TÜRKİYE VAKIFLAR BANKASI
TÜRK ANONİM ORTAKLIĞI
AND IT'S SUBSIDIARIES

INTERIM CONSOLIDATED CONDENSED
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2020

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the General Assembly of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı

Introduction

1. We have reviewed the accompanying condensed consolidated interim statement of financial position of Türkiye Vakıflar Bankası T.A.O. and its subsidiaries (collectively referred to as the "Group") as of 30 June 2020 and the related condensed consolidated interim statements of income, comprehensive income, changes in shareholders' equity and cash flows for six-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Basis for the Qualified Conclusion

3. As explained in Note 12 of the accompanying condensed consolidated interim financial statements includes a free provision provided by the Bank management, contrary to the recognition criteria of IAS 37 "Provisions, contingent liabilities and contingent assets", amounting TL 852,000 thousand with its related deferred tax amounting to TL 170,400 thousand as at 30 June 2020.

Qualified Conclusion

4. Based on our review, except for the effects of the matter on the condensed consolidated interim financial statements described in the basis for the qualified conclusion paragraph above, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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

Halûk Yalçın, SMMM
Partner

Istanbul, 31 August 2020

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED 30 JUNE 2020

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INTERIM CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

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

	Notes	*Reviewed* 30 June 2020	*Audited* 31 December 2019
ASSETS			
Cash and balances with Central Banks	7	37,919,409	42,384,491
Financial assets at fair value through profit or loss ("FVPL")	5	15,465,448	6,815,205
- Securities		*8,157,553*	*2,307,977*
- Derivative Financial Instruments	*5*	*7,307,895*	*4,507,228*
Financial assets at fair value through OCI ("FVOCI")	9	46,162,913	26,584,063
- Debt Securities	*4*	*45,310,597*	*25,782,244*
- Equity Securities	*4-9*	*852,316*	*801,819*
Financial assets at amortised cost ("AC")		425,708,808	331,215,903
- Loans and advances to banks		*1,120,115*	*1,265,675*
- Loans and advances to customers		*374,621,576*	*282,940,649*
- Debt securities	*4*	*49,967,117*	*47,009,579*
Investments accounted for using the equity method	6	486,442	456,087
Current tax assets		1,930	2,861
Deferred tax assets		1,575,716	975,365
Property, plant and equipment		4,347,260	3,136,367
Intangible assets		350,705	341,777
Assets classified as held for sale	*10*	2,091,947	7,690,615
Other assets		17,020,366	13,638,342
Total assets		**551,130,944**	**433,241,076**
LIABILITIES AND EQUITY			
Financial liabilities at fair value through profit or loss		5,087,636	3,311,997
- Derivative financial instruments	4	*5,087,636*	*3,311,997*
Financial liabilities at amortised cost		480,208,723	372,899,372
- Deposits from banks		*11,476,456*	*9,231,640*
- Deposits from customers		*327,836,500*	*244,683,418*
- Obligations under repurchase agreements		*37,748,257*	*25,424,068*
- Funds borrowed		*47,101,900*	*45,066,737*
- Debt securities issued	*11*	*38,289,368*	*29,248,056*
- Subordinated debts		*17,756,242*	*19,245,453*
Current tax liabilities		2,175,898	1,143,074
Deferred tax liabilities		20,364	31,609
Liabilities directly associated with assets classified as held for sale		-	5,378,292
Other liabilities and provisions		18,261,693	16,566,107
Total liabilities		**505,754,314**	**399,330,451**
Equity attributable to owners of the parent			
Share capital		4,705,768	3,300,146
Share premium		6,300,955	721,594
Revaluation surplus		3,086,758	2,604,125
Reserves		2,756,413	2,557,712
Retained earnings		27,646,277	23,613,291
Total equity attributable to owners of the parent		**44,496,171**	**32,796,868**
Non-controlling interests		**880,459**	**1,113,757**
Total equity		**45,376,630**	**33,910,625**
Total liabilities and equity		**551,130,944**	**433,241,076**
Commitments and contingencies	18	**179,021,771**	**161,250,728**

The notes on pages 7 to 30 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED CONDENSED STATEMENT OF INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

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

	Notes	*Reviewed* 1 January - 30 June 2020	*Reviewed* 1 January - 30 June 2019
Interest income:			
Interest on loans measured at AC		17,244,675	17,074,308
Interest on securities		4,042,983	3,432,658
- *Measured at FVPL*		55,012	44,978
- *Measured at FVOCI*		1,702,839	990,855
- *Measured at AC*		2,285,132	2,396,825
Interest on deposits at banks		62,561	168,424
Interest on money market placements		750	1,962
Other interest income		172,210	347,513
Total interest income		**21,523,179**	**21,024,865**
Interest expense:			
Interest on deposits		(6,095,192)	(9,165,323)
Interest on money market deposits		(1,574,239)	(3,358,946)
Interest on funds borrowed		(799,995)	(934,836)
Interest expense on securities issued		(2,219,868)	(1,957,610)
Other interest expense		(202,450)	(109,824)
Total interest expense		**(10,891,744)**	**(15,526,539)**
Net interest income		**10,631,435**	**5,498,326**
Fee and commission income		2,008,991	2,367,528
Fee and commission expense		(404,078)	(542,454)
Net fee and commission income		**1,604,913**	**1,825,074**
Operating income:			
Net trading income		(302,246)	(1,371,758)
Net foreign exchange gains		(457,948)	308,094
Other income	15	5,317,178	3,492,874
Total operating income		**4,556,984**	**2,429,210**
Operating expenses:			
Salaries and employee benefit expenses	16	(1,749,805)	(1,489,332)
Provision for loan impairment, net of recoveries		(6,368,408)	(4,168,664)
Depreciation and amortisation		(251,087)	(248,159)
Taxes other than on income		(196,043)	(143,251)
Other expenses	17	(2,988,601)	(2,344,948)
Total operating expenses		**(11,553,944)**	**(8,394,354)**
Share of profit of associates accounted for using the equity method		27,698	32,220
Profit before income tax		**5,267,086**	**1,390,476**
Income tax expense		(1,040,136)	(241,469)
Profit for the period		**4,226,950**	**1,149,007**
Attributable to:			
Owners of the Parent		4,195,747	1,084,190
Non-controlling interest		31,203	64,817
Profit for the period		4,226,950	1,149,007

The notes on pages 7 to 30 are an integral part of these interim consolidated financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

INTERIM CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

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

	Notes	*Reviewed* **1 January - 30 June 2020**	*Reviewed* **1 January - 30 June 2019**
Profit for the period		**4,226,950**	**1,149,007**
Other comprehensive income			
Items that will not be classified to profit or loss:			
Re-measurement of post - employment benefit obligation		559	(907)
Revaluation of property, plant and equipment		(4,234)	(124,618)
Related tax		735	25,105
Items that will be reclassified subsequently to profit or loss:			
Foreign currency translation differences		73,588	141,062
Net change in fair value of financial assets at FVOCI		657,369	212,399
Income (Loss) Related with Hedges of Net Investments in Foreign Operations		(74,407)	(35,104)
Income tax related to items that will be reclassified subsequently to profit or loss		(131,474)	(42,480)
Other comprehensive income for the period, net of income tax		**522,136**	**175,457**
Total comprehensive income for the period		**4,749,086**	**1,324,464**
Total comprehensive income attributable to:			
Owners of the Parent		4,773,770	1,207,072
Non-controlling interest		(24,684)	117,392

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

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

	Attributable to Owners of the Parent									
			Revaluation Surplus							
Reviewed	Share Capital	Share premium	Fair value reserves	Revaluation Fund	Currency translation reserve	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at January 1, 2020	**3,300,146**	**721,594**	**1,547,161**	**757,641**	**299,323**	**2,557,712**	**23,613,291**	**32,796,868**	**1,113,757**	**33,910,625**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**4,195,747**	**4,195,747**	**31,203**	**4,226,950**
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-		-	-	24	**24**	423	**447**
Change in revaluation surplus	-	-	-	(1,771)	-	-		**(1,771)**	(1,616)	**(3,387)**
Foreign currency translation differences	-	-	-	-	63,974	-	-	**63,974**	(64,793)	**(819)**
Net change in fair value of financial assets FVOCI, net of tax	-	-	515,796	-	-	-	-	**515,796**	10,099	**525,895**
Total other comprehensive income	**-**	**-**	**515,796**	**(1,771)**	**63,974**	**-**	**24**	**578,023**	**(55,887)**	**522,136**
Total comprehensive income for the period	**-**	**-**	**515,796**	**(1,771)**	**63,974**	**-**	**4,195,771**	**4,773,770**	**(24,684)**	**4,749,086**
Transfer to reserves	-	-	-	-	-	242,353	(244,376)	**(2,023)**	2,023	**-**
Capital increase	1,405,622	5,579,361	-	-	-	-	-	**6,984,983**	-	**6,984,983**
Other items	-	-	(95,366)	-	-	(43,652)	81,591	**(57,427)**	(210,637)	**(268,064)**
Total contributions by and distributions to owners of the parent, recognized directly in equity	**1,405,622**	**5,579,361**	**(95,366)**	**-**	**-**	**198,701**	**(162,785)**	**6,925,533**	**(208,614)**	**6,716,919**
Balances at June 30, 2020	**4,705,768**	**6,300,955**	**1,967,591**	**755,870**	**363,297**	**2,756,413**	**27,646,277**	**44,496,171**	**880,459**	**45,376,630**

The notes on pages 7 to 30 are an integral part of these interim consolidated financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

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

	Attributable to owners of the parent									
			Revaluation Surplus							
Reviewed	**Share Capital**	**Share premium**	**Fair value reserves**	**Revaluation Fund**	**Currency translation reserve**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balances at January 1, 2019	**3,300,146**	**721,908**	**315,654**	**750,654**	**289,392**	**2,098,451**	**21,128,079**	**28,604,284**	**885,564**	**29,489,848**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**1,084,190**	**1,084,190**	**64,817**	**1,149,007**
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-	(719)	-	-	-	**(719)**	(7)	**(726)**
Change in revaluation surplus	-	-	-	(137,290)	-	-		**(137,290)**	37,596	**(99,694)**
Foreign currency translation differences	-	-	-	-	98,804	-	-	**98,804**	7,154	**105,958**
Net change in fair value of financial assets at fair value through other comprehensive, net of tax	-	-	162,087	-	-	-	-	**162,087**	7,832	**169,919**
Total other comprehensive income	**-**	**-**	**162,087**	**(138,009)**	**98,804**	**-**	**-**	**122,882**	**52,575**	**175,457**
Total comprehensive income for the period	**-**	**-**	**162,087**	**(138,009)**	**98,804**	**-**	**1,084,190**	**1,207,072**	**117,392**	**1,324,464**
Transfer to reserves	-	-	-	-	-	506,620	(497,804)	**8,816**	(8,816)	**-**
Other items	-	-	-	-	-	-	29,955	**29,955**	(34,856)	**(4,901)**
Total contributions by and distributions to owners of the parent, recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**506,620**	**(467,849)**	**38,771**	**(43,672)**	**(4,901)**
Balances at June 30, 2019	**3,300,146**	**721,908**	**477,741**	**612,645**	**388,196**	**2,605,071**	**21,744,420**	**29,850,127**	**959,284**	**30,809,411**

The notes on pages 7 to 30 are an integral part of these interim consolidated financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

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

	Notes	*Reviewed* **1 January - 30 June 2020**	*Reviewed* **1 January - 30 June 2019**
Profit for the period		4,226,950	1,149,007
Adjustments for:			
Income tax expense		1,773,065	448,717
Provision for incurred loan losses, net of recoveries		6,358,406	4,168,664
Depreciation and amortization		243,745	248,159
Provision for short term employee benefits		(17,192)	134,769
Provision for retirement pay liability and unused vacations		251,468	213,753
Unearned premium reserve		97,692	54,078
Change in provision for outstanding claims	17	33,203	21,159
Derivative financial instruments		(1,025,028)	665,272
Other provision expenses	17	78,052	54,243
Net interest income		(14,918,124)	(7,335,963)
Share of profit of equity-accounted investees		(27,698)	(32,220)
Currency translation differences		(63,974)	(98,804)
Gain on sale of subsidiaries		(804,835)	-
Other non-cash adjustments		(3,270,431)	(1,397,754)
		(7,064,701)	**(1,706,920)**
Loans and advances to banks		141,620	(253,458)
Reserve deposits		5,687,947	548,379
Financial assets at fair value through profit or loss		(5,849,576)	(330,070)
Loans and advances to customers		(95,744,292)	(30,761,097)
Other assets		(3,382,024)	(1,378,829)
Deposits from banks		4,731,839	3,294,609
Deposits from customers		80,530,255	31,780,454
Obligation under repurchase agreements		12,164,381	4,155,957
Other liabilities and provisions		1,122,136	(1,910,174)
		(597,714)	**5,145,771**
Interest received		21,523,179	21,024,865
Interest paid		(10,891,744)	(15,526,539)
Taxes paid		(802,190)	(351,431)
Cash provided by operating activities		**2,166,830**	**8,585,746**
Cash flows from investing activities:			
Dividends received	15	17,287	8,432
Acquisition of property and equipment		(300,510)	(242,269)
Proceeds from the sale of property and equipment		117,231	508,887
Acquisition of intangible assets		(29,166)	(28,171)
Proceeds from the sale of intangible assets		-	174
Acquisition of investment securities		(36,752,326)	(15,644,028)
Proceeds from sale of investment securities		19,418,345	2,996,229
Other cash inflow/(outflow) from investing activities		(935,335)	-
Cash used in by investing activities		**(18,464,474)**	**(12,400,746)**
Cash flows from financing activities:			
Proceeds from issue of debt securities and subordinated debts		19,664,862	17,993,772
Repayments of debt securities and subordinated debts		(11,933,514)	(8,441,315)
Repayments of funds borrowed		(15,947,516)	(16,980,855)
Proceeds from funds borrowed		18,022,850	14,845,164
Proceeds from issues of shares and other equity securities		7,000,000	-
Share issue cost		(15,016)	-
Financial lease payments		(196,335)	(171,238)
Cash provided by financing activities		**16,595,331**	**7,245,528**
Effect of foreign exchange rate fluctuations on cash and cash equivalents		974	(44,301)
Net increase in cash and cash equivalents		**298,661**	**3,386,227**
Cash and cash equivalents at the beginning of the period	7	31,255,679	20,881,440
Cash and cash equivalents at the end of the period	**7**	**31,554,340**	**24,267,667**

The notes on pages 7 to 30 are an integral part of these interim consolidated financial statements

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

1. GENERAL INFORMATION

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("The Bank" or "The Parent") was established under the authorization of special law numbered 6219, called "The Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı", on 11 January 1954 within the framework of the authority granted to the General Directorate of the Foundations of Turkish Republic (The General Directorate of the Foundations). Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by obtaining securities and real estate as collateral,
- Establishing or participating in all kinds of insurance corporations,
- Trading real estate,
- Providing all banking operations and services,
- Investing in various corporations handed over by the foundations and the General Directorate of the Foundations in accordance with conditions stipulated by agreements if signed,
- To render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by the General Directorate of the Foundations.

The Bank provides corporate, commercial and retail banking services through a network of 936 domestic branches and 3 foreign branches in New York, Bahrain and Iraq, in total 939 branches (December 31, 2019: 940 domestic, 3 foreign, in total 943 branches). As at June 30, 2020, the Bank has 16,710 (December 31, 2019: 16,835) employees. Additionally, the Bank has a subsidiary in banking sector in Austria, titled as Vakıfbank International AG. The Bank's head office is located at Saray Mahallesi, Dr.Adnan Büyükdeniz Caddesi, No: 7/A-B, Ümraniye - İstanbul.

The shareholder having control over the shares of The Parent Bank is the Republic of Turkey Ministry of Treasury and Finance.

As at June 30, 2020, the Parent Bank's paid-in capital is TL 3,905,622 TL (December 31, 2019: TL 2,500,000) divided into 390,562,248,996 shares with each has a nominal value of Kr 1.(December 31, 2019: TL 250,000,000,000)

As at June 30, 2020 the Bank's shareholders' structure is as follows:

Shareholders – June 30, 2020	Number of the shares (100 units)	Nominal amount	Share (%)
Turkey Wealth Fund (Group D)	1,405,622,490	1,405,622	35.99
Republic of Turkey Ministry of Treasury and Finance (Group A)	1,075,058,640	1,075,058	27.52
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	10.31
Republic of Turkey Ministry of Treasury and Finance (Group B)	387,673,328	387,673	9.93
Other appendant foundations (Group B)	2,591,250	2,591	0.07
Other real persons and legal entities (Group C)	1,527,393	1,528	0.04
Publicly traded (Group D)	630,596,723	630,597	16.14
Paid-in capital	**3,905,622,490**	**3,905,622**	**100.00**
Adjustment to share capital (*)		800,146	
Total		**4,705,768**	

(*) The adjustment to share capital represents the cumulative restatement adjustment amount to nominal share capital on adopting IAS 29, "Financial reporting in hyper-inflationary economies" until January 1, 2006.

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

1. GENERAL INFORMATION (Continued)

As at December 31, 2019 the Bank's shareholders' structure is as follows:

Shareholders - December 31, 2019	Number of the shares (100 units)	Nominal amount	Share (%)
Republic of Turkey Ministry of Treasury and Finance (Group A)	1,075,058,640	1,075,058	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	16.10
Republic of Turkey Ministry of Treasury and Finance (Group B)	387,673,328	387,673	15.51
Other appendant foundations (Group B)	2,652,715	2,653	0.11
Other real persons and legal entities (Group C)	1,527,393	1,528	0.06
Publicly traded (Group D)	630,535,258	630,535	25.22
Paid-in capital	**2,500,000,000**	**2,500,000**	**100.00**
Adjustment to share capital (*)		800,146	
Total		**3,300,146**	

(*) The adjustment to share capital represents the cumulative restatement adjustment amount to nominal share capital on adopting IAS 29, "Financial reporting in hyper-inflationary economies" until January 1, 2006.

These consolidated financial statements were approved for issue on August 31, 2020.

With the Decree Law No. 696 published in the Official Gazette dated December 24, 2017, the "Türkiye Vakıflar Bankası Turkish Joint-Stock Company Law" No. 6219 was amended.

With the Presidential Decree dated December 3, 2019, published in line with the relevant provisions of Law No. 6219, 58.51% of the total of 43.00% (A) Group and 15.51% (B) Group, managed and represented by the General Directorate of Foundations' per share value of share is determined.

In accordance with the relevant provisions of the Law No. 6219, the provisions of the Capital Market Law, including the obligation to propose shares regarding the transfer transactions regarding the shares specified in the Presidential Decree of December 3, 2019, will not be applied. There will be no changes regarding the 25.22% shares of the (D) Group traded at the stock exchange.

The process regarding the transfer of bank shares has been completed as of December 11, 2019 and 58.51% of the Bank's share has been transferred to the Treasury and has been recorded in the Bank's share book on behalf of the Ministry of Treasury and Finance of the Republic of Turkey.

With the decision of the Parent Bank's Board of Directors dated May 11, 2020, it has been decided to increase the issued capital of TL 2,500,000 provided that it remains within the registered capital ceiling, by completely restricting the pre-emptive rights of the current shareholders and by increasing cash capital increase, which will generate a total sales revenue of TL 7,000,000 in total. Within the framework of the relevant legislation of the Capital Markets Board , the Banking Regulation and Supervision Agency and the Procedure for Borsa İstanbul's Wholesale Purchase and Sales Transactions, all of the shares to be issued due to the capital increase, are set to be transferred to Turkey Wealth Fund, without public offering and by dedicated sales method.

The disclosure published by the Parent Bank on May 15, 2020, it was announced that the sales price of the shares to be issued was determined as TL 4.98 for a share with a nominal value of 1 TL, and that the issued capital will be increased from TL 2,500,000 to TL 3,905,622 as a result of the capital increase.

The disclosure published by the Parent Bank on May 20, 2020, it has been announced that the shares with a nominal value of TL 1,405,622 issued by the Parent Bank are sold with a dedicated sales method for a share with a nominal value of TL 1, with a total sales revenue of TL 7,000,000 over the price of TL 4.98. As of the same date, the shares were sold to Turkey Wealth Fund through the wholesale transaction method in stock market and the capital increase transactions have been completed.

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

1. GENERAL INFORMATION (Continued)

The table below sets out the subsidiaries and associates and shows their shareholding structure as at June 30, 2020 and December 31, 2019.

June 30, 2020	Direct Shareholding Interest (%)	Indirect Shareholding Interest (%)
Subsidiaries:		
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. (*)	17.37	17.37
Vakıf Enerji ve Madencilik A.Ş.	65.50	80.48
Taksim Otelcilik A.Ş.	51.00	51.00
Vakıf Faktoring A.Ş.	78.39	80.62
Vakıf Finansal Kiralama A.Ş.	58.71	58.71
Vakıf Yatırım Menkul Değerler A.Ş.	99.25	99.40
VakıfBank International AG	100.00	100.00
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (*)	45.71	45.71
World Vakıf UBB Ltd in Liquidation (**)	82.00	82.59
Associates:		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası A.Ş.	8.38	8.38

December 31, 2019	Direct Shareholding Interest (%)	Indirect Shareholding Interest (%)
Subsidiaries:		
Güneş Sigorta A.Ş.	56.10	56.10
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. (*)	17.37	17.37
Vakıf Emeklilik ve Hayat A.Ş.	82.68	99.00
Vakıf Enerji ve Madencilik A.Ş.	65.50	80.48
Taksim Otelcilik A.Ş.	51.00	51.00
Vakıf Faktoring A.Ş.	78.39	80.62
Vakıf Finansal Kiralama A.Ş.	58.71	58.71
Vakıf Yatırım Menkul Değerler A.Ş.	99.25	99.40
Vakıfbank International AG	90.00	90.00
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (*)	38.70	38.70
World Vakıf UBB Ltd in Liquidation (**)	82.00	83.50
Associates:		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası A.Ş.	8.38	8.38

(*) For those consolidated subsidiaries where the Bank does not own, directly or indirectly through subsidiaries, more than 50% of the subsidiary's voting power, proportion of ordinary shares held by the Group entitles the Bank to power over relevant activities - acquired through arrangements between shareholders or articles of association of the related subsidiary - and to variable returns from its involvement with the subsidiary while the bank has the ability to affect those returns through its power over the subsidiary.

(**) World Vakıf UBB Ltd, was established in the Turkish Republic of Northern Cyprus in 1993 for offshore banking operations. Its head office is in Nicosia. The name of the Bank, which was World Vakıf Offshore Banking Ltd, has been changed to World Vakıf UBB. Ltd. on 4 February 2009. Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorization of World Vakıf UBB Ltd is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to 24 May 2010 dated decision of the Nicosia Local Court. The liquidation process of World Vakıf UBB Ltd, has been carried out by NCTR Collecting and Liquidation Office. The application of the subsidiary for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed. Thus, the name of the subsidiary has been changed as "World Vakıf UBB Ltd. in Liquidation". Therefore, the financial statements of the subsidiary have not been consolidated as at June 30, 2020 and December 31, 2019.

1. GENERAL INFORMATION (Continued)

For the purposes of these interim consolidated financial statements, the Bank and its consolidated subsidiaries described below are referred to as the "Group".

A share transfer agreement was signed with TVF Finansal Yatırımlar AŞ on April 22, 2020 for Güneş Sigorta AŞ and Vakıf Emeklilik ve Hayat AŞ and the same share transfers were completed as of the same date. In the previous period, the aforementioned subsidiaries were consolidated over "Assets classified as held for sale" and "Liabilities directly associated with assets classified as held for sale" in the Assets and Liabilities section of the balance sheet, and in the income statement they were consolidated with full consolidation method. Subsidiaries were excluded from the scope of consolidation after the transaction. Balances belonging to income and expense items realized until the sale transaction date of the mentioned subsidiaries are accounted in the consolidated income statement.

In March 24, 2020, Türkiye Vakıflar Bankası T.A.O. Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (ESV) shares, which are presented in the paid-in capital of Vakıfbank International AG, are purchased by the Parent Bank.

Vakıf Menkul Kıymet Yatırım Ortaklığı AŞ was established in 1991 in Istanbul. The main activity of the subsidiary is to invest in a portfolio (including marketable debt securities and equity securities) without having managerial power in the partnerships whose securities have been acquired; and also gold and other precious metals trading in national and international stock exchange markets or active markets other than stock exchange markets, in accordance with the principles and regulations promulgated by Capital Markets Board. Its head office is in Istanbul.

Vakıf Enerji ve Madencilik A.Ş. was established in 2001 to produce electrical and thermal energy, and to sell this energy in accordance with the related laws and regulations. Its head office is in Ankara.

Taksim Otelcilik AŞ was established under the Turkish Commercial Code in 1966. The main activity of the subsidiary is to operate in the hotel business or rent out the management of owned hotels. Its head office is in Istanbul.

Vakıf Faktoring AŞ was established in 1998 to perform factoring transactions. Its head office is in Istanbul.

Vakıf Finansal Kiralama AŞ was established in 1988 to enter into finance lease operations and related transactions and contracts. Its head office is in Istanbul.

Vakıf Yatırım Menkul Değerler AŞ was established in 1996 to provide service to investors through making capital markets transactions, the issuance of capital market tools, purchase and sales of marketable securities, operating as a member of stock exchange, investment consultancy and portfolio management. Its head office is in Istanbul.

VakıfBank International AG was established in 1999 to operate in the banking sector in foreign countries, in line with the Bank's globalization policy. Its head office is in Vienna, Austria.

Vakıf Gayrimenkul Yatırım Ortaklığı AŞ was established as the first real estate investment partnership in the finance sector under the adjudication of the Capital Markets Law in 1996. The subsidiary's main operation is in line with the scope in the Capital Markets Board's regulations relating to real estate investment trusts including real estate, capital market tools based on real estate, real estate projects and investing on capital market tools. Its head office is in İstanbul.

The Bank has also the following associates:

Kıbrıs Vakıflar Bankası Ltd. Şti. was established in 1982 in the Turkish Republic of Northern Cyprus, mainly to encourage the usage of credit cards issued by the Bank, to increase foreign exchange inflow, and carry on retail and commercial banking operations. Its head office is in Nicosia.

Türkiye Sınai Kalkınma Bankası AŞ was established as an investment bank in 1950 to support investments in all economic sectors. Its head office is in Istanbul.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation

These interim consolidated condensed financial statements for the six-month period ended June 30, 2020 have been prepared in accordance with IAS 34, "Interim financial reporting". The interim consolidated condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards. The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The consolidated financial statements have been prepared in accordance with IFRS and presented in Turkish Lira ("TL").

Taxes on income in the interim periods are accrued using the weighted average effective tax rate that would be applicable to expected total annual profit or loss.

Covid-19 virus, which first appeared in China and spread rapidly worldwide in a short time, started to appear in our country in March. Declared as an epidemic by the World Health Organization, Covid-19 had economic and social impacts worldwide. In order to slow down the epidemic, many measures have been taken, including in our country, to restrict travels around the world, to take quarantine measures, to increase distance work, and various arrangements are made to reduce the economic effects of the epidemic. The Group has explained the effects of Covid-19, which it reflects in the financial statements dated June 30, 2020, in the following sections. In addition, while preparing the interim financial statements dated June 30, 2020, the fair value measurements were reviewed within the scope of IFRS 13 Fair Value Measurement standard.

In preparation of the consolidated financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the prior year consolidated financial statements except for the adoption of new standards and interpretations as of January 1, 2020, where applicable, noted below:

2.2. New and Revised International Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at June 30, 2020:

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after January 1, 2020. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

    i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
    ii) clarify the explanation of the definition of material; and
    iii) incorporate some of the guidance in IAS 1 about immaterial information.

- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after January 1, 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

- **Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform;** effective from Annual periods beginning on or after January 1, 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. New and Revised International Financial Reporting Standards (Continued)

- **Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions;** effective from Annual periods beginning on or after June 1, 2020. As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On May 28, 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

  The new standards, amendments and interpretations does not have a material impact on the Group's consolidated financial statements.

b) Standards, amendments and interpretations that are issued but not effective as at June 30, 2020:

- **IFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after January 1, 2023. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

- **Amendments to IAS 1, Presentation of financial statements' on classification of liabilities;** effective from January 1, 2022. These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

- **A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16;** effective from Annual periods beginning on or after January 1, 2022.

  - **Amendments to IFRS 3**, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

  - **Amendments to IAS 16**, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

  - **Amendments to IAS 37**, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

    Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.

  The new standards, amendments and interpretations which will be effective after June 30, 2020 are not expected to have a material impact on the Group's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies

Information on Financial Assets

The Parent Bank categorizes its financial assets as “Fair Value Through Profit/Loss”, “Fair Value Through Other Comprehensive Income” or “Measured at Amortized Cost”. Such financial assets are recognized or derecognized according to IFRS 9 Financial Instruments Part 3 Issued for classification and measurement of the financial instruments published in the Official Gazette No. 29953 dated 19 January 2017 by the Public Oversight Accounting and Auditing Standards Authority. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value Through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

The Parent Bank recognizes a financial asset into financial statements when it becomes a party to the contractual terms of a financial instrument. During the first recognition of a financial asset into the financial statements, business model determined by The Parent Bank management and the nature of contractual cash flows of the financial asset are taken into consideration

Classification and Measurement of Financial Instruments

According to IFRS 9, the classification and measurement of financial assets is determined according to the business model in which the financial asset is managed and whether it depends on the contractual cash flows that include interest payments only on the principal and principal balances.

Assessments on whether contractual cash flows include only principal balances and interest payments on the principal

Within the scope of this evaluation; principal is defined as the fair value of the financial asset when it is first recognized in the financial statements. For the time value of money, interest takes into account the costs (eg liquidity risk and management costs) for the credit risk and other underlying credit risks and profit margin associated with the principal amount over a period of time.

The Parent Bank takes into consideration the contractual terms of the financial asset in the evaluation of the contractual cash flows that only include principal and interest payments on the principal. This includes assessing whether the financial asset includes a contractual condition that could change the timing or amount of contractual cash flows.

While performing the assessment, The Parent Bank fulfills the on-balance sheet classification and measurement criteria by applying the procedures defined in IFRS 9 Financial Instruments including events that may change the amount and timing of cash flows, leverage structure of the financial product, early payment options, contingent interest rate changes and similar conditions.

At the time of initial recognition, each financial asset is classified as measured at fair value through profit or loss, at amortized cost, or at fair value through profit or loss.

Financial Assets at Fair Value through Profit or Loss

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

Equity securities classified as financial assets at fair value through profit/loss are recognized at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

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 assets 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 remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not designated in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the “Accumulated other comprehensive income or expense to be reclassified through profit or loss” under shareholders’ equity.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. 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. During initial recognition an entity can choose in an irrecovable was to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

Financial Assets Measured at Amortized Cost

Financial assets that are held for collection of contractual cash flows where those cashflows 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.

Both “Fair value through other comprehensive income” and “measured at amortized cost” securities portfolio of the Parent Bank include Consumer Price Indexed (CPI) Bonds. These securities are valued and accounted using the effective interest rate method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate. The reference indices used in calculating the actual coupon payment amounts of these assets are based on the Consumer Price Index (CPI) of prior two months. The Parent Bank also sets the estimated inflation rate accordingly. The estimated inflation rate used is updated as needed within the year. At the end of the year real interest rate is used.

Loans

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". As of January 1, 2018 loans of The Parent Bank are retained under the “Measured at Amortized Cost” accounts due to holding loans in scope of a business model for the collection of contractual cash flows and contractual terms of loans that leads to cash flows representing solely payments of principal and interest at certain date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

Fair value

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group's accounting policy on fair value measurements is discussed in (i) - *Measurement*.

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 an 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 valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other 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. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other variables used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. 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, which would have been determined by market participants acting at arm's length.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

Information on Expected Credit Loss ("ECL")

As of January 1, 2018, the Parent Bank recognize provisions for impairment in accordance with IFRS 9 requirements according to the "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside" published in the Official Gazette dated June 22, 2016 numbered 29750. In this framework, as of December 31, 2017, method of provisions for impairment as set out in accordance with the related legislation of BRSA is changed by applying the expected credit loss model under IFRS 9. Expected credit loss model is applied to financial assets measured at amortized cost or financial assets at fair value through other comprehensive income (e.g. placements, loans and leasing receivables), loan commitments and financial guarantee contracts.

The expected credit loss estimates are required to be unbiased, probability-weighted, considering the time value of money and including supportable information about past events, current conditions, and forecasts of future economic conditions.

It is possible to perform the provision calculations in accordance with IFRS 9, although may vary exceptionally, with three main parameters for each loan. Exposure at Default (EAD), Loss Given Default (LGD), Probability of Default (PD).

Exposure at Default: Represents the amount of risk on the default date of the debtor in case of default.

According to IFRS 9 in calculating the default amount, the estimation of how customer risk rating changes over time is important. Exposure of Default values are calculated different for cash-loans and non-cash loans.

Monetary risks are fundamentally divided into two; related and unrelated to amortization plan. EAD is calculated, either by taking into account loan installments being paid in the future over balance change for cash loans with payment plan, or by keeping credit balance constant for cash loans without payment plan. For Non-cash Loans and Limit Commitments EAD is calculated by regarding to credit conversion rate and behavioral maturity periods.

Loss Given Default: The ratio that provides the uncollectable amount of the receivable in the process after the default. The LGD ratio is the division of the uncollectable amount of a defaulted loan into the defaulted loan amount. This ratio enables to predetermine the risks in the case of default for the active credit portfolio and allows for provision under IFRS 9.

Probability of Default: Represents the probability of default of the debtor in a defined time lag in the future.

In addition to these parameters, macroeconomic forecasts are included in the calculation of expected loss provision by estimating within two sets of scenarios, which are base and negative case scenarios. Future macroeconomic expectations taken into account in accordance with IFRS 9 are in line with the economic forecasts of the Parent Bank's current Budget and ICAAP processes.

Different macroeconomic models have been created for the retail portfolio and commercial portfolio, and macroeconomic forecasts affect the expected loss provision calculations in two separate scenarios, base and bad. Scenario weights used in calculation of the expected loan loss allowance were reconsidered and the bad scenario weight was increased in order to reflect the effects of Covid-19.The future macroeconomic expectations taken into account into IFRS 9 are in line with the Bank's current budget and ISEDES forecasts.

Macroeconomic forecasts and risk delinquency data used in risk parameter models are re-evaluated every quarter to reflect changes in economic conjuncture and are updated if needed. During the reporting period, arrangements were made in macroeconomic forecasts to reflect the negative effects of Covid-19.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

These financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

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 12-month expected credit losses.

Stage 2:
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.

Stage 3:
Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

Significant Increase in the Credit Risk

The Standard requires the assessment of whether there is a significant increase in the credit risk of financial assets by the date of initial recognition based on the information available without excessive effort and cost as of the reporting date. The factors that show a significant increase in credit risk under IFRS 9 are as follows:

- Past Due Date; significant increase in the credit risk since the granting date in the case of loans overdue more than 30 days
- The classification of the financial asset under stage 2 in the case of financial receivable reconstruction
- Internal classification system that is established according to the information gathered by the Parent Bank
- Comparison between the default risk of the debtor and the default risk of receivable as of the granting date based on the change in the rating/score info as of reporting date.

The Parent Bank has accounted for the effect of applying the new provisions at the date of January 1, 2018 by recording a reversal in the opening records of previous years' profit and loss accounts. The primary impact is due to changes in the allowance for credit losses in accordance with the new impairment provisions and the tax effects of the corresponding provisions.

Information on Fees and Commissions

Banking services income is recorded as income when it is collected. Other fee and commission income is transferred to profit/loss accounts according to time period principle on the basis of accrual using the principle of the effective interest method. Fee and commission expenses are recorded as expense at the time they are paid.

Fees and commissions other than those that are an integral part of the effective interest rate of financial instruments measured at amortized cost are accounted in accordance with the IFRS 15 “Revenue from Contracts with Customers” standard.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

Explanations on IFRS 16 Standard

The Parent Bank has applied the simplified transition approach and elected not to restate comparative figures. The Parent Bank has not reassessed whether a contract is a lease or not a lease at the date of initial application for leases previously classified as operating leases in accordance with IAS 17 by preferring simplified transition approach. For the leases previously classified as operational leases in accordance with IAS 17, the lease liability calculated on the present value of the remaining lease payments, discounted using the alternative borrowing interest rate of the lessee at the initial application date is reflected to the financial statements. A right of use is also reflected in the financial statements at an amount equal to the lease obligation, which is reflected in the statement of financial position immediately prior to the initial application date, adjusted for the amount of all prepayment or accrued lease payments.

The amounts recognized under IFRS 16 as of June 30, 2020 and December 31, 2020 are presented below.

	June 30, 2020		
	Service Buildings	**Vehicles**	**Total**
Lease payables	1,531,606	35,773	1,567,379
Deferred rental expenses	478,335	4,440	482,775
Lease payables (Net)	**1,053,271**	**31,333**	**1,084,604**
Right of use assets	**998,800**	**28,726**	**1,027,526**

	December 31, 2019		
	Service Buildings	**Vehicles**	**Total**
Lease payables	1,413,536	20,589	1,434,125
Deferred rental expenses	495,782	2,405	498,187
Lease payables (Net)	**917,754**	**18,184**	**935,938**
Right of use assets	**876,242**	**16,979**	**893,221**

Short term lease contracts with a duration of 12 months or less and lease contracts for ATMs that are determined to be of low value by the Parent Bank have been evaluated within the scope of the exemption recognized by the standard, and payments for these contracts are recorded as expense in the period they occur. In this context, TL 37,680 of lease payments were made in the related period. (June 30, 2019: TL 49,342)

3. USE OF ESTIMATES AND JUDGEMENTS AND SEASONALITY OF OPERATIONS

The preparation of interim consolidated condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim consolidated condensed financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2019.

As of June 30, 2020, the Group has reflected the possible effects of the Covid -19 pandemic to the macro economic forecasts which are used in the calculation of expected loan loss provisions. Scenario weights used in calculation of the expected loan loss provisions were reconsidered and the bad scenario weight was increased in order to reflect the effects of Covid-19.

There is no significant seasonality effect on the operations of the Group.

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

4. FAIR VALUE OF THE FINANCIAL ASSETS AND LIABILITIES

The classification of fair value measurements of financial assets and liabilities at June 30, 2020 is as follows:

June 30, 2020	Level 1	Level 2	Level 3(*)	Total
Asset carried at fair value				
Financial assets - FVPL	**7,988,070**	**7,307,895**	**169,483**	**15,465,448**
Debt securities	7,818,570	-	-	7,818,570
Equity securities	169,500	-	169,483	338,983
Derivative financial assets held for trading purposes	-	7,307,895	-	7,307,895
Investment securities - FVOCI	**45,310,597**	**-**	**749,297**	**46,059,894**
Debt securities	45,310,597	-	-	45,310,597
Equity securities	-	-	749,297	749,297
Total financial assets	**53,298,667**	**7,307,895**	**918,780**	**61,525,342**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	5,087,636	-	5,087,636
Total financial liabilities	**-**	**5,087,636**	**-**	**5,087,636**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

The classification of fair value measurements of financial assets and liabilities at December 31, 2019 is as follows:

December 31, 2019	Level 1	Level 2	Level 3(*)	Total
Asset carried at fair value				
Financial assets - FVPL	**2,138,494**	**4,507,228**	**169,483**	**6,815,205**
Debt securities	2,017,593	-	-	2,017,593
Equity securities	120,901	-	169,483	290,384
Derivative financial assets held for trading purposes	-	4,507,228	-	4,507,228
Investment securities - FVOCI	**25,782,244**	**-**	**733,075**	**26,515,319**
Debt securities	25,782,244	-	-	25,782,244
Other Financial Assets	-	-	733,075	733,075
Total financial assets	**27,920,738**	**4,507,228**	**902,558**	**33,330,524**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	3,311,997	-	3,311,997
Total financial liabilities	**-**	**3,311,997**	**-**	**3,311,997**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as follows:

	June 30, 2020	December 31, 2019
Balance at the beginning of the period - 1 January	733,075	586,752
Total gains or losses for the period recognized in other comprehensive income	16,221	146,350
Balance at the end of the period	**749,297**	**733,075**

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

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at June 30, 2020 and December 31, 2019, financial assets at fair value through profit or loss are as follows:

	June 30, 2020		**December 31, 2019**	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Debt instruments held at fair value:				
Government bonds in TL	151,040	153,404	200	199
Lease certificate	500	510	-	-
Gold-backed bonds issued by the Turkish Government	7,610,159	7,662,774	2,001,510	2,017,593
Corporate bonds in TL	260	252	-	-
Bonds issued by banks	1,650	1,630	-	-
Total	**7,763,609**	**7,818,570**	**2,001,710**	**2,017,792**
Equity and other non-fixed income instruments:				
Investment funds		2,109		4,858
Equity shares		336,874		285,327
Derivative financial instruments held for trading purposes		*7,307,895*		*4,507,228*
Total		**7,646,878**		**4,797,413**
Total financial assets at FVTPL	**7,763,609**	**15,465,448**	**2,001,710**	**6,815,205**

Gains and losses arising on derivative financial instruments held for trading purposes and income from sale of debt instruments held at fair value are reflected in net trading income. As at and for the period ended June 30, 2020, net loss from trading of financial assets (including investment securities) amounting to TL 302,246 (June 30, 2019: Net profit amounting to TL 1,371,758) is included in "trading income".

6. SEGMENT REPORTING

Geographical information

The Group's activities are conducted predominantly in Turkey which is also the main operating company. The Group conducts majority of its business activities with local customers in Turkey.

Operating segments

The Group has six reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Retail banking: Includes loans, deposits and other transactions and balances with retail customers.

Corporate and commercial banking: Includes loans, deposits and other transactions and balances with corporate customers.

Investment banking: Includes the Group's trading and corporate finance activities.
This segment undertakes the Group's funding and centralized risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

Leasing: Includes the Group's finance lease business.

Factoring: Includes the Group's factoring business.

Others: Includes combined information about operating segments that do not meet the quantitative thresholds and includes the Group's insurance business.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes.

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

6. SEGMENT REPORTING (Continued)

Information about operating segments

June 30, 2020	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	4,448,686	10,202,844	2,485,722	-	17,137,252	-	163,752	10,906	17,311,910	(67,235)	17,244,675
Interest expense on deposit	(2,760,538)	(3,122,951)	(253,468)	-	(6,136,957)	-	-	-	(6,136,957)	41,765	(6,095,192)
Operating profit/(loss)	**1,056,693**	**3,306,991**	**4,722,544**	**(9,804)**	9,076,424	**32,713**	**62,356**	**318,282**	9,489,775	**962,847**	10,452,622
Profit before income tax	268,507	1,073,105	3,863,049	(988,885)	4,215,776	18,450	53,676	111,840	4,399,742	867,344	5,267,086
Income tax expense									(1,016,533)	(23,603)	(1,040,136)
Profit for the period									**3,383,209**	**843,741**	**4,226,950**
June 30, 2020											
Segment assets	89,932,195	225,737,302	202,889,387	27,023,420	545,582,304	3,285,135	3,104,221	3,376,185	555,347,845	(4,703,343)	550,644,502
Investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	486,442	486,442
Total assets	**89,932,195**	**225,737,302**	**202,889,387**	**27,023,420**	**545,582,304**	**3,285,135**	**3,104,221**	**3,376,185**	**555,347,845**	**(4,216,901)**	**551,130,944**
Segment liabilities	138,754,826	189,740,531	152,746,560	19,194,256	500,436,173	3,041,442	2,708,354	1,697,763	507,883,732	(2,129,418)	505,754,314
Equity including non-controlling interest	-	-	-	45,146,131	45,146,131	243,693	395,867	1,678,422	47,464,113	(2,087,483)	45,376,630
Total liabilities and equity	**138,754,826**	**189,740,531**	**152,746,560**	**64,340,387**	**545,582,304**	**3,285,135**	**3,104,221**	**3,376,185**	**555,347,845**	**(4,216,901)**	**551,130,944**
Tangible fixed assets				(40,773)	(40,773)				(40,773)		(40,773)
Intangible fixed assets				(79,583)	(79,583)				(79,583)		(79,583)
Depreciation				(128,119)	(128,119)				(128,119)		(128,119)
Amortization				9,896	9,896				9,896		9,896

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

6. SEGMENT REPORTING (Continued)

June 30, 2019	**Retail Banking**	**Corporate Banking**	**Investment Banking**	**Unallocated**	**Total Banking**	**Leasing**	**Factoring**	**Others**	**Combined**	**Eliminations**	**Total**
Interest income on loan and receivables	4,141,282	10,773,714	1,931,713	-	16,846,709	-	278,589	4,663	17,129,961	(55,653)	17,074,308
Interest expense on deposit	(5,098,775)	(3,820,422)	(357,269)	-	(9,276,466)	-	-	-	(9,276,466)	111,143	(9,165,323)
Operating profit	**(1,262,654)**	**4,927,951**	**421,143**	**178,969**	**4,265,409**	**4,412**	**89,659**	**1,294,553**	**5,654,033**	**(37,867)**	**5,616,166**
Profit before income tax	(1,884,616)	3,468,791	(92,608)	(471,984)	1,019,583	(8,521)	82,246	310,957	1,404,265	(13,789)	1,390,476
Income tax expense									(241,469)	-	(241,469)
Profit for the period									**1,162,796**	**(13,789)**	**1,149,007**
December 31, 2019											
Segment assets	68,112,914	168,651,541	164,293,791	24,148,316	425,206,562	2,978,609	2,812,434	9,515,412	440,513,017	(7,728,028)	432,784,989
Investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	456,087	456,087
Total assets	**68,112,914**	**168,651,541**	**164,293,791**	**24,148,316**	**425,206,562**	**2,978,609**	**2,812,434**	**9,515,412**	**440,513,017**	**(7,271,941)**	**433,241,076**
Segment liabilities	112,872,965	132,061,657	128,758,181	17,178,174	390,870,977	2,747,803	2,458,135	7,330,787	403,407,702	(4,077,251)	399,330,451
Equity including non-controlling interest	-	-	-	34,335,585	34,335,585	230,806	354,299	2,184,625	37,105,315	(3,194,690)	33,910,625
Total liabilities and equity	**112,872,965**	**132,061,657**	**128,758,181**	**51,513,759**	**425,206,562**	**2,978,609**	**2,812,434**	**9,515,412**	**440,513,017**	**(7,271,941)**	**433,241,076**
Tangible fixed assets				1,509,748	1,509,748				1,509,748		1,509,748
Intangible fixed assets				229,583	229,583				229,583		229,583
Depreciation				(416,929)	(416,929)				(416,929)		(416,929)
Amortization				(120,094)	(120,094)				(120,094)		(120,094)

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

7. CASH AND BALANCES WITH CENTRAL BANKS

As at June 30, 2020 and December 31, 2019, cash and cash equivalents presented in the interim consolidated statement of financial position and cash flows are as follows:

	June 30, 2020	December 31, 2019
Cash on hand	3,058,693	2,463,490
Due from Central Bank	5,339,314	11,470,013
Balances with the CBRT excluding reserve deposits	23,315,682	21,792,413
Money market placements and receivables from repurchase agreements	12,162	14,535
Loans and advances to banks with original maturity less than three months	5,096,245	5,865,024
Others	1,097,313	779,016
Total cash and cash equivalents in the consolidated statement of financial position	**37,919,409**	**42,384,491**
Accruals on cash and cash equivalents	(1,214)	(17,346)
Blocked bank deposits	(1,028,906)	(586,154)
Due from Central Bank	(5,339,314)	(11,470,013)
Loans and advances to banks with original maturity less than three months classified assets held for sale	-	935,335
Expected credit loss	4,365	9,366
Total cash and cash equivalents in the consolidated statement of cash flows	**31,554,340**	**31,255,679**

As of June 30, 2020, TL 806,038 is blocked bank deposits (December 31, 2019: TL 586,154) consist of held against the “Diversified Payment Rights” securitizations.

As per Communiqué on Required Reserve of CBRT, required reserve may be kept in TL, USD, EUR and standard gold. CBRT pays interest for required reserve kept in TL.

In accordance with “Announcement on Reserve Deposits” of CBRT numbered 2013/15, all banks operating in Turkey shall provide a reserve rate ranging from 1.0% to 7.0% (December 31, 2019: ranging from 1.0% to 7.0%). For foreign currency liabilities, all banks shall provide a reserve rate ranging from 8% to 24% in US Dollar or Euro (December 31, 2019: ranging from 5.0% to 21%). According to the principles of communiqué No. 2019/19 dated 9 December 2019, the CBRT pays interest to banks that provide credit growth for Turkish Lira required reserves.

8. LOANS AND ADVANCES TO CUSTOMERS

As at June 30, 2020 and December 31, 2019, outstanding loans and advances to customers comprise the followings:

June 30, 2020	Commercial	Consumer	Credit Cards	Factoring	Leasing	Total
Stage 1 loans to customers	249,537,332	77,844,201	10,947,016	-	2,491,248	340,819,797
Stage 2 loans to customers	30,684,829	1,291,588	249,668	3,059,305	348,533	35,633,923
Stage 3 loans to customers	14,094,047	1,821,869	868,395	66,853	192,589	17,043,753
Total gross loans to customers	**294,316,208**	**80,957,658**	**12,065,079**	**3,126,158**	**3,032,370**	**393,497,473**
Less: Stage 1 ECL	1,781,982	378,825	236,654	-	-	2,397,461
Less: Stage 2 ECL	3,560,404	262,890	28,244	33,270	110,772	3,995,580
Less: Stage 3 ECL	10,136,333	1,430,686	731,274	59,318	125,245	12,482,856
Total expected credit loss	**15,478,719**	**2,072,401**	**996,172**	**92,588**	**236,017**	**18,875,897**
Total loans and advances to customers	**278,837,489**	**78,885,257**	**11,068,907**	**3,033,570**	**2,796,353**	**374,621,576**

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

8. LOANS AND ADVANCES TO CUSTOMERS (Continued)

December 31, 2019	Commercial	Consumer	Credit Cards	Factoring	Leasing	Total
Stage 1 loans to customers	178,337,870	55,354,636	10,512,442	-	2,175,963	246,380,911
Stage 2 loans to customers	29,738,663	1,648,613	312,320	2,811,096	403,182	34,913,874
Stage 3 loans to customers	14,367,257	2,091,605	996,509	62,174	194,971	17,712,516
Total gross loans to customers	**222,443,790**	**59,094,854**	**11,821,271**	**2,873,270**	**2,774,116**	**299,007,301**
Less: Stage 1 ECL	1,313,341	166,583	143,713	-	-	1,623,637
Less: Stage 2 ECL	1,734,681	93,687	31,563	24,830	79,467	1,964,228
Less: Stage 3 ECL	9,912,265	1,583,325	817,804	55,170	110,223	12,478,787
Total expected credit loss	**12,960,287**	**1,843,595**	**993,080**	**80,000**	**189,690**	**16,066,652**
Total loans and advances to customers	**209,483,503**	**57,251,259**	**10,828,191**	**2,793,270**	**2,584,426**	**282,940,649**

The credit quality analysis of outstanding loans and advances to customers as of June 30, 2020 and December 31, 2019 are as follows;

	June 30, 2020		
	Stage 1	**Stage 2**	**Stage 3**
Balances at January 1, 2020	1,623,637	1,964,228	12,478,787
Transfer to Stage 1	68,928	(68,250)	(678)
Transfer to Stage 2	(27,016)	594,466	(567,449)
Transfer to Stage 3	(2,864)	(83,581)	86,445
Recoveries and reversals(*)	(247,667)	(354,962)	(1,112,399)
Provision for the period	982,443	1,943,679	1,598,150
Balances at the end of the period	**2,397,461**	**3,995,580**	**12,482,856**

(*) As of June 30, 2020, the Parent Bank has written-off loans and provisions for these loans, which were classified in the "Stage 3 Loans" (Loans Classified as Loss) amounting to TL 890,789 , unsecured, do not have reasonable expectations for recovery and with %100 provision, in accordance with the Amendments Regulation published in the Official Gazette dated 27 November 2019 and numbered 30961 by BRSA. Following the writren-off loans, the Parent Bank's non-performing loan ratio decreased from 4.52% to 4.30%.

	December 31, 2019		
	Stage 1	**Stage 2**	**Stage 3**
Balances at January 1, 2020	1,635,296	1,326,580	8,266,764
Transfer to Stage 1	64,333	(64,126)	(207)
Transfer to Stage 2	(109,512)	144,378	(34,866)
Transfer to Stage 3	(26,799)	(546,026)	572,825
Recoveries and reversals	(619,064)	(572,567)	(482,092)
Provision for the period	679,383	1,675,989	4,156,363
Balances at the end of the period	**1,623,637**	**1,964,228**	**12,478,787**

9. INVESTMENT SECURITIES

Financial asset at fair value through OCI:

	June 30, 2020		December 31, 2019	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Debt and other instruments FVOCI:				
Government bonds in TL	27,803,577	31,221,903	15,888,538	17,659,223
Eurobonds issued by the Turkish Government	8,746,361	8,811,776	5,664,507	6,036,410
Government bonds in foreign currencies	1,959,664	2,015,564	891,905	974,990
Lease Certificates	949,264	1,093,585	-	-
Bonds issued by banks	662,471	663,465	537,833	520,027
Corporate bonds	911,500	905,400	560,883	591,594
Asset-backed securities	515,583	598,904	-	-
Equity shares	-	852,316	-	801,819
Total FVOCI financial assets	**41,548,420**	**46,162,913**	**23,543,666**	**26,584,063**

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

10. ASSETS CLASSIFIED AS HELD FOR SALE

As of June 30, 2020, the cost of property and equipment held for sale purpose and related to discontinued operations are TL 2,100,807 (December 31, 2019: TL 3,125,252) and the provision for impairment is TL 8,863 (December 31, 2019: TL 12,981). The amount of other assets held for sales and discontinued operations is 3 TL (December 31, 2019: None.)

As per the Board of Directors decision in December 13th, 2019, the Bank has started the process of transfer of shares held in subsidiaries Güneş Sigorta A.Ş. and Vakıf Emeklilik ve Hayat A.Ş. respectively, including publicly held shares, to a new company to be established by Türkiye Varlık Fonu Yönetimi A.Ş. Güneş Sigorta AŞ and Vakıf Emeklilik ve Hayat AŞ have been removed from the subsidiaries account and started to be disclosed in Assets Classified as Held for Sale account.

On April 22, 2020, a share transfer agreement was signed between TVF Financial Investments A.Ş. ("TVF Financial Investments") as the buyer and the Parent Bank as the seller, in order to transfer the Parent Banks shares which represent 51.1% of Güneş Sigorta AŞ's capital and 53.9% of Vakıf Emeklilik ve Hayat AŞ's capital to TVF Financial Investments and the share transfers were completed as of the same date, and the mentioned companies were excluded from the Parent Bank's Assets Classified as Held for Sale. Accordingly, the price to be paid to the Parent Bank for Güneş Sigorta AŞ shares is determined as TL 2.22 per share, and the total sales price is TL 612,586. The sales price has been totally paid with a special issue government bond. The amount to be paid to the Parent Bank for Vakıf Emeklilik ve Hayat AŞ shares is determined as TL 0.0896 per share, and the total sales price is TL 724,584. The sales price has been totally paid with a special issue government bonds.

Elimination adjusted income and expense figures which has been occurred until the aforementioned sales transaction were booked in the income statement. TL 804,835 consolidated net sales profit has been booked in other operating income.

11. DEBT SECURITIES ISSUED

The details of debt securities issued are as follows:

	June 30, 2020		December 31, 2019	
	TL	FC	TL	FC
Nominal	13,189,206	24,680,042	11,734,890	17,233,590
Cost	12,998,871	24,569,916	11,562,300	17,160,519
Net Book Value	13,313,098	24,976,270	11,792,577	17,455,479

June 30, 2020	Currency	Maturity	Interest Rate	Original Amount	TL Amount
Bank Bonds	TL	July 2020-February 2027	6,50 % - 20,44 %	13,313,098	13,313,098
Bank Bonds	USD	October 2021- February2025	4,92 % - 8,13 %	3,054,127	20,951,312
Bank Bonds	EUR	May 2021	2.58%	501,086	3,855,582
Bank Bonds	GBP	July 2020- September 2020	0.95 % - 1.50 %	20,030	169,376

December 31, 2019	Currency	Maturity	Interest Rate	Original Amount	TL Amount
Bank Bonds	TL	January 2020-February 2027	10.10 % - 24.05 %	11,792,577	11,792,577
Bank Bonds	USD	October 2021-July 2024	5.50 % - 5.75 %	2,362,908	14,071,120
Bank Bonds	EUR	May 2021	2.58%	506,553	3,384,359

Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued Eurobond. The bond has been issued in GMTN programme on October 27, 2016 has a nominal value of US Dollar 500 million, maturity date on October 27, 2021 with fixed rate, 5 years maturity and semi-annually coupon paid and coupon rate 5.50%.

Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued Eurobond. The bond has been issued in GMTN programme on May 30, 2017 has a nominal value of US Dollar 500 million, maturity date on May 30, 2022 with fixed rate, 5 years maturity and semi-annually coupon paid and coupon rate 5.625%.

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

11. DEBT SECURITIES ISSUED (Continued)

At January 30, 2018, the Parent Bank has issued a new bond with a maturity of 5 years with a coupon rate of 5.75%, and a final yield of 5.85% amounting to USD 650 million. This transaction has been the highest consistent bond issuance transaction The Parent Bank has ever undertaken. The total demand from over 150 investors in the export has exceeded 1.5 billion dollars.

On March 28, 2019, a new bond issue with a coupon rate of 8.125% and a final return rate of 8.200% was realized in the amount of USD 600 million. More than 150 international investors showed interest in the issue. The issuance amount was swapped to Euro on the same day and the transaction was closed at a cost of less than 5%.

The Parent Bank has issued Turkey's first Euro covered bond on May 4, 2016. The bond has been issued on May 4, 2016 has nominal value of 500 million Euros, maturity date on May 4, 2021 with fixed rate, 5 years maturity and annually interest paid with coupon rate 2.375% and 2.578% return.

On October 9, 2017, the Parent Bank had issued covered bond for the qualified investors abroad within the context of Global Medium Term Notes (GMTN), with 5.5 years of maturity, and a nominal value of 1,333 million Turkish Liras.

The Parent Bank had issued the second covered bond of 2017 on December 14, 2017 with HSBC Bank Plc with with 5 years of maturity, and a nominal value of 1,333 million Turkish Liras.

On December 7, 2018 the Parent Bank issued the of 2018 abroad with a nominal value of TL 1,000 million and 5 years of maturity.

On 22 January 2019, two separate transactions amounting to TL 396.3 million and TL 1,118 million on February 12, 2019, are subject to 8-year maturity. Thus, the Covered Bond issuances reached TL 9.3 billion.

On 5 February 2020, a new bond issuance amounting to USD 750 million with 5-year maturity, 5.25 percent coupon rate and 5.375 percent final return rate was realized. In the transaction, the largest bond issue in the history of the Parent bank, US $ 4.3 billion has been collected worldwide.

12. PROVISIONS

As of June 30, 2020 the Parent Bank has recorded TL 45,685 (December 31, 2019: TL 57,760) as provisions for non-cash loans that are not indemnified or converted into cash.

The amount of free provisions in the accompanying consolidated financial statements as at June 30, 2020 is TL 852,000. (December 31, 2019: TL 852,000).

13. EARNINGS PER SHARE

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

There is no dilution of shares as at June 30, 2020 and 2019.

The following reflects the basic earnings per share computations:

	June 30, 2020	June 30, 2019
Net profit attributable for the period	4,226,950	1,149,007
Net profit attributable to owners of the Bank	4,195,747	1,084,190
Number of 100 ordinary shares for basic earnings per shares(*)	3,905,622,490	2,500,000,000
Basic earnings per 100 share	1.4946	0.4337
Diluted earnings per 100 share	1.4946	0.4337

(*) For the period between January 1, 2020 – May 22, 2020 "2,500,000,000" and for the period between May 22, 2020 – June 30, 2020 "3,905,622,490" has been considered for the earning per 100 share calculation.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

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

14. RELATED PARTY TRANSACTIONS

For the purpose of these interim consolidated financial statements, shareholders, subsidiaries, associates, other group companies and key management personnel of the Group or of its parent and their close family members are referred to as related parties.

The Group conducted some business transactions with related parties on normal commercial terms and conditions. The following balances exist and transactions have been entered into with related parties:

	June 30, 2020			December 31, 2019		
Related party	**Cash loans**	**Non-cash loans**	**Deposits**	**Cash loans**	**Non-cash loans**	**Deposits**
Direct/Indirect shareholders	-	31,847	615,995	-	29,783	298,755
Associates	389,882	379,720	307,739	334,885	377,754	54,095
Key management personnel	4,977	-	8,723	110	-	328
Total	**394,859**	**411,567**	**932,457**	**334,995**	**407,537**	**353,178**

	June 30, 2020				June 30, 2019			
Related party	**Commission Income**	**Interest income**	**Interest expense**	**Other operating expense**	**Commission Income**	**Interest income**	**Interest expense**	**Other operating expense**
Direct/Indirect shareholders	-	-	15,500	-	33	-	119,578	-
Associates	129	112	5,841	423	122	23,411	39,598	410
Total	**129**	**112**	**21,341**	**423**	**155**	**23,411**	**159,176**	**410**

Key Management Remuneration

For the period ended June 30, 2020, the key management personnel received remuneration and fees amounted to TL 26,526 (June 30, 2019: TL 24,978).

15. OTHER INCOME

As at and for the period ended June 30, 2020 and 2019, other income comprised the followings:

	June 30, 2020	**June 30, 2019**
Reversal of miscellaneous provision	3,498,397	2,305,729
Individual pension business income	306,518	74,971
Gain on sale of fixed assets	186,474	115,912
Earned premiums	171,619	838,476
Dividend income from equity shares	17,287	8,432
Rent income	79,107	4,575
Excess fee charged to customers for communication expenses	8,580	19,929
Other items(*)	1,049,196	124,850
Total	**5,317,178**	**3,492,874**

(*) Other items amounting to TL 1,049,196 is comprised of TL 804,835 (30 June 2019: None.) Güneş Sigorta A.Ş. and Vakıf Emeklilik ve Hayat A.Ş.'s sales profit.

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

16. SALARIES AND EMPLOYEE BENEFITS

As at and for the period ended June 30, 2020 and 2019, salaries and employee benefits comprised the following:

	June 30, 2020	**June 30, 2019**
Employer's share of social security premiums	(710,590)	(561,510)
Wages and salaries	(700,867)	(655,766)
Other fringe benefits	(338,348)	(272,056)
Total	**(1,749,805)**	**(1,489,332)**

17. OTHER EXPENSES

As at and for the period ended June 30, 2020 and 2019, other expenses comprised the following:

	June 30, 2020	**June 30, 2019**
Banking services promotion expenses	(558,090)	(459,308)
Provision for Severance Pay and Employee Benefits	(251,468)	(212,208)
Incurred insurance claims	(222,175)	(490,627)
Insurance claims paid	*(188,972)*	*(469,468)*
Change in provision for outstanding claims	*(33,203)*	*(21,159)*
Saving Deposit Insurance Fund premiums	(147,631)	(156,502)
Other provision expenses	(78,052)	(54,243)
Communication expenses	(69,217)	(65,177)
Advertising expenses	(65,289)	(99,070)
Cleaning service expenses	(51,763)	(38,989)
BRSA participation fee	(41,713)	(33,235)
Rent expenses and operating lease charges	(37,680)	(49,342)
Energy expenses	(36,922)	(31,357)
Credit card promotion expenses	(31,970)	(19,831)
Maintenance expenses	(31,296)	(30,028)
Loss on sale of assets	(23,423)	(3,652)
Office supplies	(18,160)	(13,941)
Consultancy expenses	(10,763)	(11,749)
Transportation expenses	(10,166)	(12,637)
Hosting expenses	(6,699)	(8,597)
Other various administrative expenses(*)	(1,296,124)	(554,455)
Total	**(2,988,601)**	**(2,344,948)**

(*) Other various administrative expenses amounting to TL 1,296,124 is comprised of TL 890,789 (30 June 2019: None.) written off loans and receivables.

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

18. COMMITMENTS AND CONTINGENCIES

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

	June 30, 2020	December 31, 2019
Letters of guarantee	64,723,869	58,980,316
Letters of credit	14,787,054	13,732,645
Acceptance credits	5,508,869	4,582,834
Other guarantees	991,264	956,499
Total non-cash loans (financial guarantee contracts)	**86,011,056**	**78,252,294**
Credit card limit commitments	20,727,949	17,293,741
Loan granting commitments	23,635,230	18,079,079
Commitments for cheque payments	4,900,652	3,528,150
Commitments for credit card and banking operations promotions	613,052	484,519
Other commitments	43,133,832	43,612,945
Total commitments	**93,010,715**	**82,998,434**
Total commitments and contingencies	**179,021,771**	**161,250,728**

Contingent assets and liabilities

There are various legal cases against the Group for which TL 38,516 (December 31, 2019: TL 37,306) has been provided, excluding routine insurance claims.

Due to the nature of insurance business and considering the general attitude of the legal system in favor of the policyholders, the Group provides in full for the claims opened, except for these claims including damages for mental anguish and risks which are not covered by the insurance policies. Since most of such material claims are ceded to reinsurance firms by facultative agreements, such claims, net of ceded amounts have no material effect on the Group’s financial position.

Pending tax audits

The tax and other government authorities (Social Security Institution) have the right to inspect the Group’s tax returns and accounting records for the past five fiscal years. The Group has not recorded a provision for any additional taxes for the fiscal years that remained unaudited, as the amount cannot be estimated with any degree of certainty. The Group’s management believes that no material assessment will arise from any future inspection for unaudited fiscal years.

Derivative financial instruments held for trading purposes

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying items, such as financial instrument prices, reference rates, commodity prices or indices. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments used mainly include currency forwards, interest rate swaps, currency swaps and currency options.

The table below shows the contractual amounts of derivative instruments analyzed by the term to maturity. The contractual amount is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The contractual amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

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

18. COMMITMENTS AND CONTINGENCIES (Continued)

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates. The maturity analyses of the gross nominal value of derivatives are presented below:

	June 30, 2020	December 31, 2019
	Notional Amounts	Notional Amounts
Trading Derivatives		
Foreign Currency Related Derivative Transactions	**119,063,940**	**85,949,525**
Currency Forwards	5,158,709	4,537,627
Currency Swaps	113,476,920	80,075,495
Currency Futures	-	-
Currency Options	428,311	1,336,403
Interest Rate Derivative Transactions	**75,595,238**	**66,326,016**
Interest Rate Forwards	-	-
Interest Rate Swaps	75,595,238	66,326,016
Interest Rate Options	-	-
Interest Rate Futures	-	-
Other Trading Derivatives	**27,361,826**	**23,593,260**
Total Derivative Transactions	**222,021,004**	**175,868,801**

19. SUBSEQUENT EVENTS

The Parent Bank issued a Vakıfbank financing bill with a term of 140 days, a nominal value of TL 308,260,000 (full TL) with the maturity date Dec 11,2020 and an ISIN code of TRFVKFBA2010 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on July 24, 2020

The Parent Bank issued a Vakıfbank financing bill with a term of 134 days, a nominal value of TL 92,808,381 (full TL) with the maturity date Dec 11,2020 and an ISIN code of TRFVKFBA2036 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on July 30, 2020.

The Parent Bank issued a Vakıfbank financing bill with a term of 148 days, a nominal value of TL 93,102,164 (full TL) with the maturity date Dec 25,2020 and an ISIN code of TRFVKFBA2028 to be sold to qualified investors following the approval of the TL 25,000,000,000 (full TL) debt instruments issue cap application. The amount was transferred to customer accounts on July 30, 2020.

The Parent Bank issued a Turkish Lira overnight benchmark interest rate indexed, financing bond with a term of 91 days, a nominal value of TL 621,120,000 (full TL) with the maturity date November 13, 2020 and an ISIN code of TRFVKFBK2059 to be sold to qualified investors within the scope of approval of the debt instruments issuance ceiling application up to TL 30,000,000,000 (full TL). The bond was transferred to customer accounts on August 14, 2020.

The Parent Bank issued a Vakıfbank financing bond with a term of 63 days, a nominal value of TL 101,286,336 (full TL) with the maturity date October 16, 2020 and an ISIN code of TRFVKFBE2040 to be sold to qualified investors within the scope of approval of the debt instruments issuance ceiling application up to TL 30,000,000,000 (full TL). The bond was transferred to customer accounts on August 14, 2020.

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