PASHA YATIRIM BANKASI A.Ş.

INTERIM CONDENSED
FINANCIAL STATEMENTS
30 JUNE 2021

Güney Bağımsız Denetim ve SMMM A.Ş.
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Report on review of interim condensed financial statements

To the Shareholders and Board of Directors of PASHA Yatırım Bankası A.Ş.

Introduction

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

Scope of Review

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

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

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

Emre Çelik, SMMM
Partner

6 August 2021
Istanbul, Turkey

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INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	30 June 2021 (unaudited)	31 December 2020 (audited)
Assets			
Cash and cash equivalents	4	171,767	163,343
Amounts due from credit institutions	5	171,822	135,946
Financial assets at fair value through profit and loss	6	13,683	7,405
Derivative financial assets	18	504	493
Investment securities	7	180,801	145,871
Loans to customers	8	1,798,492	1,450,745
Investment property	9	144,390	144,862
Property and equipment	10	87,892	88,717
Intangible assets	12	7,085	6,849
Right of use assets	11	129	161
Current tax asset	20	1,721	632
Deferred tax asset	20	11,846	13,746
Other assets	13	27,676	20,639
TOTAL ASSETS		**2,617,808**	**2,179,409**
Liabilities			
Amounts due to banks and financial institutions	14	1,051,433	803,334
Amounts due to customers	15	52,179	69,076
Money market deposits	16	48,002	53,263
Debt securities issued	17	833,648	647,016
Lease liabilities	11	157	178
Derivative financial liabilities	18	635	1,430
Provisions	19	8,555	17,597
Current tax liability	20	5,818	3,819
Other liabilities	13	28,641	21,026
Total Liabilities		**2,029,068**	**1,616,739**
Equity			
Share capital	21	500,000	500,000
Retained earnings		85,519	61,069
Other reserves	21	3,266	1,697
Net unrealised (loss) on investment securities		(45)	(96)
Total Equity		**588,740**	**562,670**
TOTAL LIABILITIES AND EQUITY		**2,617,808**	**2,179,409**

The accompanying notes are an integral part of these financial statements.

INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2021

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	30 June 2021 (unaudited)	30 June 2020 (unaudited)
Interest income on loans		80,830	51,815
Interest income on investment securities		6,859	4,967
Interest income on deposits at banks		3,592	2,378
Interest on amount due from credit institutions		944	2
Total interest income		**92,225**	**59,162**
Interest expense on amounts due to customers		(1,361)	(671)
Interest expense on amounts due to banks and financial institutions		(24,810)	(11,665)
Interest expense on debt securities issued		(15,985)	(10,340)
Interest expense on money market deposits		(1,755)	(477)
Other interest expense		(19)	(13)
Total interest expense		**(43,930)**	**(23,166)**
Net interest income		**48,295**	**35,996**
Provisions for loans and other credit risks, net	23	(3,055)	(6,325)
Net interest income after credit loss expense		**45,240**	**29,671**
Fees and commissions income		5,248	2,674
Fees and commissions expense		(1,886)	(819)
Net fees and commissions income	24	**3,362**	**1,855**
Net gains from trading securities		3,189	-
Foreign exchange gains/(losses), net		3,735	(4,205)
Net gains from derivative financial instruments		60	6,592
Other income		1,366	921
Total non-interest income		**8,350**	**3,308**
Total operating income		**56,952**	**34,834**
Personnel expenses	25	(12,411)	(9,843)
General and administrative expenses	25	(7,593)	(8,641)
Depreciation and amortisation	9,10,11,12	(3,013)	(2,081)
Total non-interest expenses		**(23,017)**	**(20,565)**
Profit before tax	20	**33,935**	**14,269**
Income tax expense	20	(7,916)	(3,152)
Net profit for the period		**26,019**	**11,117**
Other comprehensive income			
Net change in fair value of investment instruments at fair value through other comprehensive income		62	121
Income tax of other comprehensive income		(11)	(27)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**51**	**94**
Total comprehensive income for the period		**26,070**	**11,211**

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

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2021

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	Share capital	Fair value reserve of financial assets at FVOCI	Legal reserves	Retained earnings	Total equity
1 January 2020		**500,000**	**221**	**591**	**30,799**	**531,611**
Profit for the period		-	-	-	11,117	**11,117**
Other comprehensive income for the period, net		-	94	-	-	**94**
Total comprehensive income for the period		**-**	**94**	**-**	**11,117**	**11,211**
Transfers to reserves		-	-	1,106	(1,106)	-
30 June 2020 (unaudited)	**21**	**500,000**	**315**	**1,697**	**40,810**	**542,822**
1 January 2021		**500,000**	**(96)**	**1,697**	**61,069**	**562,670**
Profit for the period		-	-	-	26,019	**26,019**
Other comprehensive income for the period, net		-	51	-	-	**51**
Total comprehensive income for the period		**-**	**51**	**-**	**26,019**	**26,070**
Transfers to reserves		-	-	1,569	(1,569)	-
30 June 2021 (unaudited)	**21**	**500,000**	**(45)**	**3,266**	**85,519**	**588,740**

INTERIM CONDENSED STATEMENT OF CASH FLOW FOR THE SIX MONTHS ENDED 30 JUNE 2021

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	30 June 2021 (unaudited)	30 June 2020 (unaudited)
Interest received		78,039	56,954
Interest paid		(39,639)	(26,620)
Fees and commissions received		5,641	2,288
Fees and commissions paid		(1,661)	(584)
Other operating income received		1,587	787
Personnel expenses paid		(16,167)	(10,481)
General and administrative expenses paid		(7,797)	(8,800)
Cash flows from operating activities before changes in operating assets and liabilities		**20,003**	**13,544**
Net (increase)/decrease in operating assets			
Trading securities		(1,937)	(4,618)
Amounts due from credit institutions	5	(12,201)	73,606
Loans to customers	8	(192,346)	(182,775)
Other assets		(632)	(830)
Net increase/(decrease) in operating liabilities			
Amounts due to banks, money market deposit and financial institutions		143,045	10,788
Amounts due to customers		(16,888)	41,985
Other liabilities		266	(7,392)
Net cash flows (used in) operating activities before income tax		**(60,690)**	**(55,692)**
Income tax paid		(4,945)	(2,624)
Net cash flows (used in) operating activities		**(65,635)**	**(58,316)**
Cash flows from/(used in) investing activities			
Proceeds from sale and redemption of investment securities	7	5,769	36,524
Purchase of investment securities	7	(17,418)	(57,324)
Purchase and prepayments for property and equipment	10	(350)	(398)
Purchase and prepayments for intangible assets	12	(1,563)	(103)
Net cash used in investing activities		**(13,562)**	**(21,301)**
Cash flows from/(used in) financing activities			
Proceeds from debt securities issued	27	198,920	150,151
Payment of debt securities	27	(121,390)	(74,659)
Finance lease paid		(47)	(52)
Net cash flows from financing activities		**77,483**	**75,440**
Effect of net foreign exchange differences on cash and cash equivalents		9,621	15,972
Net increase in cash and cash equivalents		**7,907**	**11,795**
Cash and cash equivalents, beginning		163,361	190,631
Cash and cash equivalents in the statement of cash flows		**171,268**	**202,426**
Effect of expected losses on cash and cash equivalents	4	(156)	(245)
Effect of restricted balances and accruals		655	5
Cash and cash equivalents in the statement of financial position		**171,767**	**202,186**

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

1. Principal activities

PASHA Yatırım Bankası A.Ş. ("the Bank", "PASHA Bank"), set up in Istanbul on 25 December 1987 under the title of Yatırım Bank A.Ş., is the first foreign investment bank in Turkey. With the decision taken by the previous parent of the Bank regarding the sale of its shares in the Bank, a share purchase agreement was signed between the Aksoy Holding A.Ş. and previous parent of the Bank on 13 May 2013. Upon the Banking Regulation and Supervision Agency ("BRSA")'s approval dated 26 June 2013, Aksoy Holding A.Ş. acquired the 99.4689% of the shares of the Bank.

PASHA Bank OJSC and Aksoy Holding A.Ş. has agreed on transferring the majority shares of the Bank. Acquisition of TL 28,795 of the Bank's capital by PASHA Bank OJSC and increase in the paid-in capital from TL 80,000 to TL 255,000 upon the acquisition were approved by the BRSA's decision dated 26 December 2014 and numbered 6137. The capital increase from TL 80,000 to TL 175,000 has been completed as of 25 February 2015. Paid-in capital increase from TL 175,000 to TL 255,000, approval of the share transfer and changing the Bank's title as "PASHA Yatırım Bankası A.Ş." have been approved in the extra ordinary general assembly of the Bank dated 27 January 2015. The change of Bank's title as "PASHA Yatırım Bankası A.Ş." was registered on 2 March 2015 and announced at the Turkish Trade Registry Gazette dated 6 March 2015 and numbered 8773. Acquisition of remaining 51,000 shares of Aksoy Holding A.Ş. by PASHA Bank OJSC by increasing PASHA Bank OJSC shares from 79.9196% to 99.9196% has been approved by the BRSA's resolution dated 23 December 2015 and numbered 18038.

In the Extraordinary General Meeting held on 18 May 2018, it was decided that the outstanding TL 255,000 paid-in capital will be increased to TL 500,000 with cash injection of TL 245,000 committed by PASHA Holding LLC, and the Articles of Association of the Bank will be revised accordingly. In accordance with the BRSA decision dated 4 May 2018 and numbered 7803, it has been approved that the indirect shareholder PASHA Holding LLC has the right to participate directly by 49% in the Bank. The share capital increase and the total paid-in capital TL 500,000 has been registered by Istanbul Trade Registry Chamber on 6 June 2018. The amendments to the Articles of Association of the Bank has been published by Turkish Trade Registry Gazette's copy dated 12 June 2018 and numbered 9598.

The shareholder structure of the Bank as of 30 June 2021, is stated below:

	Capital	%
PASHA Bank OJSC	254,795	50.96%
PASHA Holding LLC	245,000	49.00%
Others	205	0.04%
	500,000	**100.00%**

As of 30 June 2021 and 31 December 2020, the Bank is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva and Mr. Arif Pashayev.

The interim condensed financial statements were authorised for issue by the Board of Directors on 6 August 2021.

2. Basis of preparation

The interim condensed financial statements for the six months ended 30 June 2021 have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting.

The interim condensed financial statements have been prepared under the historical cost convention except for financial assets measured at fair value such as derivative financial instruments, financial assets at fair value through profit or loss, fair value through other comprehensive income.

The interim condensed financial statements are presented in Turkish Lira ("TL") and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

Transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency differences arising on retranslation are recognised in profit or loss.

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by Public Oversight Accounting and Auditing Standards Authority "POAASA" and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA") and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations.

2. Basis of preparation *(continued)*

The preparation of interim condensed financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over-the-counter ("OTC") derivatives, unlisted securities, retirement benefits obligation, impairment of loans and receivables, provisions for taxes and contingencies from litigation. Actual results in the future may differ from those reported.

Judgements and estimates used in the preparation of the interim condensed financial statements

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

While preparing the interim condensed financial statements as of 30 June 2021, the Bank reflected the possible effects of the COVID-19 outbreak on the estimates ad judgments used in the preparation of the interim condensed financial statements. The estimates and assumptions used in the calculation of expected loan losses are explained in the statements on impairment of financial assets.

3. Summary of significant accounting policies

3.1 Interest income and expense

Interest income and expense are recognised in the profit or loss using the effective interest method. Interest income is recorded according to the effective interest rate method (rate equal to net present value of future cash flows or financial assets and liabilities) defined in the IFRS 9 "Financial Instruments" standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets.

If the financial asset is impaired and classified as a non-performing receivable, the Bank applies the effective interest rate on the amortized cost of the asset for subsequent reporting periods. Such interest income calculation is made on an individual contract basis for all financial assets subject to impairment calculation. Effective interest rate method is used during calculation of loss given default rate in expected credit loss models and accordingly, the calculation of expected credit losses includes an interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), interest income at subsequent reporting periods are calculated by applying the effective interest rate over gross amount.

Interest income and expense presented in the statement of comprehensive income statement include the interest income on financial assets and liabilities carried at amortized cost on an effective interest rate basis and the interest income on held for trading investments and fair value through other comprehensive income investments.

3.2 Fees and commissions

Except for fees and commissions that are integral part of the effective interest rates of financial instruments measured at amortized costs, the fees and commissions are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. Except for certain fees related with certain banking transactions and recognized when the related service is given, fees and commissions received or paid, and other fees and commissions paid to financial institutions are accounted under accrual basis of accounting throughout the service period. Income from asset purchases to a third party or by natural or legal persons contracts are recognized in the period they occur.

3.3 Net trading income

Net trading income comprises gains less loss related to derivative financial and liabilities and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of derivative financial assets and liabilities are recorded as trading income.

3. Summary of significant accounting policies *(continued)*

3.4 Taxation

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

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. The corporate tax rate will be applied as 25% for the corporate income for the 2021 taxation period and 23% for the corporate income for the 2022 taxation period.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

3.5 Financial instruments

The Bank categorises its financial assets as "Financial Assets at Fair Value Through Profit/Loss", "Financial Assets at Fair Value Through Other Comprehensive Income" and "Financial Assets Measured at Amortized Cost". Such financial assets are recognized or derecognized according to the principles defined in section three of "IFRS 9 Financial Instruments" standard, issued for classification and measurement of the financial instruments. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value Through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and hedge accounting.

Classification and measurement of financial assets

According to IFRS 9 requirements, classification and measurement of the financial assets depend on two fundamental criteria:

- The business model within financial assets are managed and
- The features of contractual cash flow; whether contractual cash flows are based on solely payments of principal and interest or not

Assessment for the business model:

The business model of the Bank represents how the Bank manages its financial assets for generating cash flows. The business model specifies whether cash flows arise from the collection of contractual cash flows or the sale of financial assets, or both. This assessment is based on scenarios the Bank expects to reasonably occur.

3. Summary of significant accounting policies *(continued)*

3.5 Financial instruments *(continued)*

Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making such assessment, the Bank considers contingent events that would change the amount and timing of cash flows, conditions that limit the Bank's claim to cash flows, prepayments and extension terms and features that modify consideration for the time value of money. Such assessments are also briefly defined as contractual cash flow characteristics test.

The Bank fulfils the on-balance sheet classification and measurement criteria by applying the procedures described above for all financial assets.

Financial assets at fair value through profit or loss

"Financial Assets at Fair Value Through Profit/Loss" are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

Financial assets at fair value through other comprehensive income

"Financial Assets at Fair Value through Other Comprehensive Income" are financial assets which are managed with business model that aims to hold to collect contractual cash flows and aims to hold to sell; and if the contractual terms of the financial assets lead to cash flows representing solely payments of principal and interest at certain dates.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost which reflects the fair value of the financial asset. After initial recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. "Unrealized gains and losses" arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value.

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

Financial assets measured at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost.

Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate (internal rate of return) method. Interest income obtained from financial assets measured at amortized cost is accounted in the income statement.

3. Summary of significant accounting policies *(continued)*

3.5 Financial instruments *(continued)*

Loans

Loans are financial assets that have fixed or determinable payment terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and subsequently measured at amortized cost using the effective interest rate (internal rate of return) method. Bank’s loans are fully recorded under the "Measured at Amortised Cost" account.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities. Financial liabilities, including funds borrowed, securities issued, customer accounts and money market payables are initially measured at fair value, net of transaction costs. Such financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are recognised in profit or loss.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3.6 Expected credit losses

As of 1 January 2018, the Bank started to recognize a loss allowance for expected credit losses on financial assets and loans measured at amortized cost and fair value through other comprehensive income and non-cash loans in accordance with IFRS 9. IFRS 9 introduces a forward-looking expected credit loss (ECL) approach, which is intended to result in an earlier recognition of credit losses based on an ECL impairment approach compared with the incurred-loss impairment approach for financial instruments under IAS 39, Financial Instruments: Recognition and Measurement and the loss-provisioning approach for financial guarantees and loan commitments.

At each reporting date, the Bank assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. The Bank considers the changes in the default risk of financial instrument, when making the assessment.

The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets are divided into three categories depending on increase in credit risk observed since their initial recognition:

Stage 1: For the financial assets at initial recognition or for those which do not have a significant increase in credit risk since initial recognition. Allowance for credit risk is recorded in the amount of 12-month expected credit losses.

Stage 2: As of the reporting date of the financial asset, in the event of a significant increase in credit risk since initial recognition or met criteria below the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument’s lifetime expected credit losses.

Stage 3: Financial assets considered as impaired at the reporting date are classified as stage 3. The probability of default is taken into account as 100% in the calculation of impairment provision and the Bank accounts lifetime expected credit losses. In determining the impairment, the Bank takes into consideration the following criteria:

Furthermore, individual assessment would be applied for stage 2 and stage 3 financial assets when it is necessary by considering various scenarios including discounting cash flows of financial assets.

3. Summary of significant accounting policies *(continued)*

3.6 Expected credit losses *(continued)*

The Bank measured expected credit losses with the reasonable, objective and supportable information based on a probability-weighted including estimations regarding time value of money, past events, current conditions and future economic conditions as of the reporting date, without undue cost or effort. The calculation of expected credit losses consists of three main parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Prior to 1 January 2018, the Bank did not have any default history track and no historical data for assumptions of PD and LGD. The Bank uses Moody's global default rates corresponding to the ratings of external / internal rating of lenders when there are default probabilities (PDs) to be used to calculate ECLs. The recovery rates of collateralized loss (LGD) rates are calculated taking into account the specific coefficients. Credit risks carried outside of the statement of financial position is included in the ECL calculation using a specific credit conversion rate. Such ECL calculation is modelled taking into Basel criteria.

With the adoption of IFRS 9, the Bank calculates PD, LGD, EAD (Exposure at default) and ECL (expected credit losses) for each financial asset, rather than group or portfolio basis. PDs are determined by the bank based on internal rating scores calculated by in-house built up model for corporate loans and financial customers other than banks. For banks and sovereign risk, ratings given by the internationally accepted independent rating institutions are used as basis for ECL calculation. The Bank's policy is to use standard PDs published by international rating agencies as Through the Cycle PDs and calibrate them to obtain 1 year Point in Time by considering forward looking approach. The PDs in Stage 1 and Stage 2 are considered using the linear projection method (interpolation) for the remaining period of existence of quarters. The Bank would use the same model for stage 2 loans when exists with using life-time PDs. Further; PDs will be %100 for stage 3 loans when there will be non-performing loans. For non-cash loans, prior to calculating EAD, cash equivalent risk exposures are calculated by a credit conversion factor (CCF). Credit Conversion Factors are determined based on the ratios specified in the "Capital Adequacy Regulation" set by BRSA, local regulator. The present value of the ECLs are then calculated using the effective interest rates of the related financial assets.

The PD represents the likelihood of a default over a specified time period. A 12-month PD represents the likelihood of default determined for the next 12 months and a lifetime PD represents the probability of default over the remaining lifetime of the instrument. The lifetime PD calculation is based on a series of 12-month PIT PDs that are derived from TTC PDs and scenario forecasts.

Exposure at Default ("EAD")

The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial instrument. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals, discounted at the effective interest rate. Future drawdowns on facilities are considered through a credit conversion factor (CCF) that is reflective of historical drawdown and default patterns and the characteristics of the respective portfolios.

The Bank defines EAD with following terms while summing up to express the total exposure:

- Accrued interest and principal at reporting date;
- Possible interest costs during the post-default lifecycle, if interest calculations are not stopped at default date (normally, we accept one-year horizon);
- Contractual future penalties that might increase the value of the borrower's liability during the post-default year

Calculating the Expected Loss Period

Lifetime ECL is calculated by considering maturity extensions, repayment options and the period during which the Parent Bank will be exposed to credit risk. The time in financial guarantees and other irrevocable commitments represents the credit maturity for which the liabilities of the Bank.

Significant increase in credit risk

The Bank makes qualitative and quantitative assessments regarding assessment of significant increase in credit risk of financial assets to be classified as stage 2 (Significant Increase in Credit Risk).

Within the scope of quantitative assessment, the quantitative reason explaining the significant increase in the credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date. If there is a significant deterioration in PD, it is considered that there is a significant increase in credit risk and the financial asset is classified as stage 2.

3. Summary of significant accounting policies *(continued)*

3.6 Expected credit losses *(continued)*

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- Gross Domestic Product;
- Turkey Banking Sector NPL rates;

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Based on three-year expectations on NPL and gross domestic product, PD table is calibrated. Economic changes show its influence to the rating score and PD estimates across industries for the three years period forward at least. It will be an extensive channel to the rating factors and PD estimates from the forecasted indicators written sourced from the strategy.

Due to the fact that the Covid epidemic became a global problem in March 2020, studies reflecting forward-looking expectations on the financial statements and conducted every 6 months were brought forward. In this context, the effects of the economic slowdown caused by Covid were reflected in the April financials for the first time. After some measures taken and support packages announced, expectations were reviewed again. During the second half of the year, some studies were carried out to improve the Bank's rating model. After improvement studies, all customers in Stage-1 and Stage-2 were re-graded and macroeconomic expectations including Covid effects were considered during calibration. Additionally, individual assessments has been made for the loans that are classified as Stage-3. During individual assessment calculations, the provision includes, considers, the customers that are belonging to a sector that are negatively affected due to Covid. This approach will be continuously reviewed in the forthcoming reporting periods, considering the impact of the epidemic, and macroeconomic projections which may result to changes in the loan portfolio and provisions.

3.7 Derecognition of financial instruments

Derecognition of financial assets due to change in contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset could lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. When the Bank assesses the characteristics of the new contractual terms of the financial asset, it evaluates the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognized a modification gain or loss in profit or loss.

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

Derecognition of financial assets without any change in contractual terms

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

Derecognition of financial liabilities

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

3. Summary of significant accounting policies *(continued)*

3.8 Property and equipment

Property and equipment is measured at its cost when initially recognised and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. Subsequently, property and equipment are carried at cost less accumulated depreciation and provision for value decrease, if any. Depreciation is calculated over the cost of property and equipment using the straight-line method. The useful lives are stated below:

	Useful Life
Buildings	50 years
Furniture and fixtures	5-10 years
Computer and Other Equipment	3-10 years
Other Equipment	3-10 years
Vehicles	5 years

The depreciation charge for items remaining in property and equipment for less than an accounting period at the balance sheet date is calculated in proportion to the period the item remained in property and equipment.

Where the carrying amount of an asset is greater than its estimated "recoverable amount", it is written down immediately to its "recoverable amount" and the provision for the diminution in value is charged to the income statement.

Property and equipment are not subject to valuation such that fair value is presented in the financial statements.

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its sales revenue.

Expenditures for the regular repair and maintenance of property and equipment are recognised as expense. The capital expenditures made in order to increase the capacity of the tangible asset or to increase its future benefits are capitalised on the cost of the tangible asset. The capital expenditures include the cost components which are used either to increase the useful life or the capacity of the asset, or the quality of the product or to decrease the costs.

There is no pledge, mortgage or commitment on the Bank's property and equipment.

The Bank expects no change with respect to accounting estimates that have significant impact on the current period or may have significant impact on the following periods.

3.9 Intangible assets

Intangible assets are measured at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical costs after the deduction of accumulated amortization and the provision for value decreases, if any.

Intangibles are amortised over their estimated useful lives of three to five years using the straight-line method. The useful life of the asset is determined by assessing the expected useful life of the asset, technical, technological and other kinds of obsolescence and all required maintenance expenses necessary to utilise the economic benefit of the assets.

The Bank expects no change with respect to accounting estimates, amortization period, amortization method, or residual value that will have significant impact on the current or the following periods.

3.10 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less amortisation less any impairment losses.

The Bank's investment properties are valued by external, independent valuation companies on a periodic basis for disclosure and impairment assessment purposes. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. In the absence of available current prices in an active market, the valuations are based on estimated cash flows expected to be received. Investment property held consists of land and building with a useful life of 50 years.

The real estate held for investment purposes has been subjected to an impairment test based on the valuation studies performed by valuation experts in the financial statements prepared as December 31, 2020. As of 30 June 2021, the cash flows obtained from investment property have not been revalued on the assumption that there will be no change.

3. Summary of significant accounting policies *(continued)*

3.11 Leases

Assets acquired under finance lease agreements are capitalised at the inception of the lease at the "lower of the fair value of the leased asset or the present value of the amount of cash consideration given for the leased asset". Leased assets are included in the property and equipment and depreciation is charged on a straight-line basis over the useful life of these assets. If there is any diminution in value of the leased asset, a "Provision for value decrease" is recognised. Liabilities arising from the leasing transactions are included in "Financial Lease Payables" on the balance sheet. Interest and foreign exchange expenses regarding lease transactions are charged to the income statement.

The Bank can engage in financial lease transactions as the lessor. The Bank records the gross amount of minimum lease receivables comprising of principal and interest amounts as "financial lease receivables" under lease receivables account. The difference between the aggregate of lease receivables and the cost of the related leased assets, corresponding to interest, is recorded under "unearned income" item. The interest income is recognised in the income statement on an accrual basis.

The Bank records most leases on-balance sheet except its short term leases and its low value assets accordance with as IFRS 16 Leases.

3.12 Provisions

Provisions and contingent liabilities except for the financial instruments within the scope of the IFRS 9 or the provisions recognised in accordance with other standards such as IAS 12 and IAS 19 are accounted in accordance with the "IAS 37 Standard for Provisions, Contingent Liabilities and Contingent Assets".

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The provision for contingent liabilities arising from past events should be recognised in the same period of occurrence in accordance with the "Matching principle". When the amount of the obligation cannot be estimated and there is no possibility of an outflow of resources from the Bank, it is considered that a "Contingent" liability exists and it is disclosed in the related notes to the financial statements.

3.13 Employee benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Bank. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19"). The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation.

Profit-sharing and bonus plans

The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The Bank has a bonus policy which depends on the profitability and each employee's performance. When certain performance criteria are met during the year, the Bank recognises a bonus provision for that year.

3.14 Fiduciary and trust activities

The Bank provides fiduciary and trust services to individuals and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets held by the Bank in a fiduciary, agency or custodian capacity for its customers are not recognized in the financial statements, since such items are not as assets of the Bank. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

4. Cash and cash equivalents

	30 June 2021	31 December 2020
Time deposits with credit institutions up to 3 months	115,917	104,635
Reverse repurchase agreements with credit institutions up to 3 months	25,013	23,011
Current accounts with the Central Bank of the Republic Turkey (CBRT)	16,995	21,255
Current accounts with other credit institutions	13,983	14,580
Cash on hand	15	14
Less: allowance for impairment	(156)	(152)
	171,767	**163,343**

As of 30 June 2021, all the cash and cash equivalents are allocated to Stage 1 in accordance with IFRS 9. An analysis of changes in the ECL allowances during the year is, as follows:

	30 June 2021	31 December 2020
ECL allowance as of 1 January	(152)	(54)
Changes in ECL	(4)	(98)
	(156)	**(152)**

As of 30 June 2021, the interest rates for time deposits is 19.0% - 19.4% for TRY balances and 0.1% for USD balances (31 December 2020: 18.0% for TRY balances and 0.2% - 2.0% for USD balances).

5. Amounts due from credit institutions

	30 June 2021	31 December 2020
Obligatory reserve with the Central Bank of the Republic Turkey (CBRT)	169,566	133,831
Restricted deposits	2,457	2,296
Less: allowance for impairment	(201)	(181)
	171,822	**135,946**

As of 30 June 2021 and 31 December 2020, all the reserve requirements are allocated to Stage 1 in accordance with IFRS 9.

The reserve rates for TL liabilities vary between 3% and 8% for TL deposits and other liabilities according to their maturities as of 30 June 2021 (31 December 2020: 1% and 6% for TL liabilities). The reserve rates for foreign currency liabilities vary between 5% and 21% for deposit and other foreign currency liabilities according to their maturities as of 30 June 2021 (31 December 2020: 5% and 21% for foreign currency liabilities).

An analysis of changes in the gross carrying values from credit institutions as of 30 June 2021 and 31 December 2020 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2021	**136,127**	**-**	**-**	**136,127**
New assets originated or purchased	32,985	-	-	32,985
Assets repaid	(20,784)	-	-	(20,784)
Foreign exchange adjustments	23,695	-	-	23,695
Gross carrying value as of 30 June 2021	**172,023**	**-**	**-**	**172,023**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2020	**123,007**	**-**	**-**	**123,007**
New assets originated or purchased	138,974	-	-	138,974
Assets repaid	(151,068)	-	-	(151,068)
Foreign exchange adjustments	25,214	-	-	25,214
Gross carrying value as of 31 December 2020	**136,127**	**-**	**-**	**136,127**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

5. Amounts due from credit institutions *(continued)*

An analysis of changes in ECL allowance on amounts from credit institutions as of 30 June 2021 and 31 December 2020 are as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2021	**(181)**	**-**	**-**	**(181)**
New assets originated or purchased	(55)	-	-	(55)
Assets repaid	35	-	-	35
ECL as of 30 June 2021	**(201)**	**-**	**-**	**(201)**

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2020	**(110)**	**-**	**-**	**(110)**
New assets originated or purchased	(107)	-	-	(107)
Assets repaid	36	-	-	36
ECL as of 31 December 2020	**(181)**	**-**	**-**	**(181)**

6. Financial assets at fair value through profit or loss

	30 June 2021	31 December 2020
Mutual funds participation certificates	13,683	7,405
	13,683	**7,405**

As of 30 June 2021, total remaining commitments amount for the mutual funds is TL 17,552 (31 December 2020 - TL 17,961)

7. Investment Securities

	30 June 2021	31 December 2020
Debt securities at FVOCI		
Turkish government bonds	10,037	14,039
Bonds of financial institutions	2,546	2,502
Corporate bonds	7,010	6,650
	19,593	**23,191**
Equity securities at FVOCI		
Investment in Kredi Garanti Fonu A.Ş.	7,659	7,659
	27,252	**30,850**

	30 June 2021	31 December 2020
Debt securities at amortized cost		
Bonds of financial institutions	84,990	71,684
Turkish government bonds	70,536	45,092
	155,526	**116,776**
Less: allowance for impairment	(1,977)	(1,755)
	153,549	**115,021**

The details of securities pledged under repurchase of investment securities of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021	31 December 2020
Debt securities at FVOCI		
Securities pledged under repurchase agreements	-	4,133
Debt securities at amortized cost		
Securities pledged under repurchase agreements	68,768	27,016
	68,768	**31,149**

All balances of investment securities are allocated to Stage 1.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

7. Investment Securities *(continued)*

The interest rate range and the latest maturity of investment securities as of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021		31 December 2020	
	Interest Rate Range %	**Latest Maturity**	**Interest Rate Range %**	**Latest Maturity**
Debt securities at FVOCI				
Turkish government bonds in TRY	9.2%	Sep 2021	9.2%	Sep 2021
Bonds of financial institutions in TRY	22.2%	Oct 2027	16.2%	Oct 2027
Corporate bonds in TRY	17.0%-22.0%	Mar 2023	17.0%-18.0%	Nov 2021
Debt securities at amortized cost				
Turkish government bonds in USD	5.1%-6.3%	Sep 2022	5.1%-6.3%	Sep 2022
Bonds of financial institutions in USD	5.0%-6.0%	Jan 2023	5.0%-6.0%	Jan 2023

An analysis of changes in the gross carrying values in relation to debt securities at FVOCI and at amortized cost are as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities and equity securities at FVOCI				
Gross carrying value as of 1 January 2021	**30,850**	**-**	**-**	**30,850**
New assets originated or purchased	1,320	-	-	1,320
Assets repaid	(5,769)	-	-	(5,769)
Unwinding of discount (recognised in interest revenue)[1]	429	-	-	429
Change at fair value	422	-	-	422
Gross carrying value as of 30 June 2021	**27,252**	**-**	**-**	**27,252**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities and equity securities at FVOCI				
Gross carrying value as of 1 January 2020	**14,785**	**2,039**	**-**	**16,824**
New assets originated or purchased	26,531	-	-	26,531
Assets repaid	(10,163)	(2,000)	-	(12,163)
Unwinding of discount (recognised in interest revenue)[1]	479	(39)	-	440
Change at fair value	(782)	-	-	(782)
Gross carrying value as of 31 December 2020	**30,850**	**-**	**-**	**30,850**

[1] The amounts represent the change in interest accruals.

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities at amortized cost				
Gross carrying value as of 1 January 2021	**116,776**	**-**	**-**	**116,776**
New assets originated or purchased	16,098	-	-	16,098
Assets repaid	-	-	-	-
Unwinding of discount (recognised in interest revenue)[1]	1,307	-	-	1,307
Foreign exchange adjustments	21,345	-	-	21,345
Gross carrying value as of 30 June 2021	**155,526**	**-**	**-**	**155,526**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities at amortized cost				
Gross carrying value as of 1 January 2020	**79,975**	**-**	**-**	**79,975**
New assets originated or purchased	49,278	-	-	49,278
Assets repaid	(35,056)	-	-	(35,056)
Unwinding of discount (recognised in interest revenue)[1]	224	-	-	224
Foreign exchange adjustments	22,355	-	-	22,355
Gross carrying value as of 31 December 2020	**116,776**	**-**	**-**	**116,776**

[1] The amounts represent the change in interest accruals.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

7. Investment Securities *(continued)*

An analysis of changes in ECLs in relation to debt securities at FVOCI and at amortized cost are as follows:

	Stage 1	Stage 2	Stage 3	Total
Debt securities at FVOCI				
ECL as of 1 January 2021	**(466)**	**-**	**-**	**(466)**
New assets originated or purchased	(122)	-	-	(122)
Asset repaid	467	-	-	467
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	15	-	-	15
ECL as of 30 June 2021	**(106)**	**-**	**-**	**(106)**

	Stage 1	Stage 2	Stage 3	Total
Debt securities at amortized cost				
ECL as of 1 January 2020	**(70)**	**(18)**	**-**	**(88)**
New assets originated or purchased	(495)	-	-	(495)
Asset repaid	101	18	-	119
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	(2)	-	-	(2)
ECL as of 31 December 2020	**(466)**	**-**	**-**	**(466)**

	Stage 1	Stage 2	Stage 3	Total
Debt securities at amortized cost				
ECL as of 1 January 2021	**(1,755)**	**-**	**-**	**(1,755)**
New assets originated or purchased	(500)	-	-	(500)
Asset repaid	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	278	-	-	278
ECL as of 30 June 2021	**(1,977)**	**-**	**-**	**(1,977)**

	Stage 1	Stage 2	Stage 3	Total
Debt securities at amortized cost				
ECL as of 1 January 2020	**(666)**	**-**	**-**	**(666)**
New assets originated or purchased	(1,529)	-	-	(1,529)
Asset repaid	453	-	-	453
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	(13)	-	-	(13)
ECL as of 31 December 2020	**(1,755)**	**-**	**-**	**(1,755)**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

8. Loans to customers

	30 June 2021	31 December 2020
Corporate customers	1,848,812	1,492,935
Individuals	-	-
Gross loans to customers at amortised cost	**1,848,812**	**1,492,935**
Less: allowance for impairment	(50,320)	(42,190)
	1,798,492	**1,450,745**

Finance lease receivables included in corporate lending portfolio and the analysis of the gross finance lease receivables and the unearned future finance income are as follows:

	30 June 2021			31 December 2020		
	Gross	**Unearned**	**Net**	**Gross**	**Unearned**	**Net**
Up to 1 year	32,789	(12,072)	20,717	46,695	(9,443)	37,252
1 to 5 years	122,657	(20,823)	101,834	90,430	(19,513)	70,917
Over 5 years	-	-	-	-	-	-
	155,446	**(32,895)**	**122,551**	**137,125**	**(28,956)**	**108,169**

The breakdown of loans to customers is as follows:

	30 June 2021	31 December 2020
Construction	494,778	407,006
Non-banking credit organizations	341,626	321,902
Energy	280,547	262,684
Manufacturing	260,839	169,325
Transport and telecommunication	150,612	89,464
Trade and services	83,524	62,223
Rental services	74,999	29,689
Mining	25,915	29,753
Other	135,972	120,889
	1,848,812	**1,492,935**

An analysis of changes in the gross carrying value and corresponding ECL are as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2021	**1,337,666**	**119,192**	**36,077**	**1,492,935**
New assets originated or purchased	942,077	91,761	1,582	1,035,420
Assets repaid (excluding write-offs)	(784,849)	(55,095)	(3,130)	(843,074)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(729)	(10,251)	10,980	-
Foreign exchange adjustments	144,118	17,826	1,587	163,531
Gross carrying value as of 30 June 2021	**1,638,283**	**163,433**	**47,096**	**1,848,812**

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2021	**(7,920)**	**(14,439)**	**(19,831)**	**(42,190)**
New assets originated or purchased	(6,455)	(7,690)	(388)	(14,533)
Assets repaid	2,878	1,724	1,344	5,946
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	7	6,085	(6,092)	-
Changes to models and inputs used for ECL calculations	548	127	-	675
Foreign exchange adjustments	-	-	(218)	(218)
ECL as of 30 June 2021	**(10,942)**	**(14,193)**	**(25,185)**	**(50,320)**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

8. Loans to customers *(continued)*

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2020	**954,756**	**102,839**	**35,454**	**1,093,049**
New assets originated or purchased	1,725,535	67,517	53	1,793,105
Assets repaid (excluding write-offs)	(1,553,438)	(66,687)	(3,354)	(1,623,479)
Transfers to Stage 1	2,710	(2,710)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	208,103	18,233	3,924	230,260
Gross carrying value as of 31 December 2020	**1,337,666**	**119,192**	**36,077**	**1,492,935**

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2020	**(7,625)**	**(18,085)**	**(22,279)**	**(47,989)**
New assets originated or purchased	(4,338)	(8,399)	(394)	(13,131)
Assets repaid	2,525	11,553	4,102	18,180
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	1,518	492	-	2,010
Foreign exchange adjustments	-	-	(1,260)	(1,260)
ECL as of 31 December 2020	**(7,920)**	**(14,439)**	**(19,831)**	**(42,190)**

9. Investment Property

	30 June 2021	31 December 2020
Opening balance at 1 January 2021	**144,862**	**145,599**
Additions	-	-
Amortisation for the year	(472)	(737)
Closing balance at 30 June 2021	**144,390**	**144,862**

The investment property is carried at cost less amortisation less impairment. As of 31 December 2020, the fair value of the investment property is TL 153 million according to reports of the accredited independent companies. As of 30 June 2021, the cash flows obtained from investment property have not been revalued on the assumption that there will be no change.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

10. Property and equipment

	Land	Buildings	Furniture and fixtures	Computers and other equipment	Vehicles	Other equipment	Total
Cost							
1 January 2020	**58,718**	**39,050**	**3,509**	**2,693**	**1,628**	**1,421**	**107,019**
Additions	-	-	117	553	-	83	753
Disposals	-	-	-	(16)	-	-	(16)
Transfer	-	-	(573)	573	-	-	-
31 December 2020	**58,718**	**39,050**	**3,053**	**3,803**	**1,628**	**1,504**	**107,756**
Additions	-	139	2	206	-	3	350
Disposals	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-
30 June 2021	**58,718**	**39,189**	**3,055**	**4,009**	**1,628**	**1,507**	**108,106**
Accumulated Depreciation							
1 January 2020	**(9,609)**	**(5,312)**	**(241)**	**(1,349)**	**(213)**	**(198)**	**(16,922)**
Additions	-	(575)	(520)	(549)	(310)	(164)	(2,118)
Disposals	-	-	-	1	-	-	1
31 December 2020	**(9,609)**	**(5,887)**	**(761)**	**(1,897)**	**(523)**	**(362)**	**(19,039)**
Additions	-	(344)	(271)	(311)	(161)	(88)	(1,175)
Disposals	-	-	-	-	-	-	-
30 June 2021	**(9,609)**	**(6,231)**	**(1,032)**	**(2,208)**	**(684)**	**(450)**	**(20,214)**
Net Book Value							
31 December 2020	**49,109**	**33,163**	**2,292**	**1,906**	**1,105**	**1,142**	**88,717**
30 June 2021	**49,109**	**32,958**	**2,023**	**1,801**	**944**	**1,057**	**87,892**

11. Right of use assets and lease liabilities

	Right of use assets	Lease liabilities
Opening balance at 1 January 2021	161	178
Additions	7	11
Disposals and write offs	-	-
Depreciation expense	(39)	-
Interest expense	-	15
Payments	-	(47)
Foreign exchange adjustments	-	-
Closing balance at 30 June 2021	**129**	**157**
Opening balance at 1 January 2020	141	147
Additions	107	107
Disposals and write offs	-	-
Depreciation expense	(87)	-
Interest expense	-	23
Payments	-	(99)
Foreign exchange adjustments	-	-
Closing balance at 31 December 2020	**161**	**178**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

12. Intangible assets

	Computer software	Total
Cost		
1 January 2020	**8,780**	**8,780**
Additions	2,660	2,660
Disposals	-	-
31 December 2020	**11,440**	**11,440**
Additions	1,563	1,563
Disposals	-	-
30 June 2021	**13,003**	**13,003**
Accumulated Depreciation		
1 January 2020	**(2,703)**	**(2,703)**
Additions	(1,888)	(1,888)
Disposals	-	-
31 December 2020	**(4,591)**	**(4,591)**
Additions	(1,327)	(1,327)
Disposals	-	-
30 June 2021	**(5,918)**	**(5,918)**
Net Book Value		
31 December 2020	**6,849**	**6,849**
30 June 2021	**7,085**	**7,085**

13. Other assets and liabilities

	30 June 2021	31 December 2020
Other financial assets		
Clearance cheque accounts[1]	24,972	18,836
Other receivables	185	12
	25,157	**18,848**
Less: allowance for impairment of other financial assets	-	-
Total other financial assets	**25,157**	**18,848**
Other non-financial assets		
Prepayments	2,184	1,621
Collaterals given	165	147
Other non-financial assets	170	23
Total other non-financial assets	**2,519**	**1,791**
Other assets	**27,676**	**20,639**

[1] Amount consists of collateral cheques received from customers and submitted to settlement and custody bank.

As of 30 June 2021 and 31 December 2020, all the financial assets are allocated to Stage 1 in accordance with IFRS 9.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

13. Other assets and liabilities *(continued)*

	30 June 2021	31 December 2020
Other financial liabilities		
Clearance cheque accounts[1]	24,972	18,836
Accrued expenses	1,288	911
Payable to suppliers	300	130
Other financial liabilities	186	-
Total other financial liabilities	**26,746**	**19,877**
Other non-financial liabilities		
Deferred income	1,895	1,149
Other non-financial liabilities	-	-
Total other non-financial liabilities	**1,895**	**1,149**
Other liabilities	**28,641**	**21,026**

[1] Amount consists of collateral cheques received from customers and submitted to settlement and custody bank.

14. Amounts due to banks and financial institutions

	30 June 2021	31 December 2020
Short Term		
Domestic banks and financial institutions	136,819	90,476
Foreign banks and financial institutions	418,265	284,525
	555,084	**375,001**
Long Term		
Domestic banks and financial institutions	-	-
Foreign banks and financial institutions	496,349	428,333
	496,349	**428,333**
	1051,433	**803,334**

The interest rate range and the latest maturity of amounts due to banks and financial institutions of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021		**31 December 2020**	
	Interest Rate Range %	**Latest Maturity**	**Interest Rate Range %**	**Latest Maturity**
Domestic banks and financial institutions in TRY	19.5%	Jul 2021	17.8%	Apr 2021
Domestic banks and financial institutions in EUR	0.01%-0.05%	Jul 2021	0.2%-1.4%	Feb 2021
Foreign banks and financial institutions in TRY	18.2%-18.9%	Aug 2021	12.0%-18.5%	Jan 2021
Foreign banks and financial institutions in USD	2.0%-4.3%	Mar 2023	0.1%-4.3%	Mar 2023
Foreign banks and financial institutions in EUR	0.3%-2.2%	Aug 2023	0.0%-2.2%	Aug 2023

15. Amounts due to customers

	30 June 2021	31 December 2020
Demand deposits	32,129	11,688
Time deposits	20,050	57,388
	52,179	**69,076**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

15. Amounts due to customers *(continued)*

An analysis of customers by economic sectors is as follows:

	30 June 2021	31 December 2020
Individuals	11,640	12,613
Manufacturing	11,336	19,518
Non-banking credit organizations	10,174	10,296
Energy	9,523	22,393
Real estate and renting services	6,329	-
Transport and telecommunication	1,841	1,298
Trade and services	637	1,367
Construction	295	1,569
Other	404	22
	52,179	**69,076**

16. Money market deposits

	30 June 2021	31 December 2020
Through repo transaction	48,002	22,782
Through Takasbank	-	30,481
	48,002	**53,263**

The interest rate range and the latest maturity of money market as of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021		31 December 2020	
	Interest Rate Range %	Latest Maturity	Interest Rate Range %	Latest Maturity
Money market deposits in TRY	18.0%	Oct 2021	16.0%-16.5%	Jan 2021
Money market deposits in USD	2.8%-3.1%	Oct 2021	3.1%	Jan 2021
Money market deposits in EUR	1.0%-1.3%	Jul 2021	-	-

17. Debt securities issued

	30 June 2021	31 December 2020
Debt securities issued in FC	755,799	647,016
Debt securities issued in TL	77,849	-
	833,648	**647,016**

The interest rate range and the latest maturity of debt securities issued as of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021		31 December 2020	
	Interest Rate Range %	Latest Maturity	Interest Rate Range %	Latest Maturity
Debt securities issued in TRY	19.3%	Oct 2021	-	-
Debt securities issued in USD	3.0%-4.9%	Dec 2022	3.0%-4.9%	Dec 2022
Debt securities issued in EUR	1.8%	Feb 2023	1.8%	Feb 2023

18. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

	30 June 2021			31 December 2020		
	Notional amount	Fair Values		Notional amount	Fair Values	
		Asset	Liability		Asset	Liability
Forwards – domestic	109,983	-	(588)	4,472	16	-
Forwards – foreign	4,780	2	(2)	-	-	-
Swaps – domestic	103,721	502	(45)	190,171	477	(1,430)
Swaps – foreign	-	-	-	-	-	-
	218,484	**504**	**(635)**	**194,643**	**493**	**(1,430)**

The Bank's derivative financial instruments comprise of OTC derivatives.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

19. Provisions

The principal components of provisions are as follows:

	30 June 2021	31 December 2020
Expected credit losses from non-cash loans	4,388	9,539
Bonus provision	3,200	7,200
Vacation pay liability	760	582
Employee termination benefits	157	226
Other	50	50
	8,555	**17,597**

Expected credit losses from non-cash loans

An analysis of changes in the ECLs from non-cash loans as of 30 June 2021 and 31 December 2020 are as follows

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2021	**(1,744)**	**(7,795)**	**-**	**(9,539)**
New exposures	(2,357)	(85)	-	(2,442)
Exposures derecognised or matured (excluding write-offs)	660	6,467	-	7,127
Transfers to Stage 1	(136)	136	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to inputs used for ECL calculations	443	23	-	466
ECL as of 30 June 2021	**(3,134)**	**(1,254)**	**-**	**(4,388)**

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2020	**(1,591)**	**(5,796)**	**-**	**(7,387)**
New exposures	(2,410)	(897)	-	(3,307)
Exposures derecognised or matured (excluding write-offs)	589	34	-	623
Transfers to Stage 1	(28)	28	-	-
Transfers to Stage 2	997	(997)	-	-
Transfers to Stage 3	-	-	-	-
Changes to inputs used for ECL calculations	699	(167)	-	532
ECL as of 31 December 2020	**(1,744)**	**(7,795)**	**-**	**(9,539)**

Reserve for employee termination benefits

In accordance with existing Turkish Labour Law, the Bank is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government.

The Bank reserved for employee severance indemnities in the accompanying interim condensed financial statements using the projected unit credit method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement payment and discounted by using the current market yield on government bonds at the reporting date in compliance with the IAS 19 - Employee Benefits.

Other benefits to employees

The Bank has provided provision for undiscounted short-term employee benefits earned during the financial period as per services rendered in compliance with the IAS 19 - Employee Benefits in the accompanying interim condensed financial statements.

20. Taxation

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

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. The corporate tax rate will be applied as 25% for the corporate income for the 2021 taxation period and 23% for the corporate income for the 2022 taxation period.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

20. Taxation *(continued)*

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

The current tax assets comprises:

	30 June 2021	31 December 2020
Current tax assets	1,082	-
Withholding income tax	639	632
	1,721	**632**

The current tax liabilities comprises:

	30 June 2021	31 December 2020
Current income tax liability	4,106	2,377
Banking insurance transactions tax liability	806	682
Social security premiums payable	316	284
Value added tax liability	100	78
Other taxes, duties and premiums payable	490	398
	5,818	**3,819**

The corporate income tax expense comprises:

	30 June 2021	30 June 2020
Current tax charge	(6,038)	(3,188)
Deferred tax (charge)/credit − origination and reversal of temporary differences	(1,889)	9
Less: current tax recognised in other comprehensive income	11	27
Income tax expense	**(7,916)**	**(3,152)**

Deferred tax related to items charged or credited to other comprehensive income is as follows:

	30 June 2021	30 June 2020
Net (losses) on investment securities FVOCI	(11)	(27)
Income tax (charge) to other comprehensive income	**(11)**	**(27)**

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	30 June 2021	30 June 2020
Profit before income tax expense	33,935	14,269
Statutory tax rate	25%	22%
Theoretical tax expense at the statutory rate	**(8,484)**	**(3,139)**
Tax effect of non-deductible expenses	(204)	(13)
Tax effect of tax-exempt income	42	-
Tax effects of deferred tax rate differences	730	-
Income tax expense	**(7,916)**	**(3,152)**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

20. Taxation (continued)

Deferred tax assets and liabilities and their movements are as follows:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	31 December 2019	***In the statement of profit or loss***	***In other compre-hensive income***	***31 December 2020***	***In the statement of profit or loss***	***In other compre-hensive income***	***30 June 2021***
Loans to customers	5,720	(1,214)	-	4,506	1,365	-	5,871
Amount due from credit institutions	36	31	-	67	15	-	82
Investment securities	355	168	86	609	29	(11)	627
Provision for non-cash loans	1,625	283	-	1,908	(899)	-	1,009
Provision for employee benefits	649	384	-	1,033	(522)	-	511
Property, equipment and intangible assets	6,891	(1,610)	-	5,281	(1,140)	-	4,141
Other provisions	52	57	-	109	66	-	175
Other	345	157	-	502	84	-	586
Deferred tax assets	**15,673**	**(1,744)**	**86**	**14,015**	**(1,002)**	**(11)**	**13,002**
Amounts due to banks and financial institutions and debt securities issued	(16)	(154)	-	(170)	151	-	(19)
Other	(29)	(70)	-	(99)	(1,038)	-	(1,137)
Deferred tax liabilities	**(45)**	**(224)**	**-**	**(269)**	**(887)**	**-**	**(1,156)**
Net deferred tax assets	**15,628**	**(1,968)**	**86**	**13,746**	**(1,889)**	**(11)**	**11,846**

21. Equity

Share capital:

As of 30 June 2021, the authorised nominal share capital of PASHA Yatırım Bankası A.Ş. amounted to TL 500,000 (31 December 2020: TL 500,000), comprising 500 million (Full TL) registered shares of one TL 0.01 each.

The composition of shareholders and their respective percentage of ownership can be summarised as follows:

	30 June 2021		**31 December 2020**	
	Amount	**%**	**Amount**	**%**
PASHA Bank OJSC	254,795	50.96	254,795	50.96
PASHA Holding LLC	245,000	49.00	245,000	49.00
Others	205	0.04	205	0.04
	500,000	**100.00**	**500,000**	**100.00**

Legal reserves

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

The legal reserve is TL 3,266 and TL 1,697 as of 30 June 2021 and as of 31 December 2020, respectively.

22. Commitments and contingencies

Litigation

The Bank has provided TL 50 (31 December 2020: TL 50) of provision for the disputed legal cases filed by various persons and institutions, high probability of occurrence and requiring cash outflow. Although there are other ongoing lawsuits that against the Bank, do not expect high possibility of against result and cash outflows related to these cases.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

22. Commitments and contingencies *(continued)*

Financial commitments and contingencies:

The Bank enters into various contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk ("non-cash loans") to meet the financing needs of its customers. These contractual commitments consist of letters of guarantees, letters of credit and other guarantees. All these arrangements are related to the normal lending activities of the Bank. The exposure to credit loss in the event of non-performance of the other party is presented by the contractual notional amount of those instruments.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

	30 June 2021	31 December 2020
Letter of guarantee	266,652	291,819
Letter of credit	-	-
Other guarantees	188,997	40,807
Total non-cash loans	**455,649**	**332,626**
Other commitments	22,332	22,433
Total	**477,981**	**355,059**

23. Provisions for loans and other credit risks, net

30 June 2021	Note	Stage 1	Stage 2	Stage 3[1]	Total
Cash and cash equivalents	(4)	(4)	-	-	(4)
Amounts due from credit institutions	(5)	(20)	-	-	(20)
Investment securities at FVOCI	(7)	360	-	-	360
Investment securities at amortised cost	(7)	(222)	-	-	(222)
Loans to customers	(8)	(3,022)	246	(5,544)	(8,320)
Credit related commitments	(19)	(1,390)	6,541	-	5,151
Provisions for loans and other credit risks, net		**(4,298)**	**6,787**	**(5,544)**	**(3,055)**

[1] Includes TL 408 interest accruals and provision expense for Stage 3.

30 June 2020	Note	Stage 1	Stage 2	Stage 3[1]	Total
Cash and cash equivalents	(4)	(191)	-	-	(191)
Amounts due from credit institutions	(5)	17	-	-	17
Investment securities at FVOCI	(7)	(48)	-	-	(48)
Investment securities at amortised cost	(7)	(1,135)	-	-	(1,135)
Loans to customers	(8)	(3,580)	1,328	(205)	(2,457)
Credit related commitments	(19)	(766)	(1,745)	-	(2,511)
Provisions for loans and other credit risks, net		**(5,703)**	**(417)**	**(205)**	**(6,325)**

[1] Includes TL 15 interest accruals and provision expense for Stage 3.

Allowance for impairment of other assets is deducted from the carrying amounts of the related assets. Provision for ECL for credit related commitments are recorded in liabilities.

24. Net fees and commissions income

	30 June 2021	30 June 2020
Settlements operations	2,983	320
Guarantees and letters of credit	1,894	1,529
Money transfer operations	266	184
Other	105	641
Fees and commissions income	**5,248**	**2,674**
Settlements operations	(1,003)	(162)
Fee to correspondent banks and money transfer operations-expenses	(573)	(356)
Commissions for letter of guarantee obtained	(226)	(234)
Other	(84)	(67)
Fees and commissions expense	**(1,886)**	**(819)**
Net fees and commissions income	**3,362**	**1,855**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

25. Personnel, general and administrative expenses

	30 June 2021	30 June 2020
Salaries and bonuses	(10,281)	(7,900)
Social security costs	(1,075)	(946)
Other employee related expenses	(1,055)	(997)
Total personnel expenses	**(12,411)**	**(9,843)**

	30 June 2021	30 June 2020
Professional services	(1,858)	(4,282)
Software cost	(1,778)	(960)
Membership fees	(1,119)	(921)
Utilities	(764)	(330)
Communications	(668)	(528)
Taxes, other than income tax	(438)	(325)
Advertising costs	(269)	(491)
Insurance	(205)	(168)
Transportation and business trip expenses	(205)	(164)
Operating leases	(72)	(110)
Security expenses	(56)	(45)
Stationery	(39)	(36)
Representation expenses	(34)	(27)
Repair and maintenance	(2)	(18)
Other expenses	(86)	(236)
Total general and administrative expenses	**(7,593)**	**(8,641)**

26. Financial risk management

Introduction and overview

The Bank's risk approach is to achieve sound and sustainable low risk profile, through the identification, the measurement and the monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Bank is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions.

In the course of its normal operations, the Bank is exposed to a number of risks such as credit risk, market risk, liquidity risk, currency risk and operational risk. The Bank's risk policy can be summarised as:

- eliminating currency, interest rate and maturity risk
- minimizing market risk
- well managing the credit risk through a high standardized credit risk management

In accordance with the Bank's general risk management strategy; the Bank aims to eliminate its currency, interest rate and maturity positions that might create liquidity or market risk to Bank. Additionally, in order to minimize the market risk, marketable securities portfolio is limited proportional to the total assets.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Bank implements all necessary risk management techniques in compliance with the related regulatory requirements in Turkey.

All risk levels are set and approved by the Board of Directors on a regularly basis, and it is announced to the organization.

The main functions and authority of the Board of Directors related to risk management activities are as follows;

- to define the policy of the Bank, regarding exposure to various risks (credit risks, market risks, operational risks, liquidity risks, legal risks, etc.)
- to manage, and guide all the activities of Internal Systems
- to approve new business lines, products or activities that would have a substantial effect on activities of the Bank

The Bank manages its exposure to all types of risks through the Asset and Liability Committee, comprising members of senior management, and a representative of main shareholder.

26. Financial risk management *(continued)*

In summary, in order not to be exposed to any liquidity, interest rate, market and foreign currency risk, the Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate). In addition to that, the Bank does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Bank.

Strategy in using financial instruments

To maintain and improve the soundness of its operations, the Bank accords top management priority to upgrading its risk management systems and capabilities. According to the Bank's "Risk Management Policy", Financial Risks are composed of Market, Credit and Liquidity risks. Risk Management Policy includes details about the framework for defining, measuring, monitoring and managing the risks taken by the business units across the bank. Risk Management Policy covers sound and optimum capital allocation quantification of the actual risks establishment of dynamic risk limit.

The Bank determines risk-based limits, with respect to available economic capital and monitors actual risks against these limits. All risks (market, credit or liquidity), arising from any type financial instrument are subject to aforementioned risk based limits.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the component of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Internal rating and PD estimation process

The Bank's independent Credit Unit and Risk Management Unit operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are internally rated. Different rating assessment models to be used for different customer segments. Customer segments to be identified in accordance to internal segmentation rules. Each rating is tied to certain one-year probability of default rate (1-year PD). The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

Due to the fact that the Covid epidemic became a global problem in March 2020, studies reflecting forward-looking expectations on the financial statements and conducted every 6 months were brought forward. In this context, the effects of the economic slowdown caused by Covid were reflected in the April financials for the first time. After some measures taken and support packages announced, expectations were reviewed again. During the second half of the year, some studies were carried out to improve the Bank's rating model. After improvement studies, all customers in Stage-1 and Stage-2 were re-graded and macroeconomic expectations including Covid effects were considered during calibration. Additionally, individual assessments has been made for the loans that are classified as Stage-3. During individual assessment calculations, the provision includes, considers, the customers that are belonging to a sector that are negatively affected due to Covid. This approach will be continuously reviewed in the forthcoming reporting periods, considering the impact of the epidemic, and macroeconomic projections which may result to changes in the loan portfolio and provisions.

26. Financial risk management *(continued)*

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's Risk Management Unit analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments and 2 times within three years restructured loans that have been overdue (in principal amount and/or accrued interest and/or any of other payment) less than 30 days from the date specified in the contract at the moment of each particular restructuring. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.
- It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition

Corporate lending

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as: Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.

- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The Bank has formed an internal scoring and rating system, based on statistical methods to monitor the credibility of its clients. This system classifies the customers according to their default risk from highest to lowest score or rating. Internal scoring systems are used to improve the efficiency of the loan granting process, to monitor loan portfolio quality effectively and to assist in the determination of the actions required. By using the rating outputs derived from this internal scoring and rating system, the Bank has formed its ECL calculation methodology. According to this methodology, the internal ratings have been attributed to specific grade classes.

The table below shows the allocation of ratings according to the grade class of financial assets taking into account their probability of default behaviour. The Bank classifies its financial assets, having rating between Aaa and Ba2 as high grade, rating between Ba3 and B3 as standard grade, rating Caa1 and Ca as sub-standard grade. Lower ratings are considered as impaired. Where a loan has passed due but not impaired, regardless of its internal rating, it is classified as sub-standard grade.

Classes	**Ratings**
High Grade	Between Aaa & Ba2
Standard Grade	Between Ba3 & B3
Sub-standard Grade	Between Caa1 & Ca
Impaired	C

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Financial risk management *(continued)*

The table below shows the credit quality by class of asset for loan-related lines in financial statement of financial position, based on Bank's credit rating system.

30 June 2021	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	4	Stage 1	11,792	160,116	-	-	171,908
Amounts due from credit institutions	5	Stage 1	-	172,023	-	-	172,023
		Stage 1	130,840	1,443,081	64,362	-	1,638,283
Loans to customers	8	Stage 2	-	1,716	161,717	-	163,433
		Stage 3	-	-	-	47,096	47,096
Investment Securities							
Measured at FVOCI	7	Stage 1	-	27,252	-	-	27,252
Measured at amortised cost		Stage 1	-	155,526	-	-	155,526
Other financial assets	13	Stage 1	-	25,157	-	-	25,157
Letter of guarantee	22	Stage 1	-	237,050	1,383	-	238,433
		Stage 2	-	-	28,219	-	28,219
Letter of credit	22	Stage 1	-	-	-	-	-
Other guarantee	22	Stage 1	-	188,997	-	-	188,997
Total			**142,632**	**2,410,918**	**255,681**	**47,096**	**2,856,327**

31 December 2020	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	4	Stage 1	27,487	135,994	-	-	163,481
Amounts due from credit institutions	5	Stage 1	-	136,127	-	-	136,127
		Stage 1	111,902	1,119,741	106,023	-	1,337,666
Loans to customers	8	Stage 2	-	11	119,181	-	119,192
		Stage 3	-	-	-	36,077	36,077
Investment Securities							
Measured at FVOCI	7	Stage 1	-	28,100	2,750	-	30,850
Measured at amortised cost		Stage 1	-	116,776	-	-	116,776
Other financial assets	13	Stage 1	-	18,848	-	-	18,848
Letter of guarantee	22	Stage 1	-	215,246	1,257	-	216,503
		Stage 2	-	10,000	65,316	-	75,316
Letter of credit	22	Stage 1	-	-	-	-	-
Other guarantee	22	Stage 1	-	40,807	-	-	40,807
Total			**139,389**	**1,821,650**	**294,527**	**36,077**	**2,291,643**

The geographical concentration of Bank's financial assets and liabilities is set out below:

	30 June 2021				31 December 2020			
	Turkey	Azerbaijan	Others	Total	Turkey	Azerbaijan	Others	Total
Cash and cash equivalents	158,443	403	12,921	171,767	134,142	1,003	28,198	163,343
Amounts due from credit institutions	171,822	-	-	171,822	135,946	-	-	135,946
Financial assets at FVTPL	2,723	-	10,960	13,683	1,472	-	5,933	7,405
Derivative financial assets	502	-	2	504	493	-	-	493
Investment securities	180,801	-	-	180,801	145,871	-	-	145,871
Loans to customers	1,352,405	-	446,087	1,798,492	1,060,869	-	389,876	1,450,745
Other financial assets	25,157	-	-	25,157	18,848	-	-	18,848
Total financial assets	**1,891,853**	**403**	**469,970**	**2,362,226**	**1,497,641**	**1,003**	**424,007**	**1,922,651**
Amounts due to banks and financial institutions	136,819	579,625	334,989	1,051,433	90,476	480,541	232,317	803,334
Amounts due to customers	52,156	-	23	52,179	68,252	-	824	69,076
Money market deposits	37,899	10,103	-	48,002	53,263	-	-	53,263
Debt securities issued	77,849	755,799	-	833,648	-	647,016	-	647,016
Lease liabilities	157	-	-	157	178	-	-	178
Derivative financial liabilities	633	-	2	635	1,430	-	-	1,430
Other financial liabilities	26,746	-	-	26,746	19,877	-	-	19,877
Total financial liabilities	**332,259**	**1,345,527**	**335,014**	**2,012,800**	**233,476**	**1,127,557**	**233,141**	**1,594,174**
Net financial assets and liabilities	**1,559,594**	**(1,345,124)**	**134,956**	**349,426**	**1,264,165**	**(1,126,554)**	**190,866**	**328,477**

26. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the risk occurring as a result of non-availability of sufficient cash on hand or cash inflow to meet cash outflows in a timely manner completely as a result of imbalance in cash flows. Treasury department manages the liquidity of the Bank daily and informs assets and liabilities committee weekly about the liquidity level of the Bank. Treasury department is responsible for planning liquidity management, taking measures and informing the senior management of aforementioned issues.

The Bank forms its assets and liabilities in balance not to create a negative gap on cumulative basis in maturity segments.

In accordance with the "Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks" entered into force after published on Official Gazette dated November 1, 2006 and numbered 26333 by BRSA, weekly simple average of total liquidity adequacy rates related to primary maturity segment and total liquidity adequacy rate related to secondary maturity segment cannot be less than 100% while weekly simple average of foreign currency liquidity ratio related to primary maturity segment and foreign currency adequacy rate related to secondary maturity segment cannot be less than 80%.

Treasury department manages the liquidity of the Bank daily and informs assets and liabilities committee weekly about the liquidity level of the Bank. Treasury department is responsible for planning liquidity management, taking measures and informing the senior management of aforementioned issues.

Financial planning, control and strategy department is responsible for reporting of liquidity risk. Stress test applied to liquidity position and calculation of liquidity coverage rate is performed by Risk Management Department and monitors related unit's activities and reports to the Senior Management monthly

The main funding sources of the Bank are provided by domestic and foreign banks and repo transactions and Money market transactions and diversification of aforementioned sources are made in order to minimize liquidity risk. Financial Institutions Department carries out studies which are required to relate supplying of long-term foreign source.

TL liquidity of the Bank is managed through funds provided from domestic and foreign banks via repo transactions using high quality (premium) securities. TL and foreign currency cash flow of the Bank in scope of Balance sheet management is monitored separately. Risk Management Unit reports to ALCO and Board of Directors on a monthly basis.

Liquidity limits are determined in order to keep the risk regarding liquidity risk in defined limits and to monitor liquidity position. The aforementioned limits have been determined in accordance with "Regulation on Measurement and Evaluation of Bank's Liquidity Adequacy" in Risk Limits document and approved by Board of Directors.

At least one of the following liquidity stress tests related to issues mentioned below is applied monthly and result of the related test is reported to top management by Risk Management Unit.

- Negative influence of economic crisis occurring in domestic finance markets on the liquidity of the bank.
- Negative influence of global crisis on the liquidity of the Bank.
- Negative influence of a problem occurred within the Bank (abuse, fraud, reputation risk etc.).

Threshold of weekly and monthly liquidity rate for stress tests which shall be applied for above mentioned scenarios is taken into consideration as 80% for foreign currency assets/liabilities and as 100% for total assets/liabilities.

"Emergency and unexpected situation plan for Liquidity" is approved by the Board of Directors and established in order to manage possible liquidity crisis and required actions for losses which can occur in extraordinary conditions are determined with preventing mechanisms and liquidity squeeze scenarios. The scope of the aforementioned plan is to pre-determine applicable scenarios, measurement of liquidity risk and the actions which shall be taken towards those risks.

Regarding the sectors affected by COVID-19, the analysis published by foreign rating agencies and shared with the public were used. The sectors that are expected to be affected the most are ranked from high risk to low risk, and all customers in our Bank were separated by risk groups, evaluated in monitoring activities, stress test analyzes, sectoral concentration analyzes and these evaluations will continue in the coming periods.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Financial risk management *(continued)*

Liquidity risk *(continued)*

The table below shows the remaining maturities of financial assets and liabilities at the balance sheet date.

30 June 2021	**Up to 1 month**	**1 to 3 months**	**3 to12 months**	**1 to 5 years**	**Over 5 year**	**Undistri-buted[1]**	**Total**
Cash and cash equivalents	151,839	20,084	-	-	-	(156)	171,767
Amounts due from credit institutions	172,023	-	-	-	-	(201)	171,822
Financial assets at FVTPL	-	-	-	2,723	10,960	-	13,683
Derivative financial assets	504	-	-	-	-	-	504
Investment securities	1,011	15,694	26,130	129,778	2,506	5,682	180,801
Loans to customers	316,714	289,451	481,748	705,168	55,731	(50,320)	1,798,492
Other financial assets	24,981	-	176	-	-	-	25,157
Total financial assets	**667,072**	**325,229**	**508,054**	**837,669**	**69,197**	**(44,995)**	**2,362,226**
Amounts due to banks and financial institutions	330,493	227,016	52,143	441,781	-	-	1,051,433
Amounts due to customers	52,179	-	-	-	-	-	52,179
Money market deposits	36,199	3,758	8,045	-	-	-	48,002
Debt securities issued	1,626	217,676	364,299	250,047	-	-	833,648
Lease liabilities	6	6	65	80	-	-	157
Derivative financial liabilities	46	-	589	-	-	-	635
Other financial liabilities	26,746	-	-	-	-	-	26,746
Total financial liabilities	**447,295**	**448,456**	**425,141**	**691,908**	**-**	**-**	**2,012,800**
Net financial assets and liabilities	**219,777**	**(123,227)**	**82,913**	**145,761**	**69,197**	**(44,995)**	**349,426**

[1] Includes expected credit losses

31 December 2020	**Up to 1 month**	**1 to 3 months**	**3 to12 months**	**1 to 5 years**	**Over 5 year**	**Undistri-buted[1]**	**Total**
Cash and cash equivalents	163,495	-	-	-	-	(152)	163,343
Amounts due from credit institutions	136,127	-	-	-	-	(181)	135,946
Financial assets at FVTPL	-	-	-	-	7,405	-	7,405
Derivative financial assets	493	-	-	-	-	-	493
Investment securities	620	1,501	20,796	114,551	2,499	5,904	145,871
Loans to customers	353,688	160,378	486,835	430,039	61,995	(42,190)	1,450,745
Other financial assets	18,848	-	-	-	-	-	18,848
Total financial assets	**673,271**	**161,879**	**507,631**	**544,590**	**71,899**	**(36,619)**	**1,922,651**
Amounts due to banks and financial institutions	188,162	148,684	85,967	380,521	-	-	803,334
Amounts due to customers	59,758	9,318	-	-	-	-	69,076
Money market deposits	49,634	1,064	2,565	-	-	-	53,263
Debt securities issued	1,412	621	185,485	459,498	-	-	647,016
Lease liabilities	5	11	51	111	-	-	178
Derivative financial liabilities	360	1,070	-	-	-	-	1,430
Other financial liabilities	19,877	-	-	-	-	-	19,877
Total financial liabilities	**319,208**	**160,768**	**274,068**	**840,130**	**-**	**-**	**1,594,174**
Net financial assets and liabilities	**354,063**	**1,111**	**233,563**	**(295,540)**	**71,899**	**(36,619)**	**328,477**

[1] Includes expected credit losses

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Financial risk management *(continued)*

Liquidity risk *(continued)*

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations.

30 June 2021	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 year**	**Total**
Amounts due to banks and financial inst.	331,523	229,724	65,169	455,802	-	1,082,218
Amounts due to customers	52,180	-	-	-	-	52,180
Money market deposits	36,228	3,785	8,103	-	-	48,116
Debt securities issued	2,134	221,414	383,293	255,743	-	862,584
Lease liabilities	8	8	83	91	-	190
Other financial liabilities	26,746	-	-	-	-	26,746
Total undiscounted financial liabilities	**448,819**	**454,931**	**456,648**	**711,636**	**-**	**2,072,034**

31 December 2020	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 year**	**Total**
Amounts due to banks and financial inst.	188,810	150,257	99,427	399,789	-	838,283
Amounts due to customers	59,764	9,442	-	-	-	69,206
Money market deposits	49,841	1,096	2,695	-	-	53,632
Debt securities issued	1,824	3,771	200,901	472,993	-	679,489
Lease liabilities	8	15	70	129	-	222
Other financial liabilities	19,877	-	-	-	-	19,877
Total undiscounted financial liabilities	**320,124**	**164,581**	**303,093**	**872,911**	**-**	**1,660,709**

The table below shows the contractual expiry by maturity of the Bank's credit related commitments.

	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 year**	**Maturity Undefined**	**Total**
30 June 2021	34,721	37,670	125,506	148,907	-	108,845	455,649
31 December 2020	375	39,466	153,829	35,007	-	103,949	332,626

The table below shows nominal amounts of the remaining maturities of derivative financial instruments at the balance sheet date.

30 June 2021	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 year**	**Total**
Currency forward agreements – purchase	2,391	-	52,483	-	-	54,874
Currency forward agreements – sell	(2,389)	-	(57,500)	-	-	(59,889)
Swap agreements – purchase	52,096	-	-	-	-	52,096
Swap agreements – sell	(51,625)	-	-	-	-	(51,625)
Total	**473**	**-**	**(5,017)**	**-**	**-**	**(4,544)**

31 December 2020	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 year**	**Total**
Currency forward agreements – purchase	2,246	-	-	-	-	2,246
Currency forward agreements – sell	(2,226)	-	-	-	-	(2,226)
Swap agreements – purchase	36,653	57,797	-	-	-	94,450
Swap agreements – sell	(36,465)	(59,256)	-	-	-	(95,721)
Total	**208**	**(1,459)**	**-**	**-**	**-**	**(1,251)**

The below tables are prepared in accordance with BRSA regulations representing the ratio of liquid assets to liabilities within certain time intervals for the reporting periods.

	30 June 2021				**31 December 2020**			
	First Maturity Tranche (Weekly)		**Second Maturity Tranche (Monthly)**		**First Maturity Tranche (Weekly)**		**Second Maturity Tranche (Monthly)**	
	FC	**FC+LC**	**FC**	**FC+LC**	**FC**	**FC+LC**	**FC**	**FC+LC**
Average (%)	379	255	185	156	348	277	149	156
Maximum (%)	822	322	260	210	978	418	209	223
Minimum (%)	216	208	130	125	162	140	93	109

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Financial risk management *(continued)*

Interest rate sensitivity risk

Interest rate risk is the risk that expresses the effects of fluctuations in the market interest rates on the value increase/decrease of the Bank's interest rate sensitive assets and liabilities.

The interest rate sensitivity of Assets, Liabilities and Off-balance sheet items is carefully followed up by the treasury department of the Bank. Assets and liabilities which are sensitive to interest are managed in such a way that minimizes the interest risk.

The interest rate risk of the banking items is measured legally in accordance with the "Regulation on Measurement and Assessment of Standard Shock Method on the interest rate risk arising from banking accounts", and this legal limit is monitored and reported monthly, based on this measurement.

Interest rate sensitivity of financial assets and liabilities based on repricing dates is as follows:

30 June 2021	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Non-interest bearing[1]	Total
Cash and cash equivalents	118,389	20,084	-	-	-	33,294	171,767
Amounts due from credit institutions	172,023	-	-	-	-	(201)	171,822
Financial assets at FVTPL	-	-	-	-	-	13,683	13,683
Derivative financial assets	504	-	-	-	-	-	504
Investment securities	3,517	15,694	26,130	129,778	-	5,682	180,801
Loans to customers	392,838	364,070	514,506	568,023	9,375	(50,320)	1,798,492
Other financial assets	-	-	-	-	-	25,157	25,157
Total financial assets	**687,271**	**399,848**	**540,636**	**697,801**	**9,375**	**27,295**	**2,362,226**
Amounts due to banks and financial institutions	330,271	227,016	52,143	441,781	-	222	1,051,433
Amounts due to customers	20,050	-	-	-	-	32,129	52,179
Money market deposits	36,199	3,758	8,045	-	-	-	48,002
Debt securities issued	1,626	217,676	364,299	250,047	-	-	833,648
Lease liabilities	-	-	-	-	-	157	157
Derivative financial liabilities	46	-	589	-	-	-	635
Other financial liabilities	-	-	-	-	-	26,746	26,746
Total financial liabilities	**388,192**	**448,450**	**425,076**	**691,828**	**-**	**59,254**	**2,012,800**
Net interest sensitivity gap	**299,079**	**(48,602)**	**115,560**	**5,973**	**9,375**	**(31,959)**	**349,426**

[1] Includes expected credit losses

31 December 2020	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Non-interest bearing[1]	Total
Cash and cash equivalents	125,350	-	-	-	-	37,993	163,343
Amounts due from credit institutions	136,127	-	-	-	-	(181)	135,946
Financial assets at FVTPL	-	-	-	-	-	7,405	7,405
Derivative financial assets	493	-	-	-	-	-	493
Investment securities	3,119	1,501	20,796	114,551	-	5,904	145,871
Loans to customers	405,573	297,427	443,776	334,140	12,019	(42,190)	1,450,745
Other financial assets	-	-	-	-	-	18,848	18,848
Total financial assets	**670,662**	**298,928**	**464,572**	**448,691**	**12,019**	**27,779**	**1,922,651**
Amounts due to banks and financial institutions	187,932	148,684	85,967	380,521	-	230	803,334
Amounts due to customers	2,369	9,318	-	-	-	57,389	69,076
Money market deposits	49,634	1,064	2,565	-	-	-	53,263
Debt securities issued	1,412	621	185,485	459,498	-	-	647,016
Lease liabilities	-	-	-	-	-	178	178
Derivative financial liabilities	360	1,070	-	-	-	-	1,430
Other financial liabilities	-	-	-	-	-	19,877	19,877
Total financial liabilities	**241,707**	**160,757**	**274,017**	**840,019**	**-**	**77,674**	**1,594,174**
Net interest sensitivity gap	**428,955**	**138,171**	**190,555**	**(391,328)**	**12,019**	**(49,895)**	**328,477**

[1] Includes expected credit losses

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Financial risk management *(continued)*

Interest rate sensitivity risk *(continued)*

The following table indicates the average interest rates by major currencies for the major accounts

	30 June 2021			31 December 2020		
	EUR (%)	**USD (%)**	**TRY (%)**	**EUR (%)**	**USD (%)**	**TRY (%)**
Cash and cash equivalents	0.03	0.19	20.51	0.01	0.49	11.44
Amounts due from credit institutions	-	-	13.00	-	-	9.56
Financial assets at FVTPL	-	-	-	-	-	-
Investment securities	-	7.78	15.03	-	8.01	13.10
Loans to customers	4.71	5.42	20.44	4.50	5.76	14.55
Other financial assets	-	-	-	-	-	-
Amounts due to banks and financial inst.	1.46	3.83	18.31	1.15	4.03	10.63
Amounts due to customers	-	0.22	16.98	-	0.95	9.87
Money market deposits	1.38	3.04	17.54	0.89	2.31	10.30
Debt securities issued	1.75	3.55	19.16	1.75	3.60	11.02
Other financial liabilities	-	-	-	-	-	-

The table below shows the economic value differences resulted from interest rate volatilities calculated according to regulation on measurement and evaluation of interest rate risk resulted from financial assets and liabilities:

30 June 2021	**Shocks Applied (+/- basis points)**	**Gains/(Losses)**	**Gains/Equity-(Losses)/Equity**
1. TRY	(+) 500 bps	(10,675)	(1.74%)
2. TRY	(-) 400 bps	9,357	1.52%
3. USD	(+) 200 bps	5,975	0.97%
4. USD	(-) 200 bps	3,662	0.60%
5. EURO	(+) 200 bps	(10,830)	(1.76%)
6. EURO	(-) 200 bps	-	-
Total (For negative shocks)		**13,019**	**2.12%**
Total (For positive shocks)		**(15,530)**	**(2.53%)**

31 December 2020	**Shocks Applied (+/- basis points)**	**Gains/(Losses)**	**Gains/Equity-(Losses)/Equity**
1. TRY	(+) 500 bps	(9,718)	(1.66%)
2. TRY	(-) 400 bps	8,751	1.50%
3. USD	(+) 200 bps	21,398	3.66%
4. USD	(-) 200 bps	(5,869)	(1.00%)
5. EURO	(+) 200 bps	(2,875)	(0.49%)
6. EURO	(-) 200 bps	-	-
Total (For negative shocks)		**2,882**	**0.50%**
Total (For positive shocks)		**8,805**	**1.51%**

Currency risk

The Bank's foreign currency position is managed within the limits set by legislation and the Bank. The basic principle in foreign currency risk management is not to be exposed to currency risk. Accordingly, the exchange-trading risk positions are not allocated to the limit, banking accounts as of the currency by creating a matched asset-liability structure is aimed to provide natural protection. The Bank uses derivative financial instruments such as forward foreign exchange contracts and currency swaps for hedging purposes in foreign currency denominated transactions. Bank's methodology of digitising the foreign currency position includes the use of standard method when calculating the capital adequacy ratio and application of internal stress tests/ sensitivity analysis.

As of 30 June 2021, the Bank's USD bid rate is 8.6803 and EUR bid rate is 10.3249.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Financial risk management *(continued)*

Currency risk *(continued)*

The Bank had the following exposure to foreign currency exchange rate risk:

30 June 2021	**TRY**	**USD**	**EUR**	**AZN**	**Other**	**Total**
Cash and cash equivalents[1]	95,142	71,775	4,761	87	2	171,767
Amounts due from credit institutions[1]	2,256	169,566	-	-	-	171,822
Financial assets at FVTPL	2,723	-	10,960	-	-	13,683
Derivative financial assets	-	504	-	-	-	504
Investment securities[1]	25,275	155,526	-	-	-	180,801
Loans to customers[1]	520,874	706,227	571,391	-	-	1,798,492
Other financial assets[1]	25,157	-	-	-	-	25,157
Total financial assets	**671,427**	**1,103,598**	**587,112**	**87**	**2**	**2,362,226**
The effect of derivatives	271	104,579	2,120	-	-	106,970
Amounts due to banks and financial inst.	164,531	423,932	462,970	-	-	1,051,433
Amounts due to customers	25,531	26,096	552	-	-	52,179
Money market deposits	16,381	12,749	18,872	-	-	48,002
Debt securities issued	77,849	722,688	33,111	-	-	833,648
Lease liabilities	157	-	-	-	-	157
Derivative financial liabilities	590	45	-	-	-	635
Other financial liabilities	26,746	-	-	-	-	26,746
Total financial liabilities	**311,785**	**1,185,510**	**515,505**	**-**	**-**	**2,012,800**
The effect of derivatives	57,807	1,812	51,895	-	-	111,514
Net position after the effect of derivatives	**302,106**	**20,855**	**21,832**	**87**	**2**	**344,882**

[1] Includes expected credit losses

31 December 2020	**TRY**	**USD**	**EUR**	**AZN**	**Other**	**Total**
Cash and cash equivalents[1]	29,168	128,470	5,626	78	1	163,343
Amounts due from credit institutions[1]	2,115	133,831	-	-	-	135,946
Financial assets at FVTPL	1,472	-	5,933	-	-	7,405
Derivative financial assets	493	-	-	-	-	493
Investment securities[1]	29,095	116,776	-	-	-	145,871
Loans to customers[1]	402,468	577,652	470,625	-	-	1,450,745
Other financial assets[1]	18,848	-	-	-	-	18,848
Total financial assets	**483,659**	**956,729**	**482,184**	**78**	**1**	**1,922,651**
The effect of derivatives	11,907	84,789	-	-	-	96,696
Amounts due to banks and financial inst.	92,620	354,905	355,809	-	-	803,334
Amounts due to customers	17,451	35,955	15,670	-	-	69,076
Money market deposits	48,168	5,095	-	-	-	53,263
Debt securities issued	-	617,779	29,237	-	-	647,016
Lease liabilities	178	-	-	-	-	178
Derivative financial liabilities	118	1,312	-	-	-	1,430
Other financial liabilities	19,877	-	-	-	-	19,877
Total financial liabilities	**178,412**	**1,015,046**	**400,716**	**-**	**-**	**1,594,174**
The effect of derivatives	22,790	2,226	72,931	-	-	97,947
Net position after the effect of derivatives	**294,364**	**24,246**	**8,537**	**78**	**1**	**327,226**

[1] Includes expected credit losses

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Financial risk management *(continued)*

Currency risk *(continued)*

The following table details the Bank's sensitivity to increase and decrease in the USD, EUR and AZN against the TRY. The other variables, especially the interest rates, are assumed to be fixed in this analysis.

	USD/TRY		EUR/TRY		AZN/TRY	
Impact on profit before tax	**+10%**	**-10%**	**+10%**	**-10%**	**+10%**	**-10%**
30 June 2021	2,086	(2,086)	2,183	(2,183)	9	(9)
31 December 2020	2,425	(2,425)	854	(854)	8	(8)

Market risk

Market risk is followed under two headings: market risk arising from trading activities and market risk arising from banking transactions. The basic principle of market risk management is creating a compliant asset / liability structure and providing protection by averting differences with derivative instruments when necessary.

By the Board of Directors, market risk limits introduced by the minimization of the risks involved were targeted. Defined risk limits are reviewed by the Board of the Directors in 3 month period and updated if necessary. "Standard method" is used in the measurement of market risk in the extent of capital adequacy ratio. Value of the securities portfolio at risk is monitored and is reported to senior management on a monthly basis.

The market risk arising from trading portfolio is monitored, measured and reported using Standard Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standard Approach are reported to BRSA.

The below table represents the details of the market risk calculation in accordance with the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio", section three "Calculation of Market Risk with Standard Method" published by BRSA.

	30 June 2021			31 December 2020		
	Interest rate risk	**Currency risk**	**Total market risk**	**Interest rate risk**	**Currency risk**	**Total market risk**
Average	123	3,129	3,252	220	3,209	3,429
Maximum	440	3,379	3,819	529	3,925	4,454
Minimum	-	2,823	2,823	47	2,557	2,604

Counterparty risk

The Bank faces counterparty risk from the over-the-counter transactions and repurchase agreements in which it involves. Counterparty risk strategy has been defined according to counterparty's nature and product category. Counterparties may be sovereigns, banks, corporate and commercial customers. Products are grouped as derivative contracts such as currency forwards-futures-swaps, interest swaps and repurchase transactions.

Previous to the transactions regarding counterparty risk, the counterparty risk is analysed and subsequently the counterparty's credit risk is monitored periodically. In case the frequency of monitoring may be increased.

Except for the banks, the approvals related to loan granting are applied for the corporate counterparties. In case of worsened market conditions and credibility concerns of parties, limits may be revalued and revised. If needed approved limits may be blocked.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

27. Fair value measurements

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Group's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy:

	Fair value measurement using			
30 June 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Financial assets at FVTPL	2,723	10,960	-	13,683
Investment securities at FVOCI	19,593	7,659	-	27,252
Derivative financial assets	-	504	-	504
Assets for which fair values are disclosed				
Cash and cash equivalents	171,767	-	-	171,767
Amounts due from credit institutions	-	171,822	-	171,822
Investment securities measured at amortised cost	162,118	-	-	162,118
Loans to customers	-	-	1,793,767	1,793,767
Other financial assets	-	-	25,157	25,157
Liabilities measured at fair value				
Derivative financial liabilities	-	635	-	635
Liabilities for which fair values are disclosed				
Amounts due to banks	-	-	1,051,386	1,051,386
Amounts due to customers	-	-	52,179	52,179
Money market deposits	-	-	48,002	48,002
Debt securities issued	-	-	835,610	835,610
Other financial liabilities	-	-	26,746	26,746

	Fair value measurement using			
31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Financial assets at FVTPL	1,472	5,933	-	7,405
Investment securities at FVOCI	23,191	7,659	-	30,850
Derivative financial assets	-	493	-	493
Assets for which fair values are disclosed				
Cash and cash equivalents	163,343	-	-	163,343
Amounts due from credit institutions	-	135,946	-	135,946
Investment securities measured at amortised cost	121,652	-	-	121,652
Loans to customers	-	-	1,443,231	1,443,231
Other financial assets	-	-	18,848	18,848
Liabilities measured at fair value				
Derivative financial liabilities	-	1,430	-	1,430
Liabilities for which fair values are disclosed				
Amounts due to banks	-	-	808,095	808,095
Amounts due to customers	-	-	69,076	69,076
Money market deposits	-	-	53,252	53,252
Debt securities issued	-	-	650,635	650,635
Other financial liabilities	-	-	19,877	19,877

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

27. Fair value measurements (continued)

Fair value hierarchy *(continued)*

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the statement of financial position at fair value.

	30 June 2021			31 December 2020		
	Carrying value	Fair value	Unrecognized gain/(loss)	Carrying value	Fair value	Unrecognized gain/(loss)
Financial assets						
Cash and cash equivalents	171,767	171,767	-	163,343	163,343	-
Amounts due from credit institutions	171,822	171,822	-	135,946	135,946	-
Investment securities measured at amortised cost	153,549	162,118	8,569	115,021	121,652	6,631
Loans to customers	1,798,492	1,793,767	(4,725)	1,450,745	1,443,231	(7,514)
Other financial assets	25,157	25,157	-	18,848	18,848	-
Financial liabilities						
Amounts due to banks	1,051,433	1,051,386	47	803,334	808,095	(4,761)
Amounts due to customers	52,179	52,179	-	69,076	69,076	-
Money market deposits	48,002	48,002	-	53,263	53,252	11
Debt securities issued	833,648	835,610	(1,962)	647,016	650,635	(3,619)
Other financial liabilities	26,746	26,746	-	19,877	19,877	-
Total unrecognised change in unrealised fair value			**1,929**			**(9,252)**

The following methods and assumptions were used to estimate the fair values of above financial instruments:

The fair value of loans and receivables are determined by calculating the discounted cash flows using the current market interest rates for the fixed loans with fixed interest rates. For the loans with floating interest rates, it is assumed that the carrying value reflects the fair value.

The fair values of debt securities issued are determined based on market prices or when this price is not available, using a discounted cash flow analysis based on current market rates of similar maturity debt securities.

The fair value of funds borrowed are determined by using discounted cash flows based on the current Bank's borrowing interest rates for similar types of borrowing arrangements.

The fair value of remaining financial assets and liabilities such as cash and cash equivalents, amounts due from credit institutions, amounts due to banks and money market deposits and amounts due to customers are estimated to be same with carrying amount due to their short-term maturity profile and non-interest earning/bearing characteristics.

Movements in level 3 assets and liabilities at fair value

As of 30 June 2021, there are no movements in level 3 assets and liabilities at fair value (31 December 2020: None)

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

28. Changes in liabilities arising from financing activities

	Note	Bonds issued	Subordinated loans	Total liabilities from financing activities
Carrying amount at 31 December 2019		**475,964**	**-**	**475,964**
Proceeds from issue		188,568	-	188,568
Redemption		(140,195)	-	(140,195)
Foreign currency translation		122,380	-	122,380
Other[1]		299	-	299
Carrying amount at 31 December 2020	**16**	**647,016**	**-**	**647,016**
Proceeds from issue		198,920	-	198,920
Redemption		(121,390)	-	(121,390)
Foreign currency translation		108,864	-	108,864
Other[1]		238	-	238
Carrying amount at 30 June 2021	**16**	**833,648**	**-**	**833,648**

[1] Includes the change of interest accruals on bonds issued.

29. Segment Reporting

IFRS 8, Operating Segments, requires entities which issues securities, to disclose information about their operating segments, products and services. Operating segments are defined as activities which Bank earns revenue and incur expenses. The Bank's segmental reporting is based on the following operating segments: Corporate Banking and Treasury and Asset Liability Management.

Information on operational segments are as follows:

	Corporate banking	Treasury and asset liability management	Total
30 June 2021			
Total assets	1,798,492	819,316	2,617,808
Total liabilities	56,686	1,972,382	2,029,068
30 June 2021			
Net interest income	79,460	-31,165	48,295
Provisions for loans and other credit risks, net	(2,809)	(246)	(3,055)
Net fee and commission income	1,667	1,695	3,362
Total non-interest income	(186)	8,536	8,350
Total non-interest expenses	-	(23,017)	(23,017)
Profit/(loss) before tax	**78,132**	**(44,197)**	**33,935**
Income tax expense	(18,226)	10,310	(7,916)
Net profit/loss for the period	**59,906**	**(33,887)**	**26,019**

	Corporate banking	Treasury and asset liability management	Total
31 December 2020			
Total assets	1,448,990	730,419	2,179,409
Total liabilities	78,725	1,538,014	1,616,739
30 June 2020			
Net interest income	51,041	(15,045)	35,996
Provisions for loans and other credit risks, net	(4,951)	(1,374)	(6,325)
Net fee and commission income	1,464	391	1,855
Total non-interest income	(17)	3,325	3,308
Total non-interest expenses	-	(20,565)	(20,565)
Profit/(loss) before tax	**47,537**	**(33,268)**	**14,269**
Income tax expense	(10,501)	7,349	(3,152)
Net profit/(loss) for the period	**37,036**	**(25,919)**	**11,117**

(Currency - in Thousands of Turkish Lira (“TL”) unless otherwise indicated)

30. Capital adequacy

The method used for risk measurement in determining capital adequacy standard ratio; Capital Adequacy Standard Ratio is calculated in accordance with Banking Regulation and Supervision Agency (“BRSA”)’s “Communiqué on Measurement and Assessment of Capital Adequacy of Banks”, “Communiqué on Credit Risk Mitigation Techniques”, “Communiqué on Calculation of Risk Weighted Amounts for Securitizations” published on 6 September 2014 and Official Gazette numbered 29111 and “Communiqué on Equities of Banks” published on 5 September 2013 in the Official Gazette numbered 28756. The Bank’s capital adequacy ratio is 22.42% (31 December 2020 - 26.34%) in accordance with the related Communiqué as of 30 June 2021. The Bank has complied with the capital requirements throughout the year and previous year.

	30 June 2021	**31 December 2020**
Tier 1 capital	582,163	556,836
Tier 2 capital	31,963	27,738
Less: deductions from capital	-	-
Total regulatory capital	**614,126**	**584,574**
Risk-weighted assets	**2,739,277**	**2,219,041**
Capital adequacy ratio	**22.42%**	**26.34%**

31. Related party disclosures

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	30 June 2021					**31 December 2020**				
	Parent	**Entities under common control**	**Key manage-ment personnel**	**Other**	**Total**	**Parent**	**Entities under common control**	**Key manage-ment personnel**	**Other**	**Total**
Cash and cash equivalents	332	73	-	-	**405**	243	761	-	-	**1,004**
Loans at 1 January, gross	**-**	**277,974**	**-**	**-**	**277,974**	**-**	**202,650**	**-**	**-**	**202,650**
Loans issued	-	-	-	-	-	-	-	-	-	-
Loan repayments	-	-	-	-	-	-	-	-	-	-
Interest accrual	-	1,017	-	-	1,017	-	668	-	-	668
Foreign currency translation	-	36,255	-	-	36,255	-	74,656	-	-	74,656
Loans at balance sheet date, gross	**-**	**315,246**	**-**	**-**	**315,246**	**-**	**277,974**	**-**	**-**	**277,974**
Allowance for impairment	-	(4,540)	-	-	(4,540)	-	(3,916)	-	-	(3,916)
Loans at 31 December, net	**-**	**310,706**	**-**	**-**	**310,706**	**-**	**274,058**	**-**	**-**	**274,058**
Interest income on loans	-	7,498	-	-	**7,498**	-	11,730	-	-	**11,730**
Other assets	-	-	-	-	-	-	-	-	-	-
Amounts due to banks and financial institutions	25	78	-	-	**103**	92	532	-	-	**624**
Amounts due to customers	-	11	-	-	**11**	-	824	-	-	**824**
Money market deposits	-	-	-	16,380	**16,380**	-	-	-	-	**-**
Debt securities issued	505,438	142,038	-	-	**647,476**	432,048	164,097	-	-	**596,145**
Other liabilities	-	-	-	-	**-**	-	-	-	-	**-**
Guarantees issued	63,336	83	-	-	**63,419**	44,479	83	-	-	**44,562**
Letters of credit issued	-	-	-	-	**-**	-	-	-	-	**-**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

31. Related party disclosures *(continued)*

	30 June 2021					30 June 2020				
	Parent	**Entities under common control**	**Key manage-ment personnel**	**Other**	**Total**	**Parent**	**Entities under common control**	**Key manage-ment personnel**	**Other**	**Total**
Interest income except loans	-	2	-	-	**2**	-	32	-	-	**32**
Interest expense	(6,980)	(3,606)	-	(477)	**(11,063)**	(5,110)	(4,417)	-	-	**(9,527)**
Fees and commissions income	338	485	-	1,433	**2,256**	185	399	-	-	**584**
Fees and commissions expense	-	(1)	-	(904)	**(905)**	-	(27)	-	-	**(27)**
Non-Interest Income	-	1,140	-	-	**1,140**	-	762	-	-	**762**
Non-Interest Expenses	-	(525)	-	-	**(525)**	-	(216)	-	-	**(216)**

As of December 31, 2020, the Bank's other income from the risk group includes operating lease income amounting to TL 1,140 (30 June 2020 - TL 762).

Compensation to members of key management personnel was comprised of the following:

	30 June 2021	**30 June 2020**
Salaries and other benefits	8,096	3,704
Social security costs	103	93
Total key management personnel compensation	**8,199**	**3,797**

32. Other Explanations

a. Explanations on ratings of the Bank

FITCH	**August 2021**
National Long Term (tur)	A- Stable

b. Explanations on ratings of the Bank's compliance score of corporate governance principles

JCR Eurasia Rating has assigned PASHA Bank an overall compliance score of (9.23) with Capital Markets Board of Turkey Corporate Governance Principles by revising it upwards along with a (Stable) outlook on 8 June 2021.

33. Subsequent Event

None.