Interest income	38,450	29,128
- <i>Balances with Parent Bank</i>	10,764	-
- <i>Balances with other related parties</i>	27,686	29,128
Foreign exchange gain (loss), net	14,697	8,025
Net fee and commission income / (expense), net	193	619
- <i>Balances with Parent Bank</i>	-	-
- <i>Balances with other related parties</i>	193	619
Other income	4,332	6,295
- <i>Balances with Parent Bank</i>	26	30
- <i>Balances with other related parties</i>	4,306	6,265
Derivative financial instruments gains/losses	(35,665)	(22,410)

**Compensation of Key Management Personnel of the Group**

Benefits provided to key management personnel in the current period amount to TL 21,782 (31 December 2019: TL 19,837).

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

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

**39. RATINGS**

As at and for the year ended 31 December 2020, the Bank's, ratings assigned by international rating agencies are as follows;

<b>Moody's – 18 June 2019</b>	<b>Rating</b>	<b>Outlook</b>
Long-term Foreign Currency Issuer Rating	B3	Negative
Short-term Foreign Currency Issuer Rating	NP	-
Long-term Local Currency Issuer Rating	B3	Negative
Short-term Local Currency Issuer Rating	NP	-
Long-term Foreign Currency Senior Debt	B3	Negative
<b>Fitch Ratings– 1 September 2020</b>	<b>Rating</b>	<b>Outlook</b>
Long-term Foreign Currency Issuer Default Rating	B+	Negative
Long-term Local Currency Issuer Default Rating	BB-	Negative
Short-term Foreign Currency Issuer Default Rating	B	-
Short-term Local Currency Issuer Default Rating	B	-
National Long Term Rating	AA	Stable
Support Rating	4	-
Support Rating Floor	B	-
Senior Unsecured Long Term Debt	B	-

**40. EVENTS AFTER THE REPORTING PERIOD**

The Bank issued debt instrument in abroad which have nominal value of full USD 350 Million. The redemption date of the fixed-rate,5-year bond, which was sold on 14 January 2021, was determined as 14 January 2026 and the coupon rate was 5,875%.