Türkiye Halk Bankası Anonim Şirketi
And Its Subsidiaries

Condensed Consolidated Interim Financial Statements
For the Six-Month Period Ended
30 June 2020
With Report on Review of
Interim Financial Statements Thereon

Türkiye Halk Bankası Anonim Şirketi and Its Subsidiaries

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the Board of Directors of
Türkiye Halk Bankası A.Ş.
İstanbul

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Türkiye Halk Bankası A.Ş. ("the Bank") and its consolidated subsidiaries (together "the Group") as of 30 June 2020, and the related condensed consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Basis for Qualified Conclusion

The Group reclassified the government bonds amounting to TRY 18.965.006 thousand, which were previously classified under financial assets at fair value through other comprehensive income according to the business model prepared in accordance with International Financial Reporting Standard ("IFRS") 9, into financial assets measured at amortised cost and reversed the marketable securities revaluation fund accumulated under other comprehensive income or loss to be reclassified through profit or loss amounting to TRY 2.229.977 thousand on 23 May 2018. The reclassification constitutes a departure from IFRS 9. The government bonds reclassified into financial assets measured at amortised cost as at 30 June 2020 amounted to TRY 17.608.853 thousand. If such classification were not made, total assets and shareholders' equity, excluding tax effect, would have been lower by TRY 1.348.755 thousand as at 30 June 2020.

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards.

Emphasis of Matter

As detailed in Note 24, we draw attention to the following:

On 15 October 2019, the New York Southern District Attorney General of the United States ("US") Department of Justice prepared an indictment and filed a lawsuit against the Parent Bank in the New York Southern District Court ("District Court") for alleged violations of Iranian sanctions. This criminal lawsuit action is ongoing.

In addition, a civil lawsuit was filed against the Parent Bank on 27 March 2020 with a claim for compensation by plaintiffs in the U.S. New York Southern District Court "on the grounds that they (plaintiffs) could not satisfy their judgments from Iran due to violations of sanctions" and it was served to the Parent Bank's lawyers on 1 July 2020. The civil lawsuit action at the District Court is ongoing.

In addition, the appeal process of the case which resulted in the conviction of the defendant former executive of the Parent Bank, who was released on 19 July 2019 and returned to Turkey, is completed. The decision related to the conviction was upheld.

At this stage, the Parent Bank's Management state that there is no penalty, compensation, sanction or other measure arising from the ongoing criminal and civil lawsuits against the Parent Bank. There is an uncertainty with respect to any decisions by the US authorities that may adversely affect the financial position of the Parent Bank. No provision has been made in the accompanying consolidated financial statements related to these matters. Our conclusion is not modified in respect of these matters.

Other Matter

We have not reviewed the accompanying condensed consolidated statement of financial position of Türkiye Halk Bankası A.Ş. ("the Bank") and its consolidated subsidiaries (together "the Group") as of 30 June 2019, and the related condensed consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows together with related disclosures for the six-month period then ended.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Yaman Polat
Partner

Istanbul, 30 October 2020

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS OF 30 JUNE 2020

(Currency - In thousands of Turkish Lira ("TRY"))

	Notes	30 June 2020	31 December 2019
Assets			
Cash on hand		4.016.764	3.861.328
Balances with Central Bank	*8*	14.642.911	16.702.412
Reserve deposits at Central Bank	8	9.456.934	14.746.070
Due from banks		3.002.618	4.250.633
Financial assets at fair value through profit or loss		18.622.918	17.457.755
- Securities		*203.150*	*201.682*
- Derivative financial instruments	*15*	*1.950.164*	*1.151.992*
-Collaterals of borrowed securities		*16.469.604*	*16.104.081*
Loans and advances	9	419.741.550	306.800.841
Insurance premium receivables		32.922	13.892
Investment securities:		122.136.861	87.760.696
- Debt and other instruments at FVTOCI	*10*	*42.269.361*	*15.299.315*
- Debt and other instruments at amortised cost	*10*	*79.867.500*	*72.461.381*
Investment in equity-accounted investees		578.428	499.882
Property and equipment		9.281.035	9.323.015
Intangible assets		202.688	208.517
Non-current assets held for sale		1.463	1.076.418
Investment property		1.139.355	1.104.463
Deferred tax assets		321.656	51.201
Other assets		7.198.384	4.713.469
Total assets		**610.376.487**	**468.570.592**
Liabilities			
Deposits from banks	*12*	30.012.179	27.704.929
Deposits from customers	*12*	377.698.552	272.932.126
Obligations under repurchase agreements		38.161.893	51.975.174
Loan and advances from banks		17.434.554	17.376.874
Interbank money market borrowings		40.105.482	1.364.167
Derivative financial instruments	15	673.138	353.718
Debt securities issued		15.989.382	19.294.132
Securities lending borrowings		16.469.604	16.104.081
Subordinated liabilities		13.286.751	12.184.846
Insurance contract liabilities		67.913	55.117
Lease Liabilities		772.641	644.059
Provisions		1.950.662	1.711.874
Income tax payables		1.113.091	423.926
Deferred tax liability		2.152	317.460
Non-current liabilities held for sale		-	3.184.317
Other liabilities		14.524.046	10.784.492
Total liabilities		**568.262.040**	**436.411.292**
Equity			
Share capital	16	3.801.960	2.578.184
Share premium		5.815.863	39.773
Reserves	17	5.966.899	5.521.500
Retained earnings		26.277.478	23.732.590
Total equity attributable to equity holders of the Bank		**41.862.200**	**31.872.047**
Non-controlling interests		252.247	287.253
Total equity		**42.114.447**	**32.159.300**
Total liabilities and equity		**610.376.487**	**468.570.592**

The notes on pages 7 to 40 are an integral part of these condensed consolidated interim financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

(Currency - In thousands of Turkish Lira (“TRY”))

	Notes	**For the six-month period ended 30 June 2020**	**For the six-month period ended 30 June 2019**
Interest income:			
-Interest income on loans		17.826.159	17.815.809
-Interest income on securities		6.166.064	4.838.888
-Interest income on finance leases		170.032	157.228
-Interest income on deposits at banks		68.394	327.479
-Interest income on other money market placements		10.701	21.891
-Other interest income		207.315	221.871
		24.448.665	**23.383.166**
Interest expense:			
-Interest expense on deposits		(8.790.514)	(12.138.357)
-Interest expense on other money market deposits		(2.793.495)	(5.073.488)
-Interest expense on borrowings		(222.101)	(266.783)
-Interest expense on debt securities issued		(1.214.063)	(1.202.025)
-Interest expense on lease liabilities		(41.158)	-
-Other interest expense		(327.110)	(192.316)
		(13.388.441)	**(18.872.969)**
Net interest income		**11.060.224**	**4.510.197**
Fees and commission income	21	1.740.788	1.939.017
Fees and commission expenses	21	(407.610)	(647.284)
Net fee and commission income		**1.333.178**	**1.291.733**
Net trading income from securities		80.160	31.951
Net trading income / (loss) from derivative financial instruments		1.707.342	(31.118)
Foreign exchange gain / (losses), net		(4.173.683)	(1.811.008)
Net impairment losses on financial assets		(3.889.849)	(1.294.249)
Income from insurance operations		31.174	946.062
Cost of insurance operations		(12.283)	(788.535)
Dividend income		4.322	4.071
Other operating income	22	482.582	621.072
Other operating expenses	23	(4.160.090)	(3.016.696)
Other Provision expense		(231.500)	-
Operating profit		**2.231.577**	**463.480**
Share of profit of equity-accounted investees		5.078	16.327
Profit before income tax		**2.236.655**	**479.807**
Income tax (expense) / benefit		(601.392)	119.337
Profit for the period		**1.635.263**	**599.144**
Profit for the year from discontinuing operations		938.770	-
Profit for the period		**2.574.033**	**599.144**
Other comprehensive income			
Items that will be never classified to profit or loss:			
Re-measurement of employee termination benefits		1.101	-
Revaluation differences of property and equipment		(6.783)	-
Related tax		583	-
Items that may be reclassified subsequently to profit or loss:			
Fair value reserve (Debt and other instruments at FVTOCI):			
Change in fair value		(41.790)	34.159
Amount transferred to profit or loss		303.367	14.225
Foreign currency translation differences		6.846	6.601
Related tax		14.253	35.882
Other comprehensive income for the period, net of tax		**277.577**	**90.867**
Total comprehensive income for the period		**2.851.610**	**690.011**

The notes on pages 7 to 40 are an integral part of these condensed consolidated interim financial statements.

(Currency - In thousands of Turkish Lira ("TRY"))

	Notes	**For the six-month period ended 30 June 2020**	**For the six-month period ended 30 June 2019**
Profit attributable to:			
Equity holders of the Bank		2.567.199	589.868
Non-controlling interests		6.834	9.276
Profit for the period		**2.574.033**	**599.144**
Total comprehensive income attributable to:			
Equity holders of the Bank		2.844.776	680.735
Non-controlling interests		6.834	9.276
Total comprehensive income for the period		**2.851.610**	**690.011**
Basic earnings per share (full TRY per share)	**18**	**1,6901**	**0,4719**

The notes on pages 7 to 40 are an integral part of these condensed consolidated interim financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

(Currency - In thousands of Turkish Lira ("TRY"))

		Total equity attributable to equity holders of the Bank							
				Reserves					
	Notes	**Share capital**	**Share premium**	**Fair value reserves**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balances at 1 January 2019		**2.578.184**	**39.740**	**(127.045)**	**4.720.887**	**22.066.402**	**29.278.168**	**246.641**	**29.524.809**
New balances at 1 January 2019									
Total comprehensive income for the period									
Net profit for the period		-	-	-	-	**589.868**	**589.868**	**9.276**	**599.144**
Other comprehensive income, net of tax									
Fair value reserve (Debt and other instruments at FVTOCI):									
Net change in fair value		-	-	70.041	-	-	70.041	-	**70.041**
Net amount transferred to profit or loss		-	-	14.225	-	-	14.225	-	**14.225**
Revaluation differences of property and equipment		-	-	-	-	-	-	-	-
Foreign currency translation differences		-	-	-	6.601	-	6.601	-	**6.601**
Total other comprehensive income		-	-	**84.266**	**6.601**	-	**90.867**	-	**90.867**
Total comprehensive income for the period		-	-	**84.266**	**6.601**	**589.868**	**680.735**	**9.276**	**690.011**
Transactions with the owners, recorded directly in equity									
Transfers to other reserves		-	-	-	559.296	(559.296)	-	-	-
Dividends to equity holders	17	-	-	-	-	(1.402)	(1.402)	1.402	-
Changes in ownership interests in subsidiaries		-	-	-	(89.974)	-	(89.974)	-	**(89.974)**
Other		-	-	-	(196.079)	-	(196.079)	15.607	**(180.472)**
Balances at 30 June 2019		**2.578.184**	**39.740**	**(42.779)**	**5.000.731**	**22.095.572**	**29.671.448**	**272.926**	**29.944.374**
Balances at 1 January 2020		**2.578.184**	**39.773**	**325.065**	**5.196.435**	**23.732.590**	**31.872.047**	**287.253**	**32.159.300**
Total comprehensive income for the period									
Net profit for the period		-	-	-	-	**2.567.199**	**2.567.199**	**6.834**	**2.574.033**
Issuance of share capital		1.223.776	5.776.224	-	-	-	7.000.000	-	**7.000.000**
Other comprehensive income, net of tax									
Re-measurements of defined benefit plans, net of tax		-	-	-	881	-	881	-	**881**
Fair value reserve (Debt and other instruments at FVTOCI):									
Net change in fair value		-	-	263.037	-	-	263.037	-	**263.037**
Net amount transferred to profit or loss		-	-	12.793	-	-	12.793	-	**12.793**
Revaluation differences of property and equipment		-	-	-	(5.980)	-	(5.980)	-	**(5.980)**
Foreign currency translation differences		-	-	-	6.846	-	6.846	-	**6.846**
Total other comprehensive income		-	-	**275.830**	**1.747**	-	**277.577**	-	**277.577**
Total comprehensive income for the period		**1.223.776**	**5.776.224**	**275.830**	**1.747**	**2.567.199**	**9.844.776**	**6.834**	**9.851.610**
Transactions with the owners, recorded directly in equity									
Transfers to other reserves		-	-	-	53.021	(53.021)	-	-	-
Dividends to equity holders	17	-	-	-	-	(1.404)	(1.404)	1.404	-
Changes in ownership interests in subsidiaries									
Change in non-controlling interests without a change in control		-	-	-	(148.506)	-	(148.506)	-	**(148.506)**
Other		-	(134)	-	263.307	32.114	295.287	(43.244)	**252.043**
Balances at 30 June 2020		**3.801.960**	**5.815.863**	**600.895**	**5.366.004**	**26.277.478**	**41.862.200**	**252.247**	**42.114.447**

The notes on pages 7 to 40 are an integral part of these condensed consolidated interim financial statements.

(Currency - In thousands of Turkish Lira ("TRY"))

	Notes	**For the six-month period ended 30 June 2020**	**For the six-month period ended 30 June 2019**
Cash flows from operating activities			
Profit for the period		2.574.033	599.144
Adjustments for:			
Depreciation and amortisation	23	249.317	207.874
Net impairment loss on loans and advances	9	4.231.882	4.616.783
Net interest income		(11.060.224)	(4.510.197)
Dividend income		(4.322)	(4.071)
Provision for employee termination benefits	23	78.262	56.905
Net gain on sale of property and equipment		(122.572)	(44.034)
Share of profit of equity-accounted investees		(5.078)	(16.327)
Income tax expense		601.392	(119.337)
		(3.457.310)	**786.740**
Change in financial assets at fair value through profit or loss		(368.174)	(2.578.964)
Change in due from banks		-	(6.475)
Change in loans and advances		(114.604.597)	(25.880.629)
Change in other assets		2.357.227	(16.002.960)
Change in deposits from banks		2.281.141	(2.974.316)
Change in deposits from customers		105.081.896	18.407.553
Change in loans and advances from banks		(49.496)	(1.046.787)
Change in other liabilities		25.702.910	31.471.009
Interest received		21.668.548	20.241.382
Dividends received		4.322	4.071
Interest paid		(13.629.367)	(18.820.323)
Income tax paid		(154.772)	(487.220)
Employee termination benefits paid		(52.564)	(20.930)
Net cash used in operating activities		**24.779.764**	**3.092.151**
Cash flows from investing activities			
Acquisitions of subsidiaries		(148.506)	(109.320)
Disposal of subsidiaries		-	39.375
Acquisitions of FVTOCI investment securities		(34.191.208)	(9.499.827)
Proceeds from sale of FVTOCI investment securities		5.756.086	1.656.022
Acquisitions of amortised cost investment securities		(9.976.731)	(14.697.232)
Proceeds from sale of amortised cost investment securities	10	5.058.942	3.354.408
Acquisitions of property and equipment		(306.770)	(2.655.928)
Proceeds from sale of property and equipment		778.679	273.301
Other cash (used in)/provided from investing activities		(93.799)	5.937
Net cash (used in)/provided from investing activities		**(33.123.307)**	**(21.633.264)**
Cash flows from financing activities			
Proceeds from issue of debt securities		14.241.124	9.936.512
Cash used for repayment of debt securities		(18.323.298)	(4.585.202)
Share Capital Issued		7.000.000	-
Repayment of leasing payables		(109.919)	(109.423)
Other payments		-	(262.384)
Net cash provided from financing activities		**2.807.907**	**4.979.503**
Net increase/(decrease) in cash and cash equivalents		**(5.535.636)**	**(13.561.610)**
Cash and cash equivalents at 1 January		24.293.513	23.448.588
Effect of change in currency rate fluctuations on cash held		2.872.185	1.125.828
Cash and cash equivalents at 30 June		**21.630.062**	**11.012.806**

The notes on pages 7 to 40 are an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated financial statements:

1. Activities of the Bank and the Group

Türkiye Halk Bankası Anonim Şirketi (the "Bank" or "Halkbank") was established in Turkey in accordance with the law no: 2284 in 1933 and began its operations in 1938 and still continues its activities as a public commercial bank. As of 30 June 2020, the Bank operates with a total of 1009 branches consisting of 1003 domestic and 6 foreign branches that are 5 in Turkish Republic of Northern Cyprus ("TRNC") and 1 in Bahrain. Domestic branches include 34 satellite branches. The Bank has also 3 representative offices that are 1 in England, 1 in Singapore and 1 in Iran. The operations of Türkiye Halk Bankası AŞ and subsidiaries (the "Group") consists of banking, securities, financial leasing, factoring services, brokerage and insurance services provided primarily to local customers. The consolidated financial statements of the Group include the accounts of the Bank, Halk Yatırım Menkul Değerler AŞ, Halk Finansal Kiralama AŞ, Halk Banka AD, Skopje, Halk Osiguruvanje A.D. Skopje, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Faktoring AŞ, Halkbank A.D., Beograd, and Halk Varlık Kiralama AŞ.

As per the Higher Council of Privatization decision numbered 2006/69 dated 11 August 2006, the public shares were transferred to the Privatization Administration and 99,9% of the Bank shares were decided to be sold before 25 May 2008 using the block sale method. 13th Department of Council of State with its decision numbered 2006/4258 dated 29 November 2006 decided to cease the execution of the High Council of Privatization's decision numbered 2006/69 dated 11 August 2006.

The first phase of the privatization process of the Bank corresponding to 24,98% was completed in the first week of May 2007 and Halkbank shares were started to trade on Borsa İstanbul (BIST) as of 10 May 2007.

The second phase of the privatization process of the Bank corresponding to 23,92% of the shares that were previously held by the Privatization Administration was completed on 21 November 2012 and after the second public offering and privatization, the 48,90% of the Bank shares have been traded on BIST.

The shares belonging to the T.C. Prime Ministry Privatization Administration were transferred to the Türkiye Varlık Fonu on 10 March 2017 pursuant to the Decree of the Higher Council for Privatization No. 2017/1 dated 3 February 2017.

The Bank established Halk Gayrimenkul Yatırım Ortaklığı AŞ ("Halk GYO") in 2010. Halk Gayrimenkul Yatırım Ortaklığı AŞ's main line of business is, to form and improve real estate portfolios and to invest in real estate based capital market instruments. Its main operative target is, based on the Capital Markets Board's ("CMB") regulation regarding the real estate investment trusts, to invest in capital market instruments based on real estates, real estate projects and rights based on real estates. 28% shares of Halk GYO started to be traded on BIST at 22 February 2013.

Halk Finansal Kiralama AŞ ("Halk Leasing"), was an associate of the Bank with 47,75% of the shares and accounted for according to the equity method until 27 May 2011. The Group obtained the control of Halk Leasing by acquiring 52,24% of the shares and voting interests in the company as of 27 May 2011. As a result, the Group's equity interest in Halk Leasing has increased from 47,75% to 99,99%. Halk Leasing was established in September 1991 in Turkey and operates under the provisions of the Turkish financial leasing law number 3226.

1. Activities of the Bank and the Group (continued)

Halk Banka AD Skopje, formerly Export and Credit Bank AD Skopje is a subsidiary of the Bank. The Group obtained the control of Halk Banka AD, Skopje by acquiring 98,12% of the shares and voting interests of the company as of 8 April 2011 and 8 August 2011. Halk Banka AD Skopje has taken over Ziraat Banka AD Skopje which was a subsidiary of Turkish state bank that operating in Macedonia, through the merger as of 1 October 2012. As a result, the Group's equity interest in Halk Banka AD, Skopje has increased from 98,12% to 98,78% and as at 31 December 2016 it is 99,03%. Halk Banka AD, Skopje is operating in the Republic of Macedonia. Between 1 January – 30 June 2019, The Bank paid TRY 89.974 for 0,13% shares of Halkbank A.D. Skopje increased its shares to 99,29%. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services.

Halk Faktoring AŞ ("Halk Faktoring"), a subsidiary of the Bank established in 2012, was registered on 6 June 2012. Halk Faktoring's main line of business is to provide factoring services that include legitimate commercial lending for all domestic and international trade operations.

Halk Yatırım Menkul Değerler AŞ ("Halk Yatırım"), was set up in 1997 to carry out capital markets activities, to purchase and sell capital markets instruments, and to execute stock exchange transactions. The company became a subsidiary in early 2006 when Halkbank bought the shares of Türkiye Halk Bankası Personnel Provident Fund.

The Bank obtained the control of Halkbank AD, Beograd by acquiring 76,76% of the shares and voting interests of the company as of 28 May 2015. Its main activities include commercial lending, accepting deposits, foreign exchange transactions, and payment operation services in the country and abroad and retail banking services. On the date of 24 November 2015 Bank's share has increased into 82,47% by the increase of its capital. As of 31 December 2018, the Parent Bank paid TL 202.726 for 0,11% shares of Halkbank A.D. Beograd increased its shares 99,99%. Between 1 January - 31 December 2018, The Parent Bank paid TRY 88.413 for 0,10% shares of Halkbank A.D. Beograd increased its shares to 99,99%.

Halk Varlık Kiralama A.Ş. ("Halk Varlık") was established on 3 October 2017 with the purpose of issuing "Lease Certificate" in accordance with the Capital Markets Board Law No. 6362, the CMB and the related regulations of the CMB.

Share purchase agreement was signed by and between the Parent Bank and Halk Yatırım Menkul Değerler A.Ş, as seller and Türkiye Varlık Fonu Finansal Yatırımlar A.Ş., as purchaser on 22 April 2020, for the transfer of the shares in Halk Sigorta A.Ş representing 89,18% of its share capital held by the Parent Bank, and representing 6,14% of its share capital held by Halk Yatırım Menkul Değerler A.Ş, and the mentioned transfer of shares was completed at the same date. Share purchase agreement was signed by and between the Parent Bank, as seller and Türkiye Varlık Fonu Finansal Yatırımlar A.Ş., as purchaser on 22 April 2020, for the transfer of the shares in Halk Hayat ve Emeklilik A.Ş. representing 100% of its share capital held by the Parent Bank, and the mentioned transfer of shares was completed at the same date.

Due to aforementoined sales transaction, TRY 867.529 of consolidated net sales profit has been presented under Profit from Sales of Associates, Subsidiaries and Joint Ventures in the Income from Discontunied Operations. Income and expenses derived from the consolidation of these companies subject to sale until the date of sale are presented in the Income/Expense from non- Current Assets Held for Sale.

2. Statement of compliance

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

3. Basis of accounting

These condensed consolidated interim financial statements as of 30 June 2020 have been prepared in accordance with IAS 34 "Interim Financial Reporting". They do not include all the information required for a complete set of IFRS financial statements and should be read in conjunction with the financial statements of the Group as at and for the year ended 31 December 2019.

Effects of COVID 19

In December 2019, a new type of coronavirus (COVID-19) which emerged in Wuhan city of China, caused fatal respiratory diseases all over the world and named as a global outbreak by the World Health Organization on 11 March 2020. Various measures have been taken all over the world in order to avoid the negative effects of the disease that has become a pandemic, and due to the measures taken, there have been a recession in economies.

In order to be protected from the effects of the pandemic, Banking Regulation and Supervision Agency (BRSA), Central Bank of Republic of Turkey (CBRT), Capital Markets Board of Turkey (CMB) and The Banks Association of Turkey (TBA) have taken various decisions regarding the banking sector in our country. These measures, which closely concern the banking sector, are listed below in general.

1. With the order made by the BRSA on 17 March 2020 in Regulation on Provisions, the delinquency period for the classification of loans as non-performing has been extended from 90 days to 180 days until 31 December 2020 and Expected Credit Loss provisions for the loans classified as Second Group Loans Under Close Monitoring within the scope of TFRS 9 are decided to be continued according to the banks' own risk models.
2. With the order made by the CBRT on 17 March 2020, foreign currency reserve deposit ratios for the banks whose credit growth rate is at qualified reference interval have been decreased by 500 basis points.

3.With the decision made by the TBA on 19 March 2020, it has been recommended that loan demands of the affected firms should be swiftly evaluated and met, credit access and terms should be improved, credit channels should be maintained, and a certain flexibility should be introduced in terms of due dates, installments and assurances regarding the clients whose income-expenditure balance is affected by the pandemic outbreak.

4. With the decision made by the BRSA on 23 March 2020, banks are entitled to use the buying exchange rate used in preparation of financial statements as of 31 December 2019 when calculating the amount subject to credit risk for calculating the revalued amounts as per the Turkish Accounting Standards and related specific reserves, excluding the foreign currency assets measured at historical cost; and it has been decided that banks may calculate the equity amount to be used for CAR by disregarding the negative revaluation differences of the securities classified under Financial Assets Measured at Fair Value through Other Comprehensive Income portfolio before 23 March 2020 and disregard the provision for fair value decrease on securities for calculating the net foreign currency position.

5.With the decision of the BRSA dated 26 March 2020, it has been decided to exempt Banks from their obligations to meet the Liquidity Coverage Ratio.

6. With the amendments made by the BRSA on the Regulation on Provisions on 27 March 2020, transfer period to loans under close monitoring has been extended from 30 days to 90 days until 31 December 2020 and Expected Credit Loss provisions for the loans classified as First Group Loans of a Standard Nature within the scope of TFRS 9 are decided to be continued according to the banks' own risk models.

3. Basis of accounting *(continued)*

***Effects of COVID 19** (continued)*

7. With the decision of the BRSA dated 16 April 2020, it has been decided to apply 0% risk weight for the FC nominated receivables from the Centralized Administration of Turkish Republic within the scope of CAR regulation.

The Parent Bank has arranged its activities within the scope of the above-mentioned decisions and extended the period regarding the classification of loans under follow-up from 90 days to 180 days and classification of loans under close monitoring from 30 days to 90 days. As stated in the BRSA announcement for the mentioned loans, provisions were continued to be set within the framework of the Parent Bank's risk model, for loans overdue 30-90 days in Stage 1 12-Month Expected Credit Loss Provision, and for loans overdue 90-180 days in the Stage 2 Expected Credit Loss for Significant Increase in Credit Risk. However, in order to follow the financial effects that may arise after the decision will be repealed, monitoring is performed for loans and their ECLs that may arise in case of related stage changes.

As regards to the consideration of macroeconomic factors, the Bank regularly evaluates scenario weights and macroeconomic factors in its model and if deemed necessary, makes additional provision through individual assessment due to the fact that the effects of the pandemic are still being experienced. As of the end of the current period, additional provisions calculated on individual basis for certain customers were recognized in the financial statements.

The possible effects of the outbreak on the Parent Bank's financial statements are regularly monitored by the relevant Units and the Parent Bank Management.

4. Use of judgements and estimates

The preparation of the condensed consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is disclosed below.

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items, highlighted as the 'critical accounting estimates and judgements' below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements. Management's selection of accounting policies that contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

4. Use of judgements and estimates *(continued)*

Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the management.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

•Level 1: Assets and liabilities are classified as level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

•Level 2: Assets and liabilities classified as level 2 have been valued using models whose inputs are observable either directly or indirectly. Valuations based on observable inputs include assets and liabilities such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

•Level 3: Assets and liabilities are classified as level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined via reference to observable inputs, historical observations or using other analytical techniques.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 6 –Financial Risk Management.

<u>Critical accounting estimates and judgements:</u>

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, greater than 5% of the instrument’s valuation is driven by unobservable inputs. ‘Unobservable’ in this context means that there is little or no current market data available from which to determine the price at which an arm’s length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

4. Use of judgements and estimates *(continued)*

Impairment

Regarding the impairment of amortised cost financial assets and financial assets measured at fair value through other comprehensive income (‘FVOCI’), the most significant judgements relate to defining what is considered to be a significant increase in credit risk, determining the lifetime and point of initial recognition of revolving facilities, and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. A high degree of uncertainty is involved in making estimations using assumptions that are highly subjective and very sensitive to the risk factors. See Note 6.3 Impairment of Financial Assets.

An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Group considers the following factors:

- The market’s assessment of creditworthiness as reflected in the bond yields;
- The rating agencies’ assessments of the creditworthiness;
- The ability of the country to access the capital markets for new debt issuance;
- The probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

5. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated financial statements and have been applied consistently by the Group entities.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

5.1. Basis of consolidation

Subsidiaries

The consolidated financial statements include the accounts of the Parent Bank and the subsidiaries.

Subsidiaries are the entities controlled by the Parent Bank. The control exists if and only if; 1) when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities, 2) exposure, or rights, to variable returns from its involvement with the affiliate, 3) the ability to use its power over the affiliate to affect the amount of its returns.

The Parent Bank reassess its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Companies where the Bank exercises significant influence, but do not have operating and financial control are accounted for using the equity method.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

The accounting policies of subsidiaries have been adjusted when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance.

Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(Currency - In thousands of Turkish Lira ("TRY"))

5. Significant accounting policies *(continued)*

5.1. Basis of consolidation *(continued)*

Subsidiaries *(continued)*

The subsidiaries included in consolidation and effective shareholding percentages of the Group as of 30 June 2020 and 31 December 2019 are as follows:

		Direct ownership		Indirect ownership	
	Place of incorporation	**30 June 2020**	**31 December 2019**	**30 June 2020**	**31 December 2019**
Halk Sigorta AŞ[1]	Istanbul	-	89,18%	-	95,32%
Halk Hayat ve Emeklilik AŞ[1]	Istanbul	-	100,00%	-	100,00%
Halk Yatırım Menkul Değerler AŞ	Istanbul	99,96%	99,96%	99,97%	100,00%
Halk Gayrimenkul Yatırım Ortaklığı AŞ	Istanbul	79,33%	79,33%	79,36%	79,36%
Halk Finansal Kiralama AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Banka AD, Skopje	Skopje	99,40%	99,29%	99,40%	99,29%
Halk Faktoring AŞ	Istanbul	97,50%	97,50%	99,99%	100,00%
Halk Banka A.D. Beograd	Beograd	100,00%	100,00%	100,00%	100,00%
Halk Varlık Kiralama A.Ş.	Istanbul	100,00%	100,00%	99,40%	100,00%
Halk Osiguruvanje A.D., Skopje	Skopje	-	-	99,40%	99,29%

(1) The Parent Bank classified the shares of Halk Sigorta AŞ and Halk Hayat ve Emeklilik AŞ as non-current assets held for sale in the prior period.

Share purchase agreement was signed by and between the Parent Bank and Halk Yatırım Menkul Değerler A.Ş, as seller and Türkiye Varlık Fonu Finansal Yatırımlar A.Ş., as purchaser on 22 April 2020, for the transfer of the shares in Halk Sigorta A.Ş representing 89,18% of its share capital held by the Parent Bank, and representing 6,14% of its share capital held by Halk Yatırım Menkul Değerler A.Ş, and the mentioned transfer of shares was completed at the same date. Share purchase agreement was signed by and between the Parent Bank, as seller and Türkiye Varlık Fonu Finansal Yatırımlar A.Ş., as purchaser on 22 April 2020, for the transfer of the shares in Halk Hayat ve Emeklilik A.Ş. representing 100% of its share capital held by the Parent Bank, and the mentioned transfer of shares was completed at the same date.

For the total shares held by the Parent Bank in Halk Sigorta A.Ş representing 89,18% of its share capital, the price per share to be paid to the Parent Bank is determined as TRY 0,0186 (full TRY) and the total sale price is TRY 578.905.

For the total shares held by the Parent Bank in Halk Hayat ve Emeklilik A.Ş. representing 100% of its share capital, the price per share to be paid to the Parent Bank is determined as TRY 4,1149 (full TRY) and the total sale price is TRY 1.695.339. In addition, TRY 306.994 of dividend income has been obtained from the company in the current period

The Parent Bank increased its share in Halk Banka AD, Skopje in Macedonia to 99,40% by purchasing 0,11% of the shares of HalkBank AD, Skopje for a price of TRY 148.506 in the period between 1 January - 30 June 2020.

(Currency - In thousands of Turkish Lira ("TRY"))

5. Significant accounting policies *(continued)*

5.1. Basis of consolidation *(continued)*

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Goodwill at the acquisition date for business combinations on or after 1 January 2010 are measured as below:

- The fair value of the acquisition cost; plus
- The recognized amount of any non-controlling interest in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) and deferred tax assets and liabilities and assets or liabilities related to employee benefit arrangements that are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively.

When this total is negative, the gain on acquisition is recognized immediately in profit or loss.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Investments in associates (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

The equity-accounted associates of the Group as of 30 June 2020 and 31 December 2019 are as follows:

		Shareholding interest	
	Place of incorporation	30 June 2020	31 December 2019
Demir-Halk Bank NV	Rotterdam	30,00%	30,00%
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara	31,47%	31,47%
Türk P ve I Sigorta AŞ	Istanbul	16,67%	16,67%

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those by the Group for similar transactions and events.

(Currency - In thousands of Turkish Lira ("TRY"))

5. Significant accounting policies *(continued)*

5.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into Turkish Lira, which is the presentation currency of the Group, using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of FVTOCI, which are recognised directly in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The Group started to apply fair value hedge accounting as at 1 July 2015 by designating the exchange rate risk of Halkbank AD, Beograd, Demirhalkbank NV and Halkbank AD, Skopje are foreign investments that are recognized under fair value accounting as hedged item, in compliance with "IFRS 9 Financial Instruments: Recognition and Measurement". Accordingly, the effective portion of the foreign exchange differences is recorded under equity in the current period.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to TRY at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to TRY at exchange rates approximating to the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payables to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

As at 30 June 2020 and 31 December 2019, foreign currency assets and liabilities of the Group are mainly in US Dollar ("USD") and EUR. The TRY/USD and TRY/EUR exchange rates as at 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020		**31 December 2019**	
	Period end	**Average**	**Period end**	**Average**
TRY / USD	6,8100	6,4666	5,9000	5,6191
TRY / EUR	7,6374	7,1217	6,6210	6,3013

5. Significant accounting policies *(continued)*

5.3 Impairment of Financial Assets

As of the reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition in accordance with IFRS 9 paragraph 5.5.4. When making the assessment, the Group shall use the change in the risk of a default occurring for the financial instrument.

As of the reporting date, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group shall measure the loss allowance for that financial instrument at an amount equal to 12 month expected credit losses. However, if there is a significant increase in credit risk of a financial instrument since initial recognition, the Group measures loss allowance regarding such instrument at an amount equal to lifetime expected credit losses.

The Group calculates the expected credit loss on a collective basis by grouping the financial assets having common credit risk features or on an individual basis.

The Group constituted a policy in order to make an assessment whether the credit risk on a financial instrument has increased significantly since initial recognition by taking into consideration the change in the risk of a default event occurring over the expected life of the financial instrument.

Calculation of expected credit losses

A credit loss is present value of calculated difference between the total cash flows that will occur based on the contractual terms of financial instruments and the total cash flows, which the Group expecs to collect, with the initial effective interest rate. The Group calculates expected credit losses based on a probability – weighted estimate of credit losses (the present value of all cash shortfalls) over the expected life of the financial instruments. The Group estimates cash flows over expected life of a financial instrument with the consideration of contractual terms of the financial instrument, and considers the weighted average of the credit losses as the expected default risk as the expected credit loss.

Probability of Default (PD)

It is defined as the probability that the debtor does not fulfill its obligations to the Group or in other words it cannot repay its debts to the Group. This ratio is calculated for each loan based on various statistical assumptions depending on the maturity, internal behavioral model, external behavioral model and financial module data. The probability values take a value between 0 and 1, and as the probability value increases, the likelihood of the credit defaulting increases.

Loss given Default (LGD)

This is the parameter indicates the expected economic loss of the Group if the credit defaults. In the case of the credit defaults and the Group collects the entire amount of the default, LGD is zero, in the case of no collection, LGD is 100% percent. LGD rates are reviewed on a maximum of 1 year basis.

Exposure at Default (EAD)

It is the parameter that indicates how much of a loan will default. The default amount for a spot or installment loan is the amount, which is listed on the payment schedule at the time of default. Additionally, the default amount for the credit cards and limit gaps of overdraft accounts and non-cash loans, are calculated with a parameter called credit conversion rate (CCR). The default risk amount in the future is estimated by calculating by the statistical methods with the credit conversion rate, since it is not known at the time of loan origination due to undrawn commitment for limit of credit cards and overdraft accounts.

5. Significant accounting policies *(continued)*

5.3 Impairment of Financial Assets *(continued)*

12 Month Probability of Default

It is the estimated probability of default occurring within the next 12 months following the balance sheet date. According to Article 5.5.5 of IFRS 9 standard, in the case of that there is no significant increase in credit risk of a financial instrument since its first recognition, the Group shall measure at the provision for loss of the related financial instrument as equal as 12 month expected credit losses.

In the case of a customer or a loan that is classified under Standard Loans (Stage I), the provision for loan is calculated on 365 days even if the maturity of the loan is above 1 year. In the case of maturity of the loan is under 1 year, number of days left to maturity (except revolving loans and credit cards) are used in calculations.

Lifetime PD

It is the estimated probability of default occurring over the remaining life of the financial instrument. According to article 5.5.3 of IFRS 9 standard, in case of a significant increase in credit risk for a financial instrument since its initial recognition, the Group shall measure provision for loss of related financial instrument as equal as expected lifetime probability of default amount.

In the case of a customer or loan is classified as Stage 2 and / or Stage 3, the provision for expected credit loss is measured at the lifetime probability of default. Despite the fact that the methods for used calculation for provision of expected credit loss are similar for Stage 2 and Stage 3 loans, the probability of default for Stage 3 credits is accepted as 100%.

IFRS 9 Standard does not include a direct definition of default, but requires a consistent definition of default to be used in credit risk management. The Group is considering qualitative indicators (eg financial commitments), if appropriate, when defining a default according to article B5.5.37 of IFRS 9, for the purpose of determining the risk of business default and adopts a definition of default, consistent with the definition used for in-house credit risk management purposes for the relevant financial instruments. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Debt defaulted if at least one of the following two conditions occurs.

a) Considering that a debtor is unlikely to pay credit obligations to the Parent Bank and to the Parent Bank's consolidated financial subsidiaries without using guarantees

b)With the order made by the BRSA on 17 March 2020 in Regulation on Provisions, the delinquency period for the classification of loans as non-performing has been extended from 90 days to 180 days until 31 December 2020 and Expected Credit Loss provisions for the loans classified as Second Group Loans Under Close Monitoring within the scope of TFRS 9 are decided to be continued according to the banks' own risk models.

The expected loan loss provision for the loans classified as non-performing loans (Stage 3) is calculated using the estimation of loss given default (LGD). Aforementioned estimation is based on the historical data on a segment basis and determined by the principle loss charge, being the remaining amount after the collection made within the period after each segment has defaulted.

Low Credit Risk

IFRS 9 standard states that in some cases, the credit risk on a financial instrument can be calculated as low if the financial instrument has a low risk of default when there is no reliable past default data.

According to Article 5.5.20 of IFRS 9, if the entity determines that a financial instrument has a low credit risk as of the reporting date, it assumes that the credit risk on the financial instrument has not increased significantly following its initial recognition in the financial statement. Those transactions in the Group are classified as follows:

5. Significant accounting policies *(continued)*

5.3 Impairment of Financial Assets *(continued)*

a) Central Bank of Republic of Turkey (CBRT) transactions (Currencies held in CBRT and reserve requirements)

b) Securities (Fair value through other comprehensive income and financial assets measured at amortised cost)

a) Treasury Loans (Transactions with Treasury Republic of Turkey)

b) Loans guaranteed by Treasury of Republic of Turkey

The Rules of Significant Increase in Credit Risk

Significant increase in credit risk requires measurement of the Group's provision for expected credit losses at lifetime probability of default instead of 12 month expected credit loss. In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2.

<u>Critical accounting estimates and judgements:</u>

In determining ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Judgement has been applied in determining the lifetime and point of initial recognition of revolving facilities. The PD, LGD and EAD models, which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling, and for the incorporation of 'Upside scenarios', that have not generally been subject to experience gained through stress testing. The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive.

5.4 Income tax charge

Income tax charge comprises current and deferred tax. Current and deferred taxes are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

5. Significant accounting policies *(continued)*

5.4 Income tax charge *(continued)*

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

<u>Critical accounting estimates and judgements:</u>

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies. In the absence of a history of taxable profits, the most significant judgements relate to expected future profitability and to the applicability of tax planning strategies, including corporate reorganisations.

5.5 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

<u>Critical accounting estimates and judgements:</u>

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken on the assessment of litigation, property (including onerous contracts) and similar obligations. Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous judgements and estimates as appropriate. At more advanced stages, it is typically easier to make judgements and estimates around a better defined set of possible outcomes. However, the amount provisioned can remain very sensitive to the assumptions used. There could be a wide range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved. Provisions for customer remediation also require significant levels of estimation and judgement. The amounts of provisions recognised depend on a number of different assumptions, such as the volume of inbound complaints, the projected period of inbound complaint volumes, the decay rate of complaint volumes, the population identified as systemically mis-sold and the number of policies per customer complaint.

(Currency - In thousands of Turkish Lira ("TRY"))

5. Significant accounting policies *(continued)*

5.6 New and Revised International Financial Reporting Standards

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

Amendments to IFRS 3	*Definition of a Business*
Amendments to IAS 1 and IAS 8	*Definition of Material*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IFRS 16	*Covid-19 Related Rent Concessions*
Conceptual Framework	*Amendments to References to the Conceptual Framework in IFRS Standards*

Amendments to IFRS 3 Definition of a Business

The definition of "business" is important because the accounting for the acquisition of an activity and asset group varies depending on whether the group is a business or only an asset group. The definition of "business" in IFRS 3 Business Combinations standard has been amended. With this change:

• By confirming that a business should include inputs and a process; clarified that the process should be essential and that the process and inputs should contribute significantly to the creation of outputs.

• The definition of a business has been simplified by focusing on the definition of goods and services offered to customers and other income from ordinary activities.

• An optional test has been added to facilitate the process of deciding whether a company acquired a business or a group of assets.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

The amendments clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

Amendment to IFRS 16, Covid-19 Related Rent Concessions

The changes in COVID-19 Related Rent Concessions (Amendment to IFRS 16) brings practical expedient which allows a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

• the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

• any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

• there are no substantive changes to other terms and conditions of the lease.

The amendment is effective for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted.

(Currency - In thousands of Turkish Lira ("TRY"))

5. Significant accounting policies *(continued)*

5.6 New and Revised International Financial Reporting Standards (Continued)

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

Amendments to References to the Conceptual Framework in IFRS Standards

The references to the Conceptual Framework revised the related paragraphs in IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

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

The Group has not yet adopted the following standards and amendments and interpretations to the existing standards:

IFRS 17	*Insurance Contracts*
Amendments to IFRS 17	*Insurance Contracts*
Amendments to IFRS 4	*Extension of the Temporary Exemption from Applying IFRS 9*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-Current*
Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018-2020	*Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41*

IFRS 17 *Insurance Contracts*

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.

Amendments to IFRS 17 *Insurance Contracts*

This amendment addresses concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017.

5. Significant accounting policies *(continued)*

5.6 New and Revised International Financial Reporting Standards (Continued)

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

Amendments to IFRS 4 *Extension of the Temporary Exemption from Applying IFRS 9*

The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-Current*

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

Amendments to IAS 1 are deferred and are effective for annual reporting periods beginning on or after 1 January 2023 and earlier application is permitted.

Amendments to IFRS 3 *Reference to the Conceptual Framework*

The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated *Conceptual Framework*) at the same time or earlier.

Amendments to IAS 16 *Proceeds before Intended Use*

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

Amendments to IAS 37 *Cost of Fulfilling a Contract*

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

Annual Improvements to IFRS Standards 2018-2020

<u>Amendments to IFRS 1 *First time adoption of International Financial Reporting Standards*</u>

The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to IFRSs.

5. Significant accounting policies *(continued)*

5.6 New and Revised International Financial Reporting Standards (Continued)

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

Annual Improvements to IFRS Standards 2018-2020 (Continued)

Amendments to IFRS 9 *Financial Instruments*

The amendment clarifies which fees an entity includes in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

Amendments to IFRS 16 *Leases*

The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

Amendments to IAS 41 *Agriculture*

The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13.

The amendments to IFRS 1, IFRS 9, and IAS 41 are all effective for annual periods beginning on or after 1 January 2022. Early application is permitted. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.

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

The amendments in Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 are all effective for annual periods beginning on or after 1 January 2021. Early application is permitted.

(Currency - In thousands of Turkish Lira ("TRY"))

6. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at 31 December 2019.

Fair value of financial instruments

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

	Carrying amount		Fair value	
	30 June 2020	**31 December 2019**	**30 June 2020**	**31 December 2019**
Financial assets				
Cash on hand	4.016.764	3.861.328	4.016.764	3.861.328
Balances with Central Bank	14.642.911	16.702.412	14.642.911	16.702.412
Reserve deposits at Central Bank	9.456.934	14.746.070	9.456.934	14.746.070
Due from banks	3.002.618	4.250.633	3.002.618	4.250.633
Loans and advances	416.328.656	304.017.264	404.647.054	301.534.436
Investment securities				
- Debt and other instruments at amortised cost	*79.867.500*	*72.461.381*	*76.629.644*	*72.049.712*
Finance lease receivables	3.412.894	2.783.577	3.412.894	2.783.577
	530.728.277	**418.822.665**	**515.808.819**	**415.928.168**
Financial liabilities				
Deposits from banks	30.012.179	27.704.929	29.994.266	27.926.452
Deposits from customers	377.698.552	272.932.126	377.490.334	274.414.626
Obligations under repurchase agreements	38.161.893	51.975.174	38.161.893	51.975.174
Loans and advances from banks	17.434.554	17.376.874	15.457.166	14.520.662
Interbank money market borrowings	40.105.482	1.364.167	40.309.679	1.586.006
Debt securities issued	15.989.382	19.294.132	16.670.353	18.906.759
	519.402.042	**390.647.402**	**518.083.691**	**389.329.679**

Fair values of financial assets such as financial assets at fair value through profit or loss, FVTOCI investment securities and amortized cost investment securities that are traded in active markets are based on quoted market prices or dealer price quotations. The Group management has estimated that the fair value of certain financial assets and liabilities recorded at amortised cost are not materially different than their recorded values except for those of loans and advances, investment securities, deposits from customers, loans and advances from banks and debt securities issued. These financial assets and liabilities include due from banks, cash on hand, balances with Central Bank, reserve deposits at Central Bank, finance lease receivables, deposits from banks, obligations under repurchase agreements and interbank money market borrowings. The Bank management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

For the financial assets and liabilities such as loans and advances, loans and advances from banks, finance lease receivables, deposits and derivative financial instruments; 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 used in estimating discount rates and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

(Currency - In thousands of Turkish Lira ("TRY"))

6. Financial risk management (continued)

Fair value of financial instruments (continued)

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Classification of fair value measurement

The classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value are disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Group. This distinction brings about a fair value measurement classification generally as follows:

•Level 1: Assets and liabilities are classified as level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

•Level 2: Assets and liabilities classified as level 2 have been valued using models whose inputs are observable either directly or indirectly. Valuations based on observable inputs include assets and liabilities such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

•Level 3: Assets and liabilities are classified as level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined via reference to observable inputs, historical observations or using other analytical techniques.

30 June 2020	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:					
Financial assets at fair value through profit or loss [1]	2.138.183	188.019	1.950.164	-	2.138.183
Debt securities	188.019	188.019	-	-	188.019
Derivative financial assets	1.950.164	-	1.950.164	-	1.950.164
Share certificates	-	-	-	-	-
Other securities	-	-	-	-	-
FVTOCI financial assets [2]	42.044.920	42.044.920	-	-	42.044.920
Debt securities	42.044.920	42.044.920	-	-	42.044.920
Other securities	-	-	-	-	-
Total financial assets	**44.183.103**	**42.232.939**	**1.950.164**	**--**	**44.183.103**
Financial liabilities at fair value through profit/loss:					
Derivative financial liabilities	673.138	-	673.138	-	673.138
Total financial liabilities	**673.138**	**-**	**673.138**	**-**	**673.138**

(1) As of 30 June 2020, marketable securities amounting to TRY 15.131 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

(2) As of 30 June 2020, share certificates amounting to TRY 224.441 in FVTOCI financial assets are not included in the above table, which are measured at cost.

(Currency - In thousands of Turkish Lira ("TRY"))

6. Financial risk management (continued)

31 December 2019	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:					
Financial assets at fair value through profit or loss (1)	1.182.800	30.808	1.151.992	-	1.182.800
Debt securities	30.808	30.808	-	-	30.808
Derivative financial instruments	1.151.992	-	1.151.992	-	1.151.992
Share certificates	-	-	-	-	-
Other securities	-	-	-	-	-
FVTOCI financial assets (2)	15.138.164	15.138.164	-	-	15.138.164
Debt securities	15.138.164	15.138.164	-	-	15.138.164
Other securities	-	-	-	-	-
Total financial assets	**16.320.964**	**15.168.972**	**1.151.992**	**-**	**16.320.964**
Financial liabilities at fair value through profit/loss:					
Derivative financial instruments	353.718	-	353.718	-	353.718
Total financial liabilities	**353.718**	**-**	**353.718**	**-**	**353.718**

(1) As of 31 December 2019, marketable securities amounting to TRY 170.874 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

(2) As of 31 December 2019, share certificates amounting to TRY 161.151 in FVTOCI financial assets are not included in the above table, which are measured at cost.

(Currency - In thousands of Turkish Lira ("TRY"))

7. Operating segments

The Group has four reportable segments, corporate/commercial, integrated, treasury/investment and other 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.

30 June 2020	Corporate/ Commercial	Integrated	Treasury/ Investment [1]	Other [1] [2]	Group
Interest income	6.055.231	11.505.839	6.554.840	332.755	24.448.665
Interest expense	(3.650.996)	(4.878.061)	(4.770.014)	(89.370)	(13.388.441)
Net interest income	**2.404.235**	**6.627.778**	**1.784.826**	**243.385**	**11.060.224**
Net fee and commission income	456.250	700.718	247.682	(71.472)	1.333.178
Net trading income from securities/derivative transactions and Foreign exchange gain/ (losses), net	4.835	921.584	(3.319.030)	6.430	(2.386.181)
Net impairment losses on financial assets	(741.895)	(885.793)	(2.217.665)	(44.496)	(3.889.849)
Income from insurance operations	-	-	-	1.593.258	1.593.258
Cost of insurance operations	-	-	-	(586.994)	(586.994)
Dividend income	-	-	3.558	764	4.322
Other operating income & share of profit of equity-accounted investees	151.097	158.461	168.795	9.307	487.660
Other operating expenses	(79.231)	(1.380.299)	(2.580.298)	(351.762)	(4.391.590)
Profit before income tax	**2.195.291**	**6.142.449**	**(5.912.132)**	**798.420**	**3.224.028**
Income tax expense	-	-	(527.685)	(122.310)	(649.995)
Profit for the period	**2.195.291**	**6.142.449**	**(6.439.817)**	**676.110**	**2.574.033**

[1] Amounts arising from transactions of general directorate and Halk Yatırım Menkul Değerler AŞ., Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Banka A.D. Beograd, and Halk Banka A.D., Skopje transactions are presented under the Treasury / Investment column, Halk Finansal Kiralama AŞ., Halk Faktoring AŞ and Halk Varlık Kiralama AŞ activities presented under the Other column.
[2] Halk Hayat ve Emeklilik AŞ. and Halk Sigorta A.Ş.'s balances are presented under the Other column in the Operating Income / Expenses table.

(Currency – In thousands of Turkish lira ("TRY"))

7. Operating segments (continued)

30 June 2019	Corporate/ Commercial	Integrated	Treasury/ Investment [1]	Other	Group
Interest income	5.905.548	12.016.236	5.122.729	338.653	23.383.166
Interest expense	(3.794.653)	(7.805.993)	(7.077.780)	(194.543)	(18.872.969)
Net interest income	**2.110.895**	**4.210.243**	**(1.955.051)**	**144.110**	**4.510.197**
Net fee and commission income	553.341	621.815	229.133	(112.556)	1.291.733
Net trading income from securities/derivative transactions and Foreign exchange gain/ (losses), net	13.610	368.522	(2.205.363)	13.056	(1.810.175)
Net impairment losses on loans and advances	(620.799)	(417.879)	(218.280)	(37.291)	(1.294.249)
Income from insurance operations	-	-	-	946.062	946.062
Cost of insurance operations	-	-	-	(788.535)	(788.535)
Dividend income	-	-	3.949	122	4.071
Other operating income & share of profit of equity-accounted investees	808.738	(30.103)	(71.317)	(69.919)	637.399
Other operating expenses	(58.965)	(972.877)	(1.404.932)	(579.922)	(3.016.696)
Profit before income tax	**2.806.820**	**3.779.721**	**(5.621.861)**	**(484.873)**	**479.807**
Income tax expense	-	-	218.492	(99.155)	119.337
Profit for the period	**2.806.820**	**3.779.721**	**(5.403.369)**	**(584.028)**	**599.144**

[1] Amounts arising from transactions of general directorate and Halk Yatırım Menkul Değerler AŞ., Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Banka A.D. Beograd and Halk Banka A.D., Skopje transactions are presented under the Treasury / Investment column, Halk Hayat ve Emeklilik AŞ., Halk Sigorta AŞ., Halk Finansal Kiralama AŞ., Halk Faktoring AŞ and Halk Varlık Kiralama AŞ activities presented under the Other column.

(Currency – In thousands of Turkish lira ("TRY"))

7. Operating segments (continued)

The segment assets and liabilities as at 30 June 2020 are as follows:

Assets and liabilities	Corporate/ Commercial	Integrated	Treasury/ Investment [1]	Other	Group
Segment assets	142.639.429	273.003.004	186.638.253	7.517.373	609.798.059
Investment in equity-accounted investees	-	-	578.428	-	578.428
Total assets	**142.639.429**	**273.003.004**	**187.216.681**	**7.517.373**	**610.376.487**
Segment liabilities	161.660.000	234.218.568	168.254.943	4.128.529	568.262.040
Total liabilities	**161.660.000**	**234.218.568**	**168.254.943**	**4.128.529**	**568.262.040**

[1] Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under "Treasury / Investment" column.

The segment assets and liabilities as at 31 December 2019 are as follows:

Assets and liabilities	Corporate/ Commercial	Integrated	Treasury/ Investment[1]	Other	Group
Segment assets	116.840.830	188.130.525	155.572.396	7.526.959	468.070.710
Investment in equity-accounted investees	-	-	499.882	-	499.882
Total assets	**116.840.830**	**188.130.525**	**156.072.278**	**7.526.959**	**468.570.592**
Segment liabilities	108.158.785	195.814.886	123.245.530	9.192.091	436.411.292
Total liabilities	**108.158.785**	**195.814.886**	**123.245.530**	**9.192.091**	**436.411.292**

[1] Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under "Treasury / Investment" column.

(Currency – In thousands of Turkish lira ("TRY"))

8. Balances with Central Bank

As at 30 June 2020, balances with Central Bank include restricted reserve deposits amounting to TRY 9.456.934 (31 December 2019: TRY 14.746.070) at the Central Bank of Turkey and unrestricted reserve deposits amounting to TRY 14.642.911 (31 December 2019: TRY 16.702.412).

The banks operating in Turkey keep reserve deposits for their TRY liabilities held at TRY, US Dollar, Euro and/or standard gold and/or scrap gold with reserve deposit rates between 1%-7% varied according to their maturity compositions, for their FC liabilities at TRY, US Dollar, Euro and/or standard gold with reserve deposit rates between 5%-21% varied according to their maturity compositions The banks, whose credit growth rate is at qualified reference interval, keep reserve deposits for their TRY liabilities held at TRY, US Dollar, Euro and/or standard gold and/or scrap gold with reserve deposit rates between 1%-2% varied according to their maturity compositions, for their FC liabilities at TRY, US Dollar, Euro and/or standard gold with reserve deposit rates between 0%-16% varied according to their maturity compositions. In accordance with the related communiqué, Central Bank of the Republic of Turkey pays interests to reserves held in TRY.

Starting from 20 May 2020, the interest related to the reserve requirements for banks held at TRY is paid as 800 basis points for banks whose credit growth rate is at qualified reference interval, and 0 basis points for banks whose credit growth rate is out of the reference interval.With the change dated 23 January 2015, it has been decided to apply a charge on daily account balances and two days notice account denominated in Euro, and collected on a monthly basis, on reserve requirements held by banks commencing on 1 February 2015. As of 27 July 2015 commission ratios have been announced on the CBRT website as zero percent.

With the change dated 2 January 2020, it has been decided to apply a commission charge on the reserve accounts and notice accounts held within the CBRT by 0,025 annually for foreign currencies held in USD up to the amount required to be held for deposit / participation fund liabilities in USD, and by 0,0025 annually for foreign currencies held in EUR and USD up to the amount required to be held for deposit / participation fund liabilities in other currencies except USD. With the decision No.872 dated 30 January 2014 of the Turkish Republic of Northern Cyprus, reserve requirement ratio is between 5% and 8% for TRY liabilities and for foreign currency liabilities.

With the change on 2 May 2015 made by the CBRT, execution of interest payments has been started for USD denominated reserve requirements, reserve options and free reserves held at CBRT. The interest rate is set on daily basis within the frame of global and local financial market conditions. The applicable yearly interest rate is 0 percent (announced on 19 September 2019).

9. Loans and advances

As at 30 June 2020 and 31 December 2019, all the loans and advances to customers are at amortized cost.

	30 June 2020	**31 December 2019**
Performing loans	418.235.101	302.106.604
Non-performing loans	17.335.797	16.725.577
Gross amount	**435.570.898**	**318.832.181**
ECL on cash loans - Stage 1 & 2	(4.959.789)	(2.605.035)
ECL on cash loans - Stage 3	(10.869.559)	(9.426.305)
Carrying amount	**419.741.550**	**306.800.841**

(Currency – In thousands of Turkish lira (“TRY”))

9. Loans and advances (continued)

The movement of loss allowances

	1 January- 30 June 2020	**1 January- 31 December 2019**
Balance on 1 January	(12.031.340)	(9.027.374)
Net impairment loss/reversals for the period:	(3.798.008)	(3.003.966)
- Net charge for the period	*(4.231.882)*	*(4.616.783)*
- Prior years recoveries and reversals	*433.874*	*1.612.817*
Balance at end of the period	**(15.829.348)**	**(12.031.340)**

	30 June 2020	**31 December 2019**
Short term loans		
Guaranteed export loans	4.289.178	5.355.807
Other guaranteed loans	34.160.390	31.868.350
Other non-guaranteed loans	11.817.539	10.832.986
Loans provided to financial sector	907.022	942.443
Loans provided to foreign institutions	212.548	175.970
Non-guaranteed export loans	628.529	638.475
Finance lease receivables	1.525.806	1.468.500
Factoring receivables	2.410.219	2.092.295
Interest accruals	1.482.870	1.099.377
	57.434.101	**54.474.203**
Medium and long term loans		
Guaranteed other investment and operating loans	242.324.904	166.783.982
Other non-guaranteed loans	104.135.945	70.325.802
Loans given to foreign institutions	2.307.159	1.996.319
Loans given to financial sector	4.037.845	2.815.112
Finance lease receivables	1.887.088	1.155.519
Interest accruals	6.108.059	4.555.667
	360.801.000	**247.632.401**
Total performing loans and advances	**418.235.101**	**302.106.604**

(Currency – In thousands of Turkish lira (“TRY”))

10. Investment Securities

Debt and other instruments at FVTOCI

At 30 June 2020 and 31 December 2019, debt and other instruments at FVTOCI portfolio comprised the following:

	30 June 2020	31 December 2019
Treasury bills and government bonds	42.053.972	15.139.662
Equity shares	215.389	159.653
Share certificates not quoted on a stock exchange	*236.434*	*176.953*
Allowance for impairment on equity shares	*(21.045)*	*(17.300)*
Total	**42.269.361**	**15.299.315**

Debt and other instruments at FVTOCI include securities given as collateral amounting to TRY 12.327.959 (31 December 2019: TRY 1.999.958). As of 30 June 2020, debt and other instruments at FVTOCI include securities pledged under repurchase agreements amounting to TRY 678.563 (31 December 2019: TRY 810.717).

Debt and other instruments at amortised cost

	30 June 2020	31 December 2019
Debt securities:		
Quoted on a stock exchange	79.741.348	72.208.355
Not quoted	136.515	262.767
ECL on amortised cost portfolio	(10.363)	(9.741)
Total	**79.867.500**	**72.461.381**

Debt and other instruments at amortised cost comprise of the following items:

	30 June 2020	31 December 2019
Government bonds	79.827.362	72.420.609
Other securities	50.501	50.513
ECL on amortised cost portfolio	(10.363)	(9.741)
Total	**79.867.500**	**72.461.381**

Debt and other instruments at amortised cost include securities pledged under repurchase agreements and given as collateral amounting to TRY 21.880.101 and TRY 46.048.834 (31 December 2019: TRY 40.561.033 and TRY 12.894.838) respectively.

(Currency – In thousands of Turkish lira ("TRY"))

10. Investment Securities (continued)

The movements of debt and other instruments at amortised cost in the six-month period ended 30 June 2020 and 31 December 2019 are as follows:

	1 January-30 June 2020	1 January-31 December 2019
Beginning balance	72.461.381	56.321.597
Foreign currency differences	2.827.512	1.484.018
Purchases during the period	9.638.171	22.126.905
Disposals through sales and redemptions	(5.058.942)	(7.461.398)
ECL on amortised cost portfolio	(622)	(9.741)
Balance at the end of the period / year	**79.867.500**	**72.461.381**

11. Investment in equity-accounted investees

Carrying amount of equity accounted investees is summarized below:

	30 June 2020	31 December 2019
Demir-Halk Bank NV	555.937	478.730
Kobi Girişim Sermayesi Yatırım Ortaklığı A.Ş.	16.718	16.725
Türk P ve I Sigorta A.Ş.	5.773	4.427
Investment in equity-accounted investees	**578.428**	**499.882**

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group is as follows:

	Ownership	Total assets	Equity	Profit / (loss) for the year
2020				
Demir-Halk Bank NV	30,00%	11.752.668	1.853.131	18.867
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31,47%	53.995	53.124	(23)
Türk P ve I Sigorta AŞ	16,67%	138.732	34.631	8.353
2019				
Demir-Halk Bank NV	30,00%	10.266.337	1.510.292	50.730
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31,47%	53.950	51.405	1.346
Türk P ve I Sigorta AŞ	16,67%	80.919	17.936	3.627

12. Deposits

At 30 June 2020 and 31 December 2019, deposits from banks comprised the following:

	30 June 2020	31 December 2019
Demand deposits	7.692.720	6.066.738
Time deposits	22.319.459	21.638.191
Deposits from banks	**30.012.179**	**27.704.929**

(Currency – In thousands of Turkish lira ("TRY"))

12. Deposits (continued)

At 30 June 2020 and 31 December 2019, deposits from customers comprised the following:

	30 June 2020		**31 December 2019**	
	Demand	**Time**	**Demand**	**Time**
Saving deposits	18.156.448	66.222.610	9.219.729	58.914.249
Foreign currency deposits	40.061.270	111.168.065	26.892.843	96.846.858
Commercial deposits	15.086.460	86.213.597	8.213.189	45.711.726
Public institutions and other deposits	5.869.698	34.920.404	3.955.952	23.177.580
Deposits from customers	**79.173.876**	**298.524.676**	**48.281.713**	**224.650.413**

13. Obligations under repurchase agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. The securities sold under repurchase agreements and corresponding obligations are as follows:

	30 June 2020	**31 December 2019**
Obligations under repurchase agreements	38.161.893	51.975.174
Total	**38.161.893**	**51.975.174**

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 30 June 2020, the maturities of the obligations varied from one day to 1 year (31 December 2019: one day to 1 year).

14. Income taxes

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 22% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 30 June 2020 (30 June 2019: 22%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the period.

The tax rate used in the calculation of deferred tax assets and liabilities is 22% over temporary timing differences expected to reverse in 2019 and 2020 and 20% over temporary timing differences expected to reverse on and after 2021 (31 December 2019: 22%).

Tax applications for foreign branches and foreign operations

The principal tax rates (%) of the tax authorities in each country as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020	**31 December 2019**
TRNC	10%	10%
Bahrain	-	-
Republic of Macedonia	10%	10%
Republic of Serbia	15%	15%

(Currency – In thousands of Turkish lira ("TRY"))

15. Derivative financial instruments

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The table below shows the fair values of derivative financial instruments. The notional 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 notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	30 June 2020			31 December 2019		
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Currency swap contracts	1.223.996	98.146	33.290.087	800.599	135.312	33.611.349
Other swap contracts	674.583	485.368	24.498.720	294.742	188.258	27.707.502
Other	51.585	89.624	14.422.973	56.651	30.148	14.323.438
Total	**1.950.164**	**673.138**	**72.211.780**	**1.151.992**	**353.718**	**75.642.289**

The majority of outstanding transactions in derivative financial instruments were with the banks and other financial institutions.

16. Share capital

As at 30 June 2020, the authorized nominal share capital of the Bank has been fully paid-up and amounts to TRY 2.473.776 (31 December 2019: TRY 1.250.000). The Bank's paid-in capital is dividend into 2.473.776.223 shares, each with a nominal value of full TRY 1. There are no the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital.

Information on share capital increases and their sources; other information on increased capital shares in the current period:

In accordance with the decision of the Board of Directors of the Parent Bank dated 11 May 2020, the capital will be increased, where the total sales proceeds through the capital increase shall amount to TRY 7.000.000, by the total nominal capital amount to be calculated based on the share sale price to be determined in accordance with the Wholesale Transactions Procedure of Borsa İstanbul A.Ş. with the Decision of the Capital Markets Board dated 14 May 2020. Accordingly, the recognition of the capital increase of TRY 1.223.776 on 20 May 2020 was realized on 21 May 2020, based on the permission obtained from the BRSA. The change made to the relevant Articles of Association was registered on 10 June 2020, and it was announced in the Trade Registry Gazette dated 15 June 2020 and numbered 10097.

After the increase, TRY 1.223.776 of nominal and TRY 5.776.224 of share premium, totaling a capital increase of TRY 7.000.000, have been recognized in the financial statements. Mentioned capital increase was made by the Bank's main shareholder Türkiye Varlık Fonu.

	30 June 2020	**31 December 2019**
Paid-in capital	2.473.776	1.250.000
Inflation restatement effect	1.328.184	1.328.184
Shared capital issued	**3.801.960**	**2.578.184**

(Currency – In thousands of Turkish lira ("TRY"))

17. Reserves and dividends paid and proposed

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of debt and other instruments at amortised cost investments, excluding impairment losses, until the investment is derecognised.

Other reserves

Other reserves consist of legal reserves kept within the Group and translation reserves.

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Bank's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. The legal reserves as at 30 June 2020 is TRY 2.462.520 (31 December 2019: TRY 2.493.927).

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The current period charge of the translation reserve as at 30 June 2020 is TRY (6.846) (30 June 2019: TRY 6.601).

As of 1 April 2015, the Group adopted the revaluation method for buildings in tangible assets in accordance with International Accounting Standard No: 16 "Property, Plant and Equipment" (IAS 16). Expertise values determined by independent appraisal companies are reflected to the financial statements. Revaluation differences are recorded in "Revaluation differences of property and equipment" under the shareholders' equity.

Dividends paid and proposed

As of the reporting date, the Group has paid no dividend amounting to out of 2020 profit (30 June 2019: zero).

18. Earnings per share

Basic earnings per share (EPS) 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 of 30 June 2020 and 30 June 2019.

The following reflects the comprehensive income and share data used in the basic earnings per share computations:

	30 June 2020	**30 June 2019**
Net profit attributable to ordinary shareholders for basic earnings per share	2.567.199	589.868
Weighted average number of ordinary shares for basic earnings per share	1.518.962	1.250.000
Basic earnings per share (full TRY per share)	**1,6901**	**0,4719**

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.

(Currency – In thousands of Turkish lira (“TRY”))

19. Related parties

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

The immediate parent and ultimate controlling party respectively of the Group is Turkish Prime Ministry Privatization Administration (incorporated in Turkey). Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

Transactions with key management personnel

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

As of 30 June 2020 and 30 June 2019, the Group’s directors and executive officers have no outstanding personnel loans from the Bank.

In addition to their salaries, the Group also provides non-cash benefits to directors.

Total compensation provided to key management personnel is:

	30 June 2020	**30 June 2019**
Salaries and short-term benefits	14.494	16.484

The Bank has agreements or protocols with several of its shareholders, consolidated subsidiaries and affiliates of the shareholders. The Bank’s management believes that all such agreements or protocols are on terms that are at least as advantageous to the Bank as would be available in transactions with third parties and the transactions are consummated at their fair values. None of these balances is secured.

Other related party transactions

Current period	**Cash loans receivable**	**Non-cash loans receivable**	**Deposits**	**Interest income**	**Interest expense**	**Commission Income**
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	789	22.590	-	1.120	1
Kredi Kayıt Bürosu A.Ş.	-	-	24.122	-	1.393	-
Demirhalkbank NV	-	-	2.721	-	42	-
Türk P ve I Sigorta A.Ş.	-	1.268	34.360	-	422	4
Total	**-**	**2.057**	**83.793**	**-**	**2.977**	**5**

Prior period	**Cash loans receivable**	**Non-cash loans receivable**	**Deposits**	**Interest income**	**Interest expense**	**Commission Income**
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	789	23.245	-	2.329	2
Kredi Kayıt Bürosu A.Ş.	-	-	10.070	-	192	-
Demirhalkbank NV	-	-	2.108	-	176	-
Türk P ve I Sigorta A.Ş.	-	990	25.716	-	843	-
Total	**-**	**1.779**	**61.139**	**-**	**3.540**	**2**

(Currency – In thousands of Turkish lira (“TRY”))

20. Commitments and contingencies

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

	30 June 2020	31 December 2019
Letters of guarantee issued	85.722.017	77.346.488
Letters of credit	2.564.243	3.901.651
Acceptance credits	7.696.053	6.961.998
Other	3.052.422	2.807.693
Total non-cash loans	**99.034.735**	**91.017.830**
Credit card limit commitments	28.996.919	16.772.843
Other commitments	12.622.154	10.872.824
Total	**140.653.808**	**118.663.497**

Fiduciary activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in the accompanying financial statements.

(Currency – In thousands of Turkish lira (“TRY”))

20. Commitments and contingencies (continued)

Litigation

In the normal course of its operations, the Group can constantly be faced with legal disputes, claims and complaints, which in most cases stem from normal insurance operations. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

21. Fee and commission income and expenses

	30 June 2020	30 June 2019
Fee and commission income		
Banking	1.642.220	1.910.973
Brokerage	98.568	28.044
Total	**1.740.788**	**1.939.017**
Fee and commission expenses		
Banking	(404.713)	(645.943)
Brokerage	(2.897)	(1.341)
Total	**(407.610)**	**(647.284)**

22. Other operating income

	30 June 2020	30 June 2019
Reversal from prior years' provision	182.733	487.759
Gain on sale of property and equipment	122.572	44.034
Rent income	35.007	33.328
Other	142.270	55.951
Total	**482.582**	**621.072**

23. Other operating expenses

	30 June 2020	30 June 2019
Staff costs		
Personnel expenses	*1.980.964*	*1.451.741*
Retirement pay provision	*78.262*	*56.905*
Administrative expenses	776.080	202.351
Saving deposit insurance fund premiums	227.924	166.615
Depreciation and amortisation charges	249.317	207.874
Taxes, duties, charges and premium expenses	149.860	174.293
Provision for lawsuits	2.852	1.954
Other	694.831	754.963
Total	**4.160.090**	**3.016.696**

24. Other matters

On October 15, 2019, U.S. Department of Justice, United States Attorney Southern District of New York indicted the Parent Bank by repeating the allegations set forth in the case filed against the former executive of the Parent Bank due to Iranian sanction violations.

First, the Parent Bank applied to the District Court on 4 November 2019 and requested a special appearance to discuss the issues of personal jurisdiction and recusal. On 5 December 2019, the District Court denied the request of special appearance. The Parent Bank objected to the District Court's decision and appealed the decision at the Court of Appeals Second Circuit on 17 December 2019. On 21 February 2020, the Second Circuit denied the Parent Bank's objection.

In the meeting held by the Parent Bank's Board of Directors on 27 March 2020, it was decided to attend the District Court hearing on 31 March 2020, to accept the arraignment and to appoint Williams & Connolly law firm with a proxy to represent the Parent Bank.

At the hearing on 31 March 2020, the District Court decided to postpone the hearing initially to 9 June 2020 and subsequently to 30 June 2020 due to the global scale COVID-19 outbreak. At the hearing held in the District Court on 30 June 2020; the schedule regarding the motion to recuse, discovery motions, and filings of other motions were identified. It was decided that the jury hearing would begin on 1 March 2021 for which the schedule was revised on 26 October 2020. Accordingly, the jury hearings are scheduled to be held on 3 May 2021. In this regard, the Parent Bank filed its recusal motion on 14 July 2020 and its other motions to dismiss the indictment on 10 August 2020 at the District Court.

The Parent Bank's recusal motion was denied by the District Court on 24 August 2020. The Parent Bank appealed the District Court's decision to the Court of Appeals Second Circuit on 3 September 2020.

District Court denied the Parent Bank's motion to dismiss the indictment on 1 October 2020. The Parent Bank appealed the Court of Appeals Second Circuit for the motion to dismiss the indictment with regard to Foreign Sovereign Immunity Act (exemption from the jurisdiction of the US courts). Within this framework, the Parent Bank filed a motion to the District Court to suspend the hearings and cancel the current trial schedule, but the District Court denied this motion and postponed the trial calendar for 60 days. Accordingly, jury hearings will start on 3 May 2021 instead of 1 March 2021.

In addition, a civil case was filed against the Parent Bank on 27 March 2020 with a claim for damages by plaintiffs in the District Court "on the grounds that they (the plaintiffs) could not collect their judgments from Iran due to violations of sanctions" and it was served to the Parent Bank's attorneys on 1 July 2020. The Bank filed a motion at the District Court to dismiss the complaint of plaintiffs on 25 September 2020. The civil lawsuit action at the District Court is ongoing.

The proceedings of both the criminal case and civil case are closely monitored by the Parent Bank through law firms representing the Parent Bank.

The appeal process of the case which resulted in the conviction of the defendant former executive of the Parent Bank, who was released on 19 July 2019 and returned to Turkey, is completed. The decision of the conviction was upheld.

25. Subsequent events

None.