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

Interim Condensed Consolidated Financial Statements
For the Six-Month Period Ended
30 June 2021
With Independent Auditor's Review Report

Türkiye Kalkınma ve Yatırım Bankası Anonim Şirketi and Its Subsidiaries

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KPMG

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

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial position of Türkiye Kalkınma ve Yatırım Bankası A.Ş. (the "Bank") and its subsidiaries (together referred to as the "Group") as at 30 June 2021, the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of other comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended and notes to the interim financial information ("Interim Condensed Consolidated Financial Information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Basis for Qualified Conclusion

The Bank's investment in Maksan Malatya Makina Sanayi A.Ş. ("Maksan") and Türk Suudi Holding A.Ş. ("Türk Suudi Holding"), the associates accounted for by the equity method, are carried at TL 11,432 Thousand and TL 12,625 Thousand, respectively on the interim condensed consolidated statement of financial position as at 30 June 2021, and Bank's share of Maksan's and Türk Suudi Holding's net income of TL 1,251 Thousand and TL 809 Thousand, respectively, are included in Bank's income for the period then ended. We were unable to obtain sufficient appropriate evidence about the carrying amount of Bank's investment in Maksan and Türk Suudi Holding as at 30 June 2021 and Bank's share of Maksan's and Türk Suudi Holding's net income for the period because we were denied access to the financial information, management, and the auditors of Maksan and Turk Suudi Holding. Additionally, we were unable to obtain the audited and reviewed financial information of Arıcak Turizm ve Ticaret A.Ş. ("Arıcak"), a subsidiaries of the Bank, which is consolidated in the consolidated financial statement of the Group as at 31 December 2020 and 30 June 2021, respectively. Total assets and net loss of Arıcak as of and for the period ended 30 June 2021 is TL 761 Thousand and TL 32 Thousand (31 December 2020: TL 756 Thousand and TL 58 Thousand) respectively. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Conclusion

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information as at and for the six-month period ended 30 June 2021 is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting".

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

Erdal Tıkmak
Partner

10 November 2021
Istanbul, Turkey

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Interim Condensed Consolidated Statement of Financial Position
As of 30 June 2021

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

	Notes	30 June 2021	31 December 2020
ASSETS			
Cash and deposits with banks and other financial institutions		4,187,304	3,555,698
Balances with Central Bank		1,333	1,115
Money market placements		554,940	1,499,794
Financial assets measured at fair value through profit or loss		258,059	119,725
Derivative financial assets		1,209	43
Loans and advances to customers	6	18,416,283	15,541,969
Loans and advances to financial institutions	5	5,510,066	4,512,970
Investment securities	7	3,838,285	2,681,802
Investments in associates	8	24,057	21,997
Premises and equipment		21,005	22,545
Intangible assets		20,490	17,744
Deferred tax asset	12	43,726	18,054
Other assets	9	106,277	78,583
Total assets		**32,983,034**	**28,072,039**
LIABILITIES AND EQUITY			
LIABILITIES			
Funds borrowed	10	26,107,173	22,007,957
Subordinated liabilities	10	2,295,601	1,993,243
Money market funds		217,692	203,850
Derivative liabilities		941	47
Income taxes payable	12	95,487	45,284
Provisions	11	28,885	39,048
Other liabilities	11	257,190	194,856
Total liabilities		**29,002,969**	**24,484,285**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	13	1,876,911	1,876,911
Share premium		3,683	3,683
Other reserves		(3,662)	14,272
Legal reserves		95,120	70,028
Retained earnings		2,008,013	1,622,860
Total equity		**3,980,065**	**3,587,754**
Total liabilities and equity		**32,983,034**	**28,072,039**
Commitments and contingencies		**804,305**	**755,055**

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

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

	Notes	1 January – 30 June 2021	1 January – 30 June 2020
Interest income			
Interest on loans and advances		546,043	377,637
Interest on securities	16	132,990	80,622
Interest on deposits with banks and other financial institutions		179,109	61,562
Interest on other money market placements		102,541	17,195
Other interest income		42	22
Total interest income		**960,725**	**537,038**
Interest expense			
Interest on money market operations		(19,525)	(2,365)
Interest on funds borrowed		(303,421)	(226,061)
Other interest expense		(13,925)	(1,656)
Total interest expense		**(336,871)**	**(230,082)**
Net interest income		**623,854**	**306,956**
Fees and commissions and other operating income			
Fees and commissions income		18,166	13,976
Fees and commissions expenses		(10,730)	(2,014)
Net fees and commissions income		**7,436**	**11,962**
Foreign exchange gains / (loss)		(150)	39,330
Net trading gain / (loss)		118,361	(32,037)
Other operating income	17	25,745	26,789
Other operating expenses	18	(96,227)	(98,260)
(Provisions for) impairment of loans and other assets		(163,268)	(17,990)
Dividend income		15,725	1,035
Operating profit		**531,476**	**237,785**
Income from associates		2,060	1,323
Profit before income tax		**533,536**	**239,108**
Income tax expense	12	(143,296)	(59,085)
Deferred tax income		20,005	11,876
Profit for the period		**410,245**	**191,899**
Profit attributable to:			
Equity holders of the parent		410,245	191,899
Earnings per 100 shares (Full TRY)	14	**0.2564**	**0.2258**

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

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

	1 January - 30 June 2021	**1 January - 30 June 2020**
Profit for the year	**410,245**	**191,899**
Other comprehensive income	**(16,646)**	**(5,979)**
Items that will not be reclassified subsequently to profit or loss:	*660*	*(441)*
Actuarial gain/(loss)	825	(538)
Tax effect of actuarial gain/(loss)	(165)	97
Items that may be reclassified subsequently to profit or loss:	*(17,306)*	*(5,538)*
Net value gains / (losses) on financial assets measured at fair value through other comprehensive income (FVOCI)	(23,138)	(6,756)
Tax effect of net value gains/ (losses) on financial assets measured at fair value through other comprehensive income (FVOCI)	5,832	1,218
Total comprehensive income for the period	**393,599**	**185,920**

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

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

	Share capital	Adjustment to share capital	Share Premium	Actuarial gain/(loss)	Unrealized gains/(losses) on financial assets measured at fair value through other comprehensive income (FVOCI)	Legal Reserves	Retained earnings	Total Equity
At 1 January 2021	**1,600,000**	**276,911**	**3,683**	**(348)**	**14,620**	**70,028**	**1,622,860**	**3,587,754**
Profit for the period	-	-	-	-	-	-	410,245	410,245
Actuarial gain/(loss):								
xGains/(Losses) arising during the year	-	-	-	825	-	-	-	825
Financial assets measured at fair value through other comprehensive income (FVOCI):								
Gains/(Losses) arising during the year	-	-	-	-	(23,138)	-	-	(23,138)
Less: Transfer to statement of income	-	-	-	-	-	-	-	-
Income tax relating to components of other comprehensive income	-	-	-	(165)	5,832	-	-	5,667
Total comprehensive income	**-**	**-**	**-**	**660**	**(17,306)**	**-**	**410,245**	**393,599**
Total comprehensive income for the year	-	-	-	660	(17,306)	-	410,245	393,599
Owners' equity changes:	-	-	-	-	-	-	-	-
Capital increase in cash	-	-	-	-	-	-	-	-
Insurance of share certificates	-	-	-	-	-	-	-	-
Increase (decrease) through other changes, equity	-	-	-	-	(1,288)	-	-	(1,288)
Dividends paid	-	-	-	-	-	-	-	-
Transfer to legal reserves	-	-	-	-	-	25,092	(25,092)	-
At 30 June 2021	**1,600,000**	**276,911**	**3,683**	**312**	**(3,974)**	**95,120**	**2,008,013**	**3,980,065**

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

TÜRKİYE KALKINMA VE YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Interim Consolidated Statement of Changes in Equity
For the Six-Month Period Ended 30 June 2021

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

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

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

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

	1 January – 30 June 2021	1 January – 30 June 2020
Cash flows from operating activities		
Interest received	850,430	501,848
Interest paid	(255,283)	(196,651)
Fees and commissions received	15,932	13,976
Fees and commissions paid	(10,730)	(2,014)
Dividend received	15,725	1,035
Trading income	(31,665)	(51,071)
Recoveries from impairment of loans and other assets	8,278	13,337
Cash payments to employees and other parties	(88.378)	(57,016)
Other operating activities	(51,378)	38,054
Income taxes paid	(98,266)	(71,386)
Cash flows from operating activities before changes in operating assets and liabilities	**354,665**	**190,112**
Changes in operating assets and liabilities		
Net (increase)/decrease in financial assets on FVTPL	13,536	17,940
Net (increase)/decrease in loans and advances	(1,001,789)	176,923
Net (increase)/decrease in other assets	(33,222)	15,581
Net increase/(decrease) in other liabilities	369,748	91,742
Net increase/(decrease) in money market deposits	13,855	(2,350)
Proceeds from funds borrowed	509,345	(337,725)
Net cash used in operating activities	**226,138**	**152,223**
Cash flows from investing activities		
Purchases of investment securities at FVOCI	(1,341,984)	(298,124)
Proceeds from sale and redemption of securities at FVOCI	572,891	177,872
Purchases of investment securities at amortised cost	(7,564)	(195,047)
Proceeds from redemption of investment securities at amortised cost	9,231	26,151
Purchases of premises and equipment	(2,060)	(1,926)
Proceeds from sale of premises and equipment	9,845	44,316
Purchases of intangible assets	(4,235)	(12,713)
Purchases of equity participations	-	(50)
Net cash provided / (used in) from investing activities	**(763,876)**	**(259,521)**
Cash flows from financing activities		
Cash obtained from funds borrowed and securities issued	-	-
Capital increase	-	-
Payments for finance leases	(3,337)	(3,212)
Net cash provided by / (used in) financing activities	**(3,337)**	**(3,212)**
Effect of net foreign exchange difference	217,081	80,593
Net increase/(decrease) in cash and cash equivalents	(323,994)	(29,917)
Cash and cash equivalents at the beginning of the year	5,057,379	2,470,569
Cash and cash equivalents at the end of the year	**4,733,385**	**2,440,652**

The accompanying policies and explanatory notes are an integral part of these interim condensed 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 10 November 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.

These interim condensed consolidated financial statements for the period ended 30 June 2021 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2020. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

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

2.3 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements as at 30 June 2021 are consistent with those followed in the preparation of the consolidated financial statements of the prior year, except for the adoption of new standards effective as of 1 January 2021. Several amendments and interpretations apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Standards and interpretations issued but not yet effective

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

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.

IFRS 17 Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2023 but companies can apply it earlier.

The Group does not expect that application of IFRS 17 will have significant impact on its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Standards and interpretations issued but not yet effective (Continued)

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 shall apply retrospectively these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted. However, according to the amendment published on 15 July 2020, IASB decided to defer the effective date of IAS 1 until 1 January 2023.

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

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

IASB has issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Practice Statement 2 Making Materiality Judgements to help companies provide useful accounting policy disclosures on 12 February 2021.

The key amendments to IAS 1 include:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

IASB also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.

The amendments are consistent with the refined definition of material previously:

"Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements".

The amendments are effective from 1 January 2023 but companies can apply it earlier.

The Group does not expect that application of these amendments to Amendments to IAS 1 and IFRS Practice Statement 2) will have significant impact on its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Standards and interpretations issued but not yet effective (Continued)

Definition of Accounting Estimates (Amendments to IAS 8)

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty which is issued by IASB on 12 February 2021.

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Developing an accounting estimate includes both:

- selecting a measurement technique (estimation or valuation technique) – e.g. an estimation technique used to measure a loss allowance for expected credit losses when applying IFRS 9 Financial Instruments; and
- choosing the inputs to be used when applying the chosen measurement technique – e.g. the expected cash outflows for determining a provision for warranty obligations when applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remains unchanged.

The amendments are effective for periods beginning on or after 1 January 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the company applies the amendments.

The Group does not expect that application of these amendments to Amendments to IAS 1 and IFRS Practice Statement 2) will have significant impact on its consolidated financial statements.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes

In May 2021 IASB issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, which amended IAS 12 Income Taxes.

The amendments to IAS 12 Income Taxes clarify how companies should account for deferred tax on certain transactions – e.g. leases and decommissioning provisions.

The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

The amendments clarify that the exemption does not apply to transactions such as leases and decommissioning obligations. These transactions give rise to equal and offsetting temporary differences.

For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. If a company previously accounted for deferred tax on leases and decommissioning liabilities under the net approach, then the impact on transition is likely to be limited to the separate presentation of the deferred tax asset and the deferred tax liability.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

The Group does not expect that application of these amendments to Amendments to IAS 12 will have significant impact on its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Standards and interpretations issued but not yet effective (Continued)

Annual Improvements to IFRS Standards 2018–2020

Improvements to IFRSs

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

IFRS 1 First-time Adoption of International Financial Reporting Standards

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

IFRS 9 Financial Instruments

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

IFRS 16 Leases, Illustrative Example 13

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

IAS 41 Agriculture

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

Amendments are effective on 1 January 2021

Changes that have become effective and have been adopted for annual periods beginning on or after 1 January 2021 are as follows:

1-) Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases.

2.5 Critical accounting estimates and judgements in applying accounting policies

The prepara tion of the interim condensed financial statements requires management to make estimates and assumptions that are reflected in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the interim condensed financial statements.

Management do exercise judgment and make use of information available at the date of the preparation of the interim condensed financial statements in making these estimates. The actual future results from operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the financial statements.

The judgments and estimates that may have a significant effect on amounts recognized in the interim condensed financial statements are discussed in the relevant sections below.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Potential impacts of COVID-19 on the interim condensed consolidated financial statements

The new coronavirus disease (COVID-19), which emerged in the People's Republic of China in the end of December 2019 and spread to other countries, was declared a pandemic on 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 30 June 2021.

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 30 June 2021 within the Bank's projections.

3. SEGMENT INFORMATION

Business segments

Pursuant to its mission, the Parent Bank operates mainly in corporate banking and investment banking. Corporate banking provides financial solutions and banking services to customers in the status of medium and large-scale incorporated companies. Among the services offered are investment loans, project finance, operating loans in TL and foreign currency, foreign trade transactions including letters of credit and letters of guarantee.

Within the scope of investment banking activities, the Parent Bank's treasury bills, government bonds trading, repo transactions, currency swaps and forward foreign exchange transactions, capital markets consultancy, financial consultancy, merger and acquisition consultancy are provided. Investment banking operating income includes income from Treasury transactions.

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

The segment results for the period ended 30 June 2021 are as follows:

	Investment Banking (Treasury)	**Corporate Banking**	**Other**	**Eliminations**	**Total**
Net interest income	395,115	230,013	(1,274)	-	623,854
Net fees and commissions income	(10,730)	14,809	3,357	-	7,436
Foreign exchange gains/(losses)	3,400	12,175	-	-	15,575
Other operating income	111	25,634	-	-	25,745
Other operating expenses	118,361	(19,381)	(76,846)	-	22,134
(Provisions for) / recoveries from impairment of loans and other assets	-	(163,268)	-	-	(163,268)
Income/(loss) from associates	-	2,060	-	-	2,060
Profit / (loss) before income tax	**506,257**	**102,042**	**(74,763)**	**-**	**533,536**
Income tax	-	-	(123,291)	-	(123,291)
Net profit/(loss)	**506,257**	**102,042**	**(198,054)**	**-**	**410,245**

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

The segment assets and liabilities at 30 June 2021 are as follows:

	Investment Banking (Treasury)	Corporate Banking	Other	Eliminations	Total
Assets and liabilities					
Segment assets	8,841,130	23,930,146	191,498	(3,797)	32,958,977
Investment in associates	-	24,057	-	-	24,057
Total assets	**8,841,130**	**23,954,203**	**191,498**	**(3,797)**	**32,983,034**
Segment liabilities	218,633	28,414,895	4,353,303	(3,797)	32,983,034
Total liabilities and equity	**218,633**	**28,414,895**	**4,353,303**	**(3,797)**	**32,983,034**

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

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

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

	Investment Banking (Treasury)	Corporate Banking	Other	Eliminations	Total
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.

Geographical segments

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

4. CASH AND CASH EQUIVALENTS

	30 June 2021	31 December 2020
Cash on hand	**7**	**10**
Demand deposits - Turkish Lira	200,436	4,436
Demand deposits - Foreign Currency	20,127	25,181
Time deposits	3,966,734	3,526,071
Deposits with banks and other financial institutions	**4,187,297**	**3,555,688**
Cash and deposits with banks and other financial institutions	**4,187,304**	**3,555,698**
Balances with Central Bank	1,333	1,115
Money market placements	555,290	1,500,739
Less: Interest accruals	(12,467)	(2,330)
Expected credit loss	1,925	2,157
Cash and cash equivalents in the statement of cash flows	**4,733,385**	**5,057,379**

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

	30 June 2021		31 December 2020	
	Effective interest rate		Effective interest rate	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Deposits with banks and other financial institutions (*)	19.13%	1.54%	18.04%	1.39%
Money Market Placements	19.04%	-	17.98%	-

(*) Interest rates calculated from weighted average of placements as of 30 June 2021 and 31 December 2020.

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

5. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

As of 30 June 2021, majority of loans and advances to financial institutions' interest rates ranging between 3.29%-4.18% (31 December 2020: 3.17%-4.21%).

	30 June 2021	31 December 2020
Loans and advances to financial institutions		
Origination of Loans Granted to Financial Institutions:		
Industrial and Commercial Bank of China originated loan	3,480,160	3,005,260
Council of Europe Development Bank originated loans	1,260,149	1,528,419
World Bank originated loans	588,148	-
TKYB sourced loans	207,070	-
Expected credit losses on loans and advances to banks	(25,461)	(20,709)
Total loans and advances to financial institutions	**5,510,066**	**4,512,970**

The credit quality analysis of loans and advances to banks is as follows as of 30 June 2021:

	30 June 2021		
	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	5,535,527	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(25,461)	-	-
Total carrying amount	**5,510,066**	**-**	**-**

The movement of loss allowances per asset class for loans and advances to financial institutions as of 30 June 2021 is as follows:

	2021		
	Stage 1	Stage 2	Stage 3
Balances at 1 January 2021	**(20,709)**	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	5,960	-	-
Provision for the period	(10,712)	-	-
Balances at the end of the period	**(25,461)**	**-**	**-**

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

5. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS (continued)

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

	31 December 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 2019	**(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)**	**-**	**-**

6. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2021	**31 December 2020**
Origination of Loans Granted to Customers:		
European Investment Bank originated loans	3,281,394	4,058,293
Islamic Development Bank originated loans	3,251,889	4,068,483
World Bank originated loans	3,314,025	681,869
Development Bank of Japan originated loans	1,178,954	261,266
KFW originated loans	359,633	552,672
Treasury loans	574,556	242,281
Bank Sourced		
Other Bank sourced loans	5,016,418	4,611,178
Investment loans	270,858	300,473
Restructured loans	1,436,730	869,875
Personnel loans	40	384
Non-performing loans	**208,292**	**218,511**
Total loans and advances to customers	**18,892,789**	**15,865,285**
Expected credit losses on loans and advances to customers	(476,506)	(323,316)
Stage 1	*(125,573)*	*(111,430)*
Stage 2	*(189,914)*	*(61,508)*
Stage 3	*(161,019)*	*(150,378)*
Total loans and advances to customers, (net)	**18,416,283**	**15,541,969**

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

6. LOANS AND ADVANCES TO CUSTOMERS (continued)

The credit quality analysis of loans and advances to customers is as follows as of 30 June 2021:

	30 June 2021		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	17,214,767	-	-
Stage 2: Watch list	-	1,436,730	-
Stage 3.1: Substandard	-	-	118,212
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	90,080
Total loans	**17,214,767**	**1,436,730**	**208,292**
Expected credit loss	(125,573)	(189,914)	(161,019)
Total carrying amount	**17,122,194**	**1,246,816**	**47,273**

The movement of expected credit losses per asset class for cash loans and advances to customers as of 30 July 2021 is as follows:

	2021		
	Stage 1	**Stage 2**	**Stage 3**
Balances at 1 January 2021	111,430	61,508	150,378
Transfer to Stage 1	-	-	-
Transfer to Stage 2	(36)	2,370	(2,334)
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	(3,168)	(6,260)	(3,473)
Provision for the period	17,347	132,296	16,448
Balances at the end of the period	**125,573**	**189,914**	**161,019**

As of 30 June 2021, movement of non-performing cash loans (Stage 3) is as follows:

	Principal	**ECL**
Balance at 1 January 2021	218,511	150,378
Addition	393	16,448
Collection/recovery	(10,612)	(5,807)
Debt sales and write-offs	-	-
Effects of movements in exchange rates	-	-
Balance at the end of the period	**208,292**	**161,019**

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

7. INVESTMENT SECURITIES

	30 June 2021	31 December 2020
Debt and other instruments at FVOCI		
Turkish Government bonds issued by the Turkish Government	1,643,525	895,881
Debt securities issued by corporations	182,081	54,671
Equity instruments	14,990	14,990
Expected credit loss	(1,288)	(648)
Investment securities at amortized cost		
Turkish Government bonds (quoted)	2,000,237	1,717,342
Expected credit loss	(1,260)	(434)
Total	**3,838,285**	**2,681,802**

Government bonds and treasury bills pledged under repurchase agreements with customers included investment securities at fair value through other comprehensive income amount to TRY 219,632 (31 December 2020: TRY 205,332). Related liability is equal to TRY 219,955 as of 30 June 2021 (31 December 2020: TRY 205,378). As of 30 June 2021, government securities with carrying value amounting to TRY 54,026 (31 December 2020: TRY 63,299) in fair value through other comprehensive income securities portfolio are pledged to the Central Bank and the IMKB Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Clearing and Custody Bank) for regulatory requirements and as a guarantee for stock exchange and money market operations.

8. INVESTMENT IN ASSOCIATES

Maksan Malatya Makina Sanayi A.Ş. is established in Malatya, Turkey in 1974 for manufacturing of transformers. The share and voting power of the Bank is 31.14% and 20% respectively (31 December 2020: 31.14% and 20%).

Türk Suudi Holding A.Ş. is established in İstanbul, Turkey in order to operate in finance sector. By General Assembly held on 25 March 2008, liquidation process of the company was started and is on-going as at the balance sheet date. The share and voting power of the Bank is 24.69% and 10% respectively (31 December 2020: 24.69% and 10%).

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

	30 June 2021	31 December 2020
Total assets	107,398	99,403
Total liabilities	(19,551)	(18,851)
Net Assets	**87,847**	**80,552**
Group's share of associates' net assets	**24,057**	**21,997**

9. OTHER ASSETS

	30 June 2021	31 December 2020
Prepaid fees and commissions	71,896	53,070
Non-current assets to be disposed	20,956	23,594
Sundry debtors	1,495	753
Other	12,096	1,169
Expected credit loss	(166)	(3)
Total	**106,277**	**78,583**

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

10. FUNDS BORROWED AND SUBORDINATED LOANS

	30 June 2021	31 December 2020
Borrowings	25,482,521	21,762,741
Funds	624,652	245,216
Total	**26,107,173**	**22,007,957**

30 June 2021	Amount	Weighted Average Interest Rate	Maturity
USD denominated borrowings	14,529,844	2.15%	2021-2045
EUR denominated borrowings	9,702,466	0.75%	2021-2059
TRY denominated borrowings	1,250,211	12.09%	2025-2031
Total	**25,482,521**		

31 December 2020	Amount	Weighted Average Interest Rate	Maturity
USD denominated borrowings	11,996,581	2.25%	2021-2024
EUR denominated borrowings	8,984,227	0.75%	2021-2059
TRY denominated borrowings	781,933	9.30%	2025-2030
Total	**21,762,741**		

The amounts of funds of the Group as of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021	31 December 2020
Environment fund	19,362	5,952
Other(*)	605,290	239,264
Total	**624,652**	**245,216**

(*)The majority of the balance of other funds originates from the Ministry of Treasury and Finance, and funds from borrowers and banks.

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

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

10. FUNDS BORROWED AND SUBORDINATED LOANS (continued)

	30 June 2021	31 December 2020
Borrowings with no maturity	192,973	102,320
Short term borrowings	432,826	142,896
Short term part of long term borrowings	167,298	94,126
Long term borrowings	25,314,076	21,668,615
Total	**26,107,173**	**22,007,957**

Repayment plan of borrowings is as follows:

	30 June 2021	31 December 2020
Borrowings with no maturity	192,973	102,320
2021	600,124	237,022
2022 and thereafter	25,314,076	21,668,615
Total	**26,107,173**	**22,007,957**

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

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

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

The subardinated loans as of 30 June 2021 and 31 December 2020 is as follows;

	30 June 2021	31 December 2020
Debt instruments to be included in additional capital calculation (*)	1,714,496	1,480,186
Debt instruments to be included in contribution capital calculation (**)	581,105	513,057
Total	**2,295,601**	**1,993,243**

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

(**) 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.

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

11. OTHER LIABILITIES AND PROVISIONS

	30 June 2021	31 December 2020
Other liabilities		
Blocked currency	103,063	75,490
Excess amount received from customers	53,174	36,476
Unearned revenue	50,338	37,728
Lease liabilities	13,575	13,575
Payables to suppliers	12,056	11,049
Payables to public enterprises	3,728	3,728
Other	21,256	16,810
	257,190	**194,856**
Provisions		
Employee benefits provision	28,885	39,048
	28,885	**39,048**
Total	**286,075**	**233,904**

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay. Consequently, in the accompanying financial statements as at 30 June 2021, 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 4.28% (31 December 2020: 2.40%). As the maximum liability is revised semiannually, the maximum amount of TL 8,284.51 effective from 1 January 2021 has been taken into consideration in calculation of provision from employment termination benefits (31 December 2020 TL 7,638.95).

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

	30 June 2021	31 December 2020
Opening defined benefit obligation	6,371	10,586
Changes in current period	2,170	8,642
Actuarial gain/loss	825	(625)
Benefits paid	(3,243)	(12,232)
Closing defined benefit obligation, recognized in the balance sheet	**6,123**	**6,371**
Provision for unused vacation	5,519	2,903
Bonus premium	17,243	29,774
Total	**28,885**	**39,048**

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

12. INCOME TAXES

Corporate Tax

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

According to the Temporary Article 13 added to the Corporate Tax Law No: 5520 and with the Article 11 of the Law on the Procedure of Collection of Public Claims and the Law on the Amendment of Some Laws, which entered into force after being published in the Official Gazette dated April 22, 2021 and numbered 31462, the Corporate Tax rate will be applied as 25% for the corporate earnings for the 2021 taxation period and 23% for the corporate earnings for the 2022 taxation period. This change will be valid for the taxation of corporate earnings for the periods starting from January 1, 2021, starting with the declarations that must be submitted as of July 1, 2021. According to the new law, temporary tax calculations for the current period have been made by 25%.

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

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

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

Income Withholding Tax

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

As of 30 June 2021 and 31 December 2020 advance income taxes are netted off with the current income tax liability as stated below:

	30 June 2021	**31 December 2020**
Income tax liability	143,296	143,198
Prepaid income taxes	(47,809)	(97,914)
	95,487	**45,284**

Major components of income tax expense as of 30 June 2021 and 31 December 2020:

	30 June 2021	**31 December 2020**
Current income tax expense	143,296	143,198
Deferred income tax expense / (income)	(20,005)	(24,330)
Income tax expense reported in the consolidated income statement	**123,291**	**118,868**

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

12. INCOME TAXES (continued)

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Bank as at 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021	**Rate %**	**30 June 2020**	**Rate %**
Profit before income tax	533,536		239,108	
At Turkish statutory income tax rate of 25% (2020: 22%)	133,384	25	52,604	22
Disallowed expenses	49,835	9.34	27,043	11.31
Income exempt from taxation	(39,587)	(7.42)	(20,229)	(8.46)
Other adjustments	(20,341)	(3.81)	(11,931)	(4.99)
Income tax	**123,291**	**23.11**	**47,487**	**19.86**

Deferred tax

Deferred tax as at 30 June 2021 and 31 December 2020 relates to the following:

	30 June 2021	**31 December 2020**
Deferred Tax Assets		
Personnel bonus premium provision	4,311	5,955
Severence payments	2,772	2,088
Securities portfolio internal yield-exchange rate difference	1,915	3,058
IFRS 9 provision	49,024	12,434
Other	2,815	667
Total Deferred Tax Assets	**60,837**	**24,202**
Deferred Tax Liabilities		
Other non-financial treasury bills and government bonds	-	(4,499)
Interest rediscount	(1,224)	(1,109)
Associates and subsidiaries	(14,801)	-
Other	(1,086)	(540)
Total Deferred Tax Liabilities	**(17,111)**	**(6,148)**
Net Deferred Tax	**43,726**	**18,054**

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

13. SHARE CAPITAL

The capital ceiling of the Bank which is subject to registered capital system is TRY 10,000,000. The authorized paid-in share capital of the Bank amounted to TRY 1,600,000 as of 30 June 2021 (31 December 2020: TRY 1,600,000). The Bank's capital consist of 160 Billion shares with par value of full TRY 0,01 each.

	Share (%)	30 June 2021	31 December 2020
Paid capital per statutory records			
- Republic of Turkey Ministry of Finance	99.08	1,585,304	1,585,304
- Other Shareholders	0.92	14,696	14,696
		1,600,000	1,600,000
Indexation Effect		276,911	276,911
Indexed Share Capital		**1,876,911**	**1,876,911**

14. EARNINGS PER SHARE

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

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

	Number of Shares Issued Attributable to				
	Opening	Cash	Transfers from Retained Earnings	Reinvestment of Dividend Payments	Closing
2015 and before	16,000,000,000	-	-	-	16,000,000,000
2016	16,000,000,000	-	-	-	16,000,000,000
2017	16,000,000,000	34,000,000,000	-	-	50,000,000,000
2018	50,000,000,000	-	-	-	50,000,000,000
2019	50,000,000,000	35,000,000,000	-	-	85,000,000,000
2020	85,000,000,000	75,000,000,000	-	-	160,000,000,000
2021	160,000,000,000	-	-	-	160,000,000,000

There is no dilution of shares as of 30 June 2021 and 31 December 2020.

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

	30 June 2021	30 June 2020
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	410,245	191,899
Weighted average number of ordinary shares for basic earnings per share	160,000,000	85,000,000
Basic earnings per 100 shares (Full TRY)	**0.2564**	**0.2258**

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

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

15. RELATED PARTIES

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

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

As of 30 June 2021, subordinated loan was obtained from the Ministry of Finance amounted TL 161,471 and from TVF amounted TL 2,134,130 (31 December 2020: TRY 109,021-TRY 1,884,222).

Transactions with key management personnel:

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

As of 30 June 2021 and 31 December 2020 the Group's directors and executive officers have no outstanding personnel loans from the Bank.

Total compensation provided to key management personnel is:

	30 June 2021	30 June 2020
Salary	4,977	4,071
Dividend and fringe benefits	1,975	1,191
Total	**6,952**	**5,262**

16. INTEREST INCOME ON SECURITIES

	30 June 2021	30 June 2020
Investment securities at FVOCI	77,841	46,440
Investment securities at amortised cost	55,149	34,182
Total	**132,990**	**80,622**

17. OTHER OPERATING INCOME

	30 June 2021	30 June 2020
Reversal of other provisions	21,947	20,771
Income from sale of properties	616	-
Other	3,182	6,018
Total	**25,745**	**26,789**

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

18. OTHER OPERATING EXPENSES

	30 June 2021	**30 June 2020**
Staff costs:	65,940	57,164
Personnel expenses	*47,601*	*39,180*
Retirement pay provision	*1,096*	*3,398*
Personnel bonus premium provision	*17,243*	*14,586*
Provision expense	2,745	19,408
Administrative expenses	10,592	9,109
Depreciation and amortization expense	5,334	5,205
Other	11,616	7,374
Total	**96,227**	**98,260**

19. COMMITMENTS AND CONTINGENCIES

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

	30 June 2021	**31 December 2020**
Letters of guarantee issued	721,520	730,656
Total non-cash loans	**721,520**	**730,656**
Irrevocable commitments	82,785	24,399
Total	**804,305**	**755,055**

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 500,00 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.

19. 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, EUR 300,000 on 4 May 2021.

With reference to the above capital contributions, out of the Bank's total commitment of EUR 3 million, EUR 1,245,000 have been paid, EUR 1,755,000 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 of 30 June 2021, there are 281 lawsuits filed against the Parent Bank and there is a risk amount of TL 7,589. The Bank allocated TL 2,704 lawsuit provision for the lawsuits that are thought to be or are highly considered to be concluded against.

20. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

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

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

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

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

20. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk

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

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

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

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

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

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

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

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

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

20. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Impairment assessment based on IFRS 9

As of 1 January 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	
	30 June 2021	**31 December 2020**
Manufacturing	16,856,896	14,026,024
Production	*3,406,079*	*2,325,189*
Electric, gas and water	*13,450,817*	*11,700,835*
Services	7,360,917	6,128,051
Hotel, food and beverage services	*1,596,565*	*1,312,392*
Financial institutions	*5,572,308*	*4,533,679*
Education Services	*92,950*	*94,056*
Health and social services	*99,094*	*187,924*
Other	2,210	26,378
Total loans	**24,220,023**	**20,180,453**
Non-performing loans	208,292	218,511
Expected credit loss	(501,967)	(344,025)
Total	**23,926,348**	**20,054,939**

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

Maximum Exposure	**30 June 2021**	**31 December 2020**
Deposits with banks and other financial institutions	4,187,297	3,555,688
Money market placements	555,290	1,500,739
Balances with the Central Bank	1,333	1,115
Financial assets measured at FVOCI	1,839,308	964,894
Loans and advances to customers and financial institutions	23,926,349	20,054,939
Investment securities at amortised cost	1,998,977	1,716,908
Total	**32,508,554**	**27,794,283**
Contingent liabilities	721,520	730,656
Total	**721,520**	**730,656**
Total credit risk exposure	**33,230,074**	**28,524,939**

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

20. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit quality per class of financial assets as of 30 June 2021 and 31 December 2020:

As of 30 June 2021	**Neither past due nor impaired**	**Past due but not impaired**	**Total**
Cash and deposits with banks and other financial institutions	4,187,297	-	4,187,297
Loans and advances to customers and financial institutions	22,679,534	1,246,815	23,926,349
Financial assets measured at fair value through other comprehensive income (FVOCI)	1,839,308	-	1,839,308
Investments securities at amortised cost	1,998,977	-	1,998,977
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

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

As of 30 June 2021	**Less than 30 Days**	**Between 31 and 60 Days**	**Between 61 and 90 Days**	**Total**
Corporate Loans	35,569	594,695	428,269	1,058,532
Specialized Loans	-	84,121	104,162	188,283
Total	**35,569**	**678,816**	**532,431**	**1,246,815**

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**

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

Collateral Type	**30 June 2021**	**31 December 2020**
Real estate mortgage (*)	668,264	610,064
Financial collaterals (Cash, securities pledge, etc,)	767,802	688,894
Total	**1,436,066**	**1,298,958**

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

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

Collateral Type	**30 June 2021**	**31 December 2020**
Real estate mortgage (*)	199,928	206,723
Other (**)	-	3,446
Total	**199,928**	**210,169**

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

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

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

20. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

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

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

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

Analysis of financial liabilities by remaining contractual maturities:

As of 30 June 2021	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustment	Total
Liabilities							
Funds borrowed	666,175	445,616	2,522,757	17,183,404	9,421,551	(4,132,330)	26,107,173
Money market funds	217,692	-	-	-	-	-	217,692
Subordinated liabilities	-	-	-	-	2,295,601	-	2,295,601
Total	**883,867**	**445,616**	**2,522,757**	**17,184,404**	**11,717,152**	**(4,132,330)**	**28,620,466**

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	329,037	363,280	1,967,138	14,391,575	10,513,262	(5,556,335)	22,007,957
Obligations under repurcha agreements	203,850	-	-	-	-	-	203,850
Subordinated liabilities	-	-	-	-	1,993,243	-	1,993,243
Total	**532,887**	**363,280**	**1,967,138**	**14,391,575**	**12,506,505**	**(5,556,335)**	**24,205,050**

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

20. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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

As of 30 June 2021	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	20,588	4,166,716	-	-	-	-	-	4,187,304
Balances with Central Bank	1,333	-	-	-	-	-	-	1,333
Money market placements	-	554,940	-	-	-	-	-	554,940
Financial assets at fair value through profit and loss	258,059	-	-	-	-	-	-	258,059
Investment securities available-for-sale	1,839,308	-	-	-	-	-	-	1,839,308
Loans and advances to customers and financial institutions	-	314,209	485,718	2,839,603	14,571,910	5,671,433	43,476	23,926,349
Investments securities	-	-	-	-	1,988,755	10,222	-	1,998,977
Other assets	-	-	-	-	-	-	216,764	216,764
Total assets	**2,119,288**	**5,035,865**	**485,718**	**2,839,603**	**16,560,665**	**5,681,655**	**260,240**	**32,983,034**
Liabilities and equity								
Funds provided from other financial institutions	-	741,923	410,680	2,060,340	13,808,680	9,085,550	-	26,107,173
Obligations under repurchase agreements	-	217,692	-	-	-	-	-	217,692
Subordinated loans	-	-	-	-	-	-	2,295,601	2,295,601
Other liabilities	-	204,383	88,438	-	-	-	89,682	382,503
Total liabilities	**-**	**1,163,998**	**499,118**	**2,060,340**	**13,808,680**	**9,085,550**	**2,385,283**	**29,002,969**
Liquidity gap	**2,119,288**	**3,871,998**	**(13,400)**	**779,263**	**2,751,985**	**(3,403,895)**	**(2,125,043)**	**3,980,065**

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
Total assets	1,111,436	5,233,980	391,851	2,322,707	13,869,854	4,918,871	223,340	28,072,039
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**

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

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

20. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

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

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

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

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

Currency Risk

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

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

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

Foreign currency sensitivity:

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

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

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

20. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

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

	EURO	USD	Other FC	Total
As of 30 June 2021				
Assets				
Cash and deposits with banks and other financial institutions	940,819	812,140	674	1,753,633
Investment securities at FVOCI	862,962	305,611	-	1,168,573
Financial assets at fair value through profit and loss	258,059	-	-	258,059
Money market placements	-	-	-	-
Loans and advances to customers and financial institutions	8,492,088	13,977,846	-	22,469,934
Financial assets measured at amortised cost	1,867,223	-	-	1,867,223
Other assets	9,757	44,257	-	54,014
Total assets	**12,430,908**	**15,139,854**	**674**	**27,571,436**
Liabilities				
Funds provided from other financial institutions	9,925,443	14,531,428	-	24,456,871
Subordinated loans	2,295,601	-	-	2,295,601
Other liabilities	132,775	179,789	-	312,564
Total liabilities	**12,353,819**	**14,711,217**	**-**	**27,065,036**
Net on balance sheet position	**77,089**	**428,637**	**674**	**506,400**
Net off balance sheet position	**-**	**(609,028)**	**-**	**(609,028)**
Non-cash loans	648,129	11,380	-	659,509
As of 31 December 2020				
Total assets	**11,017,494**	**12,215,732**	**610**	**23,233,836**
Total liabilities	**11,017,494**	**12,215,732**	**610**	**23,233,836**
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

Interest Rate Risk

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

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

20. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

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

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

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

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

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

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

20. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

Interest rate sensitivity based on repricing dates:

As of 30 June 2021	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	4,166,716	-	-	-	-	20,588	4,187,304
Balances with Central Bank	-	-	-	-	-	1,333	1,333
Money market placements	554,940	-	-	-	-	-	554,940
Financial assets at fair value through profit and loss	-	-	-	-	-	258,059	258,059
Investment securities at FVOCI	262,801	45,648	820,943	696,214	-	13,702	1,839,308
Loans and advances to customers and financial institutions	5,428,590	3,675,344	7,226,889	2,780,154	4,771,896	43,476	23,926,349
Investment securities held to maturity	-	-	-	1,988,755	10,222	-	1,998,977
Other assets	-	-	-	-	-	216,764	216,764
Total assets	**10,413,047**	**3,720,992**	**8,047,832**	**5,465,123**	**4,782,118**	**553,922**	**32,983,034**
Liabilities							
Obligations under repurchase agreements	217,692	-	-	-	-	-	217,692
Subordinated loans	-	-	-	-	-	2,295,601	2,295,601
Funds provided from other financial institutions	5,135,571	5,313,742	8,555,625	3,914,817	3,187,418	-	26,107,173
Other liabilities	-	204,383	88,438	-	-	89,682	382,503
Equity	-	-	-	-	-	3,980,065	3,980,065
Total liabilities	**5,353,263**	**5,518,125**	**8,644,063**	**3,914,817**	**3,187,418**	**6,365,348**	**32,983,034**
On balance sheet interest sensitivity gap – Long	5,059,784	-	-	1,550,306	1,594,700	-	8,204,790
On balance sheet interest sensitivity gap – Short	-	(1,797,133)	(596,231)	-	-	(5,811,426)	(8,204,790)
Off balance sheet interest sensitivity gap – Long	-	-	-	-	-	-	-
Off balance sheet interest sensitivity gap – Short	-	-	-	-	-	-	-
Total position	**5,059,784**	**(1,797,133)**	**(596,231)**	**1550,306**	**1,594,700**	**(5,811,426)**	**-**

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
Total assets	9,825,427	4,020,903	3,497,131	4,368,903	5,975,451	384,224	28,072,039
Total liabilities	4,675,396	4,064,470	6,728,768	4,010,612	2,861,077	5,731,716	28,072,039
Total position	**5,150,031**	**(43,567)**	**(3,231,637)**	**358,291**	**3,114,374**	**(5,347,492)**	**-**

20. FINANCIAL RISK MANAGEMENT (continued)

Capital Adequacy

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

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

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

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

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

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

As of 30 June 2021, its capital adequacy ratio on an unconsolidated basis is 19.97% (31 December 2020: 22.35%).

Operational Risk

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

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

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

20. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial instruments

	30 June 2021	
	Carrying amount	**Fair value**
Financial assets		
Loans and advances	23,926,349	24,050,610
Financial assets measured at FVOCI	1,839,308	1,839,308
Investment securities at amortised cost	1,998,977	2,006,194
Money market placements	554,940	554,940
Cash at Banks	4,187,304	4,187,304
	32,506,878	**32,638,356**
Financial liabilities		
Obligations under repurchase agreements	217,692	217,692
Funds Provided from Other Financial Institutions	26,107,173	27,209,852
Subordinated loans	2,295,601	2,295,601
Sundry Creditors	294,241	294,241
	28,914,707	**30,017,386**

	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**

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

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

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

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

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

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

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

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

20. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial instruments (continued)

30 June 2021	Level 1	Level 2	Level 3
Financial assets FVOCI	**1,829,740**	**-**	**14,990**
Debt securities	1,829,740	-	-
Share certificates	-	-	14,990
Other	-	-	-
Financial assets FVPL	**-**	**-**	**258,059**
Derivative financial assets	**-**	**1,209**	**-**
Derivative financial liabilities	**-**	**941**	**-**

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**	**-**

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

Level 3 Movement Table	Current Period (30.06.2021)
Balance at the Beginning of the period	**134,715**
Purchases During the Period	-
Disposals Through Sale/Redemptions	-
Valuation Effect	(138,334)
Transfers	-
Balance at the End of the period	**273,049**

21. SUBSEQUENT EVENTS

With the decision of the Board of Directors of the Bank dated 22 October 2021, in order to increase placement opportunities, it has been decided to increase the issued capital of the Bank from TL 1,600,000 to TL 2,000,000 by TL 400,000, within the registered capital ceiling of TL 10,000,000.

On 27 October 2021, the Asian Infrastructure Investment Bank approved the financing of USD 100 million to the Bank for the financing of renewable energy and energy efficiency projects.