PASHA YATIRIM BANKASI A.Ş.

INTERIM CONDENSED
FINANCIAL STATEMENTS
30 JUNE 2020

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, 2020 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
Associate Partner

July 24, 2020
Istanbul, Turkey

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INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

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

	Notes	30 June 2020 (unaudited)	31 December 2019 (audited)
Assets			
Cash and cash equivalents	4	202,186	190,625
Amounts due from credit institutions	5	66,623	122,897
Financial assets at fair value through profit and loss	6	4,569	-
Derivative financial assets	17	3,263	132
Investment securities	7	129,510	96,133
Loans to customers	8	1,336,132	1,045,060
Investment property	9	145,342	145,599
Property and equipment	10	89,536	90,097
Intangible assets	11	5,351	6,077
Right of use assets		98	141
Current tax asset	19	550	993
Deferred tax asset	19	15,610	15,628
Other assets	12	23,796	12,121
TOTAL ASSETS		**2,022,566**	**1,725,503**
Liabilities			
Amounts due to banks and financial institutions	13	759,208	666,735
Amounts due to customers	14	56,925	16,760
Money market deposits	15	4,875	6,192
Debt securities issued	16	621,826	475,964
Lease liabilities		115	147
Derivative financial liabilities	17	4	-
Provisions	18	12,147	10,388
Current tax liability	19	2,399	1,960
Other liabilities	12	22,245	15,746
Total Liabilities		**1,479,744**	**1,193,892**
Equity			
Share capital	20	500,000	500,000
Retained earnings	20	11,117	25,734
Other reserves	20	31,390	5,656
Net unrealised gain on investment securities		315	221
Total Equity		**542,822**	**531,611**
TOTAL LIABILITIES AND EQUITY		**2,022,566**	**1,725,503**

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 2020

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

	Notes	30 June 2020 (unaudited)	30 June 2019 (unaudited)
Interest income on loans		51,815	59,826
Interest income on investment securities		4,967	3,980
Interest income on deposits at banks		2,378	11,217
Interest on amount due from credit institutions		2	1,177
Total Interest Income		**59,162**	**76,200**
Interest expense on amounts due to customers		(671)	(1,015)
Interest expense on amounts due to banks and financial institutions		(11,665)	(10,760)
Interest expense on debt securities issued		(10,340)	(11,175)
Interest expense on money market deposits		(477)	(8)
Other interest expense		(13)	(9)
Total Interest Expense		**(23,166)**	**(22,967)**
Net Interest Income		**35,996**	**53,233**
Provisions for loans and other credit risks, net	22	(6,325)	(22,868)
Net Interest Income After Credit Loss Expense		**29,671**	**30,365**
Fees and commissions income		2,674	3,446
Fees and commissions expense		(819)	(681)
Net Fees and Commissions Income	23	**1,855**	**2,765**
Net gains from trading securities		-	128
Foreign exchange gains/(losses), net		(4,205)	877
Net (losses)/gains from derivative financial instruments		6,592	(2,394)
Other income		921	461
Total Non-Interest Income/Expense		**3,308**	**(928)**
Total Operating Income		**34,834**	**32,202**
Personnel expenses	24	(9,843)	(7,700)
General and administrative expenses	24	(8,641)	(5,933)
Depreciation and amortisation		(2,081)	(1,626)
Total Non-Interest Expenses		**(20,565)**	**(15,259)**
Profit Before Tax	19	**14,269**	**16,943**
Income tax (expense)	19	(3,152)	(3,829)
Net Profit for the period		**11,117**	**13,114**
Other Comprehensive Income			
Net gain/(loss) on FVOCI		121	(139)
Tax effect of net gains/(losses) on FVOCI		(27)	31
Other Comprehensive Income/(Loss) for the Period, net of tax		**94**	**(108)**
Total Comprehensive Income for the Period		**11,211**	**13,006**

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

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2020
(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	Share capital	Fair value reserve of financial assets at FVOCI	Other reserves	Retained earnings	Total equity
Balances at 1 January 2019		**500,000**	**(41)**	**5,656**	**43**	**505,658**
Profit for the period		-	-	-	13,114	**13,114**
Other comprehensive (loss) for the period, net		-	(108)	-	-	**(108)**
Total comprehensive income/(loss) for the period		**-**	**(108)**	**-**	**13,114**	**13,006**
Balance at 30 June 2019	**20**	**500,000**	**(149)**	**5,656**	**13,157**	**518,664**
Balances at 1 January 2020		**500,000**	**221**	**5,656**	**25,734**	**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		-	-	25,734	(25,734)	-
Balance at 30 June 2020	**20**	**500,000**	**315**	**31,390**	**11,117**	**542,822**

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

INTERIM CONDENSED STATEMENT OF CASH FLOW
FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

	Notes	30 June 2020 (unaudited)	30 June 2019 (unaudited)
Interest received		56,954	79,147
Interest paid		(26,620)	(25,718)
Fees and commissions received		2,288	2,896
Fees and commissions paid		(584)	(365)
Net realized gains from trading securities		-	126
Other operating income received		787	429
Personnel expenses paid		(10,481)	(8,459)
General and administrative expenses paid		(8,800)	(6,048)
Cash flows from operating activities before changes in operating assets and liabilities		**13,544**	**42,008**
Net (increase)/decrease in operating assets			
Trading securities		(4,618)	2,787
Amounts due from credit institutions	5	73,606	(33,768)
Loans to customers	8	(182,775)	(162,467)
Other assets		(830)	(629)
Net increase/(decrease) in operating liabilities			
Amounts due to banks, money market deposit and financial institutions		10,788	53,895
Amounts due to customers		41,985	(10,035)
Other liabilities		(7,392)	243
Net cash used in operating activities before income tax		**(55,692)**	**(107,966)**
Income tax paid		(2,624)	(8,280)
Net cash used in operating activities		**(58,316)**	**(116,246)**
Cash flows from/(used in) investing activities			
Proceeds from sale and redemption of investment securities	7	36,524	-
Purchase of investment securities	7	(57,324)	(24,541)
Purchase and prepayments for property and equipment	10	(398)	(580)
Purchase and prepayments for intangible assets	11	(103)	(476)
Purchase and addition to investment property	9	-	(318)
Net cash used in investing activities		**(21,301)**	**(25,915)**
Cash flows from/(used in) financing activities			
Proceeds from debt securities issued	26	150,151	203,438
Payment of debt securities	26	(74,659)	(100,830)
Finance lease paid		(52)	(65)
Net cash flows from financing activities		**75,440**	**102,543**
Effect of net foreign exchange differences on cash and cash equivalents		15,972	9,957
Net increase/(decrease) in cash and cash equivalents		**11,795**	**(29,661)**
Cash and cash equivalents, beginning		190,631	100,988
Cash and cash equivalents in the statement of cash flows		**202,426**	**71,327**
Effect of expected losses on cash and cash equivalents	4	(245)	(22)
Effect of restricted balances and accruals		5	203
Cash and cash equivalents in the statement of financial position		**202,186**	**71,508**

(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 main agreement 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 participated 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 main agreement 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 2020, 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 2020 and 31 December 2019, 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 24 July 2020.

2. Basis of preparation

The interim condensed financial statements for the six months ended 30 June 2020 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 financial statements

The COVID-19 epidemic, which has recently emerged in China, 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 2020, the Bank reflected the possible effects of the COVID-19 outbreak on the estimates ad judgments used in the preparation of the 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. 20% is used in the calculation of the corporation tax. In accordance with the Provisional Article 10 added to the Corporate Tax Act, 20% of the Corporate Tax will be applied as 22% for corporate earnings for the tax years 2018, 2019 and 2020.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the interim condensed 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 interim condensed 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 criterias.

With the adoption of IFRS 9, the Bank calculates PDs, LGD and 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 in the absence of external independent rating grades. The Bank's policy is to use standard PDs published by international rating agencies. 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.

As a mentioned in the important estimates and judgments note used in the preparation of the financial statements, the Bank reflected the possible effects of the COVID-19 outbreak as of 30 June 2020 with the best estimation method fort he estimates and judgments used in calculating the expected loan losses. The Bank has revised its macroeconomic expectations and reflected the calculations made as of 30 June 2020 in the light of these data, taking into account the values of default probabilities and the loss of default. In thıs context, the Bank has measured the impact of the change in gross domestic product on frozen receivables within different scenarios and reflected the increase coefficient, which is considered to reflect the current situation in the NPL ratio, to loan parameters, by reflecting on the loan parameters. This approach, which is preferred in reserve calculations for the first half of 2020, will be revised by taking into consideration the impact of the epidemic, loan portfolio and future expectations in the following reporting periods.

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 interim condensed financial statements prepared as December 31, 2019. As of 30 June 2020, 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.

Effective from 1 January 2019, The Bank adopted IFRS 16 Leases and started to present most leases on-balance sheet except its short term leases and its low value assets.

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.

3.15 Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank.

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

4. Cash and cash equivalents

	30 June 2020	31 December 2019
Time deposits with credit institutions up to 3 months	196,209	185,095
Current accounts with other credit institutions	3,605	1,860
Current accounts with the Central Bank of the Republic Turkey (CBRT)	2,604	3,710
Cash on hand	13	14
Less: allowance for impairment	(245)	(54)
	202,186	**190,625**

As of 30 June 2020, 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 2020	31 December 2019
ECL allowance as of 1 January	(54)	(26)
Changes in ECL	(191)	(28)
	(245)	**(54)**

As of 30 June 2020, the interest rates for time deposits is 9.7% for TRY balances and 0.2% - 0.3% for USD balances (31 December 2019: 13.6% – 13.7% for TRY balances and 1.6% - 1.8% for USD balances).

5. Amounts due from credit institutions

	30 June 2020	31 December 2019
Obligatory reserve with the Central Bank of the Republic Turkey (CBRT)	66,716	123,007
Time deposits with credit institutions for more than 3 months	-	-
Less: allowance for impairment	(93)	(110)
	66,623	**122,897**

As of 30 June 2020 and 31 December 2019, all the reserve requirements are allocated to Stage 1 in accordance with IFRS 9.

The reserve rates for TL liabilities vary between 1% and 2% for TL deposits and other liabilities according to their maturities as of 30 June 2020 (31 December 2019: 1% and 7% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 0% and 16% for deposit and other foreign currency liabilities according to their maturities as of 30 June 2020 (31 December 2019: 5% and 21% for all foreign currency liabilities).

An analysis of changes in the gross carrying values from credit institutions as of 30 June 2020 and 31 December 2019 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2020	**123,007**	**-**	**-**	**123,007**
New assets originated or purchased	24,515	-	-	24,515
Assets repaid	(98,121)	-	-	(98,121)
Foreign exchange adjustments	17,315	-	-	17,315
Gross carrying value as of 30 June 2020	**66,716**	**-**	**-**	**66,716**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2019	**76,536**	**-**	**-**	**76,536**
New assets originated or purchased	94,010	-	-	94,010
Assets repaid	(58,336)	-	-	(58,336)
Foreign exchange adjustments	10,797	-	-	10,797
Gross carrying value as of 31 December 2019	**123,007**	**-**	**-**	**123,007**

(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 2020 and 31 December 2019 are as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2020	**(110)**	**-**	**-**	**(110)**
New assets originated or purchased	(6)	-	-	(6)
Assets repaid	23	-	-	23
ECL as of 30 June 2020	**(93)**	**-**	**-**	**(93)**

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2019	**(54)**	**-**	**-**	**(54)**
New assets originated or purchased	(148)	-	-	(148)
Assets repaid	92	-	-	92
ECL as of 31 December 2019	**(110)**	**-**	**-**	**(110)**

6. Financial assets at fair value through profit or loss

	30 June 2020	31 December 2019
Mutual funds participation certificate	4,569	-
	4,569	**-**

7. Investment Securities

	30 June 2020	31 December 2019
Debt securities at FVOCI		
Turkey government bonds	14,375	4,620
Bonds of financial institutions	2,506	2,506
Corporate bonds	-	2,039
	16,881	**9,165**

Equity securities at FVOCI	30 June 2020	31 December 2019
Investment in Kredi Garanti Fonu A.Ş.	7,659	7,659
	7,659	**7,659**

	30 June 2020	31 December 2019
Debt securities at amortized cost		
Bonds of financial institutions	65,234	50,057
Turkey government bonds	41,537	29,918
	106,771	**79,975**
Less: allowance for impairment	(1,801)	(666)
	104,970	**79,309**

The details of securities pledged under repurchase of investment securities of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020	31 December 2019
Debt securities at FVOCI		
Securities pledged under repurchase agreements	413	-
Debt securities at amortized cost		
Securities pledged under repurchase agreements	5,610	8,110
	6,023	**8,110**

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 2020 and 31 December 2019 are as follows:

	30 June 2020		31 December 2019	
	Interest Rate Range %	Latest Maturity	Interest Rate Range %	Latest Maturity
Debt securities at FVOCI				
Turkey government bonds in TL	20.9%	Apr 2021	20.9%	Apr 2021
Bonds of financial institutions in TL	16.6%	Oct 2027	15.4%	Oct 2027
Corporate bonds in TL	-	-	15.4%	Feb 2020
Debt securities at amortized cost				
Turkey government bonds in USD	5.1%-6.3%	Sep 2022	7.0%	Jun 2020
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 2020	**14,785**	**2,039**	**-**	**16,824**
New assets originated or purchased	9,415	-	-	9,415
Assets repaid	(90)	(2,000)	-	(2,090)
Unwinding of discount (recognised in interest revenue)[1]	358	(39)	-	319
Fair value increase	72	-	-	72
Gross carrying value as of 30 June 2020	**24,540**	**-**	**-**	**24,540**

	Stage 1	Stage 2	Stage 3	Total
Debt securities and equity securities at FVOCI				
Gross carrying value as of 1 January 2019	**8,314**	**-**	**-**	**8,314**
New assets originated or purchased	21,936	-	-	21,936
Assets repaid	(13,628)	-	-	(13,628)
Transfer between stages	(2,039)	2,039	-	-
Unwinding of discount (recognised in interest revenue)[1]	(45)	-	-	(45)
Fair value increase	247	-	-	247
Gross carrying value as of 31 December 2019	**14,785**	**2,039**	**-**	**16,824**

[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 2020	**79,975**	**-**	**-**	**79,975**
New assets originated or purchased	47,909	-	-	47,909
Assets repaid	(34,434)	-	-	(34,434)
Unwinding of discount (recognised in interest revenue)[1]	(42)	-	-	(42)
Foreign exchange adjustments	13,363	-	-	13,363
Gross carrying value as of 30 June 2020	**106,771**	**-**	**-**	**106,771**

	Stage 1	Stage 2	Stage 3	Total
Debt securities at amortized cost				
Gross carrying value as of 1 January 2019	**60,694**	**-**	**-**	**60,694**
New assets originated or purchased	21,121	-	-	21,121
Assets repaid	(11,982)	-	-	(11,982)
Unwinding of discount (recognised in interest revenue)[1]	714	-	-	714
Foreign exchange adjustments	9,428	-	-	9,428
Gross carrying value as of 31 December 2019	**79,975**	**-**	**-**	**79,975**

[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 2020	**(70)**	**(18)**	**-**	**(88)**
New assets originated or purchased	(79)	-	-	(79)
Asset repaid	13	18	-	31
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
ECL as of 30 June 2020	**(136)**	**-**	**-**	**(136)**

	Stage 1	Stage 2	Stage 3	Total
Debt securities at amortized cost				
ECL as of 1 January 2019	**(91)**	**-**	**-**	**(91)**
New assets originated or purchased	(35)	-	-	(35)
Asset repaid	22	-	-	22
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	52	(52)	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	(18)	34	-	16
ECL as of 31 December 2019	**(70)**	**(18)**	**-**	**(88)**

	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	(4,035)	-	-	(4,035)
Asset repaid	2,900	-	-	2,900
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
ECL as of 30 June 2020	**(1,801)**	**-**	**-**	**(1,801)**

	Stage 1	Stage 2	Stage 3	Total
Debt securities at amortized cost				
ECL as of 1 January 2019	**(480)**	**-**	**-**	**(480)**
New assets originated or purchased	(272)	-	-	(272)
Asset repaid	154	-	-	154
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	(68)	-	-	(68)
ECL as of 31 December 2019	**(666)**	**-**	**-**	**(666)**

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

8. Loans to customers

	30 June 2020	31 December 2019
Corporate customers	1,386,563	1,093,049
Individuals	-	-
Gross loans to customers at amortised cost	**1,386,563**	**1,093,049**
Less: allowance for impairment	(50,431)	(47,989)
	1,336,132	**1,045,060**

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 2020			31 December 2019		
	Gross	Unearned	Net	Gross	Unearned	Net
Up to 1 year	41,339	(5,010)	36,329	13,692	(2,130)	11,562
1 to 5 years	28,919	(5,127)	23,792	21,450	(498)	20,952
Over 5 years	-	-	-	-	-	-
	70,258	**(10,137)**	**60,121**	**35,142**	**(2,628)**	**32,514**

The breakdown of loans to customers is as follows:

	30 June 2020	31 December 2019
Non-banking credit organizations	371,872	254,888
Construction	366,358	311,438
Energy	191,706	98,193
Manufacturing	144,520	163,354
Transport and telecommunication	79,123	72,869
Rental services	47,016	37,195
Trade and services	46,511	8,290
Mining	29,866	32,674
Other	109,591	114,148
	1,386,563	**1,093,049**

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 2020	**954,756**	**102,839**	**35,454**	**1,093,049**
New assets originated or purchased	797,021	49,696	-	846,717
Assets repaid (excluding write-offs)	(616,016)	(46,651)	(1,275)	(663,942)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	97,436	11,592	1,711	110,739
Gross carrying value as of 30 June 2020	**1,233,197**	**117,476**	**35,890**	**1,386,563**

	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	(6,196)	(6,729)	(858)	(13,783)
Assets repaid	2,616	8,057	150	10,823
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	-	-	518	518
ECL as of 30 June 2020	**(11,205)**	**(16,757)**	**(22,469)**	**(50,431)**

(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 2019	**766,511**	**86,060**	**2,663**	**855,234**
New assets originated or purchased	1,516,137	38,309	4,264	1,558,710
Assets repaid (excluding write-offs)	(1,309,517)	(81,128)	(10)	(1,390,655)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(69,592)	69,592	-	-
Transfers to Stage 3	(7,500)	(20,197)	27,697	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Foreign exchange adjustments	58,717	10,203	840	69,760
Gross carrying value as of 31 December 2019	**954,756**	**102,839**	**35,454**	**1,093,049**

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2019	**(5,830)**	**(6,463)**	**(2,663)**	**(14,956)**
New assets originated or purchased	(6,347)	-	(2,780)	(9,127)
Assets repaid	1,993	134	-	2,127
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	2,054	(2,054)	-	-
Transfers to Stage 3	45	1,660	(1,705)	-
Changes to models and inputs used for ECL calculations	460	(11,362)	(15,131)	(26,033)
ECL as of 31 December 2019	**(7,625)**	**(18,085)**	**(22,279)**	**(47,989)**

9. Investment Property

	30 June 2020	31 December 2019
Opening balance at 1 January 2020	**145,599**	**218,333**
Additions	-	580
Amortisation for the period	(257)	(1,124)
Transfer of the cost to buildings and lands[1]	-	(86,479)
Transfer of the accumulated depreciation to building[1]	-	136
Transfer of the impairment loss to building and lands[1]	-	14,153
Closing balance at 30 June 2020	**145,342**	**145,599**

[1] As of 31 December 2019, the Bank reclassified net TL 72,190 of investment properties to the buildings and land since the bank moved to its investment property and established the headquarter at some parts of the investment property. All of the amount of cost, accumulated depreciation and impairment losses related to bank's own use was transferred to buildings and land.

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 of December 31, 2019.

As of 30 June 2020, 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							
31 December 2018	**-**	**-**	**216**	**2,398**	**625**	**158**	**3,397**
Additions	-	11,289	3,198	403	1,003	1,250	17,143
Disposals	-	-	-	-	-	-	-
Transfer[1]	58,718	27,761	95	(108)	-	13	86,479
31 December 2019	**58,718**	**39,050**	**3,509**	**2,693**	**1,628**	**1,421**	**107,019**
Additions	-	-	117	219	-	62	398
Disposals	-	-	(12)	(4)	-	-	(16)
30 June 2020	**58,718**	**39,050**	**3,614**	**2,908**	**1,628**	**1,483**	**107,401**
Accumulated Depreciation							
31 December 2018	**-**	**-**	**(61)**	**(826)**	**(21)**	**(114)**	**(1,022)**
Additions	-	(632)	(180)	(523)	(192)	(84)	(1,611)
Disposals	-	-	-	-	-	-	-
Transfer acc. depreciation[1]	-	(136)	-	-	-	-	(136)
Transfer impairment expense[1]	(9,609)	(4,544)	-	-	-	-	(14,153)
31 December 2019	**(9,609)**	**(5,312)**	**(241)**	**(1,349)**	**(213)**	**(198)**	**(16,922)**
Additions	-	(225)	(244)	(253)	(146)	(76)	(944)
Disposals	-	-	-	1	-	-	1
30 June 2020	**(9,609)**	**(5,537)**	**(485)**	**(1,601)**	**(359)**	**(274)**	**(17,865)**
Net Book Value							
31 December 2018	**-**	**-**	**155**	**1,572**	**604**	**44**	**2,375**
31 December 2019	**49,109**	**33,738**	**3,268**	**1,344**	**1,415**	**1,223**	**90,097**
30 June 2020	**49,109**	**33,513**	**3,129**	**1,307**	**1,269**	**1,209**	**89,536**

[1] Transfers from the investment property

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

11. Intangible assets

	Computer software	Total
Cost		
31 December 2018	**3,073**	**3,073**
Additions	5,707	5,707
Disposals	-	-
31 December 2019	**8,780**	**8,780**
Additions	103	103
Disposals	-	-
30 June 2020	**8,883**	**8,883**
Accumulated Depreciation		
31 December 2018	**(1,799)**	**(1,799)**
Additions	(904)	(904)
Disposals	-	-
31 December 2019	**(2,703)**	**(2,703)**
Additions	(829)	(829)
Disposals	-	-
30 June 2020	**(3,532)**	**(3,532)**
Net Book Value		
31 December 2018	**1,274**	**1,274**
31 December 2019	**6,077**	**6,077**
30 June 2020	**5,351**	**5,351**

12. Other assets and liabilities

	30 June 2020	31 December 2019
Other financial assets		
Clearance cheque accounts[1]	19,760	9,393
Other receivables	14	5
	19,774	**9,398**
Less: allowance for impairment of other financial assets	-	-
Total other financial assets	**19,774**	**9,398**
Other non-financial assets		
Prepayments	2,043	1,992
Collaterals given	1,972	632
Other non-financial assets	7	99
Total other non-financial assets	**4,022**	**2,723**
Other assets	**23,796**	**12,121**

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

As of 30 June 2020 and 31 December 2019, all the financial assets are allocated to Stage 1 in accordance with IFRS 9.

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

12. Other assets and liabilities *(continued)*

	30 June 2020	31 December 2019
Other financial liabilities		
Clearance cheque accounts[1]	19,760	9,393
Payable to suppliers	185	4,292
Other financial liabilities	-	3
Total other financial liabilities	**19,945**	**13,688**
Other non-financial liabilities		
Deferred income	1,582	1,733
Accrued expenses	717	288
Other non-financial liabilities	1	37
Total other non-financial liabilities	**2,300**	**2,058**
Other liabilities	**22,245**	**15,746**

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

13. Amounts due to banks and financial institutions

	30 June 2020	31 December 2019
Short Term		
Domestic banks and financial institutions	107,949	113,276
Foreign banks and financial institutions	191,838	144,251
	299,787	**257,527**
Long Term		
Domestic banks and financial institutions	-	-
Foreign banks and financial institutions	459,421	409,208
	459,421	**409,208**
	759,208	**666,735**

The interest rate range and the latest maturity of amounts due to banks and financial institutions of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020		**31 December 2019**	
	Interest Rate Range %	**Latest Maturity**	**Interest Rate Range %**	**Latest Maturity**
Domestic banks and financial institutions in TRY	8.8%	Sep 2020	-	-
Domestic banks and financial institutions in EUR	0.0%-0.2%	Jul 2020	0.0%-0.1%	Jan 2020
Foreign banks and financial institutions in TRY	7.8%-8.1%	Jul 2020	10.0%-11.3%	Jan 2020
Foreign banks and financial institutions in USD	3.1%-4.3%	Mar 2023	2.5%-3.8%	Jul 2020
Foreign banks and financial institutions in EUR	0.9%-1.7%	Nov 2020	1.0%-1.7%	Nov 2020

14. Amounts due to customers

	30 June 2020	31 December 2019
Time deposits	45,147	12,407
Demand deposits	11,778	4,353
	56,925	**16,760**

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

14. Amounts due to customers *(continued)*

An analysis of customers by economic sectors is as follows:

	30 June 2020	31 December 2019
Energy	42,416	2,620
Non-banking credit organizations	11,027	10,613
Trade and services	3,117	622
Transport and telecommunication	211	10
Construction	93	14
Manufacturing	37	1,981
Leasing	17	22
Mining	-	440
Other	7	438
	56,925	**16,760**

15. Money market deposits

	30 June 2020	31 December 2019
Through repo transaction	4,875	6,192
Through Takasbank	-	-
	4,875	**6,192**

The interest rate range and the latest maturity of money market as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020		31 December 2019	
	Interest Rate Range %	Latest Maturity	Interest Rate Range %	Latest Maturity
Money market deposits in TRY	7.0%	Jul 2020	9.8%	Jan 2020
Money market deposits in USD	1.5%	Jul 2020	-	-

16. Debt securities issued

	30 June 2020	31 December 2019
Debt securities issued in TL	27,505	7,815
Debt securities issued in FC	594,321	468,149
	621,826	**475,964**

The interest rate range and the latest maturity of debt securities issued as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020		31 December 2019	
	Interest Rate Range %	Latest Maturity	Interest Rate Range %	Latest Maturity
Debt securities issued in TRY	9.4%	Aug 2020	11.4%	Feb 2020
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

17. 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. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	30 June 2020			31 December 2019		
	Notional amount	Fair Values		Notional amount	Fair Values	
		Asset	Liability		Asset	Liability
Forwards – domestic	70,900	3,014	(3)	23,593	132	-
Forwards – foreign	339	-	(1)	-	-	-
Swaps – domestic	76,969	249	-	-	-	-
Swaps – foreign	-	-	-	-		-
	148,208	**3,263**	**(4)**	**23,593**	**132**	**-**

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

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

18. Provisions

The principal components of provisions are as follows:

	30 June 2020	31 December 2019
Expected credit losses from non-cash loans	9,898	7,387
Bonus provision	1,500	2,400
Vacation pay liability	511	399
Employee termination benefits	188	152
Other	50	50
	12,147	**10,388**

Expected credit losses from non-cash loans

An analysis of changes in the ECLs as of 30 June 2020 and 31 December 2019 are as follows

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2020	**(1,591)**	**(5,796)**	**-**	**(7,387)**
New exposures	(1,352)	(1,806)	-	(3,158)
Exposures derecognised or matured (excluding write-offs)	629	18	-	647
Transfers to Stage 1	(43)	43	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
ECL as of 30 June 2020	**(2,357)**	**(7,541)**	**-**	**(9,898)**

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2019	**(3,416)**	**(123)**	**(3,370)**	**(6,909)**
New exposures	(779)	(149)	-	(928)
Exposures derecognised or matured (excluding write-offs)	579	9	3,370	3,958
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	1,808	(1,808)	-	-
Transfers to Stage 3	-	-	-	-
Changes to inputs used for ECL calculations	217	(3,725)	-	(3,508)
ECL as of 31 December 2019	**(1,591)**	**(5,796)**	**-**	**(7,387)**

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 financial statements.

19. 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. 22% is used in the calculation of the corporation tax. In accordance with the Provisional Article 10 added to the Corporate Tax Act, Corporate Tax will be applied as 22% for corporate earnings for the years 2018, 2019 and 2020.

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

19. Taxation *(continued)*

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the interim condensed 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 2020	31 December 2019
Current tax asset	40	-
Withholding income tax	510	993
	550	**993**

The current tax liabilities comprises:

	30 June 2020	31 December 2019
Current income tax liability	1,376	798
Social security premiums payable	300	243
Banking insurance transactions tax liability	277	484
Value added tax liability	71	72
Other taxes, duties and premiums payable	375	363
	2,399	**1,960**

The corporate income tax expense comprises:

	30 June 2020	30 June 2019
Current tax charge	(3,188)	(9,259)
Deferred tax credit − origination and reversal of temporary differences	9	5,461
Less: current tax recognised in other comprehensive income	27	(31)
Income tax expense	**(3,152)**	**(3,829)**

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

	30 June 2020	30 June 2019
Net gain/(losses) on investment securities FVOCI	(27)	31
Income tax (charged) to other comprehensive income	**(27)**	**31**

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 2020	30 June 2019
Profit before income tax expense	14,269	16,943
Statutory tax rate	22%	22%
Theoretical tax expense at the statutory rate	**(3,139)**	**(3,727)**
Tax effect of non-deductible expenses	(13)	(158)
Tax effect of tax-exempt income	-	56
Income tax expense	**(3,152)**	**(3,829)**

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

19. Taxation (continued)

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

		Origination and reversal of temporary differences		
	31 December 2019	*In the statement of profit or loss*	*In other comprehensive income*	*30 June 2020*
Loans to customers	5,720	516	-	6,236
Amount due from credit institutions	36	38	-	74
Investment securities	355	433	(27)	761
Provision for non-cash loans	1,625	553	-	2,178
Provision for employee benefits	649	(425)	-	224
Property, equipment and intangible assets	6,891	(450)	-	6,441
Other provisions	52	116	-	168
Other	345	(22)	-	323
Deferred tax assets	**15,673**	**759**	**(27)**	**16,405**
Amounts due to banks and financial institutions and debt securities issued	(20)	5	-	(15)
Other	(25)	(755)	-	(780)
Deferred tax liabilities	**(45)**	**(750)**	**-**	**(795)**
Net deferred tax assets	**15,628**	**9**	**(27)**	**15,610**

20. Equity

Share capital:

As of 30 June 2020, the authorised nominal share capital of PASHA Yatırım Bankası A.Ş. amounted to TL 500,000 (31 December 2019: 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 2020		**31 December 2019**	
	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**

Other reserves

Other 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 total reserve is TL 31,390 and TL 5,656 as of 30 June 2020 and as of 31 December 2019, respectively.

21. Commitments and contingencies

Litigation

The Bank has provided TL 50 (31 December 2019: 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)

21. 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 2020	31 December 2019
Letter of guarantee	330,659	332,031
Letter of credit	9,019	598
Other guarantees	13,071	23,760
Total non-cash loans	**352,749**	**356,389**
Other commitments	18,856	17
Total	**371,605**	**356,406**

22. Provisions for loans and other credit risks, net

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	(18)	(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.

30 June 2019	**Note**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	(4)	4	-	-	4
Amounts due from credit institutions	(5)	(70)	-	-	(70)
Investment securities at FVOCI	(7)	(4)	-	-	(4)
Investment securities at amortised cost	(7)	(397)	-	-	(397)
Loans to customers	(8)	(890)	(15,207)	(2,688)	(18,785)
Credit related commitments	(18)	1,350	(7,770)	2,804	(3,616)
Provisions for loans and other credit risks, net		**(7)**	**(22,977)**	**116**	**(22,868)**

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.

23. Net fees and commissions income

	30 June 2020	30 June 2019
Guarantees and letters of credit	1,529	2,279
Settlements operations	320	55
Money transfer operations	184	94
Other	641	1,018
Fees and commissions income	**2,674**	**3,446**
Fee to correspondent banks and money transfer operations-expenses	(356)	(315)
Commissions for letter of guarantee obtained	(234)	(299)
Settlements operations	(162)	(67)
Other	(67)	-
Fees and commissions expense	**(819)**	**(681)**
Net fees and commissions income	**1,855**	**2,765**

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

24. Personnel, general and administrative expenses

	30 June 2020	30 June 2019
Salaries and bonuses	(7,900)	(6,249)
Social security costs	(946)	(726)
Other employee related expenses	(997)	(725)
Total personnel expenses	**(9,843)**	**(7,700)**

	30 June 2020	30 June 2019
Professional services	(4,282)	(1,325)
Software cost	(960)	(897)
Membership fees	(921)	(879)
Communications	(528)	(283)
Advertising costs	(491)	(156)
Utilities	(330)	(202)
Taxes, other than income tax	(325)	(641)
Insurance	(168)	(99)
Transportation and business trip expenses	(164)	(350)
Operating leases	(110)	(679)
Security expenses	(45)	(114)
Stationery	(36)	(34)
Representation expenses	(27)	(65)
Repair and maintenance	(18)	(72)
Other expenses	(236)	(137)
Total general and administrative expenses	**(8,641)**	**(5,933)**

25. 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.

25. 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.

As a mentioned in the important estimates and judgments note used in the preparation of the financial statements, the Bank reflected the possible effects of the COVID-19 outbreak as of 30 June 2020 with the best estimation method fort he estimates and judgments used in calculating the expected loan losses. The Bank has revised its macroeconomic expectations and reflected the calculations made as of 30 June 2020 in the light of these data, taking into account the values of default probabilities and the loss of default. In thıs context, the Bank has measured the impact of the change in gross domestic product on frozen receivables within different scenarios and reflected the increase coefficient, which is considered to reflect the current situation in the NPL ratio, to loan parameters, by reflecting on the loan parameters. This approach, which is preferred in reserve calculations for the first half of 2020, will be revised by taking into consideration the impact of the epidemic, loan portfolio and future expectations in the following reporting periods.

25. 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 Caa1 as standard grade, rating Caa2 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 & Caa1
Sub-standard Grade	Between Caa2 & Ca
Impaired	C

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

25. 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 2020	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	4	Stage 1	44,110	158,308	-	-	202,418
Amounts due from credit institutions	5	Stage 1	-	66,716	-	-	66,716
		Stage 1	103,230	1,104,377	25,590	-	1,233,197
Loans to customers	8	Stage 2	-	352	117,124	-	117,476
		Stage 3	-	-	-	35,890	35,890
Investment Securities							
Measured at FVOCI	7	Stage 1	-	24,540	-	-	24,540
Measured at amortised cost		Stage 1	-	106,771	-	-	106,771
Other financial assets	12	Stage 1	-	19,774	-	-	19,774
Letter of guarantee	21	Stage 1	38,750	243,502	-	-	282,252
		Stage 2	-	10,000	38,407	-	48,407
Letter of credit	21	Stage 1	-	9,019	-	-	9,019
Other guarantee	21	Stage 1	-	13,071	-	-	13,071
Total			**186,090**	**1,756,430**	**181,121**	**35,890**	**2,159,531**

31 December 2019	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	4	Stage 1	1,288	189,377	-	-	190,665
Amounts due from credit institutions	5	Stage 1	-	123,007	-	-	123,007
		Stage 1	89,762	844,295	20,699	-	954,756
Loans to customers	8	Stage 2	-	5,939	96,900	-	102,839
		Stage 3	-	-	-	35,454	35,454
Investment Securities							
Measured at FVOCI	7	Stage 1	-	14,785	-	-	14,785
		Stage 2	-	-	2,039	-	2,039
Measured at amortised cost		Stage 1	-	79,975	-	-	79,975
Other financial assets	12	Stage 1	-	9,398	-	-	9,398
Letter of guarantee	21	Stage 1	33,635	252,183	-	-	285,818
		Stage 2	-	12,322	33,891	-	46,213
Letter of credit	21	Stage 1	-	598	-	-	598
Other guarantee	21	Stage 1	-	23,760	-	-	23,760
Total			**124,685**	**1,555,639**	**153,529**	**35,454**	**1,869,307**

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

	30 June 2020				31 December 2019			
	Turkey	Azerbaijan	Others	Total	Turkey	Azerbaijan	Others	Total
Cash and cash equivalents	157,560	163	44,463	202,186	188,402	167	2,056	190,625
Amounts due from credit institutions	66,623	-	-	66,623	122,897	-	-	122,897
Financial assets at FVTPL	1,500	-	3,069	4,569	-	-	-	-
Derivative financial assets	3,263	-	-	3,263	132	-	-	132
Investment securities	129,510	-	-	129,510	96,133	-	-	96,133
Loans to customers	998,264	-	337,868	1,336,132	748,697	3,951	292,412	1,045,060
Other financial assets	19,774	-	-	19,774	9,398	-	-	9,398
Total financial assets	**1,376,494**	**163**	**385,400**	**1,762,057**	**1,165,659**	**4,118**	**294,468**	**1,464,245**
Amounts due to banks and financial institutions	107,948	480,103	171,157	759,208	113,277	429,283	124,175	666,735
Amounts due to customers	56,916	-	9	56,925	16,760	-	-	16,760
Money market deposits	4,875	-	-	4,875	6,192	-	-	6,192
Debt securities issued	27,505	594,321	-	621,826	7,815	468,149	-	475,964
Lease liabilities	115	-	-	115	147	-	-	147
Derivative financial liabilities	3	-	1	4	-	-	-	-
Other financial liabilities	19,945	-	-	19,945	13,688	-	-	13,688
Total financial liabilities	**217,307**	**1,074,424**	**171,167**	**1,462,898**	**157,879**	**897,432**	**124,175**	**1,179,486**
Net financial assets and liabilities	**1,159,187**	**(1,074,261)**	**214,233**	**299,159**	**1,007,780**	**(893,314)**	**170,293**	**284,759**

25. 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)

25. 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 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	202,431	-	-	-	-	(245)	202,186
Amounts due from credit institutions	66,716	-	-	-	-	(93)	66,623
Financial assets at FVTPL	-	-	-	-	4,569	-	4,569
Derivative financial assets	249	3,014	-	-	-	-	3,263
Investment securities	613	10,641	4,931	104,968	10,158	(1,801)	129,510
Loans to customers	238,408	181,220	554,963	357,985	53,987	(50,431)	1,336,132
Other financial assets	19,774	-	-	-	-	-	19,774
Total financial assets	**528,191**	**194,875**	**559,894**	**462,953**	**68,714**	**(52,570)**	**1,762,057**
Amounts due to banks and financial institutions	250,132	164,661	77,530	266,885	-	-	759,208
Amounts due to customers	47,804	9,121	-	-	-	-	56,925
Money market deposits	4,875	-	-	-	-	-	4,875
Debt securities issued	1,260	28,030	-	592,536	-	-	621,826
Lease liabilities	8	8	25	74	-	-	115
Derivative financial liabilities	-	-	4	-	-	-	4
Other financial liabilities	19,945	-	-	-	-	-	19,945
Total financial liabilities	**324,024**	**201,820**	**77,559**	**859,495**	**-**	**-**	**1,462,898**
Net financial assets and liabilities	**204,167**	**(6,945)**	**482,335**	**(396,542)**	**68,714**	**(52,570)**	**299,159**

[1] Includes expected credit losses

31 December 2019	**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	190,679	-	-	-	-	(54)	190,625
Amounts due from credit institutions	123,007	-	-	-	-	(110)	122,897
Financial assets at FVTPL	-	-	-	-	-	-	-
Derivative financial assets	-	132	-	-	-	-	132
Investment securities	544	2,628	30,385	53,092	10,150	(666)	96,133
Loans to customers	151,149	102,244	419,187	377,640	42,829	(47,989)	1,045,060
Other financial assets	9,398	-	-	-	-	-	9,398
Total financial assets	**474,777**	**105,004**	**449,572**	**430,732**	**52,979**	**(48,819)**	**1,464,245**
Amounts due to banks and financial institutions	374,103	128,633	163,999	-	-	-	666,735
Amounts due to customers	14,939	-	1,821	-	-	-	16,760
Money market deposits	6,192	-	-	-	-	-	6,192
Debt securities issued	1,107	8,038	-	466,819	-	-	475,964
Lease liabilities	6	13	52	76	-	-	147
Derivative financial liabilities	-	-	-	-	-	-	-
Other financial liabilities	13,688	-	-	-	-	-	13,688
Total financial liabilities	**410,035**	**136,684**	**165,872**	**466,895**	**-**	**-**	**1,179,486**
Net financial assets and liabilities	**64,742**	**(31,680)**	**283,700**	**(36,163)**	**52,979**	**(48,819)**	**284,759**

[1] Includes expected credit losses

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

25. 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 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.	250,469	166,573	86,762	287,184	-	790,988
Amounts due to customers	47,837	9,195	-	-	-	57,032
Money market deposits	4,876	-	-	-	-	4,876
Debt securities issued	1,682	31,325	15,447	613,969	-	662,423
Lease liabilities	10	10	39	97	-	156
Other financial liabilities	19,945	-	-	-	-	19,945
Total undiscounted financial liabilities	**324,819**	**207,103**	**102,248**	**901,250**	**-**	**1,535,420**

31 December 2019	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.	374,493	129,382	166,262	-	-	670,137
Amounts due to customers	14,972	-	-	-	-	14,972
Money market deposits	6,194	-	-	-	-	6,194
Debt securities issued	1,460	10,524	12,252	491,919	-	516,155
Lease liabilities	6	13	52	76	-	147
Other financial liabilities	13,688	-	-	-	-	13,688
Total undiscounted financial liabilities	**410,813**	**139,919**	**178,566**	**491,995**	**-**	**1,221,293**

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 2020	2,660	65,293	146,138	29,721	-	108,937	352,749
31 December 2019	297	42,084	173,388	23,400	-	117,220	356,389

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

30 June 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	552	36,439	-	-	-	36,991
Currency forward agreements – sell	(557)	(33,691)	-	-	-	(34,248)
Swap agreements – purchase	38,609	-	-	-	-	38,609
Swap agreements – sell	(38,360)	-	-	-	-	(38,360)
Total	**244**	**2,748**	**-**	**-**	**-**	**2,992**

31 December 2019	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Total
Currency forward agreements – purchase	-	11,737	-	-	-	11,737
Currency forward agreements – sell	-	(11,856)	-	-	-	(11,856)
Total	**-**	**(119)**	**-**	**-**	**-**	**(119)**

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

	30 June 2020				31 December 2019			
	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 (%)	385	302	154	162	517	476	274	271
Maximum (%)	978	418	196	223	1,895	1,767	860	663
Minimum (%)	162	193	93	121	100	192	87	126

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

25. 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 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	196,209	-	-	-	-	5,977	202,186
Amounts due from credit institutions	66,716	-	-	-	-	(93)	66,623
Financial assets at FVTPL	-	-	-	-	-	4,569	4,569
Derivative financial assets	249	3,014	-	-	-	-	3,263
Investment securities	3,112	10,641	4,931	104,968	-	5,858	129,510
Loans to customers	281,514	315,488	554,371	220,409	14,781	(50,431)	1,336,132
Other financial assets	-	-	-	-	-	19,774	19,774
Total financial assets	**547,800**	**329,143**	**559,302**	**325,377**	**14,781**	**(14,346)**	**1,762,057**
Amounts due to banks and financial institutions	250,069	164,661	77,530	266,885	-	63	759,208
Amounts due to customers	2,657	9,121	-	-	-	45,147	56,925
Money market deposits	4,875	-	-	-	-	-	4,875
Debt securities issued	1,260	28,030	-	592,536	-	-	621,826
Lease liabilities	8	8	25	74	-	-	115
Derivative financial liabilities	-	-	4	-	-	-	4
Other financial liabilities	-	-	-	-	-	19,945	19,945
Total financial liabilities	**258,869**	**201,820**	**77,559**	**859,495**	**-**	**65,155**	**1,462,898**
Net interest sensitivity gap	**288,931**	**127,323**	**481,743**	**(534,118)**	**14,781**	**(79,501)**	**299,159**

[1] Includes expected credit losses

31 December 2019	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	185,095	-	-	-	-	5,530	190,625
Amounts due from credit institutions	123,007	-	-	-	-	(110)	122,897
Financial assets at FVTPL	-	-	-	-	-	-	-
Derivative financial assets	-	132	-	-	-	-	132
Investment securities	3,035	2,628	30,385	53,092	-	6,993	96,133
Loans to customers	173,897	205,992	454,803	252,653	5,704	(47,989)	1,045,060
Other financial assets	-	-	-	-	-	9,398	9,398
Total financial assets	**485,034**	**208,752**	**485,188**	**305,745**	**5,704**	**(26,178)**	**1,464,245**
Amounts due to banks and financial institutions	374,023	128,633	163,999	-	-	80	666,735
Amounts due to customers	10,586	-	1,821	-	-	4,353	16,760
Money market deposits	6,192	-	-	-	-	-	6,192
Debt securities issued	1,107	8,038	-	466,819	-	-	475,964
Lease liabilities	6	13	52	76	-	-	147
Derivative financial liabilities	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	13,688	13,688
Total financial liabilities	**391,914**	**136,684**	**165,872**	**466,895**	**-**	**18,121**	**1,179,486**
Net interest sensitivity gap	**93,120**	**72,068**	**319,316**	**-161,150**	**5,704**	**(44,299)**	**284,759**

[1] Includes expected credit losses

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

25. 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 2020			31 December 2019		
	EUR (%)	USD (%)	TL (%)	EUR (%)	USD (%)	TL (%)
Cash and cash equivalents	0.01	0.73	10.77	0.01	1.67	14.47
Amounts due from credit institutions	-	-	7.00	-	1.00	-
Financial assets at FVTPL	-	-	-	-	-	-
Investment securities	-	8.13	13.56	-	8.05	16.79
Loans to customers	4.45	6.16	14.13	4.69	6.63	18.05
Other financial assets	-	-	-	-	-	-
Amounts due to banks and financial inst.	1.04	4.05	9.46	1.14	3.76	11.94
Amounts due to customers	-	1.71	9.42	-	1.93	11.69
Money market deposits	0.89	1.70	8.96	0.50	1.65	10.80
Debt securities issued	1.74	3.61	10.55	1.34	3.58	12.96
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 2020	Shocks Applied (+/- basis points)	Gains/(Losses)	Gains/Equity-(Losses)/Equity
1. TL	(+) 500 bps	(8,115)	(1.44%)
2. TL	(-) 400 bps	7,276	1.29%
3. USD	(+) 200 bps	23,117	4.09%
4. USD	(-) 200 bps	(9,525)	(1.69%)
5. EURO	(+) 200 bps	(5,979)	(1.06%)
6. EURO	(-) 200 bps	-	-
Total (For negative shocks)		**(2,249)**	**(0.40%)**
Total (For positive shocks)		**9,023**	**1.59%**

31 December 2019	Shocks Applied (+/- basis points)	Gains/(Losses)	Gains/Equity-(Losses)/Equity
1. TL	(+) 500 bps	(7,007)	(1.28%)
2. TL	(-) 400 bps	6,247	1.14%
3. USD	(+) 200 bps	12,934	2.36%
4. USD	(-) 200 bps	(13,873)	(2.53%)
5. EURO	(+) 200 bps	(7,704)	(1.40%)
6. EURO	(-) 200 bps	-	-
Total (For negative shocks)		**(7,626)**	**(1.39%)**
Total (For positive shocks)		**(1,777)**	**(0.32%)**

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 2020, the Bank's USD bid rate is 6.8432 and EUR bid rate is 7.6720.

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

25. Financial risk management *(continued)*

Currency risk *(continued)*

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

30 June 2020	**TRY**	**USD**	**EUR**	**AZN**	**Other**	**Total**
Cash and cash equivalents[1]	9,500	191,619	1,055	11	1	202,186
Amounts due from credit institutions[1]	(93)	66,716	-	-	-	66,623
Financial assets at FVTPL	1,500	-	3,069	-	-	4,569
Derivative financial assets	-	3,263	-	-	-	3,263
Investment securities[1]	22,739	106,771	-	-	-	129,510
Loans to customers[1]	407,971	534,588	393,573	-	-	1,336,132
Other financial assets[1]	19,774	-	-	-	-	19,774
Total financial assets	**461,391**	**902,957**	**397,697**	**11**	**1**	**1,762,057**
The effect of derivatives	-	75,048	552	-	-	75,600
Amounts due to banks and financial inst.	106,726	324,770	327,712	-	-	759,208
Amounts due to customers	13,343	43,541	41	-	-	56,925
Money market deposits	398	4,477	-	-	-	4,875
Debt securities issued	27,505	569,718	24,603	-	-	621,826
Lease liabilities	115	-	-	-	-	115
Derivative financial liabilities	-	4	-	-	-	4
Other financial liabilities	19,945	-	-	-	-	19,945
Total financial liabilities	**168,032**	**942,510**	**352,356**	**-**	**-**	**1,462,898**
The effect of derivatives	34,248	-	38,360	-	-	72,608
Net position after the effect of derivatives	**259,111**	**35,495**	**7,533**	**11**	**1**	**302,151**

[1] Includes expected credit losses

31 December 2019	**TRY**	**USD**	**EUR**	**AZN**	**Other**	**Total**
Cash and cash equivalents[1]	151,440	38,515	636	33	1	190,625
Amounts due from credit institutions[1]	(110)	123,007	-	-	-	122,897
Financial assets at FVTPL	-	-	-	-	-	-
Derivative financial assets	-	132	-	-	-	132
Investment securities[1]	16,158	79,975	-	-	-	96,133
Loans to customers[1]	201,035	500,939	343,086	-	-	1,045,060
Other financial assets[1]	9,398	-	-	-	-	9,398
Total financial assets	**377,921**	**742,568**	**343,722**	**33**	**1**	**1,464,245**
The effect of derivatives	-	11,737	-	-	-	11,737
Amounts due to banks and financial inst.	69,278	275,434	322,023	-	-	666,735
Amounts due to customers	10,053	6,486	221	-	-	16,760
Money market deposits	6,192	-	-	-	-	6,192
Debt securities issued	7,815	446,784	21,365	-	-	475,964
Lease liabilities	147	-	-	-	-	147
Derivative financial liabilities	-	-	-	-	-	-
Other financial liabilities	13,685	-	-	3	-	13,688
Total financial liabilities	**107,170**	**728,704**	**343,609**	**3**	**-**	**1,179,486**
The effect of derivatives	11,856	-	-	-	-	11,856
Net position after the effect of derivatives	**258,895**	**25,601**	**113**	**30**	**1**	**284,640**

[1] Includes expected credit losses

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

25. 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 2020	3,550	(3,550)	753	(753)	1	(1)
31 December 2019	2,560	(2,560)	11	(11)	3	(3)

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 2020			31 December 2019		
	Interest rate risk	**Currency risk**	**Total market risk**	**Interest rate risk**	**Currency risk**	**Total market risk**
Average	198	2,959	3,157	126	1,698	1,824
Maximum	529	3,209	3,738	228	2,470	2,698
Minimum	47	2,557	2,604	-	930	930

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)

26. Changes in liabilities arising from financing activities

	Note	Bonds issued	Subordinated loans	Total liabilities from financing activities
Carrying amount at 31 December 2018		**318,492**	**-**	**318,492**
Proceeds from issue		346,661	-	346,661
Redemption		(236,731)	-	(236,731)
Foreign currency translation		48,627	-	48,627
Other[1]		(1,085)	-	(1,085)
Carrying amount at 31 December 2019	**16**	**475,964**	**-**	**475,964**
Proceeds from issue		150,151	-	150,151
Redemption		(74,659)	-	(74,659)
Foreign currency translation		69,799	-	69,799
Other[1]		571	-	571
Carrying amount at 30 June 2020	**16**	**621,826**	**-**	**621,826**

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

27. 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 2020			
Total assets	1,334,331	688,235	2,022,566
Total liabilities	88,406	1,391,338	1,479,744
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**

	Corporate banking	Treasury and asset liability management	Total
31 December 2019			
Total assets	1,044,394	681,109	1,725,503
Total liabilities	35,393	1,158,499	1,193,892
30 June 2019			
Net interest income	58,679	(5,446)	53,233
Provisions for loans and other credit risks, net	(22,497)	(371)	(22,868)
Net fee and commission income	2,900	(135)	2,765
Total non-interest income	-	(928)	(928)
Total non-interest expenses	-	(15,259)	(15,259)
Profit/(loss) before tax	**39,082**	**(22,139)**	**16,943**
Income tax expense	(8,832)	5,003	(3,829)
Net profit/(loss) for the period	**30,250**	**(17,136)**	**13,114**

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

28. 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 26.50% (31 December 2019 - 32.00%) in accordance with the related Communiqué as of 30 June 2020. The Bank has complied with the capital requirements throughout the year and previous year.

	30 June 2020	31 December 2019
Tier 1 capital	538,486	527,057
Tier 2 capital	26,656	21,423
Less: deductions from capital	-	-
Total regulatory capital	**565,142**	**548,480**
Risk-weighted assets	**2,132,479**	**1,713,856**
Capital adequacy ratio	**26.50%**	**32.00%**

29. 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 period are as follows:

	30 June 2020					31 December 2019				
	Parent	Entities under common control	Key management personnel	Other	Total	Parent	Entities under common control	Key management personnel	Other	Total
Cash and cash equivalents	163	334	-	-	**497**	167	627	-	-	**794**
Loans at 1 January, gross	**-**	**202,650**	**-**	**-**	**202,650**	**-**	**-**	**-**	**-**	**-**
Loans issued	-	-	-	-	-	-	194,168	-	-	194,168
Loan repayments	-	-	-	-	-	-	-	-	-	-
Interest accrual	-	1,268	-	-	1,268	-	2,787	-	-	2,787
Foreign currency translation	-	30,720	-	-	30,720	-	5,695	-	-	5,695
Loans at 30 June, gross	**-**	**234,638**	**-**	**-**	**234,638**	**-**	**202,650**	**-**	**-**	**202,650**
Allowance for impairment	-	(3,159)	-	-	(3,159)	-	(2,854)	-	-	(2,854)
Loans at 30 June, net	**-**	**231,479**	**-**	**-**	**231,479**	**-**	**199,796**	**-**	**-**	**199,796**
Interest income on loans	-	4,693	-	-	**4,693**	-	2,962	-	-	**2,962**
Other assets	-	-	-	-	-	-	-	-	-	-
Amounts due to banks and financial institutions	63	35,487	-	-	**35,550**	25,520	36,894	-	-	**62,414**
Amounts due to customers	-	9	-	-	**9**	-	-	-	-	-
Money market deposits	-	-	-	-	-	-	6,192	-	-	**6,192**
Debt securities issued	398,467	151,322	-	-	**549,789**	298,107	132,548	-	-	**430,655**
Other liabilities	-	-	-	-	-	-	123	-	-	**123**
Guarantees issued	48,096	38,833	-	-	**86,929**	26,610	33,718	-	-	**60,328**
Letters of credit issued	-	-	-	-	-	-	-	-	-	-

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

29. Related party disclosures *(continued)*

	30 June 2020					30 June 2019				
	Parent	**Entities under common control**	**Key management personnel**	**Other**	**Total**	**Parent**	**Entities under common control**	**Key management personnel**	**Other**	**Total**
Interest income except loans	-	32	-	-	**32**	-	53	-	-	**53**
Interest expense	(5,110)	(4,417)	-	-	**(9,527)**	(4,079)	(3,757)		-	**(7,836)**
Fees and commissions income	185	399	-	-	**584**	82	2	-	-	**84**
Fees and commissions expense	-	(27)	-	-	**(27)**	-	(67)	-	-	**(67)**
Non-Interest Income	-	762	-	-	**762**	-	-		-	-
Non-Interest Expenses	-	(125)	-	-	**(125)**	-	(556)	-	-	**(556)**

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

	30 June 2020	**30 June 2019**
Salaries and other benefits	3,704	3,230
Social security costs	93	74
Total key management personnel compensation	**3,797**	**3,304**

30. Subsequent Event

None