Nurol Yatırım Bankası Anonim Şirketi and its subsidiaries

Interim condensed consolidated financial statements at September 30, 2021 together with independent auditor's review report

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of
Nurol Yatırım Bankası Anonim Şirketi

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Nurol Yatırım Bankası A.Ş. and its subsidiaries (“the Group”) as of September 30, 2021 and the interim condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the nine-month period then ended, and explanatory notes. The Group management is responsible for the preparation and presentation of these interim condensed consolidated 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 consolidated 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 consolidated 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

Fatma Ebru Yücel, SMMM
Partner

30 November 2021
Istanbul, Turkey

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NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 SEPTEMBER 2021
(Currency - In thousands of Turkish Lira)

	Note	**Reviewed 30 September 2021**	**Audited 31 December 2020**
Assets			
Cash and cash equivalents	*6*	786,661	390,227
Reserve deposits at Central Bank	*7*	186,406	128,832
Derivative financial assets		15,723	39,179
Financial assets measured at fair value through profit and loss		22,539	-
Financial assets measured at fair value through other comprehensive income	*8*	465,991	321,953
Loans and advances to customers	*10*	4,055,839	3,092,029
Property and equipment		14,369	13,843
Non-current assets as held for sale	*11*	110,680	-
Investment property	*12*	185,820	296,500
Intangible assets		10,404	8,594
Current tax assets		-	7,324
Deferred tax assets	*18*	26,304	7,602
Other assets		44,316	19,261
Total assets		**5,925,052**	**4,325,344**
Liabilities			
Funds borrowed	*13*	1,664,835	1,120,098
Debt securities issued	*14*	1,343,168	722,790
Derivative financial liabilities		117,999	81,844
Subordinated debts	*15*	44,464	113,214
Provisions	*17*	50,071	32,510
Current tax liability		20,144	-
Other liabilities	*16*	1,920,187	1,635,898
Total liabilities		**5,160,868**	**3,706,354**
Equity			
Share capital	*20*	460,000	360,000
Reserves		175,226	131,824
Retained earnings		128,958	127,166
Total equity		**764,184**	**618,990**
Total liabilities and equity		**5,925,052**	**4,325,344**

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2021
(Currency - In thousands of Turkish Lira)

	Note	**Reviewed 1 January- 30 September 2021**	**Reviewed 1 January- 30 September 2020**
Interest income	*21*	449,327	283,408
Interest expense	*21*	(220,621)	(131,206)
Net interest income		**228,706**	**152,202**
Fee and commission income	*22*	75,102	25,837
Fee and commission expense	*22*	(8,019)	(6,974)
Net fee and commission income		**67,083**	**18,863**
Net trading income / (loss)	*23*	**(66,632)**	**53,969**
Net gains/(losses) on financial assets/liabilities at fair value through profit or loss		*(98,229)*	(21,125)
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income		*31,597*	*75,094*
Dividend Income		*200*	89
Other operating income	*24*	1,093	5,320
		(65,339)	**59,378**
Operating income		**230,450**	**230,443**
Net impairment/recoveries on financial assets	12	(15,961)	(52,088)
Other provision expenses		(20,809)	(14,008)
Personnel expenses	*25*	(24,732)	(18,062)
Depreciation and amortization		(7,686)	(5,246)
Administrative expenses	*26*	(25,527)	(30,329)
Profit before income tax		**135,735**	**110,710**
Income tax expense	*18*	(28,763)	(17,011)
Profit for the period		**106,972**	**93,699**
Other comprehensive income			
(items to be recycled subsequently to profit or loss)			
Financial assets measured at fair value through other comprehensive income			
Gain / (Loss) arising during the period		2,630	(4,102)
Income tax relating to components of other comprehensive income	*17*	1,078	(1,226)
(items not to be recycled subsequently to profit or loss)			
Gain / (Loss) arising during the year		37,578	67,535
Income tax relating to components of other comprehensive income		(3,064)	(5,396)
Other comprehensive income (loss) for the period, net of income tax		**38,222**	**56,811**
Total comprehensive income for the period		**145,194**	**150,510**

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2021
(Currency - In thousands of Turkish Lira)

			items not to be recycled subsequently to profit or loss	items to be recycled subsequently to profit or loss			
Reviewed	**Note**	**Share capital**	**Fair value reserve of financial assets at fair value through other comprehensive income**		**Legal reserves**	**Retained earnings**	**Total equity**
Balances at 1 January 2020		**300,000**	**44,424**	**604**	**9,969**	**81,345**	**436,342**
Transfer to reserves		**-**	**-**	**-**	**3,082**	**(3,082)**	**-**
Capital Increase		**60,000**	**-**	**-**	**-**	**(60,000)**	**-**
Internal Resources		60,000	-	-	-	(60,000)	-
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**-**
- Profit for the period		-	-	-	-	93,699	**93,699**
- Other comprehensive income for the period, net0 of tax		-	62,139	(5,328)	-	-	**56,811**
Total comprehensive income for the period		**-**	**62,139**	**(5,328)**	**-**	**93,699**	**150,510**
Balance at 30 September 2020		**360,000**	**106,563**	**(4,724)**	**13,051**	**111,962**	**586,852**
Reviewed							
Balances at 1 January 2021		**360,000**	**118,781**	**(8)**	**13,051**	**127,166**	**618,990**
Transfer to reserves		**-**	**-**		**-**	**-**	**-**
Capital Increase		**100,000**	**-**	**-**	**-**	**(100,000)**	**-**
Internal Resources		100,000	-	-	-	(100,000)	-
Other		-	-	-	5,180	(5,180)	-
Increase / Decrease Due to Other Changes		-	-	-	-	-	-
Total comprehensive income for the period		-	-	-	-	-	-
- Profit for the period		-	-	-	-	106,972	**106,972**
- Other comprehensive income for the period, net of tax		-	34,514	3,708	-	-	**38,222**
Total comprehensive income for the period		**-**	**34,514**	**3,708**	**-**	**106,972**	**145,194**
Balance at 30 September 2021		**460,000**	**153,295**	**3,700**	**18,231**	**128,958**	**764,184**

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2021
(Currency - In thousands of Turkish Lira)

	Note	**Reviewed 1 January- 30 September 2021(*)**	**Reviewed 1 January- 30 September 2020(*)**
Cash flows from operating activities			
Net profit for the period		106,972	93,699
Adjustments:			
Depreciation and amortisation		7,686	5,246
Current tax expense	*18*	49,451	33,837
Deferred tax (income)/expense	*18*	(20,688)	(16,826)
Provision for loan losses	*9*	16,785	49,283
Other provisions		19,985	17,574
Other accruals		21,396	(1,370)
Foreign exchange loss / (gain)		(119,236)	(41,782)
Fair value gain on investment property		-	-
		82,351	**139,661**
Changes in operating assets and liabilities			
Purchase of financial assests measured at fair value through profits and liabilities		(23,556)	-
Change in derivative financial assets		23,456	(7,282)
Change in loans and advances to customers		(978,939)	(830,842)
Change in reserve deposits		(56,003)	(3,309)
Change in other assets		(1,420)	(61,920)
Change in other liabilities		321,470	525,981
Change in derivative financial liabilities		36,155	23,670
Change in borrowings		477,121	467,798
Taxes paid		(25,179)	(36,873)
Net cash provided by / (used in) operating activities		**(226,895)**	**77,223**
Cash flows from investing activities			
Purchase of financial assests measured at fair value through other comprehensive income		(10,665,523)	(7,652,650)
Sale of financial assests measured at fair value through other comprehensive income		10,566,794	7,616,175
Purchase of property and equipment		(2,493)	(4,869)
Purchase of intangible assets		(5,369)	(3,886)
Net cash (used in) / provided by investing activities		**(106,591)**	**(45,230)**
Proceeds from debt securities issued		5,566,247	4,141,025
Repayment from debt securities issued		(5,034,968)	(4,216,166)
Proceeds from subordinated debts		-	-
Payment of lease liabilities		(2,947)	(2,077)
Net cash provided by /(used in) financing activities		**528,332**	**(77,218)**
Effect of foreign exchange rate change on cash and cash equivalents		**119,236**	**41,782**
Net increase in cash and cash equivalents		**396,434**	**136,218**
Cash and cash equivalents at 1 January	*6*	390,227	473,645
Cash and cash equivalents at 30 September	*6*	**786,661**	**609,863**

(*) Cash flows from interest received and paid disclosed together. Interest received is amounting to TL 439,661 (30 September 2020: 309,122) and interest paid is amounting to TL 198,417 (30 September 2020: 157,679).

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

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

Nurol Yatırım Bankası A.Ş. (the “Bank” or “Nurolbank”) was established in 1998 by the permission of the council of Ministers Decree No. 98/11565 dated 6 August 1998, to finance investment and foreign trade activities, and started its financial banking activities in May 1999. Nurolbank is owned controlled by the Nurol Holding A.Ş.

Nurol Varlık Kiralama A.Ş. is established in 2017 to operate in asset leasing sector. Nurol Varlık Kiralama A.Ş. has been registered in trade register as of June 14, 2017 and published in Turkey Trade Registry Gazette numbered 9351 dated 20 September 2017. Nurol Varlık Kiralama A.Ş.’s paid in capital is amounting to TL 50 as of September 30, 2021.

Nurol Portföy Yönetim A.Ş is established in 2020 to operate in portfolio management services sector and has been registered in trade register as of December 17, 2020 and published in Turkey Trade Registry Gazette numbered 10226 dated 17 December 2020. Nurol Portföy Yönetim A.Ş’s paid in capital is amounting to 3,000 TL and paid all by Nurol Yatırım Bankası A.Ş.

Ortak Varlık Yönetim A.Ş is established by Nurol Yatırım Bankası A.Ş.. Ortak Varlık Yönetim A.Ş.’s paid in capital is amounting to 30,000 TL and paid all by the Nurol Yatırım Bankası A.Ş.. Ortak Varlık Yönetim A.Ş. has been registered in trade register as of January 22, 2021 and published in Turkey Trade Registry Gazette numbered 10251 dated 22 January 2021.

Nature of Activities of the Group

The Group activities include investment banking and corporate services such as asset and financial leasing, lending and trade finance.

Nurolbank operates as an investment bank and according to the current legislation for investment banks, the Bank is not authorised to receive deposits from customers. The Bank’s head office is located at Nurol Plaza in Maslak in İstanbul, Turkey.

The shareholders’ structure of the Bank is as disclosed below:

Shareholders	**Total nominal value of the shares**	**Share percentage (%)**
Nurol Holding A,Ş,	363,319	78.98
Nurol İnşaat ve Tic, A,Ş,	76,838	16.70
Others	19,843	4.32

The Parent Bank have capital increase TL 100,000 provided from internal resources during the current period (January 1- December 31, 2020: The Parent Bank's paid in capital has been increased by TL 60,000 provided from internal resources).

The shareholder having direct or indirect control over the shares of the Bank is Nurol Group. Nurol Group has operations in construction, defence, finance, tourism, health, mining, real estate, marketing and manufacturing industries through 33 firms within the Nurol Group 4 joint ventures and 11 domestic-foreign associates and subsidiaries.

2. The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at September 30, 2021 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2021. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2021 are as follows:

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to provide temporary reliefs which address the financial reporting effects when an interbank offering rate (IBOR) is replaced with an alternative nearly risk-free rate (RFR, amending the followings:

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Under this practical expedient, if the interest rates applicable to financial instruments change as a result of the IBOR reform, the situation is not considered as a derecognition or contract modification; instead, this would be determined by recalculating the carrying amount of the financial instrument using the original effective interest rate to discount the revised contractual cash flows.

The practical expedient is required for entities applying IFRS 4 Insurance Contracts that are using the exemption from IFRS 9 Financial Instruments (and, therefore, apply IAS 39 Financial Instruments: Classification and Measurement) and for IFRS 16 Leases, to lease modifications required by IBOR reform.

2. The new standards, amendments and interpretations (continued)

Relief from discontinuing hedging relationships

- The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.

- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR.

- For the IAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero.

  The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued.

- As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform.

Separately identifiable risk components

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Additional disclosures

Amendments need additional IFRS 7 Financial Instruments disclosures such as; How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform, quantitative information about financial instruments that have yet to transition to RFRs and if IBOR reform has given rise to changes in the entity's risk management strategy, a description of these changes.

The amendments are mandatory, with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

The amendments did not have a significant impact on the financial position or performance of the Group.

2. The new standards, amendments and interpretations (continued)

Amendments to IFRS 16 - Covid-19-Related Rent Concessions and Covid-19-Related Rent Concessions beyond 30 June 2021

In May 2020, the IASB amended IFRS 16 to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic (2020 amendment). The 2020 amendment does not apply to lessors. In March 2021, the Board amended IFRS 16 to extend the availability of the practical expedient by one year (2021 amendment). The practical expedient in the 2021 amendment applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

The amendments did not have a significant impact on the financial position or performance of the Group.

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Group will wait until the final amendment to assess the impacts of the changes.

Amendments to IFRS 3 – Reference to the Conceptual Framework

In May 2020, the IASB issued amendments to IFRS 3 Business combinations. The amendments are intended to replace to a reference to a previous version of the IASB’s Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing requirements of IFRS 3. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments issued to IFRS 3 which are effective for periods beginning on or after 1 January 2022 and must be applied retrospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS standards (March 2018).

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

2. The new standards, amendments and interpretations (continued)

Amendments to IAS 16 – Proceeds before intended use

In May 2020, the IASB issued amendments to IAS 16 Property, plant and equipment. The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and costs of producing those items, in profit or loss. The amendments issued to IAS 16 which are effective for periods beginning on or after 1 January 2022. Amendments must be applied prospectively only to items of PP&E made available for use on or after beginning of the earliest period presented when the entity first applies the amendment.

There is no transition relief for the first time adopters.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Amendments to IAS 37 – Onerous contracts – Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent assets. . The amendments issued to IAS 37 which are effective for periods beginning on or after 1 January 2022, to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making and also apply a “directly related cost approach”. Amendments must be applied retrospectively to contracts for which an entity has not fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023; early application is permitted. The Group will not have an impact on the financial position or performance of the Group.

2. The new standards, amendments and interpretations (continued)

Amendments to IAS 1- Classification of Liabilities as Current and Non-Current Liabilities

23 January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2023, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group

Amendments to IAS 8 - Definition of Accounting Estimates

In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments issued to IAS 8 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the Board.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

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

In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments issued to IAS 1 are effective for annual periods beginning on or after 1 January 2023. In the absence of a definition of the term 'significant' in IFRS, the Board decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in IFRS and is widely understood by the users of financial statements, according to the Board. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group

2. The new standards, amendments and interpretations (continued)

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments issued to IAS 12 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Annual Improvements – 2018–2020 Cycle

In May 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020 Cycle, amending the followings:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter: The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported by the parent. The amendment is also applied to an associate or joint venture.
- IFRS 9 Financial Instruments – Fees in the “10 per cent test” for derecognition of financial liabilities: The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either borrower or lender on the other’s behalf.
- IAS 41 Agriculture – Taxation in fair value measurements: The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring fair value of assets within the scope of IAS 41.

Improvements are effective for annual reporting periods beginning on or after 1 January 2022.Earlier application is permitted for all.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

(Currency - In thousands of Turkish Lira)

3. Consolidation

3.1 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Parent Bank and its subsidiary, which is the entity controlled by the Parent Bank. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When necessary, adjustments are made to the consolidated financial statements of subsidiary to bring their accounting policies into line with those of the Group. The titles, the places where their headquarters are located and the share ratios of the Group of the companies within the scope of consolidation are as follows:

	Consolidation method	Location	Group Active Share Ratio (%)	
			September 30, 2021	December 31, 2020
Nurol Varlık Kiralama Anonim Şirketi	Full consolidation	Turkey	100,00	100,00
Nurol Portföy Yönetim Anonim Şirketi(*)	Full consolidation	Turkey	100,00	100,00
Ortak Varlık Yönetim Anonim Şirketi	Full consolidation	Turkey	100,00	-

(*) NUROL PORTFÖY YÖNETİMİ A.Ş. PARA PİYASASI ŞEMSİYE FONU whose fund founder is the Nurol Portföy Yönetimi A.Ş. which is the subsidiary of Parent Bank, is being controlled in accordance with the methods, procedures and principles set forth in the "Turkish Financial Reporting Standard for Consolidated Financial Statements ("TFRS10") and has been accounted for using the full consolidation method by the Group.

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

4. Significant accounting policies

4.1 Statement of compliance

The condensed consolidated financial statements have been prepared in accordance with international Financial Reporting Standards ("IFRS") as issued by the international Accounting Standards Board ("IASB").

The Parent Bank maintains its book of account and prepares their statutory condensed consolidated financial statements in Turkish Lira ("TL") in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation. The accompanying condensed consolidated financial statements are derived from statutory condensed consolidated financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. The subsidiary maintains its books of accounts based on statutory rules and regulations applicable in its jurisdiction. The accompanying condensed consolidated financial statements are derived from statutory financial statements with adjustments and reclassifications For the purpose of fair presentation in accordance with IFRS. The condensed consolidated financial statements were authorised for issue by the Group's management on 30 November 2021.

The ongoing COVID-19 pandemic, which has recently emerged in China, has spread to various countries in the world, causing potentially fatal respiratory infections, negatively affects both regional and global economic conditions, as well as it causes disruptions in operations, especially countries that are exposed to the epidemic. As a result of the spread of COVID-19 around the world, several measures have been taken in Turkey as well as in the world in order to prevent the spread of the virus and measures are 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 Turkey and worldwide.

Since it is aimed to update the most recent financial information in the interim financial statements prepared as of September 30, 2021, considering the magnitude of the economic changes due to COVID-19, the Group made certain estimates in the calculation of expected credit losses in footnote numbered 4.10.

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.2 Basis of measurement

The condensed consolidated financial statements have been prepared on historical cost basis except for the following which are measured at fair value:

- derivative financial instruments
- financial instruments measured at fair value through profit or loss,
- financial instruments measured at fair value through other comprehensive income,
- Investment property

4.3 Foreign currency transactions

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 that are 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.

Foreign currency translation rates used by the Group are as follows:

	USD / TL (full)	EUR / TL (full)
30 September 2021	8,8785	10,2933
31 December 2020	7,4194	9,1164

4.4 lnterest income and interest 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 (purchased or originated) is impaired and classified as a non-performing receivable, the Parent 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. It is used effective interest rate 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 to the gross amount.

Interest income and expense presented in the statement of comprehensive income statement include:

- The interest income on fınancial assets and liabilities at amortized cost on an effective interest rate basis
- The interest income on held for trading investments and fair value through other comprehensive income investments.

4. Significant accounting policies (continued)

4.5 Fees and commission

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.

4.6 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.

4.7 Dividends

Dividends are recognised when the shareholders' right to receive the payments is established.

4.8 Taxation and deferred income taxes

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

Current tax

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

Deferred tax

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

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

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

4. Significant accounting policies (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. In the deferred tax calculations, 25% for the transactions that will be valid in the calculation of the corporate tax until the end of 2021 for the companies in Turkey, 23% for the transactions that will be valid within 2022, and 20% for the transactions that will be valid after 2022.(December 31, 2020 : 20%)

Current and deferred tax for the period

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

4.9 Financial instruments

Initial recognition of financial instruments

The Parent Bank shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted**.**

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. Except for the assets in the scope of IFRS 15 Revenue from contracts with customers, at initial recognition, the Parent Bank measures financial asset or financial liabilities at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit/loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification of financial instruments

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

As per IFRS 9, the Parent Bank classifies a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at fair value through profit or loss. The Parent Bank tested all financial assets whether their “contractual cash-flows solely represent payments of principal and interest” and assessed the asset classification within the business model.

4. Significant accounting policies (continued)

Assessment of business model

As per IFRS 9, the Parent Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Parent Bank's business models are divided into three categories.

Business model aimed to hold assets in order to collect contractual cash flows

This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Receivables from the Central Bank, Banks, Money Market Placements, investments under financial assets measured at amortized cost, loans, leasing receivables, factoring receivables and other receivables are assessed within this business model.

Business model aimed to collect contractual cash flows and sell financial assets

This is a model whose objective is achieved by both collecting contractual cash flows and selling financial assets: the Parent Bank may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial Assets Measured at Fair Value through Other Comprehensive Income are assessed in this business model.

Other business models

Financial assets are measured at fair value through profit or loss when they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial assets measured at fair value through profit/loss are assessed in this business model.

4. Significant accounting policies (continued)

4.9.1 Financial assets

Financial assets are classified in three main categories as listed below:

- Financial assets measured at fair value through profit/loss
- Financial assets measured at fair value through other comprehensive income and
- Financial assets measured at amortized cost

Financial assets at the 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 aimes 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 measured 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

In addition to Financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income. Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are measured 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 are accounted under the "Other comprehensive income/expense items to be recycled to profit/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. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

Financial Assets Measured at Amortized 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 method. Interest income obtained from financial assets measured at amortized cost is accounted in income statement.

4. Significant accounting policies (continued)

Loans and Advances to Customers

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method".

All loans of the Parent Bank has classified under Measured at Amortized Cost, after loan portfolio passed the test of “All cash flows from contracts are made only by interest and principal" during the transition period.

Due from banks

Due from banks are non-derivative fınancial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

When the Group purchases a fınancial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fıxed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as amounts due from banks, and the underlying asset is not recognised in the Group's financial statements.

Due from banks are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Repossessed assets

As part of its treatment of defaulted loans and guarantees, the Group in a number of cases takes over assets as security for such exposures. Upon repossession the assets are valued at their presumed realisable value. Any deviation from the carrying value of a defaulted or written down exposure upon takeover is classified as a loan write-down. Repossessed assets are carried according to type. Upon final disposal, the deviation from carrying value is entered in profit or loss based on the asset’s type in the accounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignifıcant risk of changes in value.

4.9.2 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the defınitions of a fınancial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific fınancial liabilities and equity instruments are set out below.

Financial liabilities are classified as either fınancial liabilities at FVTPL or other fınancial liabilities.

4. Significant accounting policies (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities are classifıed as at FVTPL where the fınancial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profıt or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other fınancial liabilities, including funds borrowed, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

Deposits, funds borrowed and debt securities issued

The Group is not entitled to collect deposits. Current accounts of loan customers and funds borrowed are the Group’s sources of debt funding.

Current accounts of loan customers and funds borrowed are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

4.9.3 Derivative financial instruments

Derivative fınancial 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.

4.10 Expected Credit Loss

As of 30 September 2021, the Group recognizes a loss allowance for expected credit losses on financial assets and loans measured at amortized cost and fair value through other comprehensive income and loan commitments not measured at fair value through profit/loss based and non-cash loans on IFRS 9.

At each reporting date, the Group shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. The Parent 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:

4. Significant accounting policies (continued)

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of expected credit losses on the 12-month default risk. It is calculated 12-month expected credit loss based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate. Such calculation is performed for each of three scenarios explained above.

Stage 2:

As of the reporting date of the financial asset, in the event of a significant increase in credit risk since initial recognition, 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. Calculation approach is quite similar with approach mentioned above, but probability of default and loss amount in default ratios estimated for the lifetime of instruments.

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 Group accounts lifetime expected credit losses. In determining the impairment, the Parent Bank takes into consideration the following criteria:

- Delay of over 90 days
- Do not carry the necessary conditions for Stage 1 and Stage 2

Calculation of expected credit losses

The Parent Bank measured expected credit losses with the reasonable, objective and supportable information based on a probability-weighted including estimations about 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).

As of 1 January 2018, the Parent Bank has started to apply IFRS 9 for the classification of loans and receivables, measuring credit quality and calculating expected loss provisions. The Parent 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 parent bank based on internal rating scores calculated within own model. The Parent Bank's policy is to use standard PDs published based on historical data published by international rating agencies. PDs are available for the next ten years as annual and cumulative basis. Annual periods are calculated by interpolating. For noncash 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" settled by BRSA. The present value of the ECLs are then calculated using the effective interest rates of the related financial assets.

The Parent bank calculated the average PD and LGD as 0.65% and 30.45%, respectively for cash financial assets, 0.70% and 41.54% for noncash loans as of 30 September 2021. 100% PD is applied for all financial assets in stage 3.

4. Significant accounting policies (continued)

Probability of Default ("PD")

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. In the modeling, different probability of default are used for products which have country risk.

In order to measure risk, internal rating systems, credit ratings issued by external rating agencies, payment performance of customers, and risk center credit notes for commercial customers are used to a certain extent.

Historical datas which are issued by international rating agencies are considered in order to calculate probability of default for customers and countries. The probabilities of default are cumulative in the next ten years and are calculated in the annual periods based on the estimation method.

In addition, the probability of default calculation includes historical data, current conditions and prospective macroeconomic they are updated considering expectations.

Loss Given Default ("LGD")

The LGD represents an estimate of the economic loss at the time of a potential default occurring during the life of a financial instrument. The LGD is calculated taking into account expected future cash flows from collateral and other credit enhancements by considering time value of money.

LGD calculation are also considered collaterals based on specified rate according to 'Determining the Qualifications of Loans and Other Receivables by Banks Regulation on Procedures and Principles for Provisions'

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.

Consideration of the Macroeconomic Factors

The probability of default is determined by basic macroeconomic factors such as unemployment, GDP growth, inflation and interest rates. Also, Turkey's 5-year credit risk (CDS Spreads) that has high correlation are based in order to update to "PD". While updating "PD", average amount for a year and the end of period value are considered for CDS Spreads.

4. Significant accounting policies (continued)

Calculating the Expected Loss Period

Lifetime ECL is calculated by taking into account 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 Parent Bank. Estimated periods for the parent bank's exposure to risk were calculated by considering at historical data for full guarantee letters.

Significant increase in credit risk

The Parent 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. In this context, the Parent Bank has calculated thresholds at which point the relative change is a significant deterioration.

When determining the significant increase in parent bank credit risk, The Parent Bank also assessed the absolute change in the PD date on the transaction date and on the reporting date. If the absolute change in the PD ratio is above the threshold values, the related financial asset is classified as stage 2.

The Parent Bank classifies the financial asset as Stage 2 (Significant Increase in Credit Risk) where any of the following conditions are satisfied as a result of a qualitative assessment:

- Loans overdue more than 30 days as of the reporting date
- When there is a change in the payment plan due to restructuring

4.11 Derecognition, reclassification and refinancing of financial instrument

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 Parent 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 Parent Bank retains control of the asset, the Parent Bank continues to recognize the remaining portion of the asset and liabilities arising from such asset. When the Parent 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.

4. Significant accounting policies (continued)

Derecognition of financial assets without any change in contractual terms

The Parent 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 extinguishen when the obligation specified in the contract is discharged or cancelled or expires.

Reclassification of financial instruments

Based on IFRS 9, it shall be reclassified all affected financial assets at amortised cost to financial assets measured at fair value through other comprehensive income and fair value through profit or loss in the subsequent accounting when, it is changed the business model for managing financial assets.

4. Significant accounting policies (continued)

Restructuring and refinancing of financial instruments

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

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

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

Corporate and commercial companies which have been restructured and refinanced can be removed from the watchlist when the following conditions are met:

- Subsequent to the thorough review of company's financial data and its owners' equity position, at circumstances when it is not anticipated that the owner of the company will face financial difficulties; and it is assessed that the restructured debt will be paid on time (starting from the date when the debt is restructured all due principal and interest payments are made on time)

- At least 2 years should pass over the date restructuring (or if it is later), the date of removal from non-performing loan category, at least 10% (or the ratio specified in the legislation) of the total principal amount at the time restructuring/refinancing shall be paid and no overdue amount (principal and interest) shall remain at the date of restructuring/refinancing.

In order for the restructured non-performing corporate and commercial loans to be classified to the watchlist category, the following conditions are met:

- Recovery in debt service,
- At least 1 year should pass over the date of restructuring,
- Payment of all accrued and overdue amounts by debtor (interest and principal) since the date of restructuring/refinancing or the date when the debtor is classified as non-performing (earlier date to be considered) and fulfilment or the payment condition of all overdue amounts as of the date of restructuring/refinancing.
- Collection of all overdue amounts, disappearance of the reasons for classification as non-performing receivable (based on the conditions mentioned above) and having no overdue more than 30 days os of the date of reclassification.

During the follow-up period of at least two years following the date of restructuring/refinancing, if there is a new structuring/refinancing or a delay of more than 30 days, the transactions which were non-performing at the beginning of the follow-up period are classified as non-performing loans again. The performing or non-performing retail loans being subject to restructuring shall be removed from the watchlist only if the debt is paid in full.

4. Significant accounting policies (continued)

4.12 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

4.13 Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefıts exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

4.14 Non-current Assets Held for Sale

Assets that meet the criteria to be classified as held for sale within the scope of “IFRS 5 – Non-current Assets Held for Sale” are measured at the lower one of their fair value and their carrying amount which from the costs to sell are deducted and presented separately within the financial statements. In order to classify a tangible fixed asset as held for sale, the asset (or the disposal group) should be available for an immediate sale in its present condition subject to the terms of any regular sales of such assets (or such disposal groups) and the sale should be highly probable. For a highly probable sale, the appropriate level of management must be committed to a plan to sell the asset (or the disposal group), and an active programme to complete the plan should be initiated to locate a customer. Also, the asset (or the disposal group) should have an active market sale value, which is a reasonable value in relation to its current fair value. Events or circumstances may extend the completion of the sale more than one year. Such assets are still classified as held for sale if there is sufficient evidence that the delay in the sale process is due to the events and circumstances occurred beyond the control of the entity or the entity remains committed to its plan to sell the asset (or disposal group).

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4. Significant accounting policies (continued)

4.15 Investment properties

"IAS 40 Investment Properties" standards 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 stated at fair value.

The Group's investment properties are valued by external, independent valuation companies on a periodic basis. 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.

Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

4.16 Leases

Leases are classified as fınance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under fınance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of fınancial position as a fınance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets.

TFRS 16 standard removes the dual accounting model in the form of showing the balance sheet results of financial leasing transactions and operational leasing transactions. Instead of this, a singular accounting model based on balance sheet is introduced, similar to the existing financial leasing accounting. for leasers, accounting process have been an important feature, similar to existing practices. The Group has started to apply TFRS 16 Leases standard as of January 1, 2019. As of 30 September 2021, The Group recognized right of use asset classified under tangible assets and lease liability amounting to TL 6,713 and TL 7,094 respectively due to application of IFRS 16.

4. Significant accounting policies (continued)

The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

4.17 Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4.18 Employee benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defıned 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.

Profıt-sharing and bonus plans

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

4.19 Fiduciary assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the balance sheet, since such items are not treated as assets of the Group.

4. Significant accounting policies (continued)

4.20 Use of estimates and judgments

The preparation of the condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

4.21 Key sources of estimation uncertainty

Expected credit loss

Expected credit loss calculation methodology of the Group described in accounting policy 4.10.

Determining fair values

The determination of fair value for financial assets and liabilities of the Group described in accounting policy 4.9.

(Currency - In thousands of Turkish Lira)

5. Segment reporting

An operating segment is a component of an entity: that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group operates in investment, retail and corporate banking and asset leasing. Accordingly, the Group invests with the funds provided by using the capital market instruments and provides consultancy services so as to provide efficient management and sound financial structure to business enterprises.

The Group provides investment and operating loans to its commercial and retail customers and also provides service packages consisting of foreign trade operations, investment products, cash management, financial leasing, factoring, and other banking products.

Major financial statement items according to business lines:

30 September 2021	Corporate banking	Other (*)	Total operations of the Group
Operating income	228,257	2,193	230,450
Other expenses	(94,715)	-	(94,715)
Profit before income tax	133,542	2,193	135,735
Income tax income/expense			(28,763)
Profit from continued operations	133,542	2,193	106,972
Profit for the period	**104,779**	**2,193**	**106,972**
Segment assets	5,922,765	2,287	5,925,052
Non-distributed Asset	-	-	-
Total assets	**5,922,765**	**2,287**	**5,925,052**
Segment liabilities	5,160,868	-	5,160,868
Shareholders' equity	-	764,184	764,184
Total liabilities	**5,160,868**	**764,184**	**5,925,052**

(*) includes investment, retail and other banking business lines.

30 September 2020	Corporate banking	Other (*)	Total operations of the Group
Operating income	184,298	46,145	230,443
Other expenses	(119,733)	-	(119,733)
Profit before income tax	64,565	46,145	110,710
Income tax income/expense	-	-	(17,011)
Profit from continued operations	64,565	46,145	93,699
Profit for the period	**47,554**	**46,145**	**93,699**
Segment assets	4,325,309	35	4,325,344
Non-distributed Asset	-	-	-
Total assets	**4,325,309**	**35**	**4,325,344**
Segment liabilities	3,706,354	-	3,706,354
Shareholders' equity	-	618,990	618,990
Total liabilities	**3,706,354**	**618,990**	**4,325,344**

(*) includes investment, retail and other banking business lines.

(Currency - In thousands of Turkish Lira)

6. Cash and cash equivalents

	30 September 2021	31 December 2020
Cash and balances with central banks	2,415	1,263
- *Cash on hand*	*2,411*	*1,259*
- *Balances with central banks*	*4*	*4*
Due from banks and financial institutions(*)	771,322	388,964
Placements at money markets	12,924	-
Cash and cash equivalents in the balance sheet	**786,661**	**390,227**

(*)As a result of IFRS 9, amount of TL 105 provision booked for due from banks and financial institutions as of September 30, 2021 (December 31, 2020: 97).

7. Reserve deposits at Central Bank

	30 September 2021	31 December 2020
Turkish Lira	18,955	6,418
Foreign currency	167,451	122,414
	186,406	**128,832**

8. Financial assets measured at fair value through other comprehensive income

	30 September 2021		31 December 2020	
	Amount	**Effective interest rate**	**Amount**	**Effective interest rate**
Financial assets measured at fair value through other comprehensive income				
Debt instruments [(a)]	218,677	17,1%	112,115	19.34%
Equity instruments – listed [(b)]	241,151		203,608	
Equity instruments – unlisted	6,414		6,414	
Financial assets measured at fair value through other comprehensive income	**466,242**		**322,137**	
Expected Credit Losses (-)[(c)]	**(251)**		**(184)**	
Total FVTOCI	**465,991**		**321,953**	

(a) Financial assets measured at fair value through other comprehensive income include government bonds denominated in TL amounting to TL 6,281 (31 December 2020: TL 7,237), bank bonds amounting to TL 6,986 (31 December 2020: TL 6,137), private sector securities amounting to TL 108,175 (31 December 2020: TL 4,343), Private sector bonds amounting to TL 85,636 (31 December 2020: TL 94,213).

(b) The Group holds 8,97% of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş. ("Company")'s shares as of 30 September 2020 and the investment is accounted under fair value through other comprehensive income investments, as the Group has no significant influence on the Company, As of the balance sheet date the shares are accounted for using the market price and fair value reserve of TL 158,239 is accounted under equity (31 December 2020: TL 120,699).

(c) The Group calculates expected credit loss for financial assets measured at fair value through other comprehensive income in accordance with IFRS 9. As of 30 September 2021, the expected credit loss that is calculated for financial assets measured at fair value through other comprehensive income is TL 229 (December 31, 2020: 198).

9. Financial assets measured at fair value through profit and loss

(Currency - In thousands of Turkish Lira)

	30 September 2021	31 December 2020
Financial assets measured at fair value through profit and loss	22,539	-
	22,539	**-**

(*)As a result of IFRS 9 adoption, amount of TL 7 provision booked for due from Financial assets measured at fair value through profit and loss as of September 30, 2021 (December 31, 2020: None.).

10. Loans and advances to customers

	30 September 2021		
	Amount		
	TL	**Foreign currency**	**Total**
Short-term loans	1,578,710	1,301,805	2,880,515
Medium and long-term loans	353,168	721,389	1,074,557
Total performing loans	**1,931,878**	**2,023,194**	**3,955,072**
Generic provisions for Stage 1 and Stage 2	**(18,674)**	**-**	**(18,674)**
Non-performing loans-originated (a)	32,415	63,560	95,975
Non-performing loans-purchased (b)	119,441	-	119,441
Provisions for Stage 3	(32,415)	(63,560)	(95,975)
Total non-performing loans (net)	**119,441**	**-**	**119,441**
Total loans, net	**2,032,645**	**2,023,194**	**4,055,839**

(a) Non-performing loans-originated include the impaired loans which have been originated (given) by the Parent bank.

(b) Non-performing loans-purchased include the impaired loans which have been purchased by the subsidiary of the parent bank, Ortak Varlık Yönetim A.Ş. from other banks at a discount**.** Ortak Varlık Yönetim A.Ş. is an asset management company and its main business line is the management of impaired loans purchased from the banks.

	31 December 2020		
	Amount		
	TL	**Foreign currency**	**Total**
Short-term loans	1,451,084	813,337	2,264,421
Medium and long-term loans	384,307	455,157	839,464
Total performing loans	**1,835,391**	**1,268,494**	**3,103,885**
Generic provisions for Stage 1 and Stage 2	**(25,550)**	**-**	**(25,550)**
Non-performing loans	86,220	-	86,220
Provisions for Stage 3	(72,526)	-	(72,526)
Total non-performing loans (net)	**13,694**	**-**	**13,694**
Total loans, net	**1,823,535**	**1,268,494**	**3,092,029**

10. Loans and advances to customers (continued)

Lending structure of the Group:

(Currency - In thousands of Turkish Lira)

	30 September 2021	**31 December 2020**
Corporate Lending	3,790,596	2,920,236
SME Lending	9,054	74,054
Other Lending	370,838	195,815
Less: Allowance for ECL/impairment losses	(114,649)	(98,076)
Total	**4,055,839**	**3,092,029**

Expected Credit Loss Expense Movement of the Group:

	30 September 2021				**30 September 2020**			
	ECL allowance				**ECL allowance**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents (including reserves at Central Bank)	33	-	-	33	50	-	-	50
Securities	38	-	-	38	108	-	-	108
Derivatives	-	-	-	-	-	-	-	-
Loans and advances to customers	(411)	(6,464)	23,660	16,785	550	43,527	5,207	49,284
Other financial assets	(52)	-	-	(52)	50	-	-	50
Guarantees	(220)	(1,044)	424	(840)	81	1,427	1,089	2,597
LCs and Acceptances	(3)	-	-	(3)	8	-	-	8
	(615)	**(7,507)**	**24,084**	**15,961**	**847**	**44,954**	**6,296**	**52,097**

Expected Credit Loss Measurement of On-Balance Sheet Financial Assets:

	30 September 2021							
	Carrying Amount				**ECL Allowance**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents (including reserves at Central Bank)	973,197	-	-	973,197	130	-	-	130
Securities	488,530	-	-	488,530	236	-	-	236
Derivatives	15,723	-	-	15,723	-	-	-	-
Loans and advances to customers	3,884,345	70,729	215,415	4,170,489	1,106	17,568	95,975	114,649
of which : Large corporate clients	*3,623,894*	*70,729*	*95,974*	*3,790,597*	*1,078*	*17,568*	*95,975*	*114,621*
of which : SME clients	*9,054*	-	-	*9,054*	-	-	-	-
of which : Others	*251,397*	-	*119,441*	*370,838*	*28*	-	-	*28*
Other financial assets	2,683	-	-	2,683	39	-	-	39
Total on-balance sheet financial assets in scope of ECL requirements	**5,364,478**	**70,729**	**215,415**	**5,650,622**	**1,511**	**17,568**	**95,975**	**115,054**

(Currency - In thousands of Turkish Lira)

10. Loans and advances to customers (continued)

	31 December 2020							
	Carrying Amount				**ECL Allowance**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents (including reserves at Central Bank)	519,059	-	-	519,059	97	-	-	97
Securities	321,953	-	-	321,953	184	-	-	184
Derivatives	39,179	-	-	39,179	-	-	-	-
Loans and advances to customers	2,997,374	106,511	86,220	3,190,105	1,518	24,032	72,526	98,076
of which : Large corporate clients	*2,727,505*	*106,511*	*86,220*	*2,920,236*	*1,463*	*24,032*	*72,526*	*98,021*
of which : SME clients	*74,054*	-	-	*74,054*	*13*	-	-	*13*
of which : Others	*195,815*	-	-	*195,815*	*42*	-	-	*42*
Other financial assets	6,176	-	-	6,176	92	-	-	92
Total on-balance sheet financial assets in scope of ECL requirements	**3,883,741**	**106,511**	**86,220**	**4,076,472**	**1,891**	**24,032**	**72,526**	**98,448**

Impairment allowance for loans and advances to customers	**30 September 2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	315	-	-	315
Standard grade	302	-	-	302
Sub-standard grade	489	17,568	-	18,057
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	95,975	95,975
	1,106	**17,568**	**95,975**	**114,649**

Impairment allowance for loans and advances to customers	**31 December 2020**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	242	-	-	242
Standard grade	389	-	-	389
Sub-standard grade	887	24,032	-	24,919
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	72,526	72,526
	1,518	**24,032**	**72,526**	**98,076**

(Currency - In thousands of Turkish Lira)

11. Non-current assets as held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount is to be recovered through a sale transaction rather than from continuing use and is expected to be recognized as a completed sale within one year from the date of classification. Two real estates amounting to TL 110,680 in total, which were previously classified as investment properties during the audit period, due to the change in their characteristics the book value will be recovered through the sale transaction rather than continuing use, and it is expected to be accounted as a completed sale within one year from the date of classification has been classified as for sale. After this reclassification, the amount of assets as held for sale realized as TL 110,680 (31 December 2020: None).

12. Investment Property

The Bank classifies the lands and real estates that it holds to earn rental income or value increase or both as investment property in accordance with TAS 40 and evaluates them using the fair value method. The independent valuation reports used for the fair value of lands and real estates were published in 2020 and it will be reevaluated in 2021. Two real estates amounting to TL 110,680 in total, which were previously classified as investment properties during the audit period, due to the change in their characteristics the book value will be recovered through the sale transaction rather than continuing use, and it is expected to be accounted as a completed sale within one year from the date of classification has been classified as for sale. After this reclassification, the amount of investment properties realized as TL 185,820. (31 December 2020: TL 296,500).

13. Funds borrowed

	30 September 2021			**31 December 2020**		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Funds borrowed	635,797	962,859	1,598,656	365,170	682,614	1,047,784
Obligations under repurchase agreements	2,865	63,314	66,179	2,203	70,111	72,314
	638,662	**1,026,173**	**1,664,835**	**367,373**	**752,725**	**1,120,098**

The effective interest rate for funds borrowed denominated in USD is 8,43% (31 December 2020 – 2.58%), in EUR is 5,63% (31 December 2020 – 2,06%) and in TL is 17,88% (31 December 2020 – 16.45%).

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as at 30 September 2021 (31 December 2020 – None).

(Currency - In thousands of Turkish Lira)

14. Debt securities issued

	30 September 2021			31 December 2020		
	TL	**Foreign Currency**	**Total**	**TL**	**Foreign Currency**	**Total**
Bonds	898,343	-	898,343	571,405	-	571,405
Bills	444,825	-	444,825	151,385	-	151,385
	1,343,168	**-**	**1,343,168**	**722,790**	**-**	**722,790**

Debt securities issued – Cash flow movement

	30 September 2021
Balance as at 1 January 2020	722,790
Proceed during the year	5,566,247
Repayments during the year	(5,034,968)
Other non-cash movements	89,099
Balance as at 30 September 2021	**1,343,168**

Debt securities issued

As of September 30, 2021, the list of the issued bills and bonds by the Parent Bank are shown below:

ISSUE TYPE	ISSUE DATE	MATURITY DATE	DAYS	NOMINAL VALUE (full TL)	INTEREST RATE
BILL	01.06.2020	01.06.2022	730	50,000,000	9.00%
BILL	25.06.2020	27.06.2022	732	50,000,000	9.25%
BILL	11.09.2020	13.09.2022	732	50,000,000	14.00%
BILL	26.11.2020	28.11.2022	732	50,000,000	15.75%
BOND	02.07.2021	01.10.2021	91	50,000,000	19.50%
BOND	06.07.2021	07.10.2021	93	100,000,000	19.50%
BILL	14.07.2021	20.07.2021	371	200,000,000	19.50%
BILL	28.07.2021	20.01.2021	541	155,000,000	19.75%
BOND	04.08.2021	01.12.2021	119	150,000,000	19.50%
BOND	13.08.2021	12.11.2021	91	80,000,000	19.50%
BOND	20.08.2021	29.11.2021	101	100,000,000	19.50%
BOND	02.09.2021	23.12.2021	112	100,000,000	19.35%
BOND	06.07.2021	08.12.2021	176	50,000,000	19.75%
BOND	15.06.2021	27.12.2021	174	50,000,000	19.50%
BOND	12.08.2021	04.02.2021	176	100,000,000	19.75%
BOND	08.09.2021	03.03.2021	176	100,000,000	19.35%
BOND	21.09.2021	16.03.2021	176	100,000,000	19.50%

Nurol Varlık Kiralama Şirketi A.Ş. issued “Lease certificates” amounting to TL 350,000,000 (full TL) in 2021.

(Currency - In thousands of Turkish Lira)

15. Subordinated debts

	30 September 2021			31 December 2020		
	TL	**Foreign Currency**	**Total**	**TL**	**Foreign currency**	**Total**
Bonds (*)	-	-	-	-	37,158	37,158
Loan (*)	-	44,464	44,464	-	76,056	76,056
	-	**44,464**	**44,464**	**-**	**113,214**	**113,214**

(*) The Parent Bank received a loan on December 27, 2016 from World Business Capital at an amount of USD 5,000,000 with an interest rate of 6.65%, 10 years maturity, floating rate and quarterly interest payment (31 December 2020 - The Parent Bank has issued Eurobond on March 31, 2016 with a nominal value of USD 10,000,000, 10 years maturity and fixed interest rate of 10%, having a coupon payments every three months and received a loan on December 27, 2016 from World Business Capital at an amount of USD 5,000,000 with an interest rate of 6.65%, 10 years maturity, floating rate and quarterly interest payment).

16. Other liabilities

	30 September 2021	**31 December 2020**
Cash collaterals (*)	1,850,629	1,598,528
Taxes and funds payable	9,446	9,330
Lease Liabilities	7,094	6,996
Others	53,018	21,044
	1,920,187	**1,635,898**

(*) The balance includes cash collaterals received for the derivative transactions made with the corporate customers.

17. Provisions

	30 September 2021	**31 December 2020**
Provision for non - cash loans	5,391	6,234
Employee termination benefits	1,571	1,644
Vacation pay liability	3,215	2,622
Bonus accrual	4,500	-
Provision for lawsuits	35,394	22,010
	50,071	**32,510**

(Currency - In thousands of Turkish Lira)

17. Provision (continued)

Employee termination benefits

Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, who is called up for military service, dies or retires after completing 25 years (20 years for women) of service and reaches the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TL 8,284.51 for each period of service at 30 September 2021 (31 December 2020: TL 6,730.15).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. IAS 19 *Employee Benefits* stipulates the development of company's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying condensed consolidated financial statements as at 30 September 2021, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated by using 9.50% (31 December 2020: 8.00%) annual inflation rate and 3.74% (31 December 2020: 12.20%) discount rate.

Expected credit loss measurement of off-balance sheet financial assets:

	30 September 2021							
Expected credit loss measurement	**Carrying Amount**				**ECL Allowance(*)**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Guarantees	1,038,131	3,764	4,342	1,046,237	856	666	3,869	5,391
LCs and Acceptances	-	-	-	-	-	-	-	-
Total	**1,038,131**	**3,764**	**4,342**	**1,046,237**	**856**	**666**	**3,869**	**5,391**

(*) ECL allowance for off-balance sheet financial assets are recognized in Liabilities' "Provisions" line.

	31 December 2020							
Expected credit loss measurement	**Carrying Amount**				**ECL Allowance(*)**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Guarantees	857,489	12,510	4,092	874,091	1,075	1,710	3,446	6,231
LCs and Acceptances	2,425	-	-	2,425	3	-	-	3
Total	**859,914**	**12,510**	**4,092**	**876,516**	**1,078**	**1,710**	**3,446**	**6,234**

(*) ECL allowance for off-balance sheet financial assets are recognized in Liabilities' "Provisions" line.

(Currency - In thousands of Turkish Lira)

17. Provision (continued)

Impairment allowance for off-balance sheet financial assets:

	30 September 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	2	-	-	2
Standart grade	420	-	-	420
Sub-standard grade	433	667	-	1,100
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	3,869	3,869
Total	**855**	**667**	**3,869**	**5,391**

Movement for impairment allowance for off-balance sheet financial assets:

	30 September 2021			
	Financial guarantees	**Letters of credit and acceptances**	**Other undrawn commitments**	**Total**
At 1 January 2021	**6,231**	**3**	**-**	**6,234**
Charge for the year	(840)	(3)	-	(843)
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Unwind of transformed into cash	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
At 30 September 2021	**5,391**	**-**	**-**	**5,391**

18. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. In Turkey, corporate tax rate is 25% for the 2021 taxation period and will be applied as %23 for the 2022 taxation period (31 December 2020: 22%). The tax legislation provides for a temporary tax to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

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

Income tax recognised in the income statement

The components of income tax expense as stated below:

	30 September 2021	**30 September 2020**
Current tax		
Current income tax	49,451	(33,837)
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	(20,688)	16,826
Income tax expense reported in the income statement	**28,763**	**17,011**

(Currency - In thousands of Turkish Lira)

18. Taxation (continued)

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate for the years ended 30 September 2021 and 30 September 2020 is as follows:

	30 September 2021	30 September 2020
Profit before income tax	135,735	110,710
Income tax using the domestic corporate tax rate	(33,934)	(24,356)
Other(*)	5,171	7,345
Total income tax expense in the profit or loss	**(28,763)**	**(17,011)**

(*) Consists of difference between corporate tax rate and deferred tax rate.

Movement of net deferred tax assets can be presented as follows:

	30 September 2021	30 September 2020
Deferred tax assets / (liability), net at 1 January	7,602	8,741
Deferred tax recognised in the profit or loss	20,688	16,826
Deferred income tax recognised in other comprehensive income	(1,986)	(6,622)
Deferred tax assets/(liabilities), net at end of September	**26,304**	**18,945**

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	30 September 2021(*)			31 December 2020(*)		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net(*)**
Liability for employee benefits	1,196	-	1,196	853	-	853
Valuation of financial assets at FVOCI	-	(8,547)	(8,547)	-	(5,965)	(5,965)
Economic life property and equipment	-	(709)	(709)	-	(579)	(579)
Derivatives	24,223	-	24,223	8,533	-	8,533
Expected Loss Provision	5,154	-	5,154	5,745	-	5,745
Other	442	-	442	-	(659)	(659)
Provisions for realty	-	(4,303)	(4,303)	-	(4,728)	(4,728)
Provisions for lawsuit	8,848	-	8,848	4,402	-	4,402
	39,863	**(13,559)**	**26,304**	**19,533**	**(11,931)**	**7,602**

(*) In the deferred tax calculations, 25% for the transactions that will be valid in the calculation of the corporate tax until the end of 2021 for the companies in Turkey, 23% for the transactions that will be valid within 2022, and 20% for the transactions that will be valid after 2022.(December 31, 2020 : 20%)

(Currency - In thousands of Turkish Lira)

19. Commitments and contingencies

In the normal course of business, the Group enters into a number of contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These contractual commitments consist of commitments to extend credit, commercial letters of credit and standby letters of credit and guarantees. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the conditions established in the contract. Commercial letters of credit ensure payment by a bank to a third party for a customer's foreign or domestic trade transactions, generally to finance a commercial contract for the shipment of goods.

Standby letters of credit and financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. All of these arrangements are related to the normal lending activities of the Group. The Group's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and commercial and standby letters of credit is represented by the contractual notional amount of those instruments. The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

As at 30 September 2021; commitments and contingencies comprised the following:

	30 September 2021	**31 December 2020**
Letters of guarantee	1,046,237	874,091
Bank acceptance	-	-
Letters of credit	-	2,425
Other commitments	-	-
Total	**1,046,237**	**876,516**

(Currency - In thousands of Turkish Lira)

20. Share capital and reserves

Share capital

As at 30 September 2021 and 31 December 2020, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	30 September 2021		31 December 2020	
	Amount	**%**	**Amount**	**%**
Nurol Holding A,Ş,	363,319	78,98%	284,337	78.98
Nurol İnşaat ve Tic, A,Ş,	76,838	16,70%	60,134	16.70
Others	19,843	4,32%	15,529	4.32
Total	**460,000**		**360,000**	

As at 30 September 2021, the authorised share capital comprised of 460,000 has been increased by 100,000 provided from internal resources ordinary shares having a par value of TL full 1,000 (As at 31 December 2020, the authorised share capital comprised of 360,000 ordinary shares having a par value of TL full 1,000). All issued shares are paid.

Legal Reserves

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

As at 30 September 2021, the Group's legal reserves amounted to TL 18,231 (31 December 2020 – TL 13,051).

(Currency - In thousands of Turkish Lira)

21. Net interest income

	30 September 2021	30 September 2020
Interest income		
Loans and advances to customers	384,982	214,171
Deposits with banks and other financial institutions	18,427	11,793
Financial assets measured at fair value through profit/loss and financial assets measured at fair value through other comprehensive income	16,159	35,662
Other	29,759	21,782
	449,327	**283,408**
Interest expense		
Funds borrowed	(78,591)	(39,181)
Debt securities issued	(111,724)	(4,554)
Interbank funds borrowed	(6,291)	(65,432)
Financial leases	(863)	(596)
Other	(23,152)	(21,443)
	(220,621)	**(131,206)**
Net interest income	**228,706**	**152,202**

22. Net fee and commission income

	30 September 2021	30 September 2020
Fee and commission income		
Non-cash loans	13,789	12,695
Other	61,313	13,142
Total fee and commission income	**75,102**	**25,837**
Fee and commission expense		
Non-cash loans	(1,885)	(1,779)
Other	(6,134)	(5,195)
Total fee and commission expense	**(8,019)**	**(6,974)**
Net fee and commission income	**67,083**	**18,863**

(Currency - In thousands of Turkish Lira)

23. Net trading income/loss

	30 September 2021	30 September 2020
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	31,597	75,094
Net gains/(losses) on financial assets/liabilities at fair value through profit or loss	(98,229)	(21,125)
Gain / (losses) from derivatives	*(150,453)*	*372*
Gain / (losses) from FX losses	*52,224*	*(21,497)*
Total	**(66,632)**	**53,969**

24. Other operating income

	30 September 2021	30 September 2020
Rent income	-	4,664
Gain on sales of assets	-	1
Communication expenses reflected to the customers	98	98
Reversal of provision	740	-
Other	255	557
	1,093	**5,320**

25. Personnel expenses

	30 September 2021	30 September 2020
Wages and salaries	19,615	15,501
Compulsory social security obligations	1,989	1,432
Other benefits	3,128	1,129
Total	**24,732**	**18,062**

(Currency - In thousands of Turkish Lira)

26. Administrative expenses

	30 September 2021	30 September 2020
Audit and advisory expenses	5,779	4,217
Nurol Holding re-charges	5,142	4,973
Other various administrative expenses(*)	4,226	12,905
Taxes and duties expenses	3,565	260
Telecommunication expenses	2,785	1,819
Computer expenses	1,605	1,191
Maintenance expenses	729	230
Notary expenses	565	147
Rent expenses	541	3,587
Hosting expenses	508	702
Advertising expenses	82	94
Transportation expenses	-	204
Total	**25,527**	**30,329**

(*) Includes financial activity fee, dues, BRSA contribution fee.

27. Financial risk management objectives and policies

a) Introduction and overview

The Group has exposure to the following risks from financial instruments:

- credit risk
- market risks

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Bank’s management of capital.

Risk management framework

The Group’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 Group 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 Group is exposed to a number of risks such as credit risk, liquidity risk, market risk and operational risk, The Group’s risk policy can be summarised as:

- well managing the credit risk through a high standardised credit risk management
- eliminating liquidity risk
- minimising market risk

27. Financial risk management objectives and policies (Continued)

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

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Group 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 Group 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.

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

b) Credit risk

Credit risk represents the risk arising from the counter party's not fulfilling its responsibilities stated in the agreement either partially or totally. Credit Risk Management Committee is responsible for managing credit risk at the Group.

Total amount of credits granted to a group is subject to certain credit risk limits. According to the decision taken by the Board of Directors; the maximum amount of the loan to be granted to a group (cash and non-cash) is limited with the calculation of certain percentages of the shareholders' equity based on the rating of the group. Furthermore, concentration risk is monitored on monthly basis in terms of industry, rating by risk group and customer.

The credibility of the debtors of the Group is assessed periodically. Loan limits of the loan customers are revised periodically in line with the Group's procedures. The Group analyses the credibility of the loans within the framework of its loan policies and obtains collaterals for loans and other receivables.

The restructured and rescheduled loans are evaluated in the Group's current rating system besides the follow up method determined in the related regulation.

(Currency - In thousands of Turkish Lira)

27. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Credit risk by risk groups

	Individual	Corporate	Total
30 September 2021			
Performing loans	2,286	3,882,057	3,884,343
Loans under close monitoring	-	70,729	70,729
Non-performing loans-originated ([a]		95,975	95,975
Non-performing loans-purchased [b]	119,441	-	119,441
Gross	**2,286**	**4,168,202**	**4,170,488**
Transferred asset	-	-	-
Specific provisions for Stage 3	-	(95,975)	(95,975)
Generic provisions for Stage 1 and Stage 2	-	(18,674)	(18,674)
Total	**2,286**	**4,053,553**	**4,055,839**
31 December 2020			
Performing loans	35	2,997,339	2,997,374
Loans under close monitoring	-	106,511	106,511
Non-performing loans	-	86,220	86,220
Gross	**35**	**3,190,070**	**3,190,105**
Reserve for possible loan losses	-	(72,526)	(72,526)
Collective impairment	-	(25,550)	(25,550)
Total	**35**	**3,091,994**	**3,092,029**

(a) Non-performing loans-originated include the impaired loans which have been originated (given) by the Parent bank.
(b) Non-performing loans-purchased include the impaired loans which have been purchased by the subsidiary of the parent bank, Ortak Varlık Yönetim A.Ş. from other banks at a discount. Ortak Varlık Yönetim A.Ş. is an asset management company and its main business line is the management of impaired loans purchased from the banks.

(Currency - In thousands of Turkish Lira)

27. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk

		Due from banks		Loans and advances to customers	
	Notes	**30 September 2021**	**31 December 2020**	**30 September 2021**	**31 December 2020**
Carrying amount		**786,766**	**389,061**	**4,055,839**	**3,092,029**
Non-performing fin. assets-Originated [(a)]		-	-	95,975	86,220
Non-performing fin. assets-Purchased [(b)]				119,441	-
Gross amount		**-**	**-**	**215,416**	**98,076**
Specific provision for Stage 3	*9*	**-**	**-**	(95,975)	(72,526)
Generic provision for Stage 1 and 2	*9*	(105)	(97)	(18,674)	(25,550)
Neither past due nor impaired		786,661	388,964	3,986,089	2,985,518
Carrying amount		**786,661**	**388,964**	**3,986,089**	**2,985,518**
Restructured and rescheduled loans and other receivables		**-**	**-**	69,750	106,511
Carrying amount		**-**	**-**	**69,750**	**106,511**
Carrying amount (amortised cost)		**786,661**	**388,964**	**4,055,839**	**3,092,029**

(a) Non-performing loans-originated include the impaired loans which have been originated (given) by the Parent bank.

(b) Non-performing loans-purchased include the impaired loans which have been purchased by the subsidiary of the parent bank, Ortak Varlık Yönetim A.Ş. from other banks at a discount**.** Ortak Varlık Yönetim A.Ş. is an asset management company and its main business line is the management of impaired loans purchased from the banks.

(Currency - In thousands of Turkish Lira)

27. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk (continued)

Write-off policy
The Group writes off a loan balance and any related allowances for impairment losses, when Group position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not sufficient to pay back the entire exposure.

Collateral policy
The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The breakdown of financial assets by type of collateral is as follows:

30 September 2021		**Collaterals after rate of consideration**								
Type of collateral or credit enhancement	**Maximum exposure to credit risk**	**Cash**	**Securities (Cheques &Acts &Stock Share)**	**Property (Mortgages)**	**Assignment of receivables**	**Vehicle Pledge**	**Other**	**Total collateral**	**Net exposure**	**Associated ECLs**
Financial assets										
Cash and cash equivalents (including reserves at Central Bank)	944,150	-	-	-	-	-	-	-	944,150	130
Loans and advances to customers	4,674,456	13,072	392,069	42,660	197,531	420,627	-	1,065,959	3,608,497	114,649
of which : Large corporate clients	4,236,530	7.318	336,524	978	197,531	420,627	-	962,978	3,273,552	114,621
of which : SME clients	9,054	-	3,564	5,436	-	-	-	9,000	54	-
of which : Others	428,872	5,754	51,981	36,246	-	-	-	93,981	334,891	28
Other financial assets	2,683	-	-	-	-	-	-	-	2,683	39
Derivative financial instruments	15,723	-	-	-	-	-	-	-	15,723	-
Securities at fair value through OCI	521,417	-	-	-	-	-	-	-	521,417	236
Guarantees (after Credit Conversion Factor)	577,085	9,537	198,557	10,695	19,483	73,927	845	313,044	264,041	5,391
LCs and Acceptances (after Credit Conversion Factor)	-	-	-	-	-	-	-	-	-	-

(Currency - In thousands of Turkish Lira)

27. Financial risk management objectives and policies (continued)

Fair value through profit or loss (FVTPL)

At 30 September 2021, the Parent Bank has derivative financial assets at FVTPL amounting to TL 15,723 (31 December 2020 – TL 39,179). An analysis of the credit quality of the maximum credit exposure is as follows:

	30 September 2021	31 December 2020
Derivative financial assets	15,723	39,179
Fair value and carrying amount	**15,723**	**39,179**

c) Capital management

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank; BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of Tier 1 capital.
- Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of financial assets measured at fair value through other comprehensive income and equity investments, subordinated loans received, free reserves set aside for contingencies and the fund for increase in the value of securities.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

(Currency - In thousands of Turkish Lira)

27. Financial risk management objectives and policies (continued)

c) Capital management (continued)

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group and the Group's regulated operations have complied with externally imposed capital requirements throughout the period.

There have been no material changes in the Group's management of capital during the period.

The Group's capital position in accordance with BRSA regulations is as follows:

	30 September 2021	**31 December 2020**
Amount subject to credit risk (I)	5,444,069	4,121,232
Amount subject to market risk (II)	103,163	79,894
Amount subject to operational risk (III)	309,373	216,763
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)	**5,856,605**	**4,417,889**
Shareholders' equity:		
Tier 1 capital	753,838	615,732
Tier 2 capital	64,777	139,818
Total regulatory capital	**818,615**	**755,550**
Capital adequacy ratio	**14.11%**	**17.10%**

27. Financial risk management objectives and policies (continued)

d) Fair values

Fair values of remaining financial assets and liabilities carried at cost, including cash and cash equivalents, reserve deposits at Central Bank, current account of loan customers and funds borrowed are considered to approximate their respective carrying values due to their short-term nature.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments using valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(Currency - In thousands of Turkish Lira)

27. Financial risk management objectives and policies (continued)

d) Fair values (continued)

This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

30 September 2021	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets		15,723	-	-	15,723
Financial assets measured at fair value through other comprehensive income	*8*	465,991	-	-	465,991
Assets as held for sale		-	110,680	-	110,680
Investment property		-	185,820	-	185,820
Derivative financial liabilities		-	117,999	-	117,999

31 December 2020	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets		39,179	-	-	39,179
Financial assets measured at fair value through other comprehensive income	*8*	321,953	-	-	321,953
Investment property		-	296,500	-	296,500
Derivative financial liabilities		-	81,844	-	81,844

e) Market risk

Market risk is the risk that changes in market prices such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Parent Bank's income or the value of its holdings of financial instruments.

The Board of Directors of the Group determines the risk limits for primary risks carried by the Group and periodically revises these limits. For the purpose of hedging market risk, the Group primarily aims to balance the foreign currency position, collateralise the loans and manage liquidity.

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

(Currency - In thousands of Turkish Lira)

27. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that the Group is subject to due to the exchange rate movements in the market.

Position limit of the Group related with currency risk is determined according to Foreign Currency Net Position Standard ratio determined by BRSA.

The concentrations of assets, liabilities and off balance sheet items are as follows:

	USD	Euro	Others	Total
2021				
Assets				
Cash and cash equivalents	424,124	192,063	15,662	631,849
Reserve deposits at Central Bank	93,483	73,968	-	167,451
Loans and advances to customers	643,877	1,442,877	-	2,086,754
Financial Assets at Fair Value Through Other Comprehensive Income	119,522	-	-	119,522
Other assets	-	-	-	-
Total assets	**1,281,006**	**1,708,908**	**15,662**	**3,005,576**
Liabilities				
Funds borrowed	105,900	281,775	14,965	402,640
Subordinated debts	44,464	-	-	44,464
Other liabilities	452,900	1,898,011	-	2,350,911
Total liabilities	**603,264**	**2,179,786**	**14,965**	**2,798,015**
Gross exposure	**677,742**	**(470,878)**	**697**	**207,561**
Off-balance sheet position				
Net notional amount of derivatives	(689,972)	468,714	-	(221,258)
Net exposure	**(12,230)**	**(2,164)**	**697**	**(13,697)**

Sensitivity analysis

A 20 percent weakening of TL against the foreign currencies at 30 September 2021 and 31 December 2020 would have effect on the equity and profit or loss by the amounts shown below:

2021	**Equity**	**Profit or loss**
EUR	(433)	(433)
USD	(2,446)	(2,446)
Other currencies	139	139
Total	**(2,740)**	**(2,740)**

2020	**Equity**	**Profit or loss**
EUR	946	946
USD	(36)	(36)
Other currencies	(152)	(152)
Total	**758**	**758**

(Currency - In thousands of Turkish Lira)

27. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Currency risk (continued)

	USD	Euro	Others	Total
2020				
Assets				
Cash and cash equivalents	57,661	180,875	54,001	292,537
Reserve deposits at Central Bank	62,783	59,631	-	122,414
Loans and advances to customers	254,166	1,067,922	-	1,322,088
Financial assets measured at fair value through other comprehensive income	94,212	-	-	94,212
Other assets	-	-	-	-
Total assets	**468,822**	**1,308,428**	**54,001**	**1,831,251**
Liabilities				
Funds borrowed	186,718	272,195	54,755	513,668
Subordinated debts	104,384	-	-	104,384
Other liabilities	204,564	1,568,302		1,772,866
Total liabilities	**495,666**	**1,840,497**	**54,755**	**2,390,918**
Gross exposure	**(26,844)**	**(532,069)**	**(754)**	**(559,667)**
Off-balance sheet position				
Net notional amount of derivatives	26,658	536,798	-	563,456
Net exposure	**(186)**	**4,729**	**(754)**	**3,789**

(Currency - In thousands of Turkish Lira)

27. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Interest rate risk

Interest rate risk that would arise from the changes in interest rates depending on the Group's position is managed by the Asset and Liability Committee of the Group.

Interest rate sensitivity of assets, liabilities and off balance sheet items is analysed by top management in the Asset and Liability Committee meetings held every week by taking the market developments into consideration.

The Management of the Group follows the interest rates in the market on a daily basis and revises interest rates of the Group when necessary.

The following table indicates the periods in which financial assets and liabilities reprice as of 30 September 2021 and 31 December 2020:

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 30 September 2021							
Assets							
Cash and cash equivalents	130,112	-	-	-	-	656,549	786,661
Reserve deposits at Central Bank	18,957	-	-	-	-	167,449	186,406
FVTPL investments	13,157	332	2,234	-	-	22,539	38,262
Financial assets at fair value through other comprehensive income	56,055	74,037	87,467	867	-	247,565	465,991
Loans and advances to customers	2,692,911	458,787	350,919	422,426	11,355	119,441	4,055,839
Other assets	-	-	-	-	-	391,893	391,893
Total assets	**2,911,192**	**533,156**	**440,620**	**423,293**	**11,355**	**1,605,436**	**5,925,052**
Liabilities							
Funds borrowed(*)	351,114	339,392	195,675	20,338	44,464	758,316	1,709,299
Debt securities issued	145,497	500,332	541,787	155,552	-	-	1,343,168
Other liabilities(**)	1,145,018	532,873	195,435	56,243	-	943,016	2,872,585
Total liabilities	**1,641,629**	**1,372,597**	**932,897**	**232,133**	**44,464**	**1,701,332**	**5,925,052**
On balance sheet interest sensitivity gap	1,269,563	(839,441)	(492,277)	191,160	(33,109)	(95,896)	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**1,269,563**	**(839,441)**	**(492,277)**	**191,160**	**(33,109)**	**(95,896)**	**-**

(*) Includes subordinated loans amounting to TL 44,464.
(**) Derivative financial instruments are included in other liabilities.

(Currency - In thousands of Turkish Lira)

27. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Interest rate risk (continued)

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2020							
Assets							
Cash and cash equivalents	3,288	-	-	-	-	386,939	390,227
Reserve deposits at Central Bank	122,414	-	-	-	-	6,418	128,832
FVTPL investments	38,505	674	-	-	-	-	39,179
Available for sale investments	25,469	53,561	32,901	-	-	210,022	321,953
Loans and advances to customers	1,949,277	308,728	470,183	333,114	17,033	13,694	3,092,029
Other assets	-	-	-	-	-	353,124	353,124
Total assets	**2,138,953**	**362,963**	**503,084**	**333,114**	**17,033**	**970,197**	**4,325,344**
Liabilities							
Funds borrowed (*)	212,957	170,049	212,464	8	61,925	499,854	1,157,256
Debt securities issued(**)	97,343	289,348	185,105	150,994	76,056	-	798,846
Other liabilities(***)	1,054,626	558,603	21,898	0	-	734,114	2,369,242
Total liabilities	**1,364,926**	**1,018,000**	**419,467**	**151,002**	**137,981**	**1,233,968**	**4,325,344**
On balance sheet interest sensitivity gap	774,027	(655,037)	83,617	182,112	(120,948)	(263,771)	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**774,027**	**(655,037)**	**83,617**	**182,112**	**(120,948)**	**(263,771)**	**-**

(*) Includes subordinated loans amounting to TL 76,056.
(**) Includes subordinated bonds amounting to TL 37,158.
(***) Derivative financial instruments are included in other liabilities.

Summary of average interest rates

As at 30 September 2021 and 31 December 2020, the summary of average interest rates for different assets and liabilities are as follows:

	30 September 2021			31 December 2020		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and balances with the Central Bank	-	-	12.50	-	-	5.00
Due from banks	0.01	0.19	17.82	0.02	0.49	9.57
FVTPL investments	-	-	-	-	-	-
Placements at money markets	-	-	-	-	-	8.66
FVTOCI investments		8.49	19.54		8.73	19.34
Loans and advances to customers	8.42	8.87	20.51	6.91	8.48	17.26
Other	-	-	-	-	-	-
Liabilities						
Money market borrowings	0.25	0.56	10.74	0.18	0.58	5.34
Funds borrowed	5.63	8.43	17.88	6.87	8.02	9.89
Debt securities issued	-	-	17.29	-	10.00	12.65
Funds from other financial institutions	0.25	0.12	17.55	1.16	0.51	10.07

(Currency - In thousands of Turkish Lira)

27. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its fınancial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is a substantial risk in the Turkish market, which exhibits significant volatility.

As a result of COVID-19 pandemic, Against liquidity problems that could occur due to fluctuations in financial markets, the Bank has updated its Liquidity Emergency Action Plan and has prepared a Liquidity Action Plan to further increase its existing liquidity. The Parent Bank has designed separate measures for both its assets and liabilities, and has immediately initiated the necessary efforts to implement these measures.

Exposure to liquidity risk

Maturity analysis of monetary assets and liabilities according to their remaining maturities is presented below:

30 September 2021	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	643,623	130,114	-	-	-	-	12,924	786,661
Reserve deposits at Central Bank	167,451	18,955	-	-	-	-	-	186,406
FVTPL investments	-	7,824	332	2,234	5,333	-	22,539	38,262
FVOCI investments	-	-	31,542	3,484	118,779	64,621	247,565	465,991
Loans and advances to customers	-	2,692,911	458,787	350,919	433,781	-	119,441	4,055,839
Other assets	-	-	-	-	-	-	391,893	391,893
Total assets	**811,074**	**2,849,804**	**490,661**	**356,637**	**557,893**	**64,621**	**794,362**	**5,925,052**
Funds borrowed (*)	758,317	351,113	339,392	195,675	20,338	44,464	-	1,709,299
Debt securities issued	-	145,497	500,332	541,787	155,552	-	-	1,343,168
Other liabilities(**)	147,666	1,145,018	532,873	195,435	56,243	-	795,350	2,872,585
Total liabilities	**905,983**	**1,641,628**	**1,372,597**	**932,897**	**232,133**	**44,464**	**795,350**	**5,925,052**
Liquidity gap	**(94,909)**	**1,208,176**	**(881,936)**	**(576,260)**	**325,760**	**20,157**	**(988)**	**-**
Off Balance Sheet Position	**-**	**(50,116)**	**(17,541)**	**(60,091)**	**(6,217)**	**-**	**-**	**(133,965)**
Receivables from derivatives	-	2,308,841	654,228	167,262	50,899	-	-	3,181,230
Liabilities from derivatives	-	2,358,957	671,769	227,353	57,116	-	-	3,315,195
Non cash loans	**-**	**4,102**	**46,649**	**290,344**	**14,319**	**690,823**	**-**	**1,046,237**

(*) Includes subordinated loans amounting to TL 44,464.
(**) Derivative financial instruments are included in other liabilities.

(Currency - In thousands of Turkish Lira)

27. Financial risk management objectives and policies (continued)

e) Market risk (continued)

31 December 2020	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	386,939	3,288	-	-	-	-	-	390,227
Reserve deposits at Central Bank	6,418	122,414	-	-	-	-	-	128,832
FVTPL investments	-	38,505	674	-	-	-	-	39,179
FVOCI investments	-	-	-	4,342	43,649	63,940	210,022	321,953
Loans and advances to customers	-	1,949,277	308,728	470,183	350,147	-	13,694	3,092,029
Other assets	8	34,183	-	-	-	-	318,933	353,124
Total assets	**393,365**	**2,147,667**	**309,402**	**474,525**	**393,796**	**63,940**	**542,649**	**4,325,344**
Funds borrowed (*)	499,854	212,957	170,049	212,464	8	61,925	-	1,157,256
Debt securities issued (**)	-	97,343	289,348	185,105	150,994	76,056	-	798,846
Other liabilities(***)	104,143	1,054,634	558,603	21,890	-	-	629,971	2,369,242
Total liabilities	**603,997**	**1,364,934**	**1,018,000**	**419,459**	**151,002**	**137,981**	**629,971**	**4,325,344**
Liquidity gap	**(210,632)**	**782,733**	**(708,598)**	**55,066**	**242,794**	**(74,041)**	**(87,322)**	**-**
Off Balance Sheet Position	**-**	**(5,560)**	**(10,179)**	**(673)**	**(38,854)**	**-**	**-**	**(55,266)**
Receivables from derivatives	-	2,444,288	553,662	14,383	35,340	-	-	3,047,673
Liabilities from derivatives	-	2,449,848	563,841	15,056	74,194	-	-	3,102,939
Non cash loans	**-**	**3,000**	**35,841**	**46,381**	**99,959**	**691,335**	**-**	**876,516**

(*) Includes subordinated loans amounting to TL 37,158.

(**) Includes subordinated bonds amounting to TL 76,056.

(***) Derivative financial instruments are included in other liabilities.

(Currency - In thousands of Turkish Lira)

28. Related parties

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 the financial and operating decisions.

In the course of conducting its banking business, the Group conducted various business transactions with related parties. These include loans, customer accounts, funds borrowed and non-cash transactions. The volumes of related party transactions, outstanding balances at year-end and relating expense and income for the period are as follows:

30 September 2021	**Balance**	**Percentage of the financial statement amount (%)**
Cash loans	1,552,854	38%
Non-cash loans	14,809	1%
Borrower funds / Funds borrowed	227,802	14%

31 December 2020	**Balance**	**Percentage of the financial statement amount (%)**
Cash loans	840,248	26%
Non-cash loans	22,184	3%
Borrower funds / Funds borrowed	158,758	23%

30 September 2021	**Balance**	**Percentage of the financial statement amount (%)**
Interest income and commissions	114,474	25%
Other operating expense (-)	5,142	15%

30 September 2020	**Balance**	**Percentage of the financial statement amount (%)**
Interest income and commissions	70,014	25%
Other operating expense (-)	4,973	14%

As at 30 September 2021, no provisions have been recognised in respect of loans given to related parties (31 December 2020 – none).

Compensation of key management personnel of the Bank

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 10,874 comprising salaries and other benefits for the period 1 January-30 September 2021 (1 January - 30 September 2020: TL 8,312).

29. Events after balance sheet date

None.