TÜRKİYE KALKINMA VE YATIRIM BANKASI A.Ş. AND ITS SUBSIDIARY

Interim Condensed Consolidated Financial Statements
For the Six-Month Period Ended
30 June 2020
With Independent Auditor's Review Report

27 November 2020

This report contains 2 pages of independent auditor's review report on interim condensed consolidated financial statement and 39 pages of interim condensed consolidated financial statements and notes to the interim condensed consolidated financial statements.

Türkiye Kalkınma ve Yatırım Bankası Anonim Şirketi and Its Subsidiary

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Independent Auditor's Report on Review of Interim Condensed Consolidated Financial Information

To the Board of Directors of
Türkiye Kalkınma ve Yatırım Bankası A.Ş.

Introduction

We have reviewed the accompanying interim condensed consolidated financial position of Türkiye Kalkınma ve Yatırım Bankası A.Ş. (the "Bank") and its subsidiary (together referred to as the "Group") as at 30 June 2020, the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six-month period then ended and notes to the interim financial information ("Interim Condensed Consolidated Financial Information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

KPMG

Basis for Qualified Conclusion

The Bank's investment in Maksan Malatya Makina Sanayi A.Ş. ("Maksan") and Türk Suudi Holding A.Ş. ("Türk Suudi Holding"), the associates accounted for by the equity method, are carried at TL 8,071 Thousand and TL 10,249 Thousand, respectively on the interim condensed consolidated statement of financial position as at 30 June 2020, and Bank's share of Maksan's and Türk Suudi Holding's net income of TL 2,705 Thousand and TL 2,882 Thousand, respectively, are included in Bank's income for the period then ended. We were unable to obtain sufficient appropriate evidence about the carrying amount of Bank's investment in Maksan and Türk Suudi Holding as at 30 June 2020 and Bank's share of Maksan's and Türk Suudi Holding's net income for the period because we were denied access to the financial information, management, and the auditors of Maksan and Turk Suudi Holding. Additionally, we were unable to obtain the audited and reviewed financial information of Arıcak Turizm ve Ticaret A.Ş. ("Arıcak"), a subsidiary of the Bank, which is consolidated in the consolidated financial statement of the Group as at 31 December 2019 and 30 June 2020, respectively. Total asset and net loss of Arıcak as of and for the period ended 30 June 2020 is TL 751 Thousand and TL 26 Thousand (31 December 2019: TL 747 Thousand and TL 8 Thousand) respectively. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Conclusion

Based on our review, except for the effects of the matter described 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 information as at and for the six-month period ended 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting".

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member firm of KPMG International Cooperative.

T.C. BAĞIMSIZ DENETÇİ 1963

Erdal Tıkmak
Partner

27 November 2020
Istanbul, Turkey

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Interim Condensed Consolidated Statement of Financial Position
As of 30 June 2020

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

	Notes	30 June 2020	31 December 2019
ASSETS			
Cash and deposits with banks and other financial institutions		2,205,213	2,336,055
Balances with Central Bank		561	594
Money market placements		229,915	127,246
Financial assets measured at fair value through profit or loss		85,614	90,216
Loans and advances to customers	6	12,819,849	11,220,231
Loans and advances to financial institutions	5	4,047,197	3,684,509
Investment securities	7	2,246,671	1,751,602
Investments in associates	8	18,320	16,997
Premises and equipment		48,342	56,368
Investment properties		829	850
Intangible assets		14,179	2,085
Deferred tax asset	12	1,669	-
Other assets	9	79,421	89,049
Total assets		**21,797,780**	**19,375,802**
LIABILITIES AND EQUITY			
LIABILITIES			
Funds borrowed	10	17,317,205	15,383,819
Subordinated liabilities	10	1,637,484	1,402,055
Money market funds		52,714	50,364
Derivative liabilities		236	-
Income taxes payable	12	36,096	45,847
Provisions	11	25,776	25,628
Deferred tax liabilities	12	-	11,682
Other liabilities	11	188,156	102,214
Total liabilities		**19,257,667**	**17,021,609**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	13	1,126,911	1,126,911
Share premium		1,983	1,983
Other reserves		30,083	36,062
Legal reserves		47,673	47,673
Retained earnings		1,333,463	1,141,564
Total equity		**2,540,113**	**2,354,193**
Total liabilities and equity		**21,797,780**	**19,375,802**

The accompanying policies and explanatory notes are an integral part of these interim condensed consolidated financial statements.

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Interim Condensed Consolidated Statement of Profit or Loss
For the Six-Month Period Ended 30 June 2020

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

	Notes	1 January – 30 June 2020	1 January – 30 June 2019
Interest income			
Interest on loans and advances		377,637	385,683
Interest on securities	16	80,622	31,245
Interest on deposits with banks and other financial institutions		61,562	130,962
Interest on other money market placements		17,195	15,434
Other interest income		22	185
Total interest income		**537,038**	**563,509**
Interest expense			
Interest on money market operations		(2,365)	(150)
Interest on funds borrowed		(226,061)	(201,767)
Other interest expense		(1,656)	(535)
Total interest expense		**(230,082)**	**(202,452)**
Net interest income		**306,956**	**361,057**
Fees and commissions and other operating income			
Fees and commissions income		13,976	8,077
Fees and commissions expenses		(2,014)	(731)
Net fees and commissions income		**11,962**	**7,346**
Foreign exchange gains / (loss)		39,330	7,716
Net trading gain / (loss)		(32,037)	1,077
Other operating income	17	26,789	8,549
Other operating expenses	18	(98,260)	(83,719)
(Provisions for) impairment of loans and other assets		(17,990)	(15,538)
Dividend income		1,035	401
Operating profit		**237,785**	**286,889**
Income from associates		1,323	1,175
Profit before income tax		**239,108**	**288,064**
Income tax expense	12	(59,085)	(63,134)
Deferred tax income		11,876	-
Deferred tax expense		-	(2,050)
Profit for the period		**191,899**	**222,880**
Profit attributable to:			
Equity holders of the parent		191,899	222,880
Earnings per 100 shares (Full TRY)	14	**0.2258**	**0.3400**

The accompanying policies and explanatory notes are an integral part of these interim condensed consolidated financial statements.

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Interim Condensed Consolidated Statement of Other Comprehensive Income
For the Six-Month Period Ended 30 June 2020

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

	1 January - 30 June 2020	**1 January - 30 June 2019**
Profit for the year	**191,899**	**222,880**
Other comprehensive income	**(5,979)**	**19,674**
Items that will not be reclassified subsequently to profit or loss:	*(441)*	*(741)*
Actuarial gain/(loss)	(538)	(904)
Tax effect of actuarial gain/(loss)	97	163
Items that may be reclassified subsequently to profit or loss:	*(5,538)*	*20,415*
Net value gains / (losses) on financial assets measured at fair value through other comprehensive income (FVOCI)	(6,756)	24,906
Tax effect of net value gains/ (losses) on financial assets measured at fair value through other comprehensive income (FVOCI)	1,218	(4,491)
Total comprehensive income for the period	**185,920**	**242,554**

The accompanying policies and explanatory notes are an integral part of these interim condensed consolidated financial statements.

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

	Share capital	Adjustment to share capital	Share Premium	Actuarial gain/(loss)	Unrealized gains/(losses) on financial assets measured at fair value through other comprehensive income (FVOCI)	Legal Reserves	Retained earnings	Total Equity
At 1 January 2019	**500,000**	**276,911**	**1,582**	**721**	**(3,479)**	**39,142**	**730,269**	**1,545,146**
Profit for the period	-	-	-	-	-	-	222,880	222,880
Actuarial gain/(loss):	-	-	-	-	-	-	-	-
Gains/(Losses) arising during the year	-	-	-	(904)	-	-	-	(904)
Financial assets measured at fair value through other comprehensive income (FVOCI):	-	-	-	-	-	-	-	-
Gains/(Losses) arising during the year	-	-	-	-	24,906	-	-	24,906
Income tax relating to components of other comprehensive income	-	-	-	163	(4,491)	-	-	(4,328)
Total comprehensive income	**-**	**-**	**-**	**(741)**	**20,415**	**-**	**222,880**	**242,554**
Owners' equity changes:	-	-	-	-	-	-	-	-
Capital increase in cash	-	-	-	-	-	-	-	-
Insurance of share certificates	350,000	-	-	-	-	-	-	350,000
Dividends paid	-	-	-	-	-	8,015	-	8,015
Transfer to legal reserves	-	-	401	-	-	-	-	401
At 30 June 2019	**850,000**	**276,911**	**1,983**	**(20)**	**16,936**	**47,157**	**953,149**	**2,146,116**

The accompanying policies and explanatory notes are an integral part of these interim condensed consolidated financial statements.

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARY
Interim Consolidated Statement of Changes in Equity
For the Six-Month Period Ended 30 June 2020

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

	Share capital	Adjustment to share capital	Share Premium	Actuarial gain/(loss)	Unrealized gains/(losses) on financial assets measured at fair value through other comprehensive income (FVOCI)	Legal Reserves	Retained earnings	Total Equity
At 1 January 2020	**850,000**	**276,911**	**1,983**	**152**	**35,910**	**47,673**	**1,141,564**	**2,354,193**
Profit for the period	-	-	-	-	-	-	191,899	191,899
Actuarial gain/(loss):	-	-	-	-	-	-	-	-
Gains/(Losses) arising during the year	-	-	-	(538)	-	-	-	(538)
Financial assets measured at fair value through other comprehensive income (FVOCI):	-	-	-	-	-	-	-	-
Gains/(Losses) arising during the year	-	-	-	-	(6,756)	-	-	(6,756)
Less: Transfer to statement of income	-	-	-	-	-	-	-	-
Income tax relating to components of other comprehensive income	-	-	-	97	1,218	-	-	1,315
Total comprehensive income	**-**	**-**	**-**	**(441)**	**(5,538)**	**-**	**191,899**	**185,920**
Owners' equity changes:	-	-	-	-	-	-	-	-
Capital increase in cash	-	-	-	-	-	-	-	-
Insurance of share certificates	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-
Transfer to legal reserves	-	-	-	-	-	-	-	-
At 30 June 2020	**850,000**	**276,911**	**1,983**	**(289)**	**30,372**	**47,673**	**1,333,463**	**2,540,113**

The accompanying policies and explanatory notes are an integral part of these interim condensed consolidated financial statements.

Interim Consolidated Statement of Cash Flows

For the Six-Month Period Ended 30 June 2020

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

	1 January – 30 June 2020	1 January – 30 June 2019
Cash flows from operating activities		
Interest received	501,848	529,595
Interest paid	(196,651)	(179,239)
Fees and commissions received	13,976	8,077
Fees and commissions paid	(2,014)	(731)
Dividend received	1,035	401
Trading income	(51,071)	7,172
Recoveries from impairment of loans and other assets	13,337	4,623
Cash payments to employees and other parties	(57,016)	(55,327)
Other operating activities	38,054	(4,822)
Income taxes paid	(71,386)	(58,904)
Cash flows from operating activities before changes in operating assets and liabilities	**190,112**	**250,845**
Changes in operating assets and liabilities		
Net (increase)/decrease in financial assets on FVTPL	17,940	(3,406)
Net (increase)/decrease in loans and advances	176,923	(259,916)
Net (increase)/decrease in other assets	15,581	(30,246)
Net increase/(decrease) in other liabilities	91,742	99,560
Net increase/(decrease) in money market deposits	(2,350)	(49,502)
Proceeds from funds borrowed	(337,725)	282,918
Net cash used in operating activities	**152,223**	**290,253**
Cash flows from investing activities		
Purchases of investment securities at FVOCI	(298,124)	(455,355)
Proceeds from sale and redemption of securities at FVOCI	177,872	118,819
Purchases of investment securities at amortised cost	(195,047)	(998,516)
Proceeds from redemption of investment securities at amortised cost	26,151	22,238
Purchases of premises and equipment	(1,926)	(2,488)
Proceeds from sale of premises and equipment	44,316	8
Purchases of intangible assets	(12,713)	-
Purchases of equity participations	(50)	-
Net cash provided / (used in) from investing activities	**(259,521)**	**(1,315,294)**
Cash flows from financing activities		
Cash obtained from funds borrowed and securities issued	-	978,570
Capital increase	-	350,000
Payments for finance leases	(3,212)	(863)
Net cash provided by / (used in) financing activities	**(3,212)**	**1,327,707**
Effect of net foreign exchange difference	80,593	34,012
Net increase/(decrease) in cash and cash equivalents	(29,917)	336,678
Cash and cash equivalents at the beginning of the year	2,470,569	1,623,557
Cash and cash equivalents at the end of the year	**2,440,652**	**1,960,235**

The accompanying policies and explanatory notes are an integral part of these interim condensed consolidated financial statements.

1. REPORTING ENTITY

The Bank was established on 27 November 1975 according to the Decree Based on Law numbered 13 as a related institution of the Ministry of Trade and Technology with the legal title of "Devlet Sanayi ve İşçi Yatırım Bankası A.Ş.". Some adjustments were made on the status of the Bank with the Decree Based on Law numbered 165 dated 14 November 1983.

On 15 July 1988, its legal title was changed to Türkiye Kalkınma Bankası A.Ş. by being associated to the Prime Ministry in the context of the Decree Law numbered 329 and in parallel with the developments in its activities. The Bank had become a development and investment bank that provides financing support to companies in tourism sector as well as trade sector by taking over T.C. Turizm Bankası A.Ş. with all of its assets and liabilities with the decision of Supreme Planning Council dated 20 January 1989 and numbered 89/T-2. Also with the Decree Law numbered 401 dated 12 February 1990, some of the articles related to the Bank status were changed.

With the Law dated 14 October 1999 and numbered 4456, Decree Law numbered 13, 165, 329 and 401 were revoked and the establishment and operating principles of the Bank were rearranged.

Türkiye Kalkınma ve Yatırım Bankası A.Ş. Law dated 24 October 2018 and numbered 7147 was abolished and the Law dated 14 October 1999 and numbered 4456 was revoked. The Bank's name was changed to Türkiye Kalkınma ve Yatırım Bankası A.Ş with the law numbered 7147.

The Bank is subject to the registered capital system. 99.08% of the capital is owned by the Republic of Turkey Ministry of Finance and the remaining shares are quoted on the Borsa İstanbul ("BIST").

2. BASIS OF PREPARATION

2.1 Basis of Presentation

These interim condensed consolidated financial statements for the period ended 30 June 2020 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2019. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

The accompanying interim condensed consolidated financial statements are presented in thousands of TRY, which is the Bank's functional currency.

The interim condensed consolidated financial statements of the Group were authorized for issuance by the management on 27 November 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Use of Estimates and Judgments

The preparation of the interim condensed financial statements requires management to make estimates and assumptions that are reflected in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the interim condensed financial statements. Management do exercise judgment and make use of information available at the date of the preparation of the interim condensed financial statements in making these estimates. The actual future results from operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the financial statements. The judgments and estimates that may have a significant effect on amounts recognized in the interim condensed financial statements are discussed in the relevant sections below.

The new coronavirus disease (COVID-19), which emerged in the People's Republic of China in the end of December 2019 and spread to other countries, was declared a pandemic on March 11, 2020 by the World Health Organization. In order to keep the negative economic effects of the epidemic to a minimum, some measures are taken both in our country and around the world. The effects of these developments on the Bank's financial status and activities are closely monitored by the relevant units and the Bank's Top Management.

The effects and forecasts of the COVID-19 outbreak are included in the model in accordance with IFRS 9 Financial Instruments Standard and the expected credit loss provisions calculated are reflected in the financial statements as of 30 June 2020.

Due to the COVID-19 epidemic, which has influenced the whole world, it is seen that since mid-March 2020, many enterprises have suspended their activities for a certain period of time or have been restricted to certain sectors within the framework of measures taken to create remote working conditions. It is known that many businesses will be negatively affected by this situation, but the extent of this effect cannot be predicted. The Bank analyzed the effects of COVID-19 to the sectors in which the loans in the loan portfolio are used, and updated the sector parameters with the assumption that the foreseen risk was not systematic and reflected the epidemic effect to IFRS 9 parameters by considering the relationships between IFRS 9 parameters and sectoral risk level. Economic developments and negative expectations due to the COVID-19 outbreak were reflected in the expected loan loss calculation as of June 30, 2020, within the Bank's projections.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Standards and interpretations issued but not yet effective

Standards issued but not yet effective and not early adopted

A number of new standards and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Group has not early adopted are as follows.

IFRS 17 Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2023 but companies can apply it earlier. The Group does not expect that application of IFRS 17 will have significant impact on its interim condensed consolidated financial statements.

Covid-19 related rent concession (Amendments to IFRS 16)

In May 2020, IASB issued Covid-19 related rent concession which amends IFRS 16 Leases.

The amendments allow lessees not to account for rent concessions as lease modifications if they arise as a direct consequence of COVID-19.

The practical expedient will only apply if:

- ➢ the revised consideration is substantially the same or less than the original consideration;
- ➢ the reduction in lease payments relates to payments due on or before 30 June 2021
- ➢ no other substantive changes have been made to the terms of the lease.

No practical expedient is provided for lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.

The Group shall apply these amendments for annual periods beginning on or after 1 June 2020 with earlier application permitted.

Reference to the Conceptual Framework (Amendments to IFRS 3)

In May 2020, IASB issued Reference to the Conceptual Framework, which made amendments to IFRS 3 Business Combinations.

The amendments updated IFRS 3 by replacing a reference to an old version of the Board's Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Standards and interpretations issued but not yet effective (continued)

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

Property, Plant and Equipment—Proceeds before Intended Use (Amendments to IAS 16)

In May 2020, IASB issued Property, Plant and Equipment—Proceeds before Intended Use, which made amendments to IAS 16 Property, Plant and Equipment. The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

The amendments improve transparency and consistency by clarifying the accounting requirements—specifically, the amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

In May 2020, IASB issued Onerous Contracts—Cost of Fulfilling a Contract, which made amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

IASB developed amendments to IAS 37 to clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

Annual Improvements to IFRS Standards 2018–2020

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2018–2020 Cycle for applicable standards in May 2020. The amendments are effective as of 1 January 2022. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its interim condensed consolidated financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards

This amendment simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent – i.e. if a subsidiary adopts IFRS Standards later than its parent and applies IFRS 1.D16(a), then a subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent’s date of transition to IFRS Standards. This amendment will ease transition to IFRS Standards for subsidiaries applying this optional exemption by i) reducing undue costs; and ii) avoiding the need to maintain parallel sets of accounting records.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Standards and interpretations issued but not yet effective (continued)

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

IFRS 9 Financial Instruments

This amendment clarifies that – for the purpose of performing the ''10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

IFRS 16 Leases, Illustrative Example 13

The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive. It will help to remove the potential for confusion in identifying lease incentives in a common real estate fact pattern.

IAS 41 Agriculture

This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 Fair Value Measurement. The amendments provide the flexibility to use either, as appropriate, in line with IFRS 13.

Amendments are effective on 1 January 2020

Changes that have become effective and have been adopted for annual periods beginning on or after 1 January 2020 are as follows:

1-) The revised Conceptual Framework (Version 2018)

2-) Amendments to IFRS 3 - Definition of a Business

The application of the amendment to IFRS 3 did not have a significant impact on the interim condensed consolidated financial statements of the Group.

3-) Amendments to IAS 1 and IAS 8 - Definition of Material

The application of the amendment to IAS 1 and IAS 8 is not expected to have a significant effect on the interim condensed consolidated financial statements of the Group.

4-) Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The application of this amendment did not have a significant impact on the interim condensed consolidated financial statements of the Group.

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

4. SEGMENT INFORMATION

Business segments

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

The segment results for the period ended 30 June 2020 are as follows:

	Treasury	Investment Banking	Other	Eliminations	Total
Net interest income	157,014	151,552	(1,610)	-	306,956
Net fees and commissions income	(2,014)	13,852	124	-	11,962
Foreign exchange gains/(losses)	3,400	36,965	-	-	40,365
Other operating income	5,858	20,931	-	-	26,789
Other operating expenses	(32,037)	(19,381)	(78,879)	-	(130,297)
(Provisions for) / recoveries from impairment of loans and other assets	-	(17,990)	-	-	(17,990)
Income/(loss) from associates	-	1,323	-	-	1,323
Profit / (loss) before income tax	**132,221**	**187,252**	**(80,365)**	**-**	**239,108**
Income tax	-	-	(47,209)	-	(47,209)
Net profit/(loss)	**132,221**	**187,252**	**(127,574)**	**-**	**191,899**

The segment assets and liabilities at 30 June 2020 are as follows:

	Treasury	Investment Banking	Undistributed	Eliminations	Total
Assets and Liabilities					
Segment assets	4,682,360	16,952,660	144,440	-	21,779,460
Investment in associates	-	23,274	-	(4,954)	18,320
Total assets	**4,682,360**	**16,975,934**	**144,440**	**(4,954)**	**21,797,780**
Segment liabilities	52,950	18,956,773	2,793,011	(4,954)	21,797,780
Total liabilities and equity	**52,950**	**18,956,773**	**2,793,011**	**(4,954)**	**21,797,780**

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

4. SEGMENT INFORMATION (continued)

Business segments (continued)

The segment results for the year ended 30 June 2019 are as follows:

	Treasury	Investment Banking	Other	Eliminations	Total
Net interest income	177,491	183,902	(336)	-	361,057
Net fees and commissions income	(731)	7,952	125	-	7,346
Foreign exchange gains/(losses)	-	8,117	-	-	8,117
Other operating income	-	8,549	-	-	8,549
Other operating expenses	-	(1,077)	(81,565)	-	(82,642)
(Provisions for)/ recoveries impairment of loans and other assets	-	(15,538)	-	-	(15,538)
Income from associates	-	1,175	-	-	1,175
Profit / (loss) before income tax	**176,760**	**195,234**	**(83,930)**	**-**	**288,064**
Income tax	-	-	(65,184)	-	(65,184)
Net profit/(loss)	**176,760**	**195,234**	**(149,114)**	**-**	**222,880**

The segment assets and liabilities at 31 December 2019 are as follows:

	Treasury	Investment Banking	Undistributed	Eliminations	Total
Assets and Liabilities					
Segment assets	4,215,496	14,994,956	150,253	(1,900)	19,358,805
Investment in associates	-	22,138	-	(5,141)	16,997
Total assets	**4,215,496**	**15,017,094**	**150,253**	**(7,041)**	**19,375,802**
Segment liabilities	(50,364)	(16,796,712)	(2,535,767)	7,041	(19,375,802)
Total liabilities and equity	**(50,364)**	**(16,796,712)**	**(2,535,767)**	**7,041**	**(19,375,802)**

Geographical segments

The Group's operations are mainly conducted in Turkey. Accordingly, geographical segment information is not presented.

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

5. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

As of 30 June 2020, majority of loans and advances to financial institutions' interest rates ranging between 3.13%-4.88% per annum for foreign currency deposit with banks 11.08% interest rate for TL time placements (2019: 3.02%-5.37% and 15.31%).

	30 June 2020	31 December 2019
Loans and advances to financial institutions		
Origination of Loans Granted to Financial Institutions:		
Industrial and Commercial Bank of China Originated Loan	2,759,450	2,404,680
Council of Europe Development Bank Originated Loans	1,305,457	1,297,368
Expected credit losses on loans and advances to banks	(17,710)	(17,539)
Total loans and advances to financial institutions	**4,047,197**	**3,684,509**

The credit quality analysis of loans and advances to banks is as follows as of 30 June 2020:

	2020		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	4,064,907	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(17,710)	-	-
Total carrying amount	**4,047,197**	**-**	**-**

The movement of loss allowances per asset class for loans and advances to financial institutions as of 30 June 2020 is as follows:

	2020		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 1 January 2020	(17,539)	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	-	-	-
Provision for the period	(171)	-	-
Balances at the end of the period	**(17,710)**	**-**	**-**

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

5. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS (continued)

The credit quality analysis of loans and advances to banks is as follows as of 31 December 2019:

	2019		
	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	3,702,048	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(17,539)	-	-
Total carrying amount	**3,684,509**	-	-

The movement of loss allowances per asset class for loans and advances to financial institutions as of 31 December 2019 is as follows:

	2019		
	Stage 1	Stage 2	Stage 3
Balances at 1 January 2019	**(13,849)**	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	-	-	-
Provision for the period	(3,690)	-	-
Balances at the end of the period	**(17,539)**	-	-

6. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2020	31 December 2019
Origination of Loans Granted to Customers:		
European Investment Bank Originated Loans	4,184,339	4,155,809
Islamic Development Bank Originated Loans	3,641,250	3,201,371
World Bank Originated Loans	1,808,546	1,443,909
Development Bank of Japan	253,035	238,306
KFW	155,587	141,839
Treasury Loans	111,704	97,508
Bank Sourced		
Other Bank Sourced Loans	2,334,116	1,564,939
Investment Loans	352,294	356,640
Restructured Loans	108,139	99,240
Personnel Loans	1,265	2,306
Non-performing Loans	111,198	123,857
Total loans and advances to customers	**13,061,473**	**11,425,724**
Expected credit losses on loans and advances to customers	(241,624)	(205,493)
Stage 1	*(77,906)*	*(43,696)*
Stage 2	*(57,772)*	*(43,519)*
Stage 3	*(105,946)*	*(118,278)*
Less: allowance for losses on loans and advances	-	-
Total loans and advances to customers, (net)	**12,819,849**	**11,220,231**

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

6. LOANS AND ADVANCES TO CUSTOMERS (continued)

The credit quality analysis of loans and advances to customers is as follows as of 30 June 2020:

	2020		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	11,553,361	-	-
Stage 2: Watch list	-	1,396,914	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	6,738
Stage 3.3: Loss	-	-	104,460
Total loans	**11,553,361**	**1,396,914**	**111,198**
Expected credit losses	(77,906)	(57,772)	(105,946)
Total carrying amount	**11,475,455**	**1,339,142**	**5,252**

The movement of expected credit losses per asset class for cash loans and advances to customers as of 31 December 2019 is as follows:

	2020		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 1 January 2019	42,938	43,519	118,278
Transfer to Stage 1	-	-	-
Transfer to Stage 2	(300)	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	(4,300)	(4,026)	(15,082)
Provision for the period	39,568	18,279	2,750
Balances at the end of the period	**77,906**	**57,772**	**105,946**

As of 30 June 2020, movement of non-performing cash loans (Stage 3) is as follows:

	Principal	**ECL**
Balance at 1 January 2020	123,857	118,278
Addition	2,576	3,982
Collection/recovery	(13,337)	(14,416)
Debt sales and write-offs	(1,898)	(1,898)
Effects of movements in exchange rates	-	-
Balance at the end of the period	**111,198**	**105,946**

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

7. INVESTMENT SECURITIES

	30 June 2020	31 December 2019
Debt and other instruments at FVOCI		
Turkish Government bonds issued by the Turkish Government	771,701	657,439
Debt securities issued by corporations	49,839	23,160
Expected credit loss	(536)	(1,280)
Equity instruments	9,574	8,037
Investment securities at amortized cost		
Turkish Government bonds (quoted)	1,416,922	1,066,213
Expected credit loss	(829)	(1,967)
Total	**2,246,671**	**1,751,602**

Government bonds and treasury bills pledged under repurchase agreements with customers included investment securities at fair value through other comprehensive income amount to TRY 52.752 (31 December 2019: TRY 50,281). Related liability is equal to TRY 52,714 as of 30 June 2020 (31 December 2019: TRY 50,364). As of 30 June 2020, government securities with carrying value amounting to TRY 865 (31 December 2019: TRY 865) in fair value through other comprehensive income securities portfolio are pledged to the Central Bank and the IMKB Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Clearing and Custody Bank) for regulatory requirements and as a guarantee for stock exchange and money market operations.

8. INVESTMENT IN ASSOCIATES

Maksan Malatya Makina Sanayi A.Ş. is established in Malatya, Turkey in 1974 for manufacturing of transformers. The share and voting power of the Bank is 31.14% and 20% respectively (31 December, 2019: 31.14% and 20%).

Türk Suudi Holding A.Ş. is established in İstanbul, Turkey in order to operate in finance sector. By General Assembly held on 25 March 2008, liquidation process of the company was started and is on-going as at the balance sheet date. The share and voting power of the Bank is 24.69% and 10% respectively (31 December, 2019: 24.69% and 10%).

Financial information of the Group’s associates is summarized below:

	30 June 2020	31 December 2019
Total assets	83,171	72,284
Total liabilities	(15,742)	(9,703)
Net Assets	**67,429**	**62,581**
Group’s share of associates’ net assets	**18,320**	**16,997**

9. OTHER ASSETS

	30 June 2020	31 December 2019
Prepaid fees and commissions	42,352	36,255
Non-current assets to be disposed	32,386	38,638
Sundry debtors	904	13,850
Other	3,813	1,062
Expected credit loss	(34)	(756)
Total	**79,421**	**89,049**

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

10. FUNDS BORROWED AND SUBORDINATED LOANS

	30 June 2020	31 December 2019
Borrowings	17,295,027	15,365,664
Funds	22,178	18,155
Total	**17,317,205**	**15,383,819**

30 June 2020	Amount	Weighted Average Interest Rate	Maturity
USD denominated borrowings	9,940,245	3,14%	2020-2041
EUR denominated borrowings	7,354,782	1,35%	2020-2045
Total	**17,295,027**		

31 December 2019	Amount	Weighted Average Interest Rate	Maturity
USD denominated borrowings	8,561,130	2.69%	2020-2041
EUR denominated borrowings	6,804,534	0.69%	2020-2036
Total	**15,365,664**		

The amounts of funds of the Group as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020	31 December 2019
Environment fund	5,821	5,705
Other	16,357	12,450
Total	**22,178**	**18,155**

Funds borrowed include other funds obtained that are granted as loans as specified in the agreements signed between the Bank, and the Ministries or the institutions that the funds belong to.

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

10. FUNDS BORROWED AND SUBORDINATED LOANS (continued)

	30 June 2020	31 December 2019
Borrowings with no maturity	490	427
Short term borrowings	19,952	19,513
Short term part of long term borrowings	1,805,476	1,422,588
Long term borrowings	15,491,287	13,941,291
Total	**17,317,205**	**15,383,819**

Repayment plan of borrowings is as follows:

	30 June 2020	31 December 2019
Borrowings with no maturity	490	427
2020 and thereafter	1,825,428	1,442,101
2021 and thereafter	15,491,287	13,941,291
Total	**17,317,205**	**15,383,819**

Floating rate borrowings bear interest at rates fixed in advance for periods of 6 to 12 months.

Most of the loans from international finance institutions are from European Investment Bank, World Bank, Industrial and Commercial Bank of China, Black Sea Trade and Development Bank, KfW Development Bank, Islamic Development Bank, Council of Europe Development Bank, Japan Bank for International Cooperation.

As the Bank is not authorized to accept deposits, liabilities are composed of funds obtained from domestic and international financial institutions, medium and long term loans.

The subardinated loans as of 30 June 2020 and 31 December 2019 is as follows;

	30 June 2020	31 December 2019
Debt instruments to be included in additional capital calculation	1,208,830	1,028,893
Debt instruments to be included in contribution capital calculation	428,654	373,162
Total (*)	**1,637,484**	**1,402,055**

(*) Subordinated Liabilities consists of the grants allocated to the Bank for the same purpose as the SELP-II program implemented in order to provide financial support to small entrepreneurs within the framework of the grant agreemet which was signed between the Republic of Turkey represented by the Undersecretariat of Treasury, the KfW Development Bank, the Council of Europe Development Bank and the Bank as counterparties.

(**) An EUR 150 million amounted subordinated loan agreement has been signed between the Bank and TWF Market Stability and Equilibrium Sub-Fund established within Turkey Wealth Fund and the transaction has been completed as of April 24, 2019.

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

11. OTHER LIABILITIES AND PROVISIONS

	30 June 2020	31 December 2019
Other liabilities		
Unearned revenue	79,139	40,428
Excess amount received from customers	43,271	9,276
Blocked currency	25,972	26,197
Lease liabilities	15,153	15,207
Cash guarantees received	12,304	470
Payables to public enterprises	3,778	3,728
Other	8,539	6,908
	188,156	**102,214**
Provisions		
Employee benefits provision	25,776	25,628
	25,776	**25,628**
Total	**213,932**	**127,842**

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiary incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay. Consequently, in the accompanying financial statements as at 30 June 2020, the provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated a discount rate of 3,72% (31 December 2019: 3,72%). As the maximum liability is revised semiannually, the maximum amount of TL 6,730.15 effective from 1 January 2020 has been taken into consideration in calculation of provision from employment termination benefits (31 December 2019 TL 6,379.86).

Movements in the present value of the defined benefit were as follows:

	30 June 2020	31 December 2019
Opening defined benefit obligation	25,628	40,829
Changes in current period	11,139	16,714
Actuarial gain/loss	(538)	(694)
Benefits paid	(13,634)	(32,403)
Closing defined benefit obligation, recognized in the balance sheet	**22,595**	**24,446**
Provision for unused vacation	3,181	1,182
Total	**25,776**	**25,628**

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

12. INCOME TAXES

Corporate Tax

The Group is subject to corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the period.

While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%.

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

Corporate tax losses are allowed to be carried 5 years maximum to be deducted from the taxable profits of the following years. However, losses incurred cannot be deducted from the profits incurred in the prior years retrospectively.

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

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 15%. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

As of 30 June 2020 and 30 June 2019 advance income taxes are netted off with the current income tax liability as stated below:

	30 June 2020	**31 December 2019**
Income tax liability	59,085	144,270
Prepaid income taxes	(22,989)	(98,423)
	36,096	**45,847**

Major components of income tax expense as of 30 June 2020 and 30 June 2019:

	30 June 2020	**31 December 2019**
Current income tax expense	59,085	144,270
Deferred income tax expense / (income)	(11,876)	28,402
Income tax expense reported in the consolidated income statement	**47,209**	**172,672**

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

12. INCOME TAXES (continued)

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Bank as at 30 June 2020 and 30 June 2019 are as follows:

	30 June 2020	Rate %	30 June 2019	Rate %
Profit before income tax	237,785		287,007	
At Turkish statutory income tax rate of 22% (2019: 22%)	52,313	22.00	63,142	22.00
Disallowed expenses	26,890	11.31	11,279	3.93
Income exempt from taxation	(20,123)	(8.46)	(13,018)	(4.54)
Other adjustments	(11,871)	(4.99)	3,781	1.32
Income tax	**47,209**	**19.86**	**65,184**	**22.71**

Deferred income tax

Deferred income tax as at 30 June 2020 and 31 December 2019 relates to the following:

	30 June 2020	31 December 2019
Deferred Tax Assets		
Personnel Bonus Premium Provision	3,209	3,003
From Severence Payments	2,461	2,635
Uncollectable Loans	2,734	757
TFRS 9 Provision	2,064	-
Other	1,609	1,374
Total Deferred Tax Assets	**12,077**	**7,769**
Deferred Tax Liabilities		
Other Non-Financial Treasury Bills and Government Bonds	(8,435)	(10,869)
TFRS 9 Provision	-	(7,757)
Other	(1,973)	(825)
Total Deferred Tax Liabilities	**(10,408)**	**(19,451)**
Net Deferred Tax	**1,669**	**(11,682)**

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

13. SHARE CAPITAL

The capital ceiling of the Bank which is subject to registered capital system is TRY 2,500,000. The authorized paid-in share capital of the Bank amounted to TRY 850,000 as of 30 June 2020 (31 December 2019: TRY 850,000). The Bank's capital consist of 85 Billion shares with par value of full TRY 0,01 each.

	Share (%)	30 June 2020	31 December 2019
Paid capital per statutory records			
- Republic of Turkey Ministry of Finance	99.08	842,193	842,194
- Other Shareholders	0.92	7,807	7,806
		850,000	850,000
Indexation Effect		276,911	276,911
Indexed Share Capital		**1,126,911**	**1,126,911**

14. EARNINGS PER SHARE

Basic earnings per share ("EPS") are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from profit reserves such as retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are regarded similarly. Accordingly, the weighted average number of shares used in the EPS calculation is derived by giving retroactive effect to the issue of such shares. The Bank has not experienced this kind of a capital increase.

	Number of Shares Issued Attributable to					
	Opening	**Cash**	**Transfers from Retained Earnings**	**Reinvestment of Dividend Payments**	**Total**	**Closing**
2015 and before	16,000,000,000	-	-	-	-	16,000,000,000
2016	16,000,000,000	-	-	-	-	16,000,000,000
2017	16,000,000,000	34,000,000,000	-	-	-	50,000,000,000
2018	50,000,000,000	-	-	-	-	50,000,000,000
2019	50,000,000,000	35,000,000,000	-	-	-	85,000,000,000
2020	85,000,000,000	-	-	-	-	85,000,000,000

There is no dilution of shares as of 30 June 2020 and 31 December 2019.

The following reflects the income (in full TRY) and share data used in the basic earnings per share computations:

	30 June 2020	30 June 2019
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	191,899,000	222,880,000
Weighted average number of ordinary shares for basic earnings per share	85,000,000,000	65,555,555,556
Basic earnings per 100 shares (Full TRY)	**0.2258**	**0.3400**

There have been no other transactions involving ordinary shares or potential ordinary shares as of the date of this report.

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

15. RELATED PARTIES

A party is related to an entity if: the party controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the entity that gives it significant influence over the entity or has joint control over the entity. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families and also post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

The immediate parent and ultimate controlling party of the Group is the Republic of Turkey Ministry of Finance. Transactions between the Bank and its subsidiary, which is a related party of the Bank, have been eliminated on consolidation and are not disclosed in this note.

As of 30 June 2020, subordinated loan amounting to TRY 1,637,484 was obtained from Republic of Turkey Ministry of Finance (31 December 2019: TRY 1,402,055).

Transactions with key management personnel:

Key management personnel comprise of the Group's directors and key management executive officers.

As of 30 June 2020 and 31 December 2019 the Group's directors and executive officers have no outstanding personnel loans from the Bank.

Total compensation provided to key management personnel is:

	30 June 2020	30 June 2019
Salary	4,071	2,597
Dividend and fringe benefits	1,191	68
Total	**5,262**	**2,665**

16. INTEREST INCOME ON SECURITIES

	30 June 2020	30 June 2019
Investment securities at FVOCI	46,440	18,774
Investment securities at amortised cost	34,182	12,471
Total	**80,622**	**31,245**

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

17. OTHER OPERATING INCOME

	30 June 2020	30 June 2019
Income from sale of properties	20,771	1,583
Other	6,018	6,966
Total	**26,789**	**8,549**

18. OTHER OPERATING EXPENSES

	30 June 2020	30 June 2019
Staff costs:	57,164	52,674
Personnel expenses	*39,180*	*44,411*
Retirement pay provision	*3,398*	*8,263*
Personnel bonus premium provision	*14,586*	-
Provision expense	19,408	265
Administrative expenses	9,109	8,688
Depreciation and amortization expense	5,205	3,056
Other	7,374	19,036
Total	**98,260**	**83,719**

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

19. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	30 June 2020	**31 December 2019**
Letters of guarantee issued	227,944	13
Total non-cash loans	**227,944**	**13**
Other commitments	23,461	19,824
Total	**251,405**	**19,837**

IVCI (A Luxemburg Investment Company Fund) ("Fund") is founded as a stock company having variable capital and subject to laws of Luxemburg. The Bank has committed to buy "Group A" shares equal to nominal value of EUR 10 million and to pay this amount at the date determined by Fund according to its investment plan. The Fund's initial capital commitment was EUR 150 Million and its capital was increased to EUR 160 Million with new participants in March 2009. The Bank's participation was approved by the Board of Directors of IVCI on 13 November 2007 and share purchase agreement was signed as of the same date. The Bank made payment of share capital constituting payments equal to EUR 300.000 on 7 November 2008, EUR 218.750 on 6 July 2009 and EUR 281.250 on 12 November 2010, EUR 167.500 on 15 July 2011, EUR 437.500 on 10 November 2011, EUR 500.000 on 15 February 2012, EUR 500.000 on 25 May 2012, EUR 250.000 on 10 August 2012, EUR 500.000 on 19 September 2012, EUR 500.000 on 18 January 2013, EUR 500.000 on 27 June 2013 and EUR 500.000 on 13 December 2013, EUR 500.000 on 1 August 2014, EUR 500.000 on 29 August 2014, EUR 500.00 on 4 May 2015, EUR 500.000 on 16 October 2015, EUR 500.00 on 3 May 2016 and EUR 312.500 on 30 November 2017, EUR 312.500 on 2 March 2018, EUR 312.500 on 12 December 2018, EUR 980.842 on 13 December 2019. The total capital payment is EUR 9.073.342.

With reference to the above capital contributions, out of the Bank's total commitment of EUR 10 million, EUR 9.073.342 have been paid , EUR 926.658 is not yet paid as of the balance sheet date. Such investment is recognized as financial asset measured at fair value through profit or loss.

The Bank has committed investing EUR 3.000.000 up to 10% of the total fund commitment to 212 Regional Fund II as a limited partner.

The Bank made payment of share capital constituting payments equal to EUR 45.000 on 31 December 2018, EUR 120.000 on 21 January 2019 and EUR 330.000 on 21 March 2019, EUR 120.000 on 09 September 2019, EUR 330.000 on 09 December 2019.

With reference to the above capital contributions, out of the Bank's total commitment of EUR 3 million, EUR 945.000 have been paid , EUR 2.055.000 is not yet paid as of the balance sheet date.

The Bank participated in the nominal capital of JCR Avrasya Rating A.Ş. with a nominal capital of 1.000.000 TL at a rate of 2.86% and made a commitment to pay TL 2,755,126 for share. A capital share payment of 2.066.344 TL was made on January 17, 2020, and 688.782 TL of the commitment has not been paid as of the balance sheet date.

Transactions Made on Behalf and Account of Others and Fiduciary Transactions

The Bank has no fiduciary transactions.

Litigation

As 30 June 2020, there are 125 cases which are brought against the Bank (31 December 2019: 137). The risk amount is TL 8.460. The Bank has allocated a provision of TL 966 for the cases that are likely to be concluded or likely to be concluded (31 December 2019: TL 940).

20. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

Risk management activities of the Bank are performed under the responsibility of Board of Directors and in accordance with "Regulation on Banks' Internal Systems" published in the Official Gazette numbered 28337 and dated 28 June 2012. Top management is responsible against Board of Directors for monitoring and management of risks. In addition, departments included in the Internal Systems, namely Internal Control Department, Risk Monitoring Department and Board of Inspection transact their responsibilities independently from the executive departments.

The general risk principles followed by the bank can be defined as including the following activities: specializing in activities in accordance with its mission, vision and its structure defined in its settlement law, taking definable, monitorable and/or manageable risks accordingly, avoiding risks other than the ones unavoidable due to the main activities. Within this scope, fundamental principle is taking risks which are defined and manageable. Additionally, current and future potential effects of the risks currently taken are measured to the extent possible by the risk measurement and reporting techniques and it is continued to be performed accordingly.

The Bank is actively using committees and risk budgeting in decision-making mechanisms and risk management processes while assessing risk management performance in addition to the functional and financial performance, which has operational mechanisms based on a wide range of activities. Within the framework of the Bank's vision, mission, strategic objectives and targets set by the Board of Directors and risk management policies and strategies; the Asset and Liability Management Committee and the Credit Participation Committee constitute two main committees that play a critical role in the execution of the Bank's activities; which the Asset and Liability Management Committee ensuring that the assets and liabilities are managed effectively and efficiently by taking into consideration the current and possible economic developments and the factors such as interest, maturity and currency, and establishing coordination and communication between the Senior Management and the Bank's units, and the Credit Participation Committee with the function of determining the principles of lending, evaluating the credit-participation risk and the situation of the investment, evaluating the reports prepared on the loan appraisal and in summary taking care of all the lending activities. Within the framework of the short-term strategies determined by the Asset and Liability Management Committee in line with the vision and strategic objectives of the Bank's Strategic Plan, each of the units in the Bank comply with these targets and the risk budgeting application based on the consolidation of these budgets are applied to contribute to the basic activities of the Bank.

Considering the best practices, the Bank executes measuring, monitoring activities, testing and scenario analysis confirming with the volume, character and complexity of transactions, within the legal regulations and limits of the authority, and provides reporting to top management.

20. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk

The Bank manages its credit risk by limiting its risk through involvement with highly credible banks and organizations. Credibility of the counterparties is analyzed by different methods depending on the type of credit. Detailed analyses are performed and loan limits are submitted to the approval of Board of Directors or Loan Investment Committee depending on the amount of the loan to be disbursed. The limits of counter parties are determined for the total loans of a single company; and there is no special limit set for the sectoral or concentration basis. If the counterpart is not credible, no new credit is extended or limit is decreased to risk level. Since the placements of the Bank are in the form of project financing, the amount of loan that can be disbursed to a firm is basically determined during project assessment stage and disbursements are made in a controlled manner through monitoring of expenditures.

Under the risk management, the Bank obtains adequate collateral for loans given and other receivables. Such collateral comprises of real estate and tangible assets mortgages, business company liens, foreign currency notes and other liquid assets, bank guarantee letters and surety ships of reals persons or companies.

The sectoral distribution of the loan customers is monitored and those distributions are taken into account during placement decisions and goals.

The Bank is not subject to the general loan restrictions defined by the 53th article of the Banking Law numbered 5411. However, the loan limits are determined mostly in parallel with the limitations set out in the 53th article of the Banking Law.

Credit risk is analyzed by different group of loans and guarantees received for those loans. Also, the credibility of the debtors of the Group is assessed periodically in accordance with the prevailing regulations on lending and provisioning.

The primary purpose of credit related commitments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit.

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank bears low credit risk due to its foreign banking transactions as its credit risk is mainly concentrated in Turkey.

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

20. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Impairment assessment based on IFRS 9

As of 1 January 2018, the Group recognizes provisions for impairment in accordance with IFRS 9 requirements. The expected credit losses are estimated to be unbiased, weighted according to probabilities, and include information that can be supported about past events, current conditions and future economic conditions. Risk parameters used in IFRS 9 calculations are included in the future macroeconomic information. These financial assets are divided into three categories depending on the gradual. The Group calculates expected credit losses based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Sectoral breakdown of cash loans is as follows:

	Cash	
	30 June 2020	**31 December 2019**
Manufacturing	**11,405,357**	**9,962,314**
Production	*1,675,299*	*2,085,602*
Electric, gas and water	*9,730,058*	*7,876,712*
Services	**5,609,825**	**5,040,844**
Hotel, food and beverage services	*1,361,873*	*1,118,337*
Financial institutions	*4,064,907*	*3,702,048*
Education Services	*89,318*	*87,549*
Health and social services	*87,120*	*125,919*
Other	6,607	6,991
Total loans	**17,015,182**	**15,003,158**
Non-performing loans	111,198	123,857
Expected credit loss	(259,334)	(222,275)
Less: allowance for losses on loans and advances	-	-
Total	**16,867,046**	**14,904,740**

Maximum exposure to credit risk for the components of the financial statements:

Maximum Exposure	**30 June 2020**	**31 December 2019**
Cash and deposits with banks and other financial institutions	2,209,462	2,336,038
Money market placements	230,050	127,505
Balances with the Central Bank	561	594
Financial assets measured at FVOCI	830,578	687,356
Loans and advances to customers and financial institutions	16,867,046	14,904,740
Investment securities at amortised cost	1,416,093	1,064,246
Total	**21,553,790**	**19,120,479**
Contingent liabilities	227,944	13
Total	**227,944**	**13**
Total credit risk exposure	**21,781,734**	**19,120,492**

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

20. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit quality per class of financial assets as of 30 June 2020 and 31 December 2019:

As of 30 June 2020	**Neither past due nor impaired**	**Past due but not impaired**	**Total**
Cash and deposits with banks and other financial institutions	2,209,462	-	2,209,462
Loans and advances to customers and financial institutions	15,522,901	1,344,145	16,867,046
Financial assets measured at fair value through other comprehensive income (FVOCI)	830,578	-	830,578
Investments securities at amortised cost	1,416,093	-	1,416,093
As of 31 December 2019	**Neither past due nor impaired**	**Past due but not impaired**	**Total**
Cash and deposits with banks and other financial institutions	2,336,038	-	2,336,038
Loans and advances to customers and financial institutions	13,446,712	1,458,028	14,904,740
Financial assets measured at fair value through other comprehensive income (FVOCI)	687,356	-	687,356
Investments securities at amortised cost	1,064,246	-	1,064,246

Aging analysis of past due but not impaired financial assets per classes of financial instruments:

As of 30 June 2020	**Less than 30 Days**	**Between 31 and 60 Days**	**Between 61 and 90 Days**	**Total**
Loans				
Corporate Loans	4,413	1,095,414	165,141	1,264,968
Specialized Loans	590	33,138	45,449	79,177
Total	**5,003**	**1,128,552**	**210,590**	**1,344,145**

As of 31 December 2019	**Less than 30 Days**	**Between 31 and 60 Days**	**Between 61 and 90 Days**	**Total**
Loans				
Corporate Loans	157	1,343,983	44,404	1,388,544
Specialized Loans	2,443	67,041	-	69,484
Total	**2,600**	**1,411,024**	**44,404**	**1,458,028**

The net value and type of the collaterals of closely monitored loans is as follows:

Collateral Type	**30 June 2020**	**31 December 2019**
Real estate mortgage (*)	744,205	602,319
Financial collaterals (Cash, securities pledge, etc,)	634,241	877,503
Total	**1,378,446**	**1,479,822**

(*) Amount of collateral is stated at the lower of appraisal value or mortgage value. When the collateral value exceeds the credit risk loan balance, credit risk loan balance is presented.

The net value and type of the collaterals of non-performing loans is as follows:

Collateral Type	**30 June 2020**	**31 December 2019**
Real estate mortgage (*)	95,883	94,538
Other (**)	8,583	7,332
Total	**104,466**	**101,870**

(*) Amount of collateral is stated at the lower of appraisal value or mortgage value, when the collateral value exceeds the credit risk loan balance, credit risk loan balance is presented.

(**) As collateral, real estate mortgages have been obtained for loans.

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

20. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

In the Bank, liquidity risk management is performed through projected cash flows. These cash flows are prepared using forecasted data considering the maturity structure of assets and liabilities. The projected cash flows includes information required to determine liquidity needs (if any) that would arise in the coming periods and/or extraordinary situations, alternative liquidity sources and placement areas. During preparation of projections for future cash flows based on these information, liquidity risk exposure of the Bank is measured using different scenarios (for example, credit collection ratios).

Besides, monthly projected cash flows related to coverage ratios for medium and long term liabilities and balance sheet durations are monitored continuously in order to identify risk factors in advance. In the case situations creating risk are present; initiatives are taken by related departments to eliminate this situation. In order to evaluate the effects of negative developments at the parameters that affect the financial strength of the Bank to operations and market risks, it is essential to apply stress tests and to use the results within the Bank's strategic decision making process.

Analyzing the structure of the Bank's assets and borrowings, loans provided by international financial institutions consists of medium and long-term loans with floating interest rate, and these funds are disbursed by taking into account the re-pricing period. Balance sheet mainly consists of loans that, given the impact of interest rate shocks on the profitability is thought to be limited to a portfolio of liquid assets and liabilities. In addition, the share of the equity in liabilities thus released funds is high and it makes the Bank advantageous in the liquidity risk management. Assessment of maturity/yield alternatives for the placement of liquidity surplus and maturity/cost alternatives to meet liquidity needs is the basic principle of the Bank liquidity management.

Analysis of financial liabilities by remaining contractual maturities:

As of 30 June 2020	**Demand**	**Up to 1 Month**	**1-3 Months**	**3-12 Months**	**1-5 Years**	**Over 5 Years**	**Adjustment**	**Total**
Liabilities								
Funds borrowed	-	180,579	304,906	1,543,492	12,166,138	6,834,804	(3,712,714)	17,317,205
Money market funds	-	52,714	-	-	-	-	-	52,714
Subordinated liabilities	428,654	-	-	1,208,830	-	-	-	1,637,484
Total	**428,654**	**233,293**	**304,906**	**2,752,322**	**12,166,138**	**6,834,804**	**(3,712,714)**	**19,007,403**

As of 31 December 2019	**Demand**	**Up to 1 Month**	**1-3 Months**	**3-12 Months**	**1-5 Years**	**Over 5 Years**	**Adjustment**	**Total**
Liabilities								
Funds borrowed	-	166,679	235,443	1,271,985	10,907,184	6,239,786	(3,437,258)	15,383,819
Money market funds	-	50,364	-	-	-	-	-	50,364
Subordinated liabilities	373,162	-	-	1,028,893	-	-	-	1,402,055
Total	**373,162**	**217,043**	**235,443**	**2,300,878**	**10,907,184**	**6,239,786**	**(3,437,258)**	**16,836,238**

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

20. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

Presentation according to remaining period at balance sheet date to contractual maturities:

As of 30 June 2020	Demand	Up to 1 Month	1-3 Months	3-12 Months	1 year to 5 years	Over 5 years	Undistributed (*)	Total
Assets								
Cash and cash equivalents	38,524	2,166,689	-	-	-	-	-	2,205,213
Balances with Central Bank	561	-	-	-	-	-	-	561
Money market placements	-	229,915	-	-	-	-	-	229,915
Financial assets at fair value through profit and loss	85,614	-	-	-	-	-	-	85,614
Loans and advances to customers and financial institutions	-	691,733	339,474	1,819,928	10,162,334	3,848,325	5,252	16,867,046
Investments securities	9,574	22,685	12,713	278,566	1,732,596	190,537	-	2,246,671
Other assets	-	-	-	-	-	-	162,760	162,760
Total assets	**134,273**	**3,111,022**	**352,187**	**2,098,494**	**11,894,930**	**4,038,862**	**168,012**	**21,797,780**
Liabilities and equity								
Funds provided from other financial institutions	-	180,579	304,906	1,543,492	12,166,138	6,834,804	(3,712,714)	17,317,205
Obligations under repurchase agreements	-	52,714	-	-	-	-	-	52,714
Subordinated loans	-	-	-	-	-	-	1,637,484	1,637,484
Other liabilities	-	5,383	30,708	-	-	-	214,173	250,264
Total liabilities	**-**	**238,676**	**335,614**	**1,543,492**	**12,166,138**	**6,834,804**	**(1,861,057)**	**19,257,667**
Liquidity gap	**134,273**	**2,872,346**	**16,573**	**555,002**	**(271,208)**	**(2,795,942)**	**2,029,069**	**2,540,113**

As of 31 December 2019	Demand	Up to 1 Month	1-3 Months	3-12 Months	1 year to 5 years	Over 5 years	Undistributed	Total
Total assets	**120,974**	**2,894,403**	**262,127**	**1,867,497**	**10,667,018**	**3,395,578**	**168,204**	**19,375,801**
Total liabilities	**53,773**	**219,174**	**267,111**	**1,052,094**	**8,439,200**	**5,502,091**	**1,488,166**	**17,021,609**
Liquidity gap	**67,201**	**2,675,229**	**(4,984)**	**815,403**	**2,227,818**	**(2,106,513)**	**(1,319,962)**	**2,354,192**

(*) Assets which are required for banking operations and could not be converted into cash in short-term, such as; tangible assets, associates, subsidiaries, office supply inventory, prepaid expenses and non-performing loans; and other liabilities such as provisions which are not considered as payables are classified as undistributed.

(**) Deferred tax asset is included under the "Undistributed" column.

20. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

Market risk is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 28 June 2012 and numbered 28337 and legally reported.

Besides monthly calculation made as per standard method, market risk is calculated daily as per Value at Risk ("VaR") method and reported to top management. Calculations are made using Historical Simulation method. In order to test the reliability of the VaR model, back tests are performed. Stress tests are also applied in order to reflect the effects of prospective severe market fluctuations in the market parameters on income statement.

In compliance with the "Regulation on Banks' Internal Control and Risk Management Systems" published in the Official Gazette dated 28 June 2012 and numbered 28337, Board of Directors determine risk limits considering the major risks beared by the Bank and revise these limits based the market conditions and the strategies of the Bank.

The reports prepared for the monitoring of the risk limits are regularly submitted to the Board of Directors, Audit Committee and top management.

Currency Risk

Foreign currency risk indicates the possibilities of potential losses that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Group are taken into account, net short and long position of the Turkish Lira equivalent to each foreign currency is calculated.

Standard method determined for legal reporting is used in the calculation of the exchange rate risk faced by the Bank.

In addition, daily currency risk faced by the Bank can be determined by the foreign currency balance sheets that are prepared to include singular positions. Projected foreign currency balance sheets are used in the calculation of the future possible exchange rate risk (including foreign currency based assets and liabilities). To limit the amount of currency risk exposed, a non-speculat0ve foreign currency position risk management is adopted and used in the distribution of balance sheet and off-balance sheet assets according to their currencies.

Foreign currency sensitivity:

The Group is mainly exposed to EUR and USD currency risk.

The Group's sensitivity to foreign currency rates has not changed much during the current period. The positions taken in line with market expectations can increase the foreign currency sensitivity from period to period.

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

20. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

The concentrations of assets, liabilities and off balance sheet items in various currencies are:

	EURO	USD	Other FC	Total
As of 30 June 2020				
Assets				
Cash and deposits with banks and other financial institutions	492,051	116,249	544	608,844
Investment securities at FVOCI	202,983	132,091	-	335,074
Financial assets at fair value through profit and loss	85,614	-	-	85,614
Money market placements	-	-	-	-
Loans and advances to customers and financial institutions	6,900,592	9,779,758	-	16,680,350
Financial Assets Measured at Amortised Cost	1,300,069	-	-	1,300,069
Other assets	1,641	31,168	-	32,809
Total assets	**8,982,950**	**10,059,266**	**544**	**19,042,760**
Liabilities				
Funds provided from other financial institutions	7,353,353	9,943,850	-	17,297,203
Subordinated loans	1,637,484	-	-	1,637,484
Other liabilities	33,725	113,897	-	147,622
Total liabilities	**9,024,562**	**10,057,747**	**-**	**19,082,309**
Net on balance sheet position	**(41,612)**	**1,519**	**544**	**(39,549)**
Net off balance sheet position	**38,187**	**(4,135)**	**-**	**34,052**
Non-cash loans	121,330	-	-	121,330
As of 31 December 2019				
Total assets	**8,224,403**	**8,623,049**	**385**	**16,847,837**
Total liabilities	**8,217,999**	**8,614,725**	**-**	**16,832,724**
Net on balance sheet position	**6,404**	**8,324**	**385**	**15,113**
Net off balance sheet position	**-**	**-**	**-**	**-**
Non-cash loans	-	-	-	-

Interest Rate Risk

Interest Rate Risk on Banking Book report includes Receivables from Central Bank, Money Market Placements, Receivables from Bank. The interest rate risk indicates the probability of loss that the Bank may incur due to the position of the financial instruments due to movements in the interest rates. Changes in interest rates affect the return on the assets and the cost of the liabilities. Interest rate risk arising from banking accounts, includes re-pricing risk, yield curve risk, base risk and option risk.

The interest rates determined by the market actors, especially the central banks, have a decisive role on the economic value of the Bank's balance sheet and on the Bank's income-loss balance. Sudden interest shocks in the market because the Bank to open the gap between the applied interest rate of the revenue generating assets and the interest paid on the liabilities. The opening of this gap may cause the Bank interest income to be adversely affected by fluctuations in market interest rates and may cause decrease in profitability of the Bank.

20. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

The Bank’s basic principle in the interest rate risk management policy is to avoid mismatch and provide alignment between loans disbursed with fixed and floating rate and funds provided with fixed and floating rate. Accordingly, interest rate, currency and maturity alignment is respected during the disbursement of loans funded by foreign long-term borrowings, which form the material part of the loan portfolio. Almost the entire loan portfolio is financed by floating rate borrowings, thus interest rate risk from changes in interest rates seems not probable for the loan portfolio because of the correlation provided between the sources and the uses and other loans in the portfolio are financed by the equity of the Bank.

Within the framework of the Bank’s basic principle of interest rate risk policy, optimization of portfolio distribution in the management of interest-sensitive assets other than loans is provided by considering possible changes in duration of positions and current interest rate limits; by taking into account alternative return, limits of tolerable loss and risk. In this context, to measure the interest rate risk exposure of the Bank, the effect of days to maturity and profit/loss are analyzed considering the scenarios of possible changes in interest rates for securities portfolio. Alternatives for compensation of probable losses that may arise as a result of fluctuations in interest rates are examined using different markets. Interest rate sensitivity analysis is also made for the positions besides securities portfolio.

There is no interest rate mismatch on loan portfolio as the main principle of interest rate adjustment on the source and disbursement side of the loan portfolio of the Bank. For this reason, the Bank's credit portfolio does not carry any interest rate risk even if it is affected by market volatility. Interest rate-sensitive items on the Bank's balance sheet are limited only to the size of the Financial Assets Measured at Fair Value Through Other Comprehensive Income within the liquid portfolio.

In order to minimize the possibility of unfavorable effects of market interest rate changes on the Bank’s financial position, risk limits are used for the management of interest rate risk. These limits are set by Asset-Liability Committee and approved by Board of Directors. The Bank monitors and controls whether interest-sensitive assets are within the determined limits.

In order to minimize the likelihood that the change in market interest rates in the bank's securities portfolio management will cause adverse effects on the financial structure of the bank, limits have been set on the adjusted duration of the securities portfolio and the amount of daily loss that may arise from the securities portfolio.

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

20. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

Interest rate sensitivity based on repricing dates:

As of 30 June 2020	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest Bearing	Total
Assets							
Cash and deposits with banks and other financial institutions	2,166,689	-	-	-	-	38,524	2,205,213
Balances with Central Bank	-	-	-	-	-	561	561
Money market placements	-	229,915	-	-	-	-	229,915
Financial assets at fair value through profit and loss	-	-	-	-	-	85,614	85,614
Investment securities at FVOCI	203,222	6,040	268,017	344,262	-	9,037	830,578
Loans and advances to customers and financial institutions	5,182,493	2,594,345	3,656,857	1,692,078	3,736,021	5,252	16,867,046
Investment securities held to maturity	-	-	1,951	1,404,016	10,126	-	1,416,093
Other assets	-	-	-	-	-	162,760	162,760
Total assets	**7,552,404**	**2,830,300**	**3,926,825**	**3,440,356**	**3,746,147**	**301,748**	**21,797,780**
Liabilities							
Obligations under repurchase agreements	52,714	-	-	-	-	-	52,714
Subordinated loans	-	-	-	-	-	1,637,484	1,637,484
Funds provided from other financial institutions	4,079,374	2,705,780	4,169,855	4,457,506	1,904,690	-	17,317,205
Other liabilities	-	5,383	30,708	-	-	2,754,286	2,790,377
Total liabilities	**4,132,088**	**2,711,163**	**4,200,563**	**4,457,506**	**1,904,690**	**4,391,770**	**21,797,780**
On balance sheet interest sensitivity gap – Long	3,650,218	-	-	-	1,841,457	-	5,491,675
On balance sheet interest sensitivity gap – Short	-	(105,395)	(243,030)	(1,011,844)	-	(4,131,406)	(5,491,675)
Off balance sheet interest sensitivity gap – Long	-	-	-	-	-	-	-
Off balance sheet interest sensitivity gap – Short	-	-	-	-	-	-	-
Total position	**3,650,218**	**(105,395)**	**(243,030)**	**(1,011,844)**	**1,841,457**	**(4,131,406)**	**-**

As of 31 December 2019	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest Bearing	Total
Total assets	7,804,584	1,927,142	3,067,062	2,777,468	3,508,400	291,146	19,375,802
Total liabilities	3,702,243	2,246,663	4,689,396	2,896,690	1,899,191	1,587,426	17,021,609
Total position	**4,102,341**	**(319,521)**	**(1,622,334)**	**(119,222)**	**1,609,209**	**(1,296,280)**	**2,354,193**

20. FINANCIAL RISK MANAGEMENT (continued)

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency ("BRSA"). The minimum ratio is 8%. These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The Bank operates only in domestic markets.

Beginning from 1 July 2012, capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" (the "Regulation") published in the Official Gazette dated 28 June 2012 and numbered 28337 and "Communiqué on Credit Risk Mitigation Techniques" published in the Official Gazette dated 5 September 2013 and numbered 28756.

In capital adequacy standard ratio calculation, based upon the data prepared from accounting records in compliance with the current legislation, the Standard Method is used to calculate capital adequacy for Credit Risk and Market Risk and Basic Indicator Approach is used annually for Operational Risk.

In calculation of value at credit risk, the Bank assesses credit items in related risk weights by considering risk categories, rating notes and other risk reducing factors under the framework of "Communiqué on Credit Risk Mitigation Techniques".

The non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are calculated based on the "Regulation on Procedures and Principles for Determination of Qualification of Loans and Other Receivables, and Allocation of Provisions" and classified under liabilities. The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the "Communiqué on Credit Risk Mitigation Techniques" and then included in the relevant risk classification defined in the article 6 and weighted as per Appendix-1 of the Regulation.

As per the article 5 of the Regulation, the "counterparty credit risk" is calculated for repurchase and reverse repurchase agreements.

As of 30 June 2020, its capital adequacy ratio on an unconsolidated basis is 21.24% (31 December 2019: 22.29%).

Operational Risk

Operational risk is defined as the probability of loss or damage due to the overlooked errors and irregularities arising from failures of the internal controls of the Bank, and not responding timely by the Bank's management and the personnel, errors and irregularities of the information systems, and due to the disasters like earthquake, fire or flood, or terrorist attacks. From this point, all major operation groups include operational risk.

The Bank manages operational risk according to volume, nature and complexity of operations and within the context of BRSA regulations; accepts that operational risk management covers all operations and personnel. The basic principle of operational risk management policy is to take precautions to prevent realization of risks. Intensification of controls over each stage of business processes that are determined by the Bank is the most effective policy tool of operational risk management.

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

20. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial instruments

	30 June 2020	
	Carrying amount	**Fair value**
Financial assets		
Loans and advances	16,867,046	16,924,225
Financial assets measured at FVOCI	830,578	830,578
Investment securities at amortised cost	1,416,093	1,426,198
Money market placements	229,915	229,915
Cash at Banks	2,205,213	2,205,213
	21,548,845	**21,616,129**
Financial liabilities		
Obligations under repurchase agreements	52,714	52,714
Funds Provided from Other Financial Institutions	17,315,420	18,526,804
Subordinated loans	1,637,484	1,637,484
Sundry Creditors	137,182	137,182
	19,142,800	**20,354,184**

	31 December 2019	
	Carrying amount	**Fair value**
Financial assets		
Loans and advances	14,904,740	14,951,256
Financial assets measured at FVOCI	687,356	687,356
Investment securities at amortised cost	1,064,246	1,066,501
Money market placements	127,246	127,246
Cash at Banks	2,336,055	2,336,055
	19,119,643	**19,168,414**
Financial liabilities		
Obligations under repurchase agreements	50,364	50,364
Funds Provided from Other Financial Institutions	15,382,034	16,420,466
Subordinated loans	1,402,055	1,402,055
Sundry Creditors	53,773	53,773
	16,888,226	**17,926,658**

(*) Financial assets and liabilities presented above include interest accruals.

Methods and estimations used for the fair value determination of financial instruments which are not presented with their fair values in financial statements:

i- For the fair value determination of loans, interest rates as of balance sheet date are considered,
ii- For the fair value determination of banks, interest rates as of balance sheet date are considered,
iii- For the fair value determination of investments held-to-maturity, market prices as of balance sheet date are considered.

The fair values of financial assets and financial liabilities are determined as follows:

• Level 1: The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

• Level 2: The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

• Level 3: The fair value of derivative instruments, are calculated using quoted prices, Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

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

20. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial instruments (continued)

30 June 2020	**Level 1**	**Level 2**	**Level 3**
Financial assets FVOCI	**821,710**	**-**	**9,574**
Debt securities	821,710	-	-
Share certificates	-	-	9,574
Other	-	-	-
Financial assets FVPL	**-**	**-**	**85,614**

31 December 2019	**Level 1**	**Level 2**	**Level 3**
Financial assets FVOCI	**680,599**	**-**	**8,037**
Debt securities	680,599	-	-
Share certificates	-	-	8,037
Other	-	-	-
Financial assets FVPL	**-**	**-**	**90,216**

The table below shows the movement table of level 3 financial assets.

Level 3 Movement Table	**Current Period**
Balance at the Beginning of the period	**98,253**
Purchases During the Period	2,900
Disposals Through Sale/Redemptions	5,965
Valuation Effect	-
Transfers	-
Balance at the End of the period	**95,188**

21. SUBSEQUENT EVENTS

The Ordinary General Assembly Meeting of the Bank for 2019 was held on 10 July 2020.

Asia Infrastructure Investment Bank's Board of Directors has confirmed to provide a loan of USD 300 million to the Bank to reduce the effects of COVID-19 It will be guaranteed by the Treasury and the Republic of Turkey Ministry of Finance.

Founder and manager of the Bank of Turkey's Development Fund that TL 400 million in size Regional Development Fund established and Republic of Turkey Ministry of Industry and Technology officially began its activities with the signing of the Investor Agreement.

Transaction for the sale of 58 real estate consisting of the Bank's service building, residences and assets acquired due to its receivables have started. The sales of 39 of these real estates completed and transactions of the rest continue.

With the decision of the Board of Directors of the Bank dated 9 October 2020, in order to increase placement opportunities, it has been decided to cover the entire issued capital of the Bank, which was TL 850,000 within the registered capital ceiling of TL 2,500,000, in cash and increase it to TL 1,600,000 by increasing TL 750,000 (88.24%).

With the decision of the Board of Directors of the Bank dated 11 September 2020, it has been decided to establish "Kalkınma Girişim Sermayesi Portföy Yönetimi A.Ş.", 100% of the capital belonging to the Bank.

The registration date of Kalkınma Girişim Sermayesi Portföy Yönetimi A.Ş. is 17 November 2020.