TÜRKİYE SINAİ KALKINMA BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Interim Condensed Consolidated
Financial Statements
As at and for the Six-Month Period Then Ended
30 June 2021

With Independent Auditors' Report on Review of
Condensed Consolidated Interim
Financial Information

28 September 2021

This report contains 2 pages of independent auditors' report on review of interim condensed consolidated financial information and 62 pages of condensed consolidated interim financial information.

Türkiye Sinai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Türkiye Sınai Kalkınma Bankası A.Ş. and its subsidiaries ("the Group") as of June 30, 2021, comprising of the interim condensed consolidated statement of financial position as of June 30, 2021 and the related interim condensed consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Group management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review of interim financial information is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and the objective of which is to express an opinion on the financial statements. Consequently, a review of the interim financial information does not provide assurance that the audit firm will be aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

The accompanying interim condensed consolidated financial statements as at 30 June 2021 include a free provision amounting to TL 185.000 thousand of which TL 120.000 thousand and TL 65.000 thousand were provided in prior years and current year respectively by the Bank management, for the possible effects of the negative circumstances which may arise in the economy or market conditions. Due to the fact that the above mentioned items do not meet the recognition criteria of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the "Retained Earnings" as of 30 June 2021, 31 December 2020 and "Profit For The Period" for the six-month period then ended 30 June 2021 are understated by TL 120.000 thousands, TL 65.000 thousands respectively.

Qualified Conclusion

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

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

Fatma Ebru Yücel, SMMM
Partner

28 September 2021
Istanbul, Turkey

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

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

ASSETS	**Notes**	**30 June 2021 (Reviewed)**	**31 December 2020 (Audited)**
Cash and cash equivalents		2,378,949	1,864,862
Reserve deposits at Central Bank	8	1,273,159	1,010,697
Financial assets at fair value through profit or loss	11	274,785	279,851
Financial assets at fair value through other comprehensive income	11	5,370,860	4,630,211
-Financial assets measured at fair value through other comprehensive income as pledge		*3,260,880*	*2,291,262*
Financial assets measured at amortized cost	11	2,994,542	3,079,864
-Financial assets measured at amortized cost as pledge		*676,720*	*1,464,552*
Derivative financial assets	9	1,101,062	1,077,807
Derivative assets held for hedging purposes	9	217,082	262,699
Loans and advances to customers	10	44,549,621	37,621,589
Investments in equity-accounted investees		657,298	623,770
Goodwill		383	383
Property and equipment		380,804	380,662
Investment property		280,367	279,523
Intangible assets		3,932	4,061
Deferred tax assets		224,375	175,419
Held for sale purpose assets		64,403	64,403
Other assets		1,396,730	1,074,493
Total assets		**61,168,352**	**52,430,294**

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

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

LIABILITIES	**Notes**	**30 June 2021 (Reviewed)**	**31 December 2020 (Audited)**
Money market balances		972,072	1,390,126
Lease liability		5,523	4,394
Funds borrowed		38,178,684	32,332,210
Debt securities issued	13	11,045,519	8,462,386
Derivative financial liabilities	9	490,524	720,931
Derivatives used for hedging purposes	9	98,641	154,049
Subordinated debt instrument	14	2,695,593	2,299,503
Current account of loan customers		115,303	122,105
Taxes and dues payable		14,961	18,406
Corporate tax liability		165,261	136,723
Deferred tax liabilities		-	1,508
Employee benefits		35,868	43,646
Provisions		232,746	153,477
Other liabilities		549,451	360,687
Total liabilities		**54,600,146**	**46,200,151**
EQUITY			
Share capital			
Nominal paid in capital	16	2,800,000	2,800,000
Inflation adjustment to capital	16	13,563	13,563
Total capital		2,813,563	2,813,563
Share premium		769	776
Legal reserves		381,893	343,182
Fair value reserve		152,666	235,892
Revaluation reserve		341,304	341,304
Translation reserve		52,078	39,852
Actuarial Gain/(Loss)		1,392	1,392
Retained earnings		2,767,498	2,400,012
Total equity attributable to equity holders of the Bank		**6.511.163**	**6,175,973**
Non-controlling interests		57,043	54,170
Total equity		**6,568,206**	**6,230,143**
Total liabilities and equity		**61,168,352**	**52,430,294**
Commitments and contingencies	7	**75,246,737**	**67,887,160**

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD THEN ENDED 30 JUNE 2021

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

	Notes	1 January – 30 June 2021 (Reviewed)	1 January – 30 June 2020 (Reviewed)
Interest income calculated using the effective interest method		1,380,870	1,149,004
Other interest and similar income		613,495	424,223
Interest expense calculated using the effective interest method		786,929	659,561
Other interest and similar expense		4,421	1,502
Net interest income		**1,203,015**	**912,164**
Fee and commission income		86,016	61,168
Fee and commission expense		(9,358)	(2,524)
Net fee and commission income		**76,658**	**58,644**
Securities trading income / (loss), net		434	1,475
Derivative trading income / (loss), net		517,719	134,528
Foreign exchange gains / (loss), net		(521,581)	(146,509)
Net trading income / (loss), net		**(3,428)**	**(10,506)**
Net impairment loss		(619,445)	(454,068)
Net operating income after impairment loss		**656,800**	**506,234**
Other operating income		201,763	18,319
Other operating expenses		(313,100)	(151,550)
Dividend income		8,243	10,801
Share of profit of equity-accounted investees		61,966	22,649
Profit before income tax		**615,672**	**406,453**
Income tax expense		(136,338)	(96,113)
Profit for the period		**479,334**	**310,340**

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD THEN ENDED 30 JUNE 2021

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

	Notes	1 January – 30 June 2021 (Reviewed)	1 January – 30 June 2020 (Reviewed)
Profit for the period		**479,334**	**310,340**
Items that will not be reclassified to profit or loss:			
Remeasurement of employee termination benefits		-	-
Revaluation of tangible assets		-	-
Other comprehensive income items not reclassified through profit or loss		8,092	10,506
Income Tax related to the above		-	-
Items that are or will be reclassified subsequently to profit or loss:			
Foreign currency translation differences		12,226	8,279
Net change in fair value of financial assets at fair value through other comprehensive income		(82,624)	(19,498)
Other comprehensive income items reclassified through profit or losses		(25,637)	11,880
Income Tax related to the above		16,943	4,325
Other comprehensive income for the period, net of tax		**(71,000)**	**15,492**
Total comprehensive income for the period		**408,334**	**325,832**

Profit attributable to:	Notes	1 January – 30 June 2021 (Reviewed)	1 January – 30 June 2020 (Reviewed)
Equity holders of the Bank		479,291	314,121
Non-controlling interests		43	(3,781)
Profit for the period		**479,334**	**310,340**
Total comprehensive income attributable to:			
Equity holders of the Bank		408,291	329,613
Non-controlling interests		43	(3,781)
Total comprehensive income for the period		**408,334**	**325,832**
Earnings per share			
Basic and diluted earnings per share (in full TL)	*17*	0.1712	0.1122

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

INTERIM CONDENSED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD THEN ENDED 30 JUNE 2021

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

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

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

INTERIM CONDENSED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD THEN ENDED 30 JUNE 2021

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

		Attributable to equity holders of the Bank											
	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**
Balance at 1 January 2021 (Reviewed)		**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**
Corrections and accounting policy changes		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 1 January 2021		**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**
Total comprehensive income for the period		-	-	-	-	-	-	-	-	-	-	-	-
Profit for the period		-	-	-	-	-	-	-	-	479,291	479,291	43	479,334
Other comprehensive income													
Remeasurement of defined benefit liability		-	-	-	-	-	-	-	-	-	-	-	-
Net change in fair value financial assets at fair value through other comprehensive income		-	-	-	-	-	-	12,226	(74,532)	-	(62,306)	-	(62,306)
Revaluation of tangible assets		-	-	-	-	-	-	-	-	-	-	-	-
Equity-accounted investees - share of OCI		-	-	-	-	-	-	-	(25,637)	-	(25,637)		(25,637)
Tax on other comprehensive income		-	-	-	-	-	-	-	16,943		16,943	-	16,943
Total other comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**12,226**	**(83,226)**	**-**	**(71,000)**	**-**	**(71,000)**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**-**	**12,226**	**(83,226)**	**479,291**	**408,291**	**43**	**408,334**
Transactions with owners of the Bank													
Contributions and distributions													
Capital increase	*16*	-	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution		-	-	-	-	-	-	-	-	(73,551)	(73,551)	-	(73,551)
Transfer to legal reserves		-	-	-	38,711	-	-	-	-	(38,802)	(91)	-	(91)
Other changes		-	-	(7)	-	-	-	-	-	548	541	2,830	3,371
Total transactions with the owners of the Company		**-**	**-**	**(7)**	**38,711**	**-**	**-**	**-**	**-**	**(111,805)**	**(73,101)**	**2,830**	**(70,271)**
Balance at 30 June 2021	*16*	**2,800,000**	**13,563**	**769**	**381,893**	**341,304**	**1,392**	**52,078**	**152,666**	**2,767,498**	**6,511,163**	**57,043**	**6,568,206**

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES

INTERIM CONDENSED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE INTERIM PERIOD THEN ENDED 30 JUNE 2021

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

	Notes	1 January – 30 June 2021 (Reviewed)	1 January – 30 June 2020 (Reviewed)
Cash flows from operating activities:			
Interests and commissions received		1,831,373	1,475,872
Other operating activities, net		949,309	(560,285)
Cash payments to employees and suppliers		(139,302)	(113,557)
Interests and commissions paid		(688,935)	480,257
Dividends received		8,243	10,801
Operating profit before changes in operating assets / liabilities		**1,960,688**	**1,293,088**
(Increase)/decrease in operating assets:			
Loans and advances to customers		(1,305,752)	612,879
Balances with central banks		(262,604)	588,989
Financial assets at fair value through profit or loss		5,096	(1,030)
Other assets		95,213	54,442
(Increase)/decrease in operating liabilities:			
Funds borrowed		525,726	(767,037)
Obligations under repurchase agreements and money market fundings		387	(63,289)
Other liabilities		(545,568)	337,269
Net cash outflows from operating activites before taxes and duties paid		**473,186**	**2,055,311**
Income taxes and other duties paid		**(120,264)**	**(58,982)**
Net cash outflows from operating activities		**352,922**	**1,996,329**
Cash flows from investing activities:			
Sale of financial assets measured at Fair Value through Other Comprehensive Income		629,023	877,658
Purchase of financial assets measured at Fair Value through Other Comprehensive Income		(915,716)	(896,987)
Proceeds from sale of tangible assets		119	260
Purchase of tangible assets		(7,507)	(1,870)
Cash paid for purchase of entities under common control, associates and subsidiaries		-	(7,702)
Cash obtained from sale of entities under common control, associates and subsidiaries		15,816	-
Sale of financial assets measured at amortized cost		162,446	1,577
Purchase of financial assets measured at amortized cost		-	(108,212)
Other		(1,827)	(1,199)
Net cash inflows/ outflows from investing activities		**(117,646)**	**(136,475)**
Cash flows from financing activities:			
Cash Obtained From Funds Borrowed and Securities Issued		3,119,669	2,345,479
Cash Used for Repayment of Funds Borrowed and Securities Issued		(2,853,257)	(2,529,470)
Dividends paid		(73,551)	(134)
Payments for leases		(1,640)	(1,361)
Net cash inflows from financing activities		**191,221**	**(185,486)**
Effect of exchange rate changes		**24,060**	**55,552**
Net increase in cash and cash equivalents		450,557	1,729,920
Cash and cash equivalents at 1 January		**1,864,624**	**779,802**
Cash and cash equivalents at 30 June		**2,315,181**	**2,509,722**

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

Notes to the interim condensed consolidated financial statements

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

1. REPORTING ENTITY

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

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

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

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

Current Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	1,425,781	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	-
Total	**2,800,000**	**100.00**	**2,800,000**	**-**

Prior Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	1,425,781	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	-
Total	**2,800,000**	**100.00**	**2,800,000**	**-**

The Parent Bank shares are traded in Istanbul Stock Exchange ("BIST") since 26 December 1986. The Parent Bank's 50.92% of the shares belongs to İş Bank Group and 38.54% of these shares are in free floating and traded in BIST National Market with "TSKB" ticker.

The interim condensed consolidated financial statements of the Bank as at and for the period ended 30 June 2021 are available upon request from the Bank's registered office and website.

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.

Yatırım Varlık Kiralama A.Ş.

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%. 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.

İş Finansal Kiralama AŞ

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

İş Faktoring AŞ

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

İş Girişim Sermayesi Yatırım Ortaklığı AŞ

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

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 28 September 2021.

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.

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.

<u>Critical accounting judgements made in applying the Bank's accounting policies include</u>:

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. 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* and Note 3.10 – *Derivatives held for risk management purposes and hedge accounting*

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. BASIS OF PREPARATION (Continued)

2.5 The Covid 19 Effects

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

Since it is aimed to update the most recent financial information in the interim financial statements prepared as of June 30, 2021, 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

a) The covid 19 effects on capital adequency 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. BRSA made an announcement to the public dated 17 June 2021 and declared that exceptions those are taken due to COVID-19 has been extended to 30 September 2021.

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. BRSA made an announcement to the public dated 17 June 2021 and declared that exception is ended on 30 June 2021.

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.

b) 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.

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:

Subsidiaries	Sector	The Group's Share (%)
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:

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

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

Entity	Sector	The Group's Share (%)
TSKB Gayrimenkul Değerleme AŞ	Real-Estate Appraiser	99.99
TSKB Sürdürülebilirlik Danışmanlığı AŞ	Consultancy	100.00

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of Consolidation (continued)

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

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

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

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

Loss of control

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

Transactions eliminated on consolidation

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

3.2 Foreign currency

Foreign currency transactions

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

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

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

(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 30 June 2021 and 31 December 2020, foreign currency assets and liabilities of the Group are mainly in US Dollar and Euro. As at 30 June 2021 and 31 December 2020, exchange rates of US Dollar and Euro are as follows:

	2021		**2020**	
	Period End	**Average**	**Period End**	**Average**
1 US Dollar	8.6825	7.8388	7.3350	6.9761
1 Euro	10.3352	9.4481	9.0193	7.9853

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

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.

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,

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.

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

As of 30 June 2021, 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.

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.

During initial recognition an entity can choose in a irrecovable was to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

As of 30 June 2021, 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 irrecovable 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Loans and Advances to Customers

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

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

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

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

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

Explanations on expected credit losses

The Group allocates the expected loss provison 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Explanations on expected credit losses (continued)

Stage 3:
Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount. The probability of default is taken into account as 100%.
The default assessment of the Bank is made according to the following conditions:

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

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 quantitave 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

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

- Loan portfolio (corporate /specilization)
- Product type
- Credit risk rating notes (ratings)
- 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, which is usually set at 12 months, given certain characteristics. Based on IFRS 9, it is used two different PDs in order to calculate expected credit losses:
12-month PD: as the estimated probability of default occurring within the next 12 months.

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

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

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

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.
Exposure at Default (EAD): For cash loans, it corresponds to the amount of loan granted as of the reporting date. For non-cash loans and commitments, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor which adjusts the potential increase of the exposure between the current date and the default date.

In the future expectations, 3 scenarios are used to be as base, bad and good. Final provisions are calculated by weighing on the possibilities given to the scenarios. As of 30 June 2021, within the scope of the ECL effects of COVID-19, the weight of the base scenario was decreased of 3 scenarios, and weights of the bad and very bad scenarios was increased. Also for possible effects the Bank has established additional provisions for the sector and customers, which are considered to have a high impact on the expected credit loss calculations by making individual assessment for the risks that cannot be captured through the models.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Significant increase in credit risk

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Significant increase in credit risk

In the future expectations, 3 scenarios are used to be as base, bad and good. Final provisions are calculated by weighing on the possibilities given to the scenarios. As of 30 June 2021, within the scope of the ECL effects of COVID-19, the weight of the base scenario was decreased of 3 scenarios, and weights of the bad and very bad scenarios was increased. Also for possible effects the Bank has established additional provisions for the sector and customers, which are considered to have a high impact on the expected credit loss calculations by making individual assessment for the risks that cannot be captured through the models.

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

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 aderivativesnd subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

Borrowing costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Offsetting, derecognition and restructuring of financial instruments

a. Offsetting of financial instruments

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

b. Derecognition of financial instruments

Derecognition of financial assets due to change in contractual terms

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

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

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

Derecognition of financial assets without any change in contractual terms

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

Derecognition of financial liabilities

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

c.Reclassification of financial instruments

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

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.

Resturected 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Derivatives held for risk management purposes and hedge accounting

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

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

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

The Parent Bank explains in writing the relationship between the hedged item and the hedging instrument, the risk management objectives and strategies of the relevant hedging transaction and the methods to measure the effectiveness of the hedging. The Parent Bank evaluates whether the hedging method is effective on the changes in the expected fair values of the related instruments during the period in which the method is applied or whether the effectiveness of each hedge in its actual results is between 80% - 125% at the beginning of the related association and in the ongoing process.

The fair value of the hedged asset and hedged instrument subject to hedge accounting is recognized in the profit/loss accounts from derivative financial transactions. As of 30 June 2021, the net effect of the transactions subject to hedge accounting on the income statement is TL (3,643), which does not include credit risk and accumulated interests

3.11 Repurchase transactions

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

(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

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.

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.

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.

Regarding investment properties, due to the coronavirus (COVID-19) global epidemic, a series of measures have been taken to protect the public health, starting from March 2020, covering the employees, visitors and tenants of Shopping Centers and Hotels in the Group portfolio.

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.

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Employee benefits (continued)

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

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

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

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

The present value of the liabilities, subject to the transfer to the Social Security Institution, of the Pension Fund as of 31 December 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Employee benefits (continued)

Employment termination benefits

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

Short-term benefits

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

3.20 Earnings per share

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

3.21 Fiduciary assets

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

3.22 Segment reporting

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

3.23 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at June 30, 2021 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 2021. The effects of these standards and interpretations on the Group’s financial position and performance have been disclosed in the related paragraphs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 The new standards, amendments and interpretations

i) The new standards, amendments and interpretations which are effective as at 1 January 2021 are as follows:

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.

- 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.

  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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 The new standards, amendments and interpretations (continued)

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

Separately identifiable risk components

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

Additional disclosures

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

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

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

Amendments to IFRS 16 - COVID-19-Related Rent Concessions and COVID-19-Related Rent Concessions beyond 30 June 2021

In May 2020, the IASB amended IFRS 16 to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic (2020 amendment). The 2020 amendment does not apply to lessors. In March 2021, the Board amended IFRS 16 to extend the availability of the practical expedient by one year (2021 amendment). The practical expedient in the 2021 amendment applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

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 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.

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

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.

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

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

Amendments to IAS 16 – Proceeds before intended use

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

There is no transition relief for the first time adopters. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 The new standards, amendments and interpretations (continued)

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

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023; early application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

23 January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2023, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted.

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

Amendments to IAS 8 - Definition of Accounting Estimates

In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of ‘accounting estimates’. The amendments issued to IAS 8 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the Board.

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

Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies

In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments issued to IAS 1 are effective for annual periods beginning on or after 1 January 2023. In the absence of a definition of the term ‘significant’ in IFRS, the Board decided to replace it with ‘material’ in the context of disclosing accounting policy information. ‘Material’ is a defined term in IFRS and is widely understood by the users of financial statements, according to the Board. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 The new standards, amendments and interpretations (continued)

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

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments issued to IAS 12 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

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

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.

IBOR Reform and its Effects on Financial Reporting—Phase 2

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

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

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

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

4. FINANCIAL INSTRUMENTS

Carrying amounts and fair values

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

	Carrying amount			Fair value			
Financial assets	**Loans and receivables**	**Investments, including derivatives**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
30 June 2021							
Financial assets measured at fair value							
Financial assets at fair value through profit or loss (*)	263,097	11,688	274,785	11,688	-	263,097	274,785
Derivative financial instruments	-	1,101,062	1,101,062	-	1,101,062	-	1,101,062
Derivative assets held for hedging purposes	-	217,082	217,082	-	217,082	-	217,082
Investment securities – FVOCI (**)	-	5,370,860	5,370,860	4,976,545	161,488	186,324	5,324,357
Funds lent under repurchase agreements							
Financial assets not measured at fair value							
Due from banks (including central banks)	1,979,143	-	1,979,143	-	-	-	-
Loans and advances to customers	44,549,621	-	44,549,621	-	-	-	-
Financial assets measured at amortized cost	-	2,994,542	2,994,542	-	-	-	-
	46,791,861	**9,695,234**	**56,487,095**				
31 December 2020							
Financial assets measured at fair value							
Financial assets at fair value through profit or loss (*)	-	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 (**)	-	4,630,211	4,630,211	4,387,531	108,160	122,670	4,618,361
Financial assets not measured at fair value							
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	-	-	-	-
	39,073,097	**9,330,432**	**48,403,529**				

(*) Include the loan granted to the special purpose entity is accounted under loans measured at fair value through profit/loss as per IFRS 9.
(**) As of 30 June 2021, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 46,503 (31 December 2020: TL 12,256) have been measured at cost and equity method.

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

4. FINANCIAL INSTRUMENTS (Continued)

Carrying amounts and fair values (continued)

	Carrying amount			Fair value			
Financial liabilities	**Loans and borrowings**	**Derivatives**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
30 June 2021							
Financial liabilities measured at fair value							
Derivative financial instruments held for trading	-	490,524	490,524	-	490,524	-	490,524
Derivative liabilities held for hedge accounting	-	98,641	98,641	-	98,641	-	98,641
Financial liabilities not measured at fair value							
Obligations under repurchase agreements	732,100	-	732,100	-	-	-	-
Funds borrowed	38,178,684	-	38,178,684	-	-	-	-
Payables to stock exchange money market	239,972	-	239,972	-	-	-	-
Debt securities issued (*)	13,741,112	-	13,741,112	12,107,848	-	-	12,107,848
	52,891,868	**589,165**	**53,481,033**				
31 December 2020							
Financial liabilities measured at fair value							
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
Financial liabilities not measured at fair value							
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 (*)	10,761,889	-	10,761,889	9,864,298	-	-	9,864,298
	44,484,225	**874,980**	**45,359,205**				

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

5. OPERATING SEGMENTS

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

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

Principal activities of the Group are as follows:

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

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

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

5. OPERATING SEGMENTS (Continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 30 June 2021)	**Banking**	**Stock brokerage and other**	**Combined**	**Eliminations**	**Total**
Interest income	1,925,216	72,765	1,997,981	(3,616)	1,994,365
Interest expense	(741,971)	(56,434)	(798,405)	7,055	(791,350)
Net interest income	**1,183,245**	**16,331**	**1,199,576**	**3,439**	**1,203,015**
Net fee and commission income	35,557	41,101	76,658	-	76,658
Net securities trading income / (loss)	4,654	750	5,404	(4,970)	434
Net derivative trading income / (loss)	503,317	14,402	517,719	-	517,719
Net foreign currency gain / (loss)	(503,850)	(17,731)	(521,581)	-	(521,581)
Net impairment loss on financial assets	(618,581)	(864)	(619,445)	-	(619,445)
Net operating income after impairment losses	**604,342**	**53,989**	**658,331**	**(1,531)**	**656,800**
Other operating income	32,467	180,027	212,494	(10,731)	201,763
Other operating expenses	(126,730)	(198,643)	(325,373)	12,273	(313,100)
Dividend income	2,973	5,270	8,243	-	8,243
Share of profit of equity-accounted investees	61,966	-	61,966	-	61,966
Profit before income tax	**575,018**	**40,643**	**615,661**	**11**	**615,672**

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

5. OPERATING SEGMENTS (Continued)

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

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

5. OPERATING SEGMENTS (Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Banking	Stock brokerage and other	Combined	Eliminations	Total
At 30 June 2021					
Total assets	**59,496,663**	**2,401,381**	**61,898,044**	**(729,692)**	**61,168,352**
Total liabilities	**53,046,496**	**1,741,445**	**54,787,941**	**(187,795)**	**54,600,146**
Equity before net profit & non-controlling interests	5,999,018	631,765	6,630,783	(598,911)	6,031,872
Net profit attributable to equity holders of the Bank	451,149	28,171	479,320	(29)	479,291
Non-controlling interests	-	-	-	57,043	57,043
Total equity	**6,450,167**	**659,936**	**7,110,103**	**(541,897)**	**6,568,206**
Total liabilities and equity	**59,496,663**	**2,401,381**	**61,898,044**	**(729,692)**	**61,168,352**
At 31 December 2020					
Total assets	**51,410,971**	**1,736,130**	**53,147,101**	**(716,807)**	**52,430,294**
Total liabilities	**45,261,803**	**1,110,553**	**46,372,356**	**(172,205)**	**46,200,151**
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
Total equity	**6,149,168**	**625,577**	**6,774,745**	**(544,602)**	**6,230,143**
Total liabilities and equity	**51,410,971**	**1,736,130**	**53,147,101**	**(716,807)**	**52,430,294**

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

6. RELATED PARTIES

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

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

	30 June 2021	**31 December 2020**
Balances with related parties		
Funds Borrowed	-	36,077
Loans and advances to customers	1,027,375	948,273
Balances with Parent Bank	348,774	293,400
Balances with other related parties	678,601	654,873
Non-cash loans	119,550	515
Loans and advances to banks	1,533	1,291
Financial assets at fair value through other comprehensive income investment securities	60,180	63,608
Other assets	54	280
Other liabilities	34,737	1,211
Derivative financial instruments	-	15,247

	1 January – 30 June 2021	**1 January – 30 June 2020**
Transactions with related parties		
Income from associates	61,966	22,649
Dividend income	8,243	10,801
Interest income / (expense), net	16,954	15,396
- *Balances with Parent Bank*	*5,795*	*5,285*
- *Balances with other related parties*	*11,159*	*10,111*
Foreign exchange gain (loss), net	4,781	7,076
Net fee and commission income / (expense), net	72	114
- *Balances with Parent Bank*	-	-
- *Balances with other related parties*	*72*	*114*
Other income	407	229
- *Balances with Parent Bank*	*14*	*11*
- *Balances with other related parties*	*393*	*218*
Derivative financial instruments gains/losses	(124)	(24,772)

Compensation of Key Management Personnel of the Group

Benefits provided to key management personnel in the current period amount to TL 15,213 (30 June 2020: TL 14,077).

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

7. COMMITMENTS AND CONTINGENCIES

	30 June 2021	31 December 2020
Swap and forward agreements	41,747,264	35,961,532
Revocable and irrevocable commitments	8,114,137	6,740,918
Derivative financial instruments for hedging purposes	18,104,867	19,840,766
Option agreements	475,554	277,934
Letters of guarantee	2,051,375	2,086,162
Letters of credit	4,497,227	2,681,761
Capital commitments for subsidiaries and associates (*)	135,391	127,172
Bank acceptences	120,922	170,915
Other commitments	-	-
	75,246,737	**67,887,160**

(*) 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 2,112,632 as at 30 June 2021 (31 December 2020: TL 2,359,781). As at 30 June 2021, securities at custody with market value amounted to TL 9,639,000 (31 December 2020: TL 10,755,000).

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

As at 30 June 2021, according to the general requirements of the BIST, letters of guarantee amounting to TL 336,600 (31 December 2020: TL 391,600) had been obtained from various local banks and were provided to BIST for bond and stock market transactions. Also, as at 30 June 2021 there is no letter of guarantee were given to the CMB (31 December 2020: None).

The Group's trading securities given as collateral or blocked amounted to TL 406 at the reporting date (31 December 2020: None).

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 64 legal cases against the Group which are amounting to TL 4,682 as of the reporting date (31 December 2020: TL 6,024 for 70 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 stump duty deducted from allowance and total amount of TL 17,325 tax penalty notice relating to period in question to the Parent Bank relying on this report.

7. COMMITMENTS AND CONTINGENCIES (Continued)

Litigations (continued)

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

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

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

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

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

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

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

7. COMMITMENTS AND CONTINGENCIES (Continued)

Litigations (continued)

The court made a decision as no solution for the relevant claim due to Beyoglu Municipality approved the reclaim. However, There has to be permission by Istanbul Metropolitan Municipality, and Cultural and Natural Heritage Preservation Board for the exact result. That's why, decision was appealed by the company. The Council of State reversed the judgement based on unappropriate 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. In the legal period, the appeal law was appealed by the Beyoğlu Municipality and was sent to the Council of State upon the decision of the Court of Appeal by the Court of Appeal. The decision of the Council of State for the cancellation of the administrative act in favor of the Group was approved and the decision became final.

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

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

Other

The Group's head office and 9 branches, including branches of subsidiaries, are subject to operational leasing. Additionally, 21 cars and 358 computers are within the context of operational leasing. (31 December 2020: 8 branches and 24 cars and 327 computers are subject to operational leasing). In the current period, the Bank has Lease liability amounting to TL 5,523 related to operational lease transactions.

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

8. BALANCES WITH CENTRAL BANK

As at 30 June 2021 balances with Central Bank include restricted reserve deposits amounting to TL 1,273,159 (31 December 2020: TL 1,010,698) at the Central Bank of Turkey and unrestricted reserve deposits amounting to TL 35,462 (31 December 2020: TL 12,365). As of 30 June 2021, provision amounting to TL 689 is allocated in "Balance with the Central Bank of Turkey" due to transiton of IFRS 9 (31 December 2020: TL 546).

As per the Communiqué numbered 2005/1 "Reserve Deposits" of Central Bank of Republic of Turkey (CBRT), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. Reserves are calculated and set aside every two weeks on Fridays for 14-days periods.
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. Interest for the required reserves in Turkish Lira is paid since 21 September 2018.

13,5 percent interest rate is applied to required reserves in Turkish lira, effective from 5 March 2021.

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 30 June 2021 are presented in table below:

Reserve Rates for Turkish Lira Liabilities (%)	
Original Maturity	**Reserve Ratio**
Borrower Funds	8
Until 1 year maturity (1 year include)	8
Until 3 years maturity (3 year include)	5,5
More than 3 year maturity	3

Reserve Rates for FC Liabilities (%)	
Original Maturity	**Reserve Ratio**
Borrower Funds	19
Until 1 year maturity (1 year included)	21
Until 2 year maturity (2 year included)	16
Until 3 year maturity (3 year included)	11
Until 5 year maturity (5 year included)	7
More than 5 year maturity	5

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

9. DERIVATIVE FINANCIAL INSTRUMENTS

The Parent Bank has entered into extinguishing cross-currency interest rate swaps as part of its strategy to hedge TL denominated fixed rate assets. These swap arrangements provide that, on the occurrence of certain credit-related events in relation to the company (such as failure to make a payment), the swap arrangements may immediately terminate with no further payments due and payable by either party. As of 30 June 2021, the fair value of such swaps is TL 379,232 income with a total outstanding notional amount of USD 95 million. The average maturity of such swaps range between 2022 and 2023 years.

	30 June 2021 Assets	30 June 2021 Liabilities	31 December 2020 Assets	31 December 2020 Liabilities
Currency swaps	733,173	(196,027)	630,624	(340,386)
Options	2,514	(2,514)	4,070	(4,070)
Foreign currency forward contracts	33,061	(31,309)	66,249	(64,964)
Interest rate swaps	332,314	(260,674)	376,864	(311,511)
	1,101,062	**(490,524)**	**1,077,807**	**(720,931)**

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 puposes as derivative financial instruments.

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

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

Instrument type	30 June 2021 Assets	30 June 2021 Liabilities	31 December 2020 Assets	31 December 2020 Liabilities
Interest Rate Swap	217,082	-	262,699	-
Cross Currency swap	-	(98,641)	-	(154,049)
	217,082	**(98,641)**	**262,699**	**(154,049)**

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

9. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

	30 June 2021	31 December 2020
Forward foreign exchange contracts – buy	570,245	677,121
Forward foreign exchange contracts – sell	565,064	674,677
Currency swaps – buy	9,460,925	7,203,349
Currency swaps – sell	8,969,276	6,944,555
Interest rate swaps – buy	11,090,877	10,224,628
Interest rate swaps – sell	11,090,877	10,224,628
Currency option – buy	237,777	138,967
Currency option – sell	237,777	138,967
Other – sell	-	12,574

10. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2021	31 December 2020
Short-term and current portion of long term loans	6,646,988	4,476,560
Long-term loans	38,341,881	33,213,259
Total performing loans	**44,988,869**	**37,689,819**
Non-performing loans	1,747,166	1,689,788
Total loans	**46,736,035**	**39,379,607**
Less: Specific provision for stage 3	(881,962)	(756,354)
Less: Generic provision for impairment losses on loans	(1,304,452)	(1,001,664)
Total loans	**44,549,621**	**37,621,589**

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

10. LOANS AND ADVANCES TO CUSTOMERS (Contiuned)

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

	1 January – 30 June 2021	**1 January – 30 June 2020**
Specific reserve for cash loans:		
As at 1 January	756,354	358,343
Charge for the period	219,797	125,841
Collections	(94,189)	(28,900)
Reserve released and write offs	-	-
	881,962	**455,284**
Portfolio reserve for cash loans:		
As at 1 January	1,001,664	524,863
Charge for the period	302,788	276,504
As at 30 June	**1,304,452**	**801,367**
Total reserve for impairment losses on loans	**2,186,414**	**1,256,651**

11. INVESTMENT SECURITIES

Financial assets at fair value through profit or loss

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

	30 June 2021	**31 December 2020**
Government bonds and treasury bills in TL	-	-
Debt securities issued by corporations	-	12,602
Equity shares	1,066	4,152
Mutual funds	10,622	-
Loans measured at FVPL *(*)*	263,097	263,097
Total	**274,785**	**279,851**

(*)Include the loan granted to the special purpose entity is accounted under loans measured at fair value through profit/loss as per IFRS 9. As of 30 June 2021 the Bank re-evaluated the fair value of the loan taking into account current market conditions and macroeconomic indicators and the fair value of the financial asset did not change.

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

11. INVESTMENT SECURITIES (Continued)

Financial assets at fair value through other comprehensive income

At 30 June 2021 and 31 December 2020, financial assets at fair value through other comprehensive income portfolio comprised the following:

	30 June 2021	31 December 2020
Government bonds and treasury bills in TL	1,891,960	1,695,394
Eurobonds	3,025,199	2,619,578
Debt securities issued by corporations	236,703	121,420
Equity shares	216,998	193,819
Total	**5,370,860**	**4,630,211**

Financial assets measured at amortized cost

	30 June 2021	31 December 2020
Government bonds and treasury bills in TL	2,994,542	3,079,864
Total	**2,994,542**	**3,079,864**

(*) As of 30 June 2021, provision amounting to TL 4,498 is allocated in “Financial assets at measured at amortized cost” due to IFRS 9 (31 December 2020: TL 3,195).

12. EXPECTED CREDIT LOSS

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

At 30 June 2021 the details of expected credit loss which on-balance sheet financial assets in scope of ECL requirements is as follows;

	Carrying Amount				ECL Allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents (including reserves at Central Bank)	3,654,351	-	-	3,654,351	2,243	-	-	2,243
Securities	8,375,975	-	-	8,374,975	9,573	-	-	9,573
Loans and advances to customers	38,406,794	6,582,075	1,747,166	46,736,035	343,319	961,133	881,962	2,186,414
Other assets	227,739	-	-	227,739	3,364	-	-	3,364
Total	**50,663,859**	**6,582,075**	**1,747,166**	**58,993,100**	**358,499**	**961,133**	**881,962**	**2,201,594**

At 30 June 2021 the details of expected credit loss which off-balance sheet financial assets in scope of ECL requirements is as follows;

	Carrying Amount				ECL Allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
LCs and Acceptances	13,046,361	6,596	4,442	13,057,399	29,533	10,590	1,315	41,437
Total	**13,046,361**	**6,596**	**4,442**	**13,057,399**	**29,533**	**10,590**	**1,315**	**41,437**

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

12. EXPECTED CREDIT LOSS (Continued)

At 31 December 2020 the details of expected credit loss which on-balance sheet financial assets in scope of ECL requirements is as follows;

	Carrying Amount				ECL Allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents (including reserves at Central Bank)	2,877,270	-	-	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
Total	**44,110,266**	**4,347,268**	**1,689,788**	**50,147,322**	**432,492**	**575,834**	**756,354**	**1,764,680**

At 31 December 2020 the details of expected credit loss which off-balance sheet financial assets in scope of ECL requirements is as follows;

	Carrying Amount				ECL Allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
LCs and Acceptances	10,187,867	10,977	4,442	10,203,286	20,260	11,702	1,220	33,182
Total	10,187,867	10,977	4,442	10,203,286	20,260	11,702	1,220	33,182

13. DEBTS SECURITIES ISSUED

	30 June 2021		**31 December 2020**	
	TL	**FC**	**TL**	**FC**
Nominal	1,105,835	9,550,750	514,482	7,701,750
Cost	1,092,791	9,501,980	512,718	7,657,597
Book Value	1,118,092	9,927,427	441,111	8,021,275

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

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

As of 14 January 2021, the Bank issued Eurobond with the nominal amount of full USD 350 Million. Interest rate of these debt instruments determined as 5,875% 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. issued debt instruments with a nominal value of full TL 250.000.000 redemption dates of 18 August 2021 and 8 September 2021 at a simple interest rate of 19,15, with a maturity of 104 days and 105 days.

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

13. DEBTS SECURITIES ISSUED (Continued)

Information on securities issued during the period are as follows :

ISIN Code	Fund User	Issue Amount(TL)	Issue Date	Redemption Date
TRDYVKSA2119	Palmet Gaz Grup A.Ş.	150,000,000	27/12/2019	24/12/2021
TRDYVKS32217	Altınmarka Gıda San. ve Tic. A.Ş.	75,000,000	11/03/2020	09/03/2022
TRDYVKSE2214	MNG Kargo Yurtiçi ve Yurtdışı Taşımacılık A.Ş.	75,000,000	14/10/2020	12/10/2022
TRDYVKS12326	MLP Sağlık Hizmetleri A.Ş.	70,000,000	15/01/2021	12/01/2023
TRDYVKS72114	Zorlu Enerji Elektrik Üretim A.Ş.	50,000,000	02/02/2021	30/07/2021
TRDYVKS32225	MLP Sağlık Hizmetleri A.Ş.	150,000,000	12/03/2021	14/03/2022
TRDYVKS92120	Zorlu Enerji Elektrik Üretim A.Ş.	45,000,000	22/04/2021	17/09/2021
TRDYVKS52215	MLP Sağlık Hizmetleri A.Ş.	250,000,000	24/05/2021	25/05/2022
TRDYVKSE2115	Zorlu Enerji Elektrik Üretim A.Ş.	40,000,000	02/06/2021	27/10/2021

(*)The amount of thousand of TL 49,866 included in the portfolio of Group is eliminated in financials.

14. SUBORDINATED LOAN

As of 28 March 2017, the Parent Bank issued the sustainable subordinated debt securities which have nominal value of USD 300 million, redemption date of 29 March 2022 with fixed interest rate of 7.625% semiannual coupon payment. As of the end of the period, the value of the borrowing instrument is TL 2,695,593 (31 December 2020: 2,299,503).

15. TAXATION

Income Taxes

The income tax charge is composed of the sum of current tax charge and deferred tax benefit or charge.

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. Article 14 of the Law on the Amendment of the Law on Collection of Public Claims and Certain Laws, which was submitted to the Grand National Assembly of Turkey on 2 April 2021, will be issued as of 1 July 2021, with its publication in the Official Gazette dated 22 April 2021 and numbered 31462. Starting from the required declarations and being valid for the corporate earnings for the taxation period starting from 1 January 2021, 25% for 2021 and 23% for 2022 corporate earnings (31 December 2020: 22%).

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 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.

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

15. TAXATION (continued)

***Deferred Tax* (continued)**

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. In the deferred tax calculations, 25% for the transactions that will be valid in the calculation of the corporate tax until the end of 2021 for the companies in Turkey, 23% for the transactions that will be valid within 2022, and 20% for the transactions that will be valid after 2022. As of 30 June 2021, assets and liabilities evaluated according to their maturities and calculated deferred tax at the rate of 25%, 23% or 20% corresponding to the relevant maturities (December 31, 2020 : 20%).

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.

16. SHARE CAPITAL

	30 June 2021	**31 December 2020**
TL 1 (in full TL), par value	2,800,000	2,800,000
Share increase	-	-
Total number of shares	**2,800,000**	**2,800,000**
Paid-in capital	2,800,000	2,800,000
Inflation restatement effect	13,563	13,563
Shared capital issued	**2,813,563**	**2,813,563**

In the meeting of the General Assembly held on 25 March 2021, it has been resolved that, there is no capital increase in the current period.

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

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

17. EARNINGS PER SHARE

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

A summary of the weighted average number of shares outstanding for the interim periods ended 30 June 2021 and 2020 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	1 January – 30 June 2021	1 January – 30 June 2020
Number of shares outstanding at 1 January	2,800,000,000	2,800,000,000
New shares issued		
Conversion of existing reserves	-	-
Number of shares outstanding at the period end	**2,800,000,000**	**2,800,000,000**
Weighted average number of shares during the period	**2,800,000,000**	**2,800,000,000**
Profit for equity holders of the Bank	479,291	314,121
Basic earnings per share (in full Kurus)	**0.1712**	**0.1122**

There is no dilution of shares as of 30 June 2021.

18. EVENTS AFTER THE REPORTING PERIOD

On 8 July 2021, the Bank obtained a syndicated loan of approximately 192 million USD, which amounts 55 million USD and 116 million EUR. The interest rate of the 367-day loan, which is tied to the sustainability criteria, was 175 basis points per annum and the renewal rate was 130%.

After the reporting period, TSKB Gayrimenkul Yatırım Ortaklığı Anonim Şirketi (TSKB GYO) increased its capital in the amount of 150,000,000 TL and TSKB has exercised 100% of its preferential rights arising from its 33,333,333.32 Group A registered shares, 13,637,036.67 Group B registered shares and 398,701,147.72 Group C bearer shares, in total with the nominal value of TRY 445,671,517.71 in TSKB GYO. After the exercise of preferential rights, TSKB has purchased the remaining C group shares in the amount of 120,453.78 in the Primary Market of Borsa Istanbul. As a result of these transactions, TSKB's shares increased to 579,493,426.81 TL and participation rate increased from 89.13% to 89.15%.