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

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

11 May 2021

This report contains 5 pages of independent auditors' report on consolidated financial statement and 56 pages of consolidated financial statements and notes to the consolidated financial statements.

Türkiye Kalkınma ve Yatırım Bankası Anonim Şirketi and Its Subsidiaries

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Türkiye Kalkınma ve Yatırım Bankası A.Ş.

Qualified Opinion

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

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

Basis for Qualified Opinion

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 TRY 10,181 Thousand and TRY 11,816 Thousand, respectively on the consolidated statement of financial position as at 31 December 2020, and Bank's share of Maksan's and Türk Suudi Holding's net income of TRY 2,721 Thousand and TRY 2,279 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 31 December 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 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 2020. Total asset and net loss of Arıcak as of and for the period ended 31 December 2020 is TRY 756 Thousand and TRY 58 Thousand, respectively. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in Basis for Qualified Opinion section we have determined the matters described below the key audit matter to be communicated in our report.

Impairment of loans measured at amortised cost

Refer to Note 2.17 to the consolidated financial statements for summary of accounting policies and significant judgments of for impairment of loans measured at amortised cost.

Key audit matter	How the matter is addressed in our audit
As of 31 December 2020, loans comprise 71% of Group's total assets. The Group recognizes its loans measured at amortised cost in accordance with IFRS 9 Financial Instruments standard ("Standard"). In determining the impairment of financial assets the Group applies "expected credit loss model" which contains significant assumptions and estimates. The significant assumptions and estimates of the Group's management are as follows: • determination of significant increase in credit risk since initial recognition of loans in financial statements. • incorporating the forward looking macroeconomic information in calculation of credit risk. • design and implementation of expected credit loss model. The determination of the impairment of loans measured at amortised cost depends on the credit default status, the model based on the change in the credit risk at the first recognition date and the classification of the loans measured at amortised cost according to the model.	Our procedures for auditing the impairment of loans measured at amortised cost include below: • We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures are tested with the involvement of information risk management specialists. We evaluated the adequacy of the subjective and objective criteria that is defined in the Group's impairment accounting policy compared with the Standard. • We evaluated the model and methodology and the evaluation of the calculations carried out with the control testing and detail analysis by the involvement of specialist. • We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information and evaluation of their classification. In this context, the current status of the loan customer has been evaluated by including forward looking information and macroeconomic expectations including the impact of COVID-19 pandemic.

Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets. The Group estimates expected credit losses on a collective basis. Collective provisions consider the estimated future performance of the business and the market value of the collateral provided for credit transactions. Impairment on loans measured at amortised cost was considered to be a key audit matter, due to the significance of the estimates including the impact of COVID-19 pandemic, assumptions, the level of judgements and its complex structure as explained above.	• We tested the accuracy and completeness of the data in calculation of the data in the calculation models for the loans which are assessed on collective basis. We recalculated the expected credit loss calculation. The models used for the calculation of the risk parameters were examined and the risk parameters for the selected sample portfolios were recalculated. • We assessed the macroeconomic models which are used to reflect forward looking expectations including the impact of COVID-19 pandemic and tested the effect of the risk parameters by recalculation method. • We evaluated the subjective including the impact of COVID-19 pandemic criteria which are used in determining the significant increase in credit risk. • We evaluated the adequacy of the disclosures in the consolidated financial statements related to impairment provisions.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

Erdal Tıkmak
Partner

11 May 2021
Istanbul, Turkey

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and deposits with banks and other financial institutions	4	3,555,698	2,336,055
Balances with Central Bank	4	1,115	594
Money market placements	4	1,499,794	127,246
Financial assets measured at fair value through profit or loss	5	119,725	90,216
Derivative financial assets		43	-
Loans and advances to customers	7	15,541,969	11,220,231
Loans and advances to financial institutions	6	4,512,970	3,684,509
Investment securities	8	2,681,802	1,751,602
Investments in associates	9	21,997	16,997
Premises and equipment	10	22,545	56,368
Investment properties	11	-	850
Intangible assets	12	17,744	2,085
Deferred tax asset	16	18,054	-
Other assets	13	78,583	89,049
Total assets		**28,072,039**	**19,375,802**
LIABILITIES AND EQUITY			
LIABILITIES			
Funds borrowed	14	22,007,957	15,383,819
Subordinated liabilities	14	1,993,243	1,402,055
Money market funds	14	203,850	50,364
Derivative liabilities		47	-
Income taxes payable	16	45,284	45,847
Provisions	15	39,048	25,628
Deferred tax liabilities	16	-	11,682
Other liabilities	15	194,856	102,214
Total liabilities		**24,484,285**	**17,021,609**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	17	1,876,911	1,126,911
Share premium		3,683	1,983
Other reserves		14,272	36,062
Legal reserves		70,028	47,673
Retained earnings		1,622,860	1,141,564
Total equity		**3,587,754**	**2,354,193**
Total liabilities and equity		**28,072,039**	**19,375,802**

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

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Notes	1 January – 31 December 2020	1 January – 31 December 2019
Interest income			
Interest on loans and advances		811,131	750,066
Interest on securities	21	188,423	108,120
Interest on deposits with banks and other financial institutions		135,705	234,597
Interest on other money market placements		81,075	39,428
Other interest income		45	336
Total interest income		**1,216,379**	**1,133,147**
Interest expense			
Interest on money market operations		(5,737)	(429)
Interest on funds borrowed		(465,361)	(422,790)
Other interest expense		(7,962)	(2,208)
Total interest expense		**(479,060)**	**(425,427)**
Net interest income		**737,319**	**707,720**
Fees and commissions and other operating income			
Fees and commissions income	24	31,144	15,747
Fees and commissions expenses	24	(10,521)	(1,231)
Net fees and commissions income	24	**20,623**	**14,516**
Foreign exchange gains / (loss)		67,603	13,715
Net trading gain / (loss)		(51,984)	25,742
Other operating income	22	140,364	40,439
Other operating expenses	23	(163,446)	(158,714)
(Provisions for) impairment of loans and other assets		(132,960)	(52,873)
Operating profit		**617,519**	**590,545**
Income from associates	10	5,000	2,380
Profit before income tax		**622,519**	**592,925**
Income tax expense	16	(118,868)	(172,672)
Profit for the year		**503,651**	**420,253**
Profit attributable to:			
Equity holders of the parent		503,651	420,253
Earnings per share (per shares) (Full TRY)	19	**0.006**	**0.006**

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

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Notes	1 January - 31 December 2020	1 January – 31 December 2019
Profit for the year		**503,651**	**420,253**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/(loss)		(625)	(694)
Tax effect of actuarial gain/(loss)		125	125
Items that may be reclassified subsequently to profit or loss:			
Net value gains / (losses) on financial assets measured at fair value through other comprehensive income (FVOCI)		(26,571)	48,055
Tax effect of net value gains/ (losses) on financial assets measured at fair value through other comprehensive income (FVOCI)		5,281	(8,666)
Other comprehensive income / (loss) for the year, net of tax		**(21,790)**	**38,820**
Total comprehensive income for the year		**481,861**	**459,073**
Total comprehensive income attributable to:			
Equity holders of the parent		481,861	459,073
Non-controlling interest		-	-

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

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

Amounts expressed in thousands of Turkish Lira (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 year	-	-	-	-	-	-	503,651	503,651
Actuarial gain/(loss):								
Gains/(Losses) arising during the year	-	-	-	(625)	-	-	-	(625)
Financial assets measured at fair value through other comprehensive income (FVOCI):								
Gains/(Losses) arising during the year	-	-	-	-	(26,571)			(26,571)
Less: Transfer to statement of income	-	-	-	-	-	-	-	-
Income tax relating to components of other comprehensive income	-	-	-	125	5,281	-	-	5,406
Other comprehensive income	**-**	**-**	**-**	**(500)**	**(21,290)**	**-**	**-**	**(21,790)**
Total comprehensive income for the year	-	-	-	(500)	(21,290)	-	503,651	481,861
Owners' equity changes:								
Capital increase in cash	750,000	-	-	-	-	-	-	750,000
Insurance of share certificates	-	-	1,700	-	-	-	-	1,700
Dividends paid	-	-	-	-	-	-	-	-
Transfer to legal reserves	-	-	-	-		22,355	(22,355)	-
At 31 December 2020	**1,600,000**	**276,911**	**3,683**	**(348)**	**14,620**	**70,028**	**1,622,860**	**3,587,754**

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

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

Amounts expressed in thousands of Turkish Lira (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 31 January 2019	**500,000**	**276,911**	**1,582**	**721**	**(3,479)**	**39,142**	**729,842**	**1,544,719**
Profit for the year	-	-	-	-	-	-	420,253	420,253
Actuarial gain/(loss):	-	-	-					
Gains/(Losses) arising during the year	-	-	-	(694)	-	-	-	(694)
Financial assets measured at fair value through other comprehensive income (FVOCI):	-	-	-					
Gains/(Losses) arising during the year	-	-	-	-	48,055			48,055
Less: Transfer to statement of income	-	-	-	-	-	-	-	-
Income tax relating to components of other comprehensive income	-	-	-	125	(8,666)	-	-	(8,541)
Other comprehensive income	**-**	**-**	**-**	**(569)**	**39,389**	**-**	**-**	**38,820**
Total comprehensive income for the year	-	-	-	(569)	39,389	-	420,253	459,073
Owners' equity changes:								
Capital increase in cash	350,000	-	-	-	-	-	-	350,000
Insurance of share certificates	-	-	401	-	-	-	-	401
Dividends paid	-	-	-	-	-	-	-	-
Transfer to legal reserves	-	-	-	-	-	8,531	(8,531)	-
At 31 December 2019	**850,000**	**276,911**	**1,983**	**152**	**35,910**	**47,673**	**1,141,564**	**2,354,193**

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

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Notes	1 January – 31 December 2020	1 January – 31 December 2019
Cash flows from operating activities			
Interest received		1,107,399	1,062,463
Interest paid		(405,283)	(382,827)
Fees and commissions received		31,144	15,747
Fees and commissions paid		(10,521)	(1,231)
Dividend received		5,556	4,840
Recoveries from impairment of loans and other assets		36,348	7,847
Cash payments to employees and other parties		(101,430)	(121,505)
Other operating activities		(98,576)	80,393
Income taxes paid		(148,316)	(138,008)
Cash flows from operating activities before changes in operating assets and liabilities		**416,321**	**527,719**
Changes in operating assets and liabilities			
Net (increase)/decrease in financial assets on FVTPL		(8,664)	(25,589)
Net (increase)/decrease in loans and advances		(838,995)	206,221
Net (increase)/decrease in other assets		7,009	22,436
Net increase/(decrease) in other liabilities		317,903	81,896
Net increase/(decrease) in money market deposits		153,569	(49,502)
Proceeds from funds borrowed		1,807,371	115,520
Net cash used in operating activities		**1,854,514**	**878,701**
Cash flows from investing activities			
Purchases of investment securities at FVOCI		(446,340)	(605,718)
Proceeds from sale and redemption of securities at FVOCI		235,725	232,135
Purchases of investment securities at amortised cost		(190,044)	(1,014,457)
Proceeds from redemption of investment securities at amortised cost		26,602	30,932
Purchases of premises and equipment		(5,202)	(8,891)
Proceeds from sale of premises and equipment		171,521	377
Purchases of intangible assets		(21,150)	(1,503)
Net cash provided / (used in) from investing activities		**(228,888)**	**(1,367,125)**
Cash flows from financing activities			
Cash obtained from funds borrowed and securities issued		-	978,570
Capital increase		750,000	350,000
Payments for leases		(6,754)	(3,881)
Net cash provided by / (used in) financing activities		**743,246**	**1,324,689**
Effect of net foreign exchange difference		217,938	10,747
Net increase/(decrease) in cash and cash equivalents		2,586,810	847,012
Cash and cash equivalents at the beginning of the year	4	2,470,569	1,623,557
Cash and cash equivalents at the end of the year	4	**5,057,379**	**2,470,569**

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

1. GENERAL INFORMATION ABOUT THE BANK

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements of the Group were authorized for issuance by the management on 11 May 2021.

2.2. Basis of Preparation

These consolidated financial statements have been prepared on the historical cost except for those assets and liabilities measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.3 Basis of Presentation of Consolidated Financial Statements

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements have been prepared under the historical cost convention, except those assets and liabilities that have been measured at fair value.

The Bank and its subsidiaries are incorporated in Turkey and maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant law and regulations. The foreign associates maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The accompanying financial statements differ from the financial statements prepared for statutory purposes in that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with IFRS, which are not recorded in the accounting books of Group's entity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Inflation Accounting

The financial statements of the Bank and its subsidiaries for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29 "Financial Reporting in Hyperinflationary Economies". Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the consolidated financial statements since 1 January 2006. Amounts expressed in the measuring unit current at 31 December 2005 were treated as the basis for the carrying amounts after 1 January 2006.

2.5 Basis of Consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Subsidiaries included in consolidation and effective shareholding percentages of the Group as of 31 December 2020 and 2019 are as follows:

	Place of Incorporation	Effective Shareholding %		Voting Rights %	
		31 December 2020	31 December 2019	31 December 2020	31 December 2019
Arıcak Turizm ve Ticaret A.Ş. ("Arıcak")	İstanbul/Turkey	99.71%	99.71%	100.00%	100.00%
Kalkınma Girişim Sermayesi Portföy Yönetimi A.Ş. (*)	İstanbul/Turkey	100%	-	100%	-
Kalkınma Yatırım Varlık Kiralama A.Ş. (*)	İstanbul/Turkey	100%	-	100%	-

(*) The companies were established in 2020 and included in the consolidated financial statements.

2.6 Investments in Associates

The Group's investments in associates accounted for under the equity method of accounting is as follows:

	Place of Incorporation	Effective Shareholding %		Voting Rights %	
		31 December 2020	31 December 2019	31 December 2020	31 December 2019
Maksan A.Ş.	Malatya	31.14%	31.14%	20.00%	20.00%
Türk Suudi Holding A.Ş.	Istanbul	24.69%	24.69%	10.00%	10.00%

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investments in Associates (continued)

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group’s consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

2.7 Use of Estimates and Judgments

The preparation of the 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 financial statements. Management do exercise judgment and make use of information available at the date of the preparation of the 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 financial statements are discussed in the relevant sections below.

The 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 11 March 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 31 December 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 31 December 2020, within the Bank’s projections.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Functional and Presentation Currency

These consolidated financial statements are presented in Turkish Lira ("TRY"), which is the Bank's functional currency. Except as indicated, financial information presented in TRY has been rounded to the nearest thousand.

2.9 Foreign Currency Transactions and Translation

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

Foreign currency translation rates used by the Group as of respective year-ends are as follows:

	EUR/TRY	USD/TRY
31 December 2020	9.141	7.443
31 December 2019	6.649	5.932

2.10 Changes in Accounting Policies

IFRS changes, which entered into force as of 1 January 2021, do not have a significant effect on the accounting policies, financial status and performance of the Bank. IFRS changes, which were published but not put into effect as of the final date of the financial statements, will not have a significant effect on the accounting policies, financial status and performance of the Bank. In addition, the Indicator Interest Rate Reform - 2nd Stage, bringing changes in IFRS 9, IFRS 7, IFRS 4 and IFRS 16, effective from 1 January 2021, was published in December 2020 and early implementation of the changes is allowed. With the amendments made, certain exceptions are provided for the basis used in determining contractual cash flows and the provisions of hedge accounting. It is anticipated that the changes will not have a significant impact on the Bank's financials. On the other hand, the process for the Indicative Interest Rate Reform is expected to be completed as of 31 December 2021, and the Bank's work continues within the scope of adaptation to the changes.

2.11 Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Gain or loss arising from the disposal or retirement of an item of premises and equipment is determined as the difference between the sales proceeds and the carrying amount of that asset and is recognized in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Premises and Equipment (continued)

Ordinary maintenance and repair expenses on premises and equipment items are recognized as expenses. Investment expenditures that increase the future benefit by enhancing the capacity of tangible assets are capitalized. Investment expenditures include cost items that extend the useful life of the asset, increase the servicing capabilities of the asset, improve the quality of goods or services produced or reduce the costs.

Tangible fixed assets are amortized by using the straight-line method over their estimated useful lives. Estimated depreciation rates of tangible fixed assets are as follows:

	Depreciation Rate
Buildings	2%
Safes	2%
Vehicles	20%
Other Tangible Assets	6.66% - 33.33%

There is no change in accounting estimations that has material effect in the current period or that is expected to have effect in the subsequent periods.

2.12 Intangible Assets

Intangible assets acquired are reported at cost less accumulated depreciation and accumulated impairment losses.

Amortization is charged on a straight-line basis over their estimated useful life which is 33.33%. The estimated useful life and amortization method are reviewed at the date of each annual reporting period, with the effect of changes in the estimate being accounted for on a prospective basis.

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets at the accompanying consolidated financial statements.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

2.13 Impairment of Non-financial Assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14 Investment Property

Investment property, which is property, held to earn rentals and/or for capital appreciation is carried at cost less accumulated depreciation and any accumulated impairment losses. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Depreciation is provided on investment property on a straight line basis. The depreciation period for investment property is 50 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial Instruments

Initial recognition of financial instruments

It shall be recognised a financial asset or a financial liability in the statement of financial position when, and only when, an entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted at the settlement date.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. At initial recognition, the Group shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification of financial instruments

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

Assessment of the business model

The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation.

The business models are divided into three categories. These categories are defined below:

- A business model whose objective is to hold assets in order to collect contractual cash flows: a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realize cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortised cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: it may be held financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Other business models: financial assets are measured at fair value if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

A financial asset is classified on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial Instruments (continued)

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (continued)

In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at fair value.

Measurement categories of financial assets and liabilities

As of 1 January 2018, all financial assets are classified based on the business model for managing the financial assets. Accordingly, financial assets are classified in four main categories as listed below:

- Financial instruments measured at amortised cost,
- Fair Value Through Other Comprehensive Income (“FVOCI”),
- Financial assets at fair value through profit/loss (“FVPL”).

Financial instruments measured at amortised cost

Starting from 1 January 2018, financial assets are classified as measured at amortised cost if both of the following conditions are met.

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt securities measured at amortised cost: subsequent to the initial recognition, debt securities are measured at amortised cost by using the effective interest rate method.

Loans and receivables: financial assets other than those held for trading in short term or generated through providing money, commodity and services to debtors. Loans are financial assets with fixed or determinable payments and not quoted in an active market.

Loans and receivables are recognised at cost and also measured at amortised cost by using the effective interest method.

All financial liabilities are classified as subsequently measured at amortised cost except for financial liabilities at FVPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, and contingent consideration recognised by an acquirer in a business combination.

Financial instruments measured at FVOCI

Financial investments are classified as measured at FVOCI if both of the following conditions are met.

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial Instruments (continued)

Financial instruments measured at FVOCI (continued)

A gain or loss on a financial asset measured at FVOCI shall be recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. If the financial asset is reclassified, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Financial assets measured at FVOCI are measured at their fair values subsequently. However, assets for which fair values could not be determined reliably are valued at amortised cost by using the discounting method with internal rate of return for floating-rate securities; and by using valuation models or discounted cash flow techniques for fixed-rate securities. Unrecognised gain/losses derived from the difference between their fair value and the discounted values are recorded in accumulated other comprehensive income or expense to be reclassified to profit or loss under the shareholders' equity. In case of sales, the gain/losses arising from fair value measurement accumulated under shareholders' equity are recognised in statement of profit or loss and other comprehensive income.

Interests calculated and/or earned by using the effective interest method during holding of financial assets measured at FVOCI are recorded primarily in interest income. On derecognition of such financial assets, the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

At initial recognition, it can be made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such election is made on an instrument by instrument basis.

Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the cumulative gain or loss shall be recycled to prior period's profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. IFRS 9 impairment requirements are not applicable for equity instruments.

Financial assets and liabilities measured at FVPL

Financial assets at FVPL are valued at their fair values and gain/loss arising on those assets is recorded in the statement of profit or loss. Interest income earned on these assets and the difference between their acquisition costs and amortised costs are recorded as interest income in the statement of profit or loss. The differences between the amortised costs and the fair values of such assets are recorded under net trading income/(expense) in the statement of profit or loss. In cases where such assets are sold before their maturities, the gains/losses on such sales are recorded under net trading income/(expense).

Derecognition of financial instruments

Derecognition of financial assets due to change in the contractual terms

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

When it is assessed the characteristics of the new contractual terms of the financial asset, it is also evaluated the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognised a modification gain or loss in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial Instruments (continued)

Derecognition of financial instruments (continued)

Derecognition of financial liabilities

Where all risks and rewards of ownership of the asset have not been transferred to another party and it is retained control of the asset, it is continued to be recognised the remaining portion of the asset and liabilities arising from such asset.

When it is retained substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognised in its entirety and the consideration received is recognised as a liability.

Derecognition of a financial asset without any change in the contractual terms

The asset is derecognised if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party.

Except for equity instruments measured at FVOCI, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognised in profit or loss.

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

Reclassification of financial instruments

It shall be reclassified all affected financial assets based on classification principles of IFRS 9 when, and only when, it is changed the business model for managing financial assets.

Restructuring and refinancing of financial instruments

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

Restructuring is to change the financial terms of existing loans in order to facilitate the payment of debt. Refinancing is granting a new loan which will cover either the principal or the interest payment in whole or in part of one or a few existing loans due to the anticipated financial difficulty which the customer or group encounter currently or will encounter in the future.

Changes in the original terms of a credit risk can be made in the current contract or through a new contract.

2.16 Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement (‘repos’), are recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they are part of. The counterparty liability for amounts received under these agreements is included in obligations under repurchase agreements. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Impairment of Financial Assets

The Bank recognize provisions for impairment in accordance with expected credit loss (ECL) model is used for instruments (such as bank deposits, loans and leasing receivables) carried at amortized cost and FVOCI, and in addition, credit commitments, and financial guarantee contracts.

The guiding principle of the ECL model is to reflect the general outlook of the increase or improvement in credit risk of financial instruments. The amount of ECLs defined as loss provision or provision depends on the degree of increase in credit risk since the loan was first issued.

Within the scope of IFRS 9 Financial Instruments, three basic factors regarding the measurement of expected credit loss are taken into consideration. These,

(a) the amount weighted according to the neutrality and probabilities determined by evaluating the possible outcome range

(b) time value of money

(c) reasonable and supportable information on past events, current conditions and forecasts of future economic conditions that can be obtained without incurring excessive cost or effort as of at the reporting date

Taking into consideration these three factors, the Bank's historical data is modeled and the expected loss amount is calculated for each loan. Since the expected loss represents the future value, the discounting factor and the present value of this amount are calculated.

In order to reflect the changes in credit risk since the initial recognition of credit risk, the loss provision is updated at each reporting date in which the expected loss calculations are performed.

The Bank assesses whether there has been a significant increase in credit risk in the financial instrument for the first time since it was included in the financial statements. In making this assessment, the Bank uses the change in default risk during the expected life of the financial instrument. To make this assessment, the Bank compares default risk related to the financial instrument as of the reporting date and the default risk related to the financial instrument for the first time in the financial statements, and is reasonable, which can be obtained without incurring excessive costs or efforts, which is reasonable indication of significant increases in credit risk since its introduction for the first time. and supportable information.

In the IFRS 9 impairment, a 3-step approach is used in which the credit risk level increases at each stage:

Stage 1: It refers to all accounts that have not shown any deterioration in credit quality since the loan was issued. All accounts defined as having low credit risk will be classified as Stage 1 without periodically checking whether there is a significant increase in credit risk. A 12-month provision calculation is performed for all accounts classified in Stage 1.

Stage 2: Refers to all accounts showing significant deterioration in credit quality since the loan was issued. For all accounts classified in Stage 2, lifetime provision calculations are performed.

Stage 3: Refers to all impaired assets. For all accounts classified in Stage 3, lifetime provision calculations are performed.

IFRS requires a 12-month compensation for all loans in stage 1, and a lifetime provision for all remaining loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Impairment of Financial Assets (continued)

Significant Increase in Credit Risk

If the customers classified as Stage 1 meet the following criteria, it has been decided by the Bank to be classified under Stage 2:

- The number of delay days of the customer is over 30,
- Restructuring of the debtor with financial difficulties by granting concession,
- Customer has Close Monitoring criteria,
- There is a 35 percent or more decrease in the quantitative score to be calculated by considering the end-of-year financial statements for the customer every year, and the score in question drops below 40 (a significant increase criterion in credit risk).

Customers are periodically evaluated (at least once a year) and their ratings are updated in order to evaluate the criterion of significant increase in credit risk. The evaluation period is shortened for the borrowers who received a significant deterioration in credit risk during the year.

Classification criteria under Stage 2 work for all bank customers, in addition, in case of negative market intelligence, classification can be made under Stage 2. This process continues under IFRS 9. The classification rules determined within the scope of IFRS 9 work for all portfolios.

Treasury and Banks portfolios are among the low default portfolios, and it is decided by the Bank to classify the assets in this portfolio under Phase 1 until an opposite assessment is made.

For the numerical criteria related to the significant deterioration in the credit risk, the classification of the loans, the customer rating score calculated according to the credit rating model used within the bank has decreased by 35 percent and above, and the score in question falls below 40 determined by the Bank as the criterion of significant deterioration. In addition to these criteria, the restructuring made to the customer who has financial difficulties is used as a classification criterion under Stage 2.

Definition of Default

IFRS 9 Standard "When defining the default for the purpose of determining the business default risk according to IFRS 9, it uses a default definition consistent with the definition used for the credit risk management purposes of the related financial instrument and, if appropriate, takes into account qualitative indicators (e.g. financial commitments). However, unless the entity has reasonable and supportable information that reveals that default will occur when there is a longer delay, there is an otherwise demonstrable pre-acceptance that the default will not occur after the financial instrument expires after 90 days. The definition of default used for these purposes is applied consistently to all financial instruments unless information that proves that another definition of default is more appropriate for a particular financial instrument is available.". According to the article, the definition of default is used within the scope of modeling.

The definition of default used in the Bank is as follows:

- Customers with more than 90 days of delay (The number of customer delay days represents the highest number of delay days of the customer's existing loans on the relevant reporting date.),
- Compensation of the letter of guarantee received by the bank for collateral,
- Customers considered to be at high risk by the bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Impairment of Financial Assets (continued)

12 Month Expected Loss

12-month loan loss corresponds to some of the expected loan loss that may arise from the possible default status of the loan within 12 months of the reporting date.

Lifetime Expected Loss

Lifetime losses arise from all possible default events that may occur during the expected life span of the financial instrument after the reporting date. Life expectancy is related to the maturity of the financial instrument.

One of the risk parameters to be used in calculating the provision amounts to be set as per IFRS 9 is the Probability of Default (PD) information. Probability of Default refers to the possibility of a live loan falling into default. PD calculation is carried out by considering past data, current conditions and prospective macroeconomic expectations.

Specifically, while calculating PD, qualitative, quantitative scores, sector, bank degree and macro effect are taken into account. For the company whose quantitative evaluation is made, an objective score is produced between 0 and 100. The sector in which the company operates is determined in accordance with the NACE code (Statistical Classification of European Community Economic Activities; a reference resource for the purpose of producing and disseminating statistics on economic activities in Europe.).

After the qualitative and quantitative scores of the company are determined, the mentioned points are weighted according to the company scale and the company's score is calculated.

Banks, on the other hand, are ranked objectively by considering various criteria, namely capital, asset quality, liquidity, profitability, income-expenditure structure and capacity.

Finally, for the macro effect, a volatility index is calculated first, and then variables that act in parallel and play a role in the measurement of crisis probabilities before sudden financial shocks are identified. Afterwards, the index is created by weighting the determined variables according to the success rate.

The macro effect ultimately applied to the customer scores by the Bank is the macro note calculated on the company grade (non-macro score) calculated as a result of qualitative (partnership information, group of companies, etc.) and quantitative (liquidity, financial structure, profitability etc.) assessment of each customer. In line with the customer's score, corrections are applied. In this context, Turkey's economy made pioneering studies of vulnerability indicators for identifying crisis and some of the variables derived from various areas of the economy that have been identified by the Bank successfully predict in advance. This prediction has been accepted by the Bank as the threshold values are exceeded and the signal is produced starting at least 12 months before the crisis.

In order to obtain the macroeconomic score, which is calculated by considering the positive and negative scenarios as well as the base scenario value, values are calculated at a certain margin in accordance with the distribution of the series for positive and negative scenario values from the index values distributed between 0-100 and averaged over 12 months.

2.18 Cash and Cash Equivalents

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

2.19 Borrowings

All borrowings are initially recognized at the fair value of consideration received. After initial recognition interest-bearing borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Derivative Financial Instruments

The Group enters into transactions with derivative instruments including currency swaps and forwards in the foreign exchange. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IFRS 9, they are treated as derivatives held-for-trading. Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value at the end of each reporting period. The resulting gains or losses recognized in trading gain/loss account in profit or loss immediately.

2.21 Employee Benefits – Defined Benefit Plans

Termination and Retirement Benefits:

Under Turkish legislation and union agreements, lump sum payments are made to all employees who retire or whose employment is terminated without due cause. Such payments are based on number of years’ service and final salary at the date of retirement or leaving.

International Accounting Standard No. 19 (revised) “Employee Benefits” (“IAS 19”) has been applied in the accompanying financial statements. Future retirement payments are discounted to their present value at the balance sheet date at an interest rate determined as net of an expected inflation rate and an appropriate discount rate. This standard also allows the employee benefit liability to be reduced by anticipated forfeitures by eligible employees of their benefit. The retirement benefit obligation recognized in the statement of financial position represents value of the defined benefit obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions were directly charged to statement of income in prior periods. As per revised IAS 19, actuarial gains/losses are recognized under shareholders’ equity starting from 1 January 2013.

2.22 Provisions

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

2.23 Leases

Based on IFRS 16, at the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the alternative borrowing interest rate.

After the commencement date, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Leases (continued)

After the commencement date, the lease liability is remeasured to reflect changes to the lease payments. The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset.

The lease liability is remeasured by discounting the revised lease payments using a revised discount rate, if either there is a change in the lease term or there is a change in the assessment of an option to purchase the underlying asset. However, if there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments or if there is a change in the amounts expected to be payable under a residual value guarantee, an unchanged discount rate is used.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the lease liability is remeasured by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the alternative borrowing interest rate at the effective date of the modification. The carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. Any gain or loss relating to the partial or full termination of the lease is recognised in profit or loss. A corresponding adjustment to the right-of-use asset is made for all other lease modifications.

Bank as a lessee

The “IFRS 16 Leases” Standard removes financial lease and operational lease distinction for lessees and introduces a single accounting model for all leasing transactions. According to the standard, the lessees reflect a “asset that gives the right to use” and a “lease obligation” to the financial statements at the date when the lease actually begins. The initial cost of the asset that gives the right to use is measured by deducting the lease incentives from the sum of the lease obligation and the initial direct costs incurred by the lessees. The cost method is used for the measurements after the beginning of the lease. In this method, the asset that gives the right to use is measured by deducting the accumulated depreciation and accumulated depredation provisions from the cost value. The lease obligation is initially measured at the present value of the lease payments to be made during the lease period. In subsequent measurements, the book value of the liability is increased to reflect the interest on the lease obligation and decreased to reflect the lease payments made. IFRS 16 has made exemptions for leases of 12 months or less and leases related to low value assets.

The Bank, which is a lessee in financial leasing transactions, accounts for all lease transactions longer than 12 months as assets and liabilities in the statement of financial position. Depreciation expense related to the leased asset and interest expense in lease payments are reported in the income statement. The lease obligation was initially measured at the present value of the lease payments to be made during the lease period using the Bank's TRY alternative source cost.

The bank as the lessor

According to the “IFRS 16 Leases” Standard, financial lease and operational lease distinction continues for the lessor. If the lessor transfers the significant risks and benefits arising from ownership of the asset subject to the lease to the lessee, he will classify it as a financial lease. Other leases will be classified as operational leases. The receivables that arise from leasing the assets of the Bank, which are not included in financial lease transactions and which are not used in banking transactions, are followed up in the receivables from the leasing transaction and are accounted on an accrual basis.

As of the balance sheet date, the Bank does not have any investment properties (31 December 2019: TRY 850).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Interest Income and Expense Recognition

Interest Income and Expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, throughout the period to the next reprising date. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fee and Commission Income

Fee and commission income and expenses that are integral to the effective interest rates on a financial asset or liability are included in the measurement of the effective interest rate. All other fee and commission income and expenses are recorded as income or expense on the date of collection or payment.

Net Trading Income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, FVOCI and from trading derivatives.

Dividend Income

Dividend income is recognized in the statement of income when the right to receive payment is established.

2.25 Income Tax

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

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

The corporate tax rate of 20% implementation on the Corporate Tax Law No. 5520 was taken into effect on 1 January 2006 after being published in the Official Gazette dated 21 June 2006 numbered 26205 , will be applied as 22% for corporation earnings for three years (2018, 2019 and 2020 fiscal years) from 1 January 2018 with the regulation dated 28 November 2017 numbered 7061. The corporate tax rate will start to be applied as 20% as of the fiscal year of 2021, due to the failure to extend the time or to take a new decision regarding the regulation. The bank applies new regulations to its current and deferred tax responsibilities. The corporate tax rate is calculated on the total income of the Bank after adjusting for certain disallowable expenses, exempt income (like affiliate gains) and other allowances. If there is no dividend distribution, no further tax charges are made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Income Tax (continued)

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost.

2.26 Fiduciary Assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the balance sheet, since such items are not treated as assets of the Group. The Bank has no fiduciary assets.

2.27 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and return that are different from those of segments operating in another economic environment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.28 Standards and Interpretations Issued But Not Yet Effective

Standards issued but not yet effective and not early adopted

A number of new standards, interpretations of 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 international 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 consolidated financial statements.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On 23 January 2020, IASB issued "Classification of Liabilities as Current or Non-Current" which amends IAS 1 Presentation of Financial Statements to clarify its requirements for the presentation of liabilities in the statement of financial position.

The amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current—that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

The amendments include:

a) Specifying that an entity's right to defer settlement must exist at the end of the reporting period;
b) Clarifying that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;
c) Clarifying how lending conditions affect classification; and
d) Clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

The Group does not expect that application of these amendments to IAS 1 will have significant impact on its 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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.

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.

IBOR Reform and its Effects on Financial Reporting—Phase 2

In August 2020, IASB has published amendments which is issued in 18 December 2020 that complement those issued in 2019 and focus on the effects of the interest rate benchmark reform on a company's financial statements that arise when, for example, an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

IBOR Reform and its Effects on Financial Reporting—Phase 2 (continued)

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

The objectives of the Phase 2 amendments are to assist companies in:

- applying IFRS Standards when changes are made to contractual cash flows or hedging relationships because of the interest rate benchmark reform; and
- providing useful information to users of financial statements.

In Phase 2 of its project, the Board amended requirements in IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities;
- hedge accounting; and
- disclosures.

The Phase 2 amendments apply only to changes required by the interest rate benchmark reform to financial instruments and hedging relationships.

Annual Improvements to IFRS Standards 2018–2020

Improvements to IFRSs

For the current standards, “Annual Improvements in IFRSs / 2018-2020 Cycle” published on 27 July 2020 is presented below. 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 consolidated financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards

This amendment simplifies the application of IFRS 1 for subsidiaries that becomes a first-time adopter of IFRS Standards later than its parent – i.e. if subsidiaries adopts IFRS Standards later than its parent and applies IFRS 1.D16(a), then a subsidiaries 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 IFRSs. 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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 2022.

The changes that become effective as of January 1, 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 in IFRS 3 did not have a significant impact on the 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 does not have a significant impact on the 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 is not expected to have a significant impact on the consolidated financial statements of the Group.

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

3. 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 year ended 31 December 2020 are as follows:

	Treasury	Investment Banking	Undistributed	Eliminations	Group
Net interest income	399,466	340,869	(3,016)	-	737,319
Net fees and commissions income	(10,521)	30,781	363	-	20,623
Foreign exchange (losses)	3,400	64,203	-	-	67,604
Other operating income	5,858	134,506	-	-	140,364
Other operating expenses	(57,540)	(13,825)	(144,065)	-	(215,430)
Provisions for impairment of loans and other assets	-	(132,960)	-	-	(132,960)
Income from associates	-	5,000	-	-	5,000
Profit/(loss) before income tax	**340,663**	**428,574**	**(146,718)**	**-**	**622,519**
				-	
Income tax	-	-	(118,868)	-	(118,868)
Net profit/(loss)	**340,663**	**428,574**	**(265,586)**	**-**	**503,651**

The segment assets and liabilities at 31 December 2020 are as follows:

	Treasury	Investment Banking	Undistributed	Eliminations	Group
Assets and Liabilities					
Segment assets	7,738,409	20,178,423	136,969	(3,759)	28,050,042
Investment in associates	-	26,997	-	(5,000)	21,997
Total assets	**7,738,409**	**20,205,420**	**136,969**	**(8,759)**	**28,072,039**
Segment liabilities	203,897	24,013,212	3,859,930	(5,000)	28,072,039
Total liabilities and equity	**203,897**	**24,013,212**	**3,859,930**	**(5,000)**	**28,072,039**

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

3. SEGMENT INFORMATION (continued)

Business segments (continued)

The segment results for the year ended 31 December 2019 are as follows:

	Treasury	Investment Banking	Undistributed	Eliminations	Group
Net interest income	381,716	327,862	(1,858)	-	707,720
Net fees and commissions income	(1,231)	15,603	144	-	14,516
Foreign exchange (losses)	-	13,715	-	-	13,715
Other operating income	-	61,308	4,873	-	66,181
Other operating expenses	-	-	(158,714)		(158,714)
Provisions for impairment of loans and other assets	-	(52,873)	-	-	(52,873)
Income from associates	-	2,380	-	-	2,380
Profit/(loss) before income tax	**380,485**	**397,995**	**(155,555)**	-	**592,925**
				-	
Income tax	-	-	(172,672)	-	(172,672)
Net profit/(loss)	**380,485**	**355,568**	**(294,753)**	-	**420,253**

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

	Treasury	Investment Banking	Undistributed	Eliminations	Group
Assets and Liabilities					
Segment assets	4,215,496	14,994,956	150,252	(1,900)	19,358,806
Investment in associates	-	22,138	-	(5,141)	16,997
Total assets	**4,215,496**	**15,017,094**	**150,252**	**(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.

4. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Cash on hand	**10**	**17**
Demand deposits - Turkish Lira	4,436	200,606
Demand deposits - Foreign Currency	25,181	22,801
Time deposits	3,526,071	2,112,648
Deposits with banks and other financial institutions	**3,555,688**	**2,336,055**
Cash and deposits with banks and other financial institutions	**3,555,698**	**2,336,072**
Balances with Central Bank	1,115	577
Money market placements	1,500,739	127,505
Less: Interest accruals	(173)	(19)
Cash and cash equivalents in the statement of cash flows	**5,057,379**	**2,470,569**

The effective interest rates on deposits and placements are as follows:

	31 December 2020		31 December 2019	
	Effective interest rate		Effective interest rate	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Deposits with banks and other financial institutions (*)	18.04%	1.39%	11.23%	1.10%
Money Market Placements	17.98%	-	11.36%	-

(*) Interest rates calculated from weighted average of placements as of 31 December 2020 and 31 December 2019.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31 December 2020	31 December 2019
Equity instruments	119,725	90,216
Total financial assets at fair value through profit or loss	**119,725**	**90,216**

6. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

As of 31 December 2020, majority of loans and advances to financial institutions' interest rates ranging between 2.65%-0.51% (2019: 1.33%-6.05%).

	31 December 2020	31 December 2019
Loans and advances to financial institutions		
Financial Institution Originated		
Industrial and Commercial Bank of China Originated Loan	3,005,260	2,404,680
Council of Europe Development Bank Originated Loans	1,528,419	1,297,367
Expected credit losses on loans and advances to banks	(20,709)	(17,539)
Total loans and advances to financial institutions	**4,512,970**	**3,684,509**

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

6. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS (continued)

The credit quality analysis of loans and advances to banks is as follows as of 31 December 2020:

	2020		
	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	4,533,679	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(20,709)	-	-
Total carrying amount	**4,512,970**	**-**	**-**

The movement of loss allowances per asset class for loans and advances to financial institutions as of 31 December 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	(3,170)	-	-
Balances at the end of the period	**(20,709)**	**-**	**-**

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)**	**-**	**-**

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

7. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2020	31 December 2019
Financial Institution Originated		
European Investment Bank Originated Loans	4,058,293	4,155,809
Islamic Development Bank Originated Loans	4,068,483	3,201,371
World Bank Originated Loans	681,869	1,443,909
Development Bank of Japan	261,266	238,306
KFW	552,672	141,839
Treasury Loans	242,281	97,508
Bank Sourced		
Other Bank Sourced Loans	4,611,178	1,546,839
Investment Loans	300,473	356,640
Restructured Loans	869,875	117,340
Personnel Loans	384	2,306
Non-performing Loans	**218,511**	**123,857**
Total loans and advances to customers	**15,865,285**	**11,425,724**
Expected credit losses on loans and advances to customers	(323,316)	(205,493)
Stage 1	*(111,430)*	*(43,696)*
Stage 2	*(61,508)*	*(43,519)*
Stage 3	*(150,378)*	*(118,278)*
Total loans and advances to customers, (net)	**15,541,969**	**11,220,231**

The credit quality analysis of loans and advances to customers is as follows as of 31 December 2020:

		2020	
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	14,347,215	-	-
Stage 2: Watch list	-	1,299,559	-
Stage 3.1: Substandard	-	-	127,479
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	91,032
Total loans	**14,347,215**	**1,299,559**	**218,511**
Expected credit losses	(111,430)	(61,508)	(150,378)
Total carrying amount	**14,235,785**	**1,238,051**	**68,133**

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

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

The movement of expected credit losses per asset class for cash loans and advances to customers as of 31 December 2020 is as follows:

	2020		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 1 January 2020	42,938	43,519	118,278
Transfer to Stage 1	-	-	-
Transfer to Stage 2	(1,029)	1,029	-
Transfer to Stage 3	-	(13,333)	13,333
Debt sales and write-offs	-	-	-
Recoveries and reversals	(3,572)	(441)	(31,647)
Provision for the period	73,093	31,763	63,747
Balances at the end of the period	**111,430**	**61,508**	**150,378**

As of 31 December 2020, movement of non-performing cash loans (Stage 3) is as follows:

	Principal	ECL
Balance at 1 January 2020	123,857	123,142
Addition	131,002	8,562
Collection	(36,348)	(7,847)
Debt sales and write-offs	-	-
Effects of movements in exchange rates	-	-
Balance at the end of the period	**218,511**	**123,857**

8. INVESTMENT SECURITIES

	31 December 2020	31 December 2019
Debt and other instruments at FVOCI		
Turkish Government bonds issued by the Turkish Government	895,881	657,439
Debt securities issued by corporations	54,671	23,160
Equity instruments – unlisted at cost (*)	14,990	8,037
Expected credit loss	(648)	(1,280)
Investment securities at amortized cost		
Turkish Government bonds (quoted)	1,717,342	1,066,213
Expected credit loss	(434)	(1,967)
Total	**2,681,802**	**1,751,602**

(*) Unlisted equity securities classified as fair value through other comprehensive income securities represent the Group's equity shares in the companies, shares of which are not publicly traded. Consequently, they are reflected at cost less reserves for impairment, as a reliable estimate of their fair values could not be made.

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

8. INVESTMENT SECURITIES (Continued)

Movement of investment securities at amortized cost

	31 December 2020	31 December 2019
Balance at the beginning of the period	1,064,246	49,338
Foreign currency differences on monetary assets	393,553	(120,831)
Purchases during the year	286,145	1,168,560
Disposals through sales and redemptions	(26,602)	(30,854)
Expected credit loss	(434)	(1,967)
Provision for impairment (-)	-	-
Balance at the end of the period	**1,716,908**	**1,064,246**

Government bonds and treasury bills

Government bonds and treasury bills pledged under repurchase agreements with customers included investment securities at fair value through other comprehensive income amount to TRY 205,332 (31 December 2019: TRY 50,281). Related liability is equal to TRY 205,378 as of 31 December 2020 (31 December 2019: TRY 50,364). As of 31 December 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.

9. INVESTMENT IN ASSOCIATES

Maksan Malatya Makina Sanayi A.Ş. is established in Malatya, Turkey in 1974 for manufacturing of transformers. The share and the 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 the 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:

	31 December 2020	31 December 2019
Total assets	99,403	72,284
Total liabilities	(18,851)	(9,703)
Net Assets	**80,552**	**62,581**
Group’s share of associates’ net assets	**21,997**	**16,997**

The Group’s share of associates’ net assets includes net assets of Maksan Malatya Makina Sanayi A.Ş. amounting to TRY 10,181 (31 December 2019: TRY 7,460) and net assets of Türk Suudi Holding A.Ş. amounting to TRY 11,816 (31 December 2019: TRY 9,537).

	31 December 2020	31 December 2019
Revenue	47,326	54,143
Profit for the year	**19,016**	**9,038**
Group’s share of associates’ income / (loss)	**5,000**	**2,380**

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

10. PREMISES AND EQUIPMENT

Current Period (31.12.2020)	**Real-Estates**	**Vehicles**	**Other**	**Total**
Cost				
Balance at the beginning of the period	135,507	739	23,826	160,072
Movements during the period				
-Additions	1,328	-	3,874	5,202
-Disposals (-)	(119,283)	-	(3,583)	(122,866)
- Recoveries from impairment	-	-	-	-
Balance at the end of the period	**17,552**	**739**	**24,117**	**42,408**
Accumulated Depreciation				
Balance at the beginning of the period	91,290	262	12,152	103,704
Movements during the period				
-Depreciation charge	4,822	122	4,129	9,073
-Disposals (-)	(89,130)	-	(3,784)	(92,914)
Balance at the end of the period	**6,982**	**384**	**12,497**	**19,863**
Net book value at the end of the period	**10,570**	**355**	**11,620**	**22,545**

Period Period (31.12.2019)	**Real-Estates**	**Vehicles**	**Other**	**Total**
Cost				
Balance at the beginning of the period	121,547	739	12,212	134,498
Movements during the period				
-Additions	13,960	-	11,825	25,785
-Disposals (-)	-	-	(211)	(211)
- Recoveries from impairment	-	-	-	-
Balance at the end of the period	**135,507**	**739**	**23,826**	**160,072**
Accumulated Depreciation				
Balance at the beginning of the period	86,855	140	9,938	96,933
Movements during the period				
-Depreciation charge	4,435	122	2,414	6,971
-Disposals (-)	-	-	(200)	(200)
Balance at the end of the period	**91,290**	**262**	**12,152**	**103,704**
Net book value at the end of the period	**44,217**	**477**	**11,674**	**56,368**

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

11. INVESTMENT PROPERTIES

	Current Period 31 December 2020	**Prior Period 31 December 2019**
Cost		
Balance at the beginning of the year	10,726	18,333
Movements during the year	-	-
- Additions	-	-
- Classified from premises and equipment	-	-
- Disposal	10,726	(7,607)
Balance at the end of the year	**-**	**10,726**
Accumulated Depreciation		
Balance at the beginning of the year	9,876	9,832
Movements during the year	-	44
- Depreciation charge	-	44
- Classified from premises and equipment	-	-
- Disposal	(9,876)	-
Balance at the end of the year	**9,876**	**9,876**
Net book value at the end of the year	**-**	**850**

As of 31 December 2020, The Group does not have any investment property held to lease (31 December 2019: TRY 850). The property rental income earned by the Group from its investment properties amounts to TRY 542 (31 December 2019: TRY 578).

12. INTANGIBLE ASSETS

	Current Period 31 December 2020	**Prior Period 31 December 2019**
Cost		
Balance at the beginning of the year	8,945	7,442
Movements during the year	-	-
- Additions	17,762	1,503
- Disposal	-	-
Balance at the end of the year	**26,707**	**8,945**
Accumulated Depreciation		
Balance at the beginning of the year	6,860	5,736
Movements during the year	-	-
- Depreciation charge	2,103	1,124
- Disposal	-	-
Balance at the end of the year	**8,963**	**6,860**
Net book value at the end of the year	**17,744**	**2,085**

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

13. OTHER ASSETS

	31 December 2020	31 December 2019
Prepaid fees and commissions	53,070	36,255
Non-current assets to be disposed	23,594	38,429
Sundry debtors	753	13,850
Other	1,169	1,271
Expected credit loss	(3)	(756)
Total	**78,583**	**89,049**

14. FUNDS BORROWED AND SUBORDINATED LOANS

Funds borrowed

	31 December 2020	31 December 2019
Borrowings	21,762,741	15,365,664
Funds	245,216	18,155
Total	**22,007,957**	**15,383,819**

31 December 2020	Amount	Weighted Average Interest Rate	Maturity
USD denominated borrowings	11,996,581	2.25%	2024
EUR denominated borrowings	8,984,227	0.75%	2021
TRY denominated borrowings	781,933	9.30%	2021
Total	**21,762,741**		

31 December 2019	Amount	Weighted Average Interest Rate	Maturity
USD denominated borrowings	8,561,130	2.69%	2024
EUR denominated borrowings	6,804,534	0.69%	2020
Total	**15,365,664**		

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

	31 December 2020	31 December 2019
Environment fund	5,952	5,705
Other	239,264	12,450
Total	**245,216**	**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.

14. FUNDS BORROWED AND SUBORDINATED LOANS (continued)

Funds borrowed (continued)

	31 December 2020	31 December 2019
Borrowings with no maturity	102,319	427
Short term borrowings	21,077,012	19,513
Short term part of long term borrowings	84,296	1,422,588
Long term borrowings	744,330	13,941,291
Total	**22,007,957**	**15,383,819**

Repayment plan of borrowings is as follows:

	31 December 2020	31 December 2019
Borrowings with no maturity	102,319	427
2020	-	1,442,101
2021	21,161,308	12,944,001
2022 and thereafter	744,330	997,290
Total	**22,007,957**	**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 World Bank, European Investment Bank, Council of Europe Development, Islamic Development Bank, Bank, Black Sea Trade and Development Bank, Industrial and Commercial Bank of China, KfW Development Bank, Asian Infrastructure Investment 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.

Subardinated loans

The subardinated loans as of 31 December 2020 and 31 December 2019 are as follows;

	31 December 2020	31 December 2019
Debt instruments to be included in additional capital calculation (*)	1,480,186	1,028,893
Debt instruments to be included in contribution capital calculation (**)	513,057	373,162
Total	**1,993,243**	**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 agreement 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 24 April 2019.

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

15. OTHER LIABILITIES AND PROVISIONS

	31 December 2020	31 December 2019
Other liabilities		
Blocked currency	75,490	40,428
Excess amount received from customers	36,476	9,276
Unearned revenue	37,728	26,197
Lease liabilities	13,575	15,207
Cash guarantees received	11,049	470
Payables to public enterprises	3,728	3,728
Other	16,810	6,908
	194,856	**102,214**
Provisions		
Employee benefits provision	39,048	25,628
	39,048	**25,628**
Total	**233,904**	**127,842**

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make wholesale 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 31 December 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 2.40% (31 December 2019: 3.72%). As the maximum liability is revised semiannually, the maximum amount of full TRY 7,638.95 effective from 1 January 2020 has been taken into consideration in calculation of provision from employment termination benefits (31 December 2019: full TRY 6,379.86).

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

	31 December 2020	31 December 2019
Opening defined benefit obligation	25,628	40,829
Changes in current period	30,800	16,714
Actuarial profit/loss	(625)	(694)
Benefits paid	(19,658)	(32,403)
Closing defined benefit obligation, recognized in the balance sheet	**36,145**	**24,446**
Provision for unused vacation	2,903	1,182
Total	**39,048**	**25,628**

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

16. 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 31 December 2020 and 2019 advance income taxes are netted off with the current income tax liability as stated below:

	31 December 2020	**31 December 2019**
Income tax liability	143,198	144,270
Advance income taxes	(97,914)	(98,423)
	45,284	**45,847**

Major components of income tax expense for the years ended 31 December 2020 and 2019 are:

	31 December 2020	**31 December 2019**
Current income tax expense	143,198	144,270
Deferred income tax expense/(income)	(24,330)	28,402
Income tax expense reported in the consolidated income statement	**118,868**	**172,672**

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

16. INCOME TAXES (continued)

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Bank for the year ended 31 December 2020 and 2019 are as follows:

	31 December 2020	Rate %	31 December 2019	Rate %
Profit before income tax	622,519		580,498	
At Turkish statutory income tax rate of 22%	136,954	22	127,709	22.00
Disallowed expenses	26,853	4.31	34,877	5.88
Income exempt from taxation	(21,311)	(3.42)	(19,590)	(3.30)
Other adjustments	(23,628)	0.11	26,942	4.54
Income tax	**118,868**	**23**	**172,672**	**29.12**

Deferred income tax

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

	31 December 2020	31 December 2019
Deferred Tax Assets		
Personnel Bonus Premium Provision	5,955	3,003
From Severance Payments	2,088	2,635
Uncollectable Funds	3,058	757
IFRS 9 Provision	12,434	-
Other	667	1,374
Total Deferred Tax Assets	**24,202**	**7,769**
Deferred Tax Liabilities		
Other Non-Financial Treasury Bills and Government Bonds	(4,499)	(10,869)
Interest rediscount	(1,109)	(405)
IFRS 9 Provision	-	(7,757)
Other	(540)	(420)
Total Deferred Tax Liabilities	**(6,148)**	**(19,451)**
Net Deferred Tax	**18,054**	**(11,682)**

Movement of net deferred tax asset / (liability) can be presented as follows:

	2020	2019
Balance at January 1	(11,682)	25,261
Deferred income tax recognised in other comprehensive income	5,406	(8,541)
Deferred tax recognised in the profit or loss	24,330	(28,402)
Balance at period-end	**18,054**	**(11,682)**

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

17. 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 1,600,000 as of 31 December 2020 (31 December 2019: TRY 850,000). The Bank's capital consist of 160 Billion shares with par value of full TRY 0,01 each.

	Share (%)	**31 December 2020**	**31 December 2019**
Paid capital per statutory records			
- Republic of Turkey Ministry of Finance	99.08	1,585,304	842,194
- Other Shareholders	0.92	14,696	7,806
		1,600,000	850,000
Indexation Effect		276,911	276,911
Indexed Share Capital		**1,876,911**	**1,126,911**

The paid-up capital of the Parent Bank has been increased from TL 850,000 to TL 1,600,000 by the issuance of shares with a nominal value of TL 750,000 on 17 December 2020.

18. DIVIDENDS PAID AND PROPOSED

As of 31 December 2020, The Bank has no paid dividend amount (31 December 2019: None).

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

19. 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	160,000,000,000	75,000,000,000	-	-	-	160,000,000,000

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

The following reflects the income and share data used in the basic earnings per share computations:

	31 December 2020	**31 December 2019**
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	503,651	420,253
Weighted average number of ordinary shares for basic earnings per share (thousand)	87,876,712	75,384,615
Basic earnings per shares (Full TRY)	**0.006**	**0.006**

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

20. 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 subsidiaries, which is a related party of the Bank, have been eliminated on consolidation and are not disclosed in this note.

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

20. RELATED PARTIES (continued)

As of 31 December 2020, subordinated loan amounting to TRY 1,993,243 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 31 December 2020 and 2019 the Group's directors and executive officers have no outstanding personnel loans from the Bank.

Total compensation provided to key management personnel is:

	31 December 2020	31 December 2019
Salary	8,544	5,998
Dividend and fringe benefits	1,192	80
Total	**9,736**	**6,078**

21. INTEREST INCOME ON SECURITIES

	31 December 2020	31 December 2019
Investment securities at FVOCI	102,497	68,121
Investment securities at amortised cost	85,926	39,999
Total	**188,423**	**108,120**

22. OTHER OPERATING INCOME

	31 December 2020	31 December 2019
Income from sale of properties	90,987	280
Reversal of other provisions	42,625	19,680
Other	6,752	20,479
Total	**140,364**	**40,439**

23. OTHER OPERATING EXPENSES

	31 December 2020	31 December 2019
Administrative expenses	19,019	18,307
Staff costs:	115,048	106,514
Personnel expenses	81,346	88,900
Retirement pay provision	2,166	2,671
Personnel bonus premium provision	29,774	13,650
Provision exp for unused vacation	1,762	1,293
Provision expense	2,579	1,554
Depreciation and amortization expense	10,816	8,038
Other	15,984	24,301
Total	**163,446**	**158,714**

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

24. FEES AND COMMISSIONS INCOME AND EXPENSES

	31 December 2020	31 December 2019
Fees and commissions income		
Banking	31,144	15,747
Total	**31,144**	**15,747**
Fees and commissions expenses		
Banking	(10,521)	(1,231)
Total	**(10,521)**	**(1,231)**

25. 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:

	31 December 2020	31 December 2019
Letters of guarantee issued	730,656	13
Total non-cash loans	**730,656**	**13**
Other commitments	24,399	19,824
Total	**755,055**	**19,837**

Istanbul Venture Capital Initiative (IVCI - A Luxemburg Investment Company 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 at 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 500,000 on 4 May 2015, EUR 500,000 on 16 October 2015, EUR 500,000 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, EUR 312,500 on 21 July 2020 the total capital payment is EUR 9,385,842.

With reference to the above capital contributions, out of the Bank’s total commitment of EUR 10 million, EUR 9,385,842 have been paid, EUR 614.158 is not yet paid as of the balance sheet date.

The Bank has made an investment commitment of up to EUR 3 Million to 212 Regional Fund II, whose establishment location is Luxembourg, as a limited partner, below 10% of the total fund commitment amount.

25. COMMITMENTS AND CONTINGENCIES (continued)

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 9 September 2019, EUR 330,000 on 9 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

Transactions Made on Behalf and Account of Others and Fiduciary Transactions

The Bank has no fiduciary transactions.

Litigation

As 31 December 2020, there are 202 cases which are brought against the Bank. The risk amount is TRY 9,052. As of 31 December 2020, provision on the financial tables for these cases amounting to TRY 966 (31 December 2019: 137 cases, the risk amount is TRY 7,550 and the provision amount is TRY 940).

26. 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.

26. 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.

26. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Impairment assessment based on IFRS 9

As of 1 January 2019, 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	
	31 December 2020	**31 December 2019**
Manufacturing	14,153,592	10,406,864
Electric, gas and water	*11,700,835*	2,530,152
Production	*2,325,189*	7,876,712
Services	6,128,051	5,005,962
Hotel, food and beverage services	*1,312,392*	*3,702,048*
Financial institutions	*4,533,679*	*1,083,455*
Education Services	*94,056*	*125,919*
Health and social services	*187,924*	*87,549*
Other	26,378	6,991
Total loans	**20,308,021**	**15,412,826**
Non-performing loans	218,511	123,857
Expected credit loss (-)	344,025	222,275
Total	**20,054,939**	**15,314,408**

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

	31 December 2020	**31 December 2019**
Deposits with banks and other financial institutions	3,555,688	2,336,055
Money market placements	1,500,739	127,505
Balances with the Central Bank	1,115	577
Financial assets measured at FVOCI	964,894	687,356
Loans and advances to customers and financial institutions	20,054,939	15,314,408
Investment securities at amortised cost	1,716,908	1,064,246
Total	**27,794,283**	**19,530,147**
Contingent liabilities	730,656	27,825
Total	**730,656**	**27,825**
Total credit risk exposure	**28,524,939**	**19,557,972**

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

26. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit quality per class of financial assets as of 31 December 2020 and 2019;

As of 31 December 2020	Neither past due nor impaired	Past due but not impaired	Total
Deposits with banks and other financial institutions	3,555,688	-	3,555,688
Loans and advances to customers and financial institutions	18,793,986	1,260,953	20,054,939
Financial assets measured at fair value through other comprehensive income (FVOCI)	964,894	-	964,894
Investments securities at amortised cost	1,716,908	-	1,716,908

As of 31 December 2019	Neither past due nor impaired	Past due but not impaired	Total
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 31 December 2020	Less than 30 Days	Between 31 and 60 Days	Between 61 and 90 Days	Total
Corporate loans	23,474	961,195	96,763	1,081,432
Specialized loans	-	151,555	27,966	179,521
Total	**23,474**	**1,112,750**	**124,729**	**1,260,953**

As of 31 December 2019	Less than 30 Days	Between 31 and 60 Days	Between 61 and 90 Days	Total
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	31 December 2020	31 December 2019
Real estate mortgage (*)	610,064	602,319
Financial collaterals (Cash, securities pledge, etc,)	688,894	877,503
Total	**1,298,958**	**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	31 December 2020	31 December 2019
Real estate mortgage (*)	206,723	94,538
Other (**)	3,446	7,332
Total	**210,169**	**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.

26. 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 include 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 31 December 2020	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustment	Total
Liabilities							
Funds borrowed	162,337	372,415	15,120,725	1,919,445	8,242,461	(3,809,426)	22,007,957
Obligations under repurchase agreements	203,850	-	-	-	-	-	203,850
Subordinated liabilities	-	-	-	-	1,993,243	-	1,993,243
Total	**366,187**	**372,415**	**15,120,725**	**1,919,445**	**10,235,704**	**(3,809,426)**	**24,205,050**

As of 31 December 2019	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	-	-	-	-	1,402,055	-	1,402,055
Total	**217,043**	**235,443**	**1,271,985**	**10,907,184**	**7,641,841**	**(3,437,258)**	**16,836,238**

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

26. FINANCIAL RISK MANAGEMENT (continued)

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

As of 31 December 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	25,702	3,529,996	-	-	-	-	-	3,555,698
Balances with Central Bank	1,115	-	-	-	-	-	-	1,115
Money market placements	-	1,499,794	-	-	-	-	-	1,499,794
Financial assets at fair value through profit and loss	119,725	-	-	-	-	-	-	119,725
Investment securities at FVOCI	964,894	-	-	-	-	-	-	964,894
Loans and advances to customers and financial institutions	-	204,190	377,442	2,317,710	12,182,352	4,908,871	64,374	20,054,939
Investments securities measured at amortised cost	-	-	14,409	4,997	1,687,502	10,000	-	1,716,908
Other assets	-	-	-	-	-	-	158,966	158,966
Total assets	**1,111,436**	**5,233,980**	**391,851**	**2,322,707**	**13,869,854**	**4,918,871**	**223,340**	**28,072,039**
Liabilities and equity								
Funds provided from other financial institutions	-	162,337	372,415	15,120,725	1,919,445	8,242,461	(3,809,426)	22,007,957
Obligations under purchase agreements	-	203,850	-	-	-	-	-	203,850
Subordinated loans	-	-	-	-	-	-	1,993,243	1,993,243
Other liabilities	-	89,808	38,708	-	-	-	150,719	279,235
Total liabilities	**-**	**455,995**	**411,123**	**15,120,725**	**1,919,445**	**8,242,461**	**(1,665,464)**	**24,484,285**
Liquidity gap	**1,111,436**	**4,777,985**	**(19,272)**	**(12,798,018)**	**11,950,409**	**(3,323,590)**	**1,888,804**	**3,587,754**

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.

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

26. 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 following table details the Group’s sensitivity to a 10% increase and decrease in the USD or EUR foreign exchange rates, 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign exchange rates.

	Change in currency rate in %	Increase/(Decrease) Effect on profit / loss (*)		Increase/(Decrease) Effect on equity (**)	
		31 December 2020	31 December 2019	31 December 2020	31 December 2019
USD	10 increase	(1,019)	794	14,893	4,425
USD	10 decrease	2,298	(794)	(14,893)	(4,425)
EURO	10 increase	363	338	24,159	18,609
EURO	10 decrease	(1,643)	(338)	(24,159)	(18,609)
Other	10 increase	61	39	-	-
Other	10 decrease	(61)	(39)	-	-

(*) Tax effect excluded.
(**) Profit/loss effect included.

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

26. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

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.

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

	EURO	USD	Other FC	Total
As of 31 December 2020				
Assets				
Cash and deposits with banks and other financial institutions	1,297,650	814,411	610	2,112,671
Investment securities at FVOCI	241,593	148,930	-	390,523
Financial assets at fair value through profit and loss	119,725	-	-	119,725
Money market placements	-	-	-	-
Loans and advances to customers and financial institutions	7,763,963	11,223,356	-	18,987,319
Financial assets measured at amortised cost	1,592,791	-	-	1,592,791
Other assets	1,772	29,035	-	30,807
Total assets	**11,017,494**	**12,215,732**	**610**	**23,233,836**
Liabilities				
Funds provided from other financial institutions	8,984,576	12,058,469	-	21,043,045
Obligations under purchase agreements	-	-	-	-
Subordinated loans	1,993,243	-	-	1,993,243
Other liabilities	26,792	166,299	-	193,091
Total liabilities	**11,004,611**	**12,224,768**	**-**	**23,229,379**
Net on balance sheet position	**12,883**	**(9,036)**	**610**	**4,457**
Net off balance sheet position	**(6,399)**	**6,396**	**-**	**(3)**
Non-cash loans	675,830	-	-	675,830
As of 31 December 2019				
Total assets	8,224,403	8,623,048	386	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	-	-	-	-

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

26. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk

Bank calculates the interest rate risk on banking book according to "Regulation on Measurement and Evaluation of Interest Rate Risk on Banking Book as per Standard Shock Method" and reports to the BRSA monthly.

Interest Rate Risk on Banking Book report includes Receivables from Central Bank, Money Market Placements, Receivables from Banks, Available for Sale Financial Assets (excluding government bonds), Receivables from Reverse-repo, Loans and Receivables, Investments Held to Maturity and Other Receivables in the asset side, and Payables to Central Bank, Money Market Borrowings, Payables to Banks, Funds Obtained from Repo Transactions, Issued Bonds; Borrowings, Subordinated Debt and Other Payables on the liabilities side.

Economic value differences due to the interest rate instabilities calculated according to "Regulation on Measurement and Evaluation of Interest Rate Risk on Banking Book as per Standard Shock Method" are presented below for each currency.

	Current Period (31.12.2020) Currency	Applied Shock (+/- x base points)	Gains / Losses	Gains / Equity – Losses / Equity
1	TRY	(+) 500 base points	(25,772)	(0.46) %
2	TRY	(-) 400 base points	24,530	0.43 %
3	EURO	(+) 200 base points	92,794	1.64 %
4	EURO	(-) 200 base points	(111,878)	(1.98) %
5	USD	(+) 200 base points	(99,413)	(1.76) %
6	USD	(-) 200 base points	117,455	2.08 %
	Total (Of Negative Shocks)		**(32,391)**	**(0.58) %**
	Total (Of Positive Shocks)		**30,107**	**0.53 %**

	Prior Period (31.12.2019) Currency	Applied Shock (+/- x base points)	Gains / Losses	Gains / Equity – Losses / Equity
1	TRY	(+) 500 base points	(26,626)	(0.69) %
2	TRY	(-) 400 base points	25,636	0.67 %
3	EURO	(+) 200 base points	45,785	1.19 %
4	EURO	(-) 200 base points	(53,575)	(1.39) %
5	USD	(+) 200 base points	21,685	0.56 %
6	USD	(-) 200 base points	(30,449)	(0.79) %
	Total (Of Negative Shocks)		**40,844**	**1.06 %**
	Total (Of Positive Shocks)		**(58,389)**	**(1.52) %**

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

26. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

Interest rate sensitivity based on repricing dates:

As of 31 December 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	3,529,996	-	-	-	-	25,702	3,555,698
Balances with Central Bank	-	-	-	-	-	1,115	1,115
Money market placements	-	1,499,794	-	-	-	-	1,499,794
Financial assets at fair value through profit and loss	-	-	-	-	-	119,725	119,725
Investment securities at FVOCI	227,050	24,484	479,843	219,175	-	14,342	964,894
Loans and advances to customers and financial institutions	6,068,381	2,494,574	3,017,288	2,445,703	5,964,619	64,374	20,054,939
Investment securities at amortised cost	-	2,051	-	1,704,025	10,832	-	1,716,908
Other assets	-	-	-	-	-	158,966	158,966
Total assets	**9,825,427**	**4,020,903**	**3,497,131**	**4,368,903**	**5,975,451**	**384,224**	**28,072,039**
Liabilities							
Obligations under repurchase agreements	203,850	-	-	-	-	-	203,850
Subordinated loans	-	-	-	-	-	1,993,243	1,993,243
Funds provided from other financial institutions	4,471,546	3,974,662	6,690,060	4,010,612	2,861,077	-	22,007,957
Other liabilities	-	89,808	38,708	-	-	150,719	279,235
Equity	-	-	-	-	-	3,587,754	3,587,754
Total liabilities	**4,675,396**	**4,064,470**	**6,728,768**	**4,010,612**	**2,861,077**	**5,731,716**	**28,072,039**
On balance sheet interest sensitivity gap – Long	6,566,488	-		522,331	3,113,726		10,202,545
On balance sheet interest sensitivity gap – Short	-	(1,453,553)	(3,192,929)	-	-	(5,556,063)	(10,202,545)
Off balance sheet interest sensitivity gap – Long	-	-	-	-	-	-	-
Off balance sheet interest sensitivity gap – Short	-	-	-	-	-	-	-
Total position	**6,566,488**	**(1,453,553)**	**(3,192,929)**	**522,331**	**3,113,726**	**(5,556,063)**	**-**

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**

26. 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 31 December 2020, its capital adequacy ratio on an unconsolidated basis is 22.35% (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.

26. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial instruments

	31 December 2020	
	Carrying amount	**Fair value**
Financial assets		
Loans and advances	20,252,345	20,349,308
Financial assets measured at FVOCI	964,894	964,894
Investment securities at amortised cost	1,716,908	1,729,151
Money market placements	1,499,794	1,499,794
Cash at Banks	3,555,698	3,555,698
	27,989,639	**28,098,845**
Financial liabilities		
Obligations under repurchase agreements	203,850	203,850
Funds Provided from Other Financial Institutions	22,007,957	22,598,523
Subordinated loans	1,993,243	1,993,243
Sundry Creditors	125,873	125,873
	24,330,923	**24,921,489**

	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.

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

26. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial instruments (continued)

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.

31 December 2020	**Level 1**	**Level 2**	**Level 3**
Financial assets FVOCI	**950,552**	**-**	**14,990**
Debt securities	950,552	-	-
Share certificates	-	-	14,990
Other	-	-	-
Financial assets FVPL	**-**	**-**	**119,725**
Derivative financial assets	**-**	**43**	**-**
Derivative financial liabilities	**-**	**47**	**-**

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 (31.12.2020)**
Balance at the beginning of the period	**98,253**
Purchases during the period	9,386
Disposals through sale/redemptions	(4,599)
Valuation effect	31,675
Transfers	-
Balance at the end of the period	**134,715**

27. SUBSEQUENT EVENTS

The corporate tax rate in Turkey is 22% as of 31 December 2020. However, with Article 11 of the Law No. 7316 on the Procedure for the Collection of Public Claims and the Law on the Amendment of Certain Laws published in the Official Gazette No. 31462 and dated 22 April 2021, the rate will be applied to corporate profit as 25% for the 2021 taxation period and 23% for the 2022 taxation period. This change will be valid for the taxation of corporate earnings for the periods starting from 1 January 2021, starting with the declarations that must be submitted as of 1 July 2021.