

**TÜRKİYE VAKIFLAR BANKASI
TÜRK ANONİM ORTAKLIĞI
AND IT'S SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 2020
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**



INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Türkiye Vakıflar Bankası T.A.O.

Our qualified opinion

In our opinion, except for the effect of the matter on the consolidated financial statements described in the Basis for qualified opinion section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Türkiye Vakıflar Bankası T.A.O. (the “Bank”) and its subsidiaries (collectively referred to as the “Group”) as at 31 December 2020, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

What we have audited

The Group’s consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholder’s equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for qualified opinion

As explained in Note 22 of the accompanying consolidated financial statements as of 31 December 2020 include a free provision amounting to TL 1,072,000 thousand which consist of TL 852,000 thousand provided in prior years and TL 220,000 thousand recognized in the current year by the Bank management considering the negative circumstances that may arise from possible changes in the economy and market conditions. Thus, the amount of free provision in the accompanying consolidated financial statements which does not meet the recognition criteria of IAS 37 “Provisions, contingent liabilities and contingent assets” is TL 1,072,000 thousand with its related deferred tax amounting to TL 214,400 thousand as at 31 December 2020.

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.



Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and "Independence Audit by-Law" published by the Public Oversight Accounting and Auditing Standards Authority ("POA"), independent auditing requirements referred to in Article 400 of the Turkish Commercial Code ("TCC"), "Regulation on Independent Audit of Banks" published by the Turkish Banking Regulation and Supervision Agency on the Official Gazette No.29314 dated 2 April 2015 and Communiqué Series: X No: 22 on "Principles Regarding Independent Auditing Standards in the Capital Markets" (collectively referred to as "Turkish Local Independence Rules"). We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the financial services industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for qualified opinion section we have determined the matters described below to be key audit matters to be communicated in our report.



Key Audit Matters	How Our Audit Addressed the Key Audit Matter
<p data-bbox="272 558 805 703">Expected Credit Losses for Loans and Receivables in Accordance with IFRS 9 “Financial Instruments Standard” (“IFRS 9”)</p> <p data-bbox="272 749 846 972">The Group has total expected credit losses of TL 22,144,605 thousands in respect to loans and receivables of TL 447,014,486 thousands which represent a significant portion of the Group’s total assets in its consolidated financial statements as at 31 December 2020.</p> <p data-bbox="272 982 829 1127">Explanations and notes related to provision for impairment of loans are presented in Notes 2 and 10 in the accompanying consolidated financial statements as at 31 December 2020.</p> <p data-bbox="272 1173 850 1890">The Group recognizes provision for impairment of loans in accordance with “IFRS 9 Financial Instruments” expected credit loss model. The Group exercises significant decisions using subjective judgement, interpretation and assumptions over when and how much to record as loan impairment. The Group determines staging of credit identifying significant increase in credit risk with assessments and default events presented Note 2 in the accompanying consolidated financial statements. As of 31 December 2020, the impacts of COVID-19 global pandemic have increased the importance of the estimations and assumptions used by the Group management in determination of the expected credit loan loss provision. The uncertainties arising from these impacts have been evaluated by the management in their judgements and estimations.</p>	<p data-bbox="873 749 1487 1087">With respect to stage classification of loans and receivables and calculation of expected credit losses in accordance with IFRS 9 considering also the impacts of COVID-19, we have assessed policy, procedure and management principles of the Group within the scope of our audit. We assessed the design and the operating effectiveness of relevant controls implemented in accordance with these principles.</p> <p data-bbox="873 1134 1498 1701">Within the framework of the policies and procedures applied by the Group, together with our financial risk experts, we have checked and assessed the appropriateness of the methods used in the model developed for staging of loans and calculation of expected credit losses in accordance with IFRS 9. For forward looking assumptions (including macro-economic factors) made by the Group’s management in its expected credit loss calculation, we held discussions with management and evaluated the assumptions using publicly available information that includes the impacts of COVID-19. We have tested model calculations through re-performance together with our modelling specialists on a sample selection basis.</p>



Key Audit Matters	How Our Audit Addressed the Key Audit Matter
<p data-bbox="277 569 846 653">Expected Credit Loss in Accordance With IFRS 9 “Financial Instruments Standard” (“IFRS 9”) (Continued)</p> <p data-bbox="277 688 841 961">The Group uses complex models, that requires data to be derived from multiple systems for determining significant increase in credit risk and calculation of IFRS 9 expected credit losses. Information used in the expected credit loss assessment such as historical loss experiences, current conditions and macroeconomic expectations should be supportable and appropriate.</p> <p data-bbox="277 997 846 1472">Our audit was focused on this area due to existence of complex estimates and information used in the impairment assessment such as macro-economic expectations, current conditions, historical loss experiences; the significance of the loan and receivable balances; the classification of loans and receivables as per their credit risk (staging) and the importance of determination of the associated expected credit loss. Timely and correct identification of default event and significant increase in credit risk and level of judgements and estimations made by the management have significant impacts on the amount of impairment provisions for loans. Therefore, this area is considered as key audit matter.</p>	<p data-bbox="885 632 1425 688">Our audit processes also include the following procedures:</p> <ul data-bbox="885 716 1495 1885" style="list-style-type: none"> <li data-bbox="885 716 1471 863">• Together with our financial risk experts, we evaluated and tested reasonableness of the changes in the expected credit loss allowance methodology and the performance of the impairment models used. <li data-bbox="885 863 1471 1073">• The basic and important estimates and the assumptions related to macroeconomic variables, significant increase in credit risk in the calculation of expected credit losses, default definition, probability of default and loss given default were assessed and tested with the help of our financial risk experts. <li data-bbox="885 1073 1487 1314">• For selected sample we have checked expected credit losses determined based on individual assessment per Group’s policy by means of supporting data and evaluated via inquiries with management appropriateness of estimations and judgements made including areas affected by the uncertainties caused by COVID-19. <li data-bbox="885 1314 1495 1461">• We checked sources for data used in expected credit losses calculations. We assessed reliability and completeness of the data used in expected credit losses calculations with our information systems specialists. <li data-bbox="885 1461 1451 1524">• We checked accuracy of resultant expected credit losses calculations on a sample basis. <li data-bbox="885 1524 1479 1703">• To assess appropriateness of the Group’s determination of staging for credit risk, identification of impairment and timely and appropriate provisioning for impairment under IFRS 9, we have performed loan review procedures based on a selected sample. <li data-bbox="885 1703 1487 1885">• We assessed the accuracy and completeness of the disclosures made within the IFRS 9 framework in the consolidated financial statements the Group presented with respect to loans and receivables and related expected credit losses.



Key Audit Matters	How Our Audit Addressed the Key Audit Matter
<p data-bbox="274 533 805 564">Valuation of Pension Fund Obligations</p> <p data-bbox="274 604 824 737">Explanations on Valuation of Pension Obligations are presented in Note 2 paragraph (n) in the accompanying consolidated financial statements as at 31 December 2020.</p> <p data-bbox="274 774 854 1495">“Türkiye Vakıflar Bankası Türk Anonim Ortaklığı Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı” (“the Fund”) is established in accordance with the Social Security Law numbered 506 article No 20 and is within the scope of Funds to be transferred to the Social Security Institution (SSI). The president of republic is authorized to determine the transfer date. The total obligation of the fund is estimated using separate methods and assumption for benefits to be transferred and for non-transferrable benefits. The valuations of the pension obligations require significant judgement and technical expertise in choosing appropriate assumptions. Evaluation of Pension Fund liabilities include uncertainty of estimates and assumptions such as transferrable social benefits, discount rates, salary increases, economic and demographic assumptions. The Group’s management uses external actuaries for the purpose of valuations of pension obligations.</p> <p data-bbox="274 1533 850 1797">During our audit, above mentioned fundamental assumption and estimates used in calculations of pension fund obligations, uncertainty of the transfer date, technical interest rate determined by the law and significant impact from differentiation of these assumptions were taken into consideration, and this area is considered as key audit matter.</p>	<p data-bbox="883 590 1490 789">Within our audit procedures, we tested on a sample basis the accuracy of the employee data supplied by the Group management to the external actuary firm for the purpose of evaluation pension obligation. In addition, we verified the existence and values of the Pension Fund assets on a sample basis.</p> <p data-bbox="883 831 1495 999">We examined whether significant changes in actuarial assumptions used in calculation, employee benefits in the period, plan assets and liabilities, and regulations related to valuations exist, and tested significant changes.</p> <p data-bbox="883 1041 1484 1173">Through use of our actuarial specialist, we assessed the reasonableness of assumptions and evaluation made by the external actuaries in the calculation of the liability.</p> <p data-bbox="883 1215 1479 1310">In addition to the above procedures, we have reviewed disclosures made with respect to pension funds in the consolidated financial statements.</p>



Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

A handwritten signature in blue ink, consisting of a large, stylized 'H' followed by a series of loops and a final flourish.

Halûk Yalçın, SMMM
Partner

Istanbul, 20 May 2021

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020**

CONTENTS	PAGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	1
CONSOLIDATED STATEMENT OF INCOME.....	2
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	3
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	4-5
CONSOLIDATED STATEMENT OF CASH FLOWS	6
EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	7-87
NOTE 1 GENERAL INFORMATION.....	7-11
NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	12-41
NOTE 3 FINANCIAL RISK MANAGEMENT	42-59
NOTE 4 INSURANCE RISK MANAGEMENT	60-61
NOTE 5 SEGMENT REPORTING	62-64
NOTE 6 CASH AND BALANCES WITH CENTRAL BANKS	65
NOTE 7 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS.....	65-67
NOTE 8 OBLIGATIONS UNDER REPURCHASE AGREEMENTS.....	68
NOTE 9 LOANS AND ADVANCES TO BANKS	68
NOTE 10 LOANS AND ADVANCES TO CUSTOMERS.....	69-70
NOTE 11 INVESTMENT SECURITIES	71-72
NOTE 12 INVESTMENTS IN ASSOCIATES	73
NOTE 13 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS.....	73-74
NOTE 14 ASSETS CLASSIFIED AS HELD FOR SALE	75
NOTE 15 OTHER ASSETS	76
NOTE 16 TRADING LIABILITIES.....	76
NOTE 17 DEPOSITS FROM BANKS.....	77
NOTE 18 DEPOSITS FROM CUSTOMERS.....	77
NOTE 19 FUNDS BORROWED	77-78
NOTE 20 DEBT SECURITIES ISSUED	78
NOTE 21 SUBORDINATED DEBTS.....	79
NOTE 22 OTHER LIABILITIES AND PROVISIONS	79-80
NOTE 23 TAXATION	80-81
NOTE 24 EARNINGS PER SHARE.....	82
NOTE 25 EQUITY	82-83
NOTE 26 RELATED PARTY TRANSACTIONS	84
NOTE 27 FEE AND COMMISSION INCOME.....	84
NOTE 28 OTHER INCOME	85
NOTE 29 SALARIES AND EMPLOYEE BENEFITS	85
NOTE 30 OTHER EXPENSES	86
NOTE 31 COMMITMENTS AND CONTINGENCIES	86-87
NOTE 32 SUBSEQUENT EVENTS	87

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020**

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

	Notes	Current Period December 31, 2020	Prior Period December 31, 2019
ASSETS			
Cash and balances with Central Banks	6	96,503,879	42,384,491
Financial assets at fair value through profit or loss ("FVPL")	7	16,199,275	6,815,205
- <i>Securities</i>	7	7,458,290	2,307,977
- <i>Derivative Financial Instruments</i>	7	8,740,985	4,507,228
Financial assets at fair value through other comprehensive income ("FVOCI")		85,007,132	26,584,063
- <i>Debt Securities</i>		83,909,766	25,782,244
- <i>Equity Securities</i>		1,097,366	801,819
Financial assets at amortised cost ("AC")		486,469,939	331,215,903
- <i>Loans and advances to banks</i>	9	2,859,402	1,265,675
- <i>Loans and advances to customers</i>	10	424,869,881	282,940,649
- <i>Debt securities</i>		58,740,656	47,009,579
Investments accounted for using the equity method		538,516	456,087
Current tax assets		3,090	2,861
Deferred tax assets	23	1,454,935	975,365
Property, plant and equipment	13	5,007,371	3,136,367
Intangible assets	13	371,942	341,777
Assets classified as held for sale	14	1,256,254	7,690,615
Other assets	15	19,500,813	13,638,342
Total assets		712,313,146	433,241,076
LIABILITIES AND EQUITY			
Financial liabilities at fair value through profit or loss		6,083,301	3,311,997
- <i>Derivative financial instruments</i>	16	6,083,301	3,311,997
Financial liabilities at amortised cost		635,894,015	372,899,372
- <i>Deposits from banks</i>	17	23,033,197	9,231,640
- <i>Deposits from customers</i>	18	394,243,244	244,683,418
- <i>Obligations under repurchase agreements</i>	8	101,312,205	25,424,068
- <i>Funds borrowed</i>	19	51,692,048	45,066,737
- <i>Debt securities issued</i>	20	46,154,523	29,248,056
- <i>Subordinated debts</i>	21	19,458,798	19,245,453
Current tax liabilities	23	955,837	1,143,074
Deferred tax liabilities	23	57,628	31,609
Liabilities directly associated with assets classified as held for sale	14	-	5,378,292
Other liabilities and provisions	22	21,759,880	16,566,107
Total liabilities		664,750,661	399,330,451
Equity attributable to owners of the parent			
Share capital	25	4,705,768	3,300,146
Share premium		6,300,980	721,594
Revaluation surplus		3,087,838	2,604,125
Reserves		2,776,999	2,557,712
Retained earnings		29,755,015	23,613,291
Total equity attributable to owners of the parent		46,626,600	32,796,868
Non-controlling interests	25	935,885	1,113,757
Total equity		47,562,485	33,910,625
Total liabilities and equity		712,313,146	433,241,076
Commitments and contingencies		216,928,292	161,250,728

The notes on pages 7 to 87 are an integral part of these consolidated financial statements

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

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

Notes	Current Period December 31, 2020	Prior Period December 31, 2019
Interest income		
Interest on loans measured at AC	37,070,419	35,176,932
Interest on securities	10,414,784	7,045,289
- Measured at FVPL (Trading financial assets)	115,374	111,381
- Measured at FVOCI (Available-for-sale financial assets)	4,407,480	2,211,420
- Measured at AC (Held-to-maturity investments)	5,891,930	4,722,488
Interest on deposits at banks	81,021	289,191
Interest on money market placements	3,388	4,532
Other interest income	435,092	562,598
Total interest income	48,004,704	43,078,542
Interest expense		
Interest on deposits	(16,446,255)	(17,945,995)
Interest on money market deposits	(4,552,830)	(5,140,630)
Interest on funds borrowed	(1,508,717)	(1,810,958)
Interest expense on securities issued	(4,601,930)	(4,150,779)
Other interest expense	(478,762)	(207,654)
Total interest expense	(27,588,494)	(29,256,016)
Net interest income	20,416,210	13,822,526
Fee and commission income	3,843,383	4,517,283
Fee and commission expense	(859,303)	(1,118,168)
Net fee and commission income	27	3,399,115
Operating income		
Net trading income	58,345	(3,161,071)
Net foreign exchange gains	(2,387,572)	669,123
Other income	8,106,424	6,602,790
Total operating income	5,777,197	4,110,842
Operating expenses		
Salaries and employee benefit expenses	29	(3,483,392)
Provision expenses for loan and receivables impairment	(11,617,157)	(8,356,813)
Depreciation and amortisation	(502,591)	(500,588)
Taxes other than on income	(357,752)	(294,783)
Other expenses	30	(5,273,293)
Total operating expenses	(21,234,185)	(16,858,487)
Share of profit of associates accounted for using the equity method	61,796	61,872
Profit before income tax	8,005,098	4,535,868
Income tax expense	23	(1,033,209)
Profit for the period	6,468,981	3,502,659
Attributable to:		
Owners of the Parent	6,392,954	3,363,189
Non-controlling interest	25	139,470
Basic and diluted earnings per 100 share on profit for the year	24	1.3453

The notes on pages 7 to 87 are an integral part of these consolidated financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Notes	Current Period December 31, 2020	Prior Period December 31, 2019
Profit for the period		6,468,981	3,502,659
Other comprehensive income			
Items that will not be classified to profit or loss:			
Re-measurement of post - employment benefit obligation		(95,895)	(93,644)
Revaluation of property, plant and equipment		216,117	117,879
Other accumulated comprehensive income that will not be reclassified in profit or loss		191,803	1,653
Related tax	23	(11,050)	(5,178)
Items that will be reclassified subsequently to profit or loss:			
Foreign currency translation differences		259,352	62,080
Net change in fair value of financial assets at fair value through other comprehensive income		59,032	1,427,269
Income (Loss) Related with Hedges of Net Investments in Foreign Operations		(141,050)	(43,358)
Other items		-	(162,523)
Income tax related to items that will be reclassified subsequently to profit or loss	23	(10,851)	(252,949)
Other comprehensive income for the year, net of income tax		467,458	1,051,229
Total comprehensive income for the year		6,936,439	4,553,888
Total comprehensive income attributable to:			
Owners of the Parent		6,924,393	4,287,500
Non-controlling interest		12,046	266,388

The notes on pages 7 to 87 are an integral part of these consolidated financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Attributable to Owners of the Parent							Total	Non-controlling interest	Total equity
	Share Capital	Share premium	Fair value reserves	Revaluation Fund	Other	Reserves	Retained earnings			
Prior Period End Balance	3,300,146	721,594	1,547,161	757,641	299,323	2,557,712	23,613,291	32,796,868	1,113,757	33,910,625
First time adoption impact of IFRS, net	-	-	-	-	-	-	-	-	-	-
Profit for the Period	-	-	-	-	-	-	6,392,954	6,392,954	76,027	6,468,981
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-	-	-	-	(75,803)	(75,803)	(507)	(76,310)
Change in revaluation surplus	-	-	-	193,130	-	-	-	193,130	1,319	194,449
Foreign currency translation differences	-	-	-	-	324,145	-	-	324,145	(64,793)	259,352
Net change in fair value of financial assets at fair value through other comprehensive income, net of tax	-	-	231,017	-	-	-	-	231,017	-	231,017
Other items	-	-	-	-	(141,050)	-	-	(141,050)	-	(141,050)
Total other comprehensive income	-	-	231,017	193,130	183,095	-	(75,803)	531,439	(63,981)	467,458
Total comprehensive income for the period	-	-	231,017	193,130	183,095	-	6,317,151	6,924,393	12,046	6,936,439
Transfer to reserves	-	-	-	-	-	291,093	(291,093)	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-
Capital Increase	1,405,622	5,579,386	-	-	-	-	-	6,985,008	-	6,985,008
Other items	-	-	(123,529)	-	-	(71,806)	115,666	(79,669)	(189,918)	(269,587)
Total contributions by and distributions to owners of the parent, recognized directly in equity	1,405,622	5,579,386	(123,529)	-	-	219,287	(175,427)	6,905,339	(189,918)	6,715,421
Balances at December 31, 2020	4,705,768	6,300,980	1,654,649	950,771	482,418	2,776,999	29,755,015	46,626,600	935,885	47,562,485

The notes on pages 7 to 87 are an integral part of these consolidated financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

	Attributable to Owners of the Parent							Total	Non-controlling interest	Total equity
	Share Capital	Share premium	Fair value reserves	Revaluation Fund	Other	Reserves	Retained earnings			
Prior Period End Balance	3,300,146	721,908	315,654	795,918	289,392	2,098,451	21,082,815	28,604,284	885,564	29,489,848
First time adoption impact of IFRS, net										
Profit for the Period	-	-	-	-	-	-	3,363,189	3,363,189	139,470	3,502,659
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-	-	-	-	(70,466)	(70,466)	(4,449)	(74,915)
Change in revaluation surplus	-	-	-	(38,277)	-	-	-	(38,277)	132,580	94,303
Foreign currency translation differences	-	-	-	-	9,931	-	-	9,931	8,791	18,722
Net change in fair value of financial assets at fair value through other comprehensive income, net of tax	-	-	1,177,207	-	-	-	(25,388)	1,151,819	(10,004)	1,141,815
Other items	-	-	54,300	-	-	-	(182,996)	(128,696)	-	(128,696)
Total other comprehensive income	-	-	1,231,507	(38,277)	9,931	-	(278,850)	924,311	126,918	1,051,229
Total comprehensive income for the period	-	-	1,231,507	(38,277)	9,931	-	3,084,339	4,287,500	266,388	4,553,888
Transfer to reserves	-	-	-	-	-	459,261	(451,177)	8,084	(8,084)	-
Dividends paid	-	-	-	-	-	-	-	-	-	-
Other items	-	(314)	-	-	-	-	(102,686)	(103,000)	(30,111)	(133,111)
Total contributions by and distributions to owners of the parent, recognized directly in equity	-	(314)	-	-	-	459,261	(553,863)	(94,916)	(38,195)	(133,111)
Balances at December 31, 2019	3,300,146	721,594	1,547,161	757,641	299,323	2,557,712	23,613,291	32,796,868	1,113,757	33,910,625

The notes on pages 7 to 87 are an integral part of these consolidated financial statements.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

	Notes	Current Period December 31, 2020	Prior Period December 31, 2019
Profit for the year		6,468,981	3,502,659
<i>Adjustments for:</i>			
Income tax expense	23	2,040,485	1,880,222
Provision for incurred loan losses		11,610,657	8,362,433
Depreciation and amortization	13	425,783	448,563
Provision for short term employee benefits		227,920	89,324
Provision for retirement pay liability and unused vacations		474,312	328,419
Unearned premium reserve		97,692	472,055
Change in provision for outstanding claims	30	33,203	83,015
Derivative financial instruments		(1,462,453)	665,904
Other provision expenses	30	293,224	57,270
Net interest income		(28,569,723)	(17,007,263)
Share of profit of equity-accounted investees		(61,796)	(61,872)
Currency translation differences		(42,045)	(53,289)
Gain on sale of subsidiaries		(804,835)	-
Other non-cash adjustments		(2,382,891)	(1,337,977)
		(11,651,486)	(2,570,537)
Loans and advances to banks		(1,597,667)	585,369
Reserve deposits		(28,590,543)	4,937,268
Financial assets at fair value through profit or loss		(5,150,313)	(2,690,190)
Loans and advances to customers		(150,829,269)	(65,227,967)
Other assets		(5,862,471)	(927,759)
Deposits from banks		8,432,229	2,150,508
Deposits from customers		154,947,146	69,019,735
Obligation under repurchase agreements		75,775,230	(3,644,480)
Other liabilities and provisions		4,024,625	277,902
Interest received		48,004,704	43,078,542
Interest paid		(27,588,494)	(29,256,016)
Taxes paid		(2,231,192)	(1,611,247)
Cash (used in)/provided by operating activities		57,682,499	14,121,128
Cash flows from investing activities:			
Dividends received	28	17,633	8,682
Acquisition of property and equipment		(1,694,221)	(657,398)
Proceeds from the sale of property and equipment		580,116	736,940
Acquisition of intangible assets		(77,171)	(59,738)
Proceeds from the sale of intangible assets		2,639	638
Acquisition of investment securities		(89,569,548)	(29,568,603)
Proceeds from sale of investment securities		28,040,172	13,408,120
Other cash inflow/(outflow) from investing activities		(935,335)	-
Cash used in by investing activities		(63,635,715)	(16,131,359)
Cash flows from financing activities:			
Proceeds from issue of debt securities and subordinated liabilities		36,292,714	28,370,533
Repayments of debt securities and subordinated liabilities		(19,071,449)	(16,104,002)
Repayments of funds borrowed		(24,408,154)	(25,320,158)
Proceeds from funds borrowed		31,110,252	25,052,970
Proceeds from issues of shares and other equity securities		7,000,000	-
Share issue cost		(15,016)	-
Dividends paid		-	-
Financial lease payments		(377,295)	(355,852)
Cash provided by financing activities		30,531,052	11,643,491
Effect of foreign exchange rate fluctuations on cash and cash equivalents		25,608	545,639
Net (decrease)/ increase in cash and cash equivalents		24,603,444	10,178,899
Cash and cash equivalents at the beginning of the year	6	31,066,571	20,887,672
Cash and cash equivalents at the end of the year	6	55,670,015	31,066,571

The notes on pages 7 to 87 are an integral part of these consolidated financial statements

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

1. GENERAL INFORMATION

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

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

The Bank provides corporate, commercial and retail banking services through a network of 933 domestic branches and 3 foreign branches in New York, Bahrain and Iraq, in total 936 branches (December 31, 2019: 940 domestic, 3 foreign, in total 943 branches). As at December 31, 2020, the Bank has 16,748 (December 31, 2019: 16,835) employees. Additionally, the Bank has a subsidiary in banking sector in Austria, titled as Vakıfbank International AG. The Bank’s head office is located at Saray Mahallesi, Dr.Adnan Büyükdeniz Caddesi, No:7/A-B, Ümraniye - İstanbul.

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

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

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

1. GENERAL INFORMATION(Continued)

The Parent Bank's shareholders structure as at December 31, 2020 and December 31, 2019 is stated below:

Shareholders December 31, 2020	Number of Shares (100 unit)	Nominal Value of the Shares – Thousands of TL	Share Percentage (%)
Türkiye Varlık Fonu (Group D)	1,405,622,490	1,405,622	35.99
TC Hazine ve Maliye Bakanlığı (Group A)	1,075,058,640	1,075,058	27.52
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	10.31
TC Hazine ve Maliye Bakanlığı (Group B)	387,673,328	387,673	9.93
Other appendant foundations (Group B)	2,591,250	2,591	0.07
Other real persons and legal entities (Group C)	1,527,393	1,528	0.04
Publicly traded (Group D)	630,596,723	630,597	16.14
Paid-in capital	3,905,622,490	3,905,622	100.00
Adjustment to share capital ^(*)		800,146	
Total		4,705,768	

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

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

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

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

1. GENERAL INFORMATION (Continued)

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

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

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

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

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

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

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

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

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

December 31, 2020	Direct Shareholding Interest (%)	Indirect Shareholding Interest (%)
<i>Subsidiaries:</i>		
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. (*)	17.37	17.37
Vakıf Enerji ve Madencilik A.Ş.	65.50	80.48
Taksim Otelcilik A.Ş.	51.00	51.00
Vakıf Faktoring A.Ş.	78.39	80.62
Vakıf Finansal Kiralama A.Ş.	58.71	58.71
Vakıf Yatırım Menkul Değerler A.Ş.	99.25	99.40
Vakıfbank International AG	100.00	100.00
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (*)	45.71	45.71
World Vakıf UBB Ltd in Liquidation (**)	82.00	82.59
<i>Associates:</i>		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sinai Kalkınma Bankası A.Ş.	8.38	8.38

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

1. GENERAL INFORMATION (Continued)

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

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

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

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

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

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

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

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

1. GENERAL INFORMATION (Continued)

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

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

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

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

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

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

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

The Bank has also the following associates:

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

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

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (“IFRS”) including International Accounting Standards issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Standards Interpretation Committee (“IFRIC”).

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared in accordance with IFRS and presented in Turkish Lira (“TL”). For the purpose of fair presentation in accordance with IFRS, certain adjustments and reclassifications have been made to the statutory financial statements.

Covid-19 virus, which first appeared in China and spread rapidly worldwide in a short time, started to appear in our country in March. Declared as an epidemic by the World Health Organization, Covid-19 had economic and social impacts worldwide. In order to slow down the epidemic, many measures have been taken, including in our country, to restrict travels around the world, to take quarantine measures, to increase distance work, and various arrangements are made to reduce the economic effects of the epidemic. The Group has explained the effects of Covid-19, which it reflects in the financial statements dated December 31, 2020, in the following sections. In addition, while preparing the interim financial statements dated December 31, 2020, the fair value measurements were reviewed within the scope of IFRS 13 Fair Value Measurement standard.

The Indicator Interest Rate Reform - Phase 2, which introduced changes in TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16, effective from January 1, 2021, was published in December 2020 and early implementation of the changes is permitted. With the amendments made, certain exceptions are provided in the basis for determining contractual cash flows and hedge accounting provisions. The changes have not been implemented early and the developments are being evaluated by the Parent Bank. From items indexed to benchmark interest rates, loans and securities constitute assets; securities issued and loans borrowed through repo constitute liabilities in the Parent Bank's financial statements. The effects of these changes on the financial statements and performance of the Parent Bank are evaluated by the management. As of December 31, 2020, the Parent Bank does not have any hedging transactions for interest rate risk.

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

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New and Revised International Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at December 31, 2020:

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after January 1, 2020. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:
 - i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
 - ii) clarify the explanation of the definition of material; and
 - iii) incorporate some of the guidance in IAS 1 about immaterial information.
- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after January 1, 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
- **Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform;** effective from Annual periods beginning on or after January 1, 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.
- **Amendment to IFRS 16, "Leases" - Covid-19 related rent concessions;** effective from Annual periods beginning on or after June 1, 2020. As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On May 28, 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New and Revised International Financial Reporting Standards (Continued)

b) *Standards, amendments and interpretations that are issued but not effective as at December 31, 2020:*

- **IFRS 17, “Insurance contracts”;** effective from annual periods beginning on or after January 1, 2023. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- **Amendments to IAS 1, Presentation of financial statements’ on classification of liabilities;** effective from January 1, 2022. These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability.
- **A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16;** effective from Annual periods beginning on or after January 1, 2022.
 - **Amendments to IFRS 3,** ‘Business combinations’ update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
 - **Amendments to IAS 16,** ‘Property, plant and equipment’ prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
 - **Amendments to IAS 37,** “Provisions, contingent liabilities and contingent assets” specify which costs a company includes when assessing whether a contract will be loss-making.

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

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2;** effective from annual periods beginning on or after January 1, 2021. The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.
- **Amendments to IFRS 17 and IFRS 4, “Insurance contracts”, deferral of IFRS 9;** effective from annual periods beginning on or after January 1, 2021. These amendments defer the date of application of IFRS 17 by two years to January 1, 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9, Financial Instrument until January 1, 2023.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates

Accounting in hyperinflationary countries

Financial statements of the entities located in Turkey have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 - Financial Reporting in Hyperinflationary Economies as at December 31, 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at December 31, 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute. This, together with the sustained positive trend in quantitative factors, such as the stabilization in capital and money markets, decrease in interest rates and the appreciation of TL against the US Dollar and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from January 1, 2006.

Functional and Presentation Currency

These consolidated financial statements are presented in TL, which is the Bank's functional currency. Except if indicated, financial information presented in TL has been rounded to the nearest thousand.

Judgments and Estimates

The preparation of the consolidated financial statements in accordance with IFRS, including International Accounting Standards ("IAS") requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the statement of income and in the carrying value of assets and liabilities in the balance sheet, 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.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

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 judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is disclosed below. These disclosures supplement the commentary on financial risk management.

Impairment of Financial Assets

As of January 1, 2018, a loss allowance for expected credit losses is provided for all financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, all financial assets, which are not measured at fair value through profit or loss, loan commitments and financial guarantee contracts in accordance with IFRS 9 principles. Equity instruments are not subject to impairment assessment as they are measured at fair value.

The Group has changed its credit calculation method with the expected credit loss model as of January 1, 2018. Expected credit loss estimates are required to be unbiased, probability-weighted, considering the time value of money and including supportable information about past events, current conditions, and forecasts of future economic conditions. The financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1:

Financial assets that do not have a significant increase in the credit risk at the first time they are received in the financial statements or after the first time they are taken to the financial statements. For these assets, credit risk impairment provision is accounted for 12 months expected credit losses. The Parent Bank applies the expected 12-month default probabilities to the estimated default amount and multiplies with the loss given default and downgrades to the present day with the original effective interest rate of the loan. For these assets, an expected 12-month credit loss is recognized and interest income is calculated over the gross carrying amount. 12-month expected credit loss is the loss arising from possible risks in the first 12 months following the reporting date.

Stage 2:

A financial asset is transferred to stage 2 in the event that there is a significant increase in the credit risk after the first time the financial asset is taken in the financial statements. The Parent Bank determines the credit risk impairment provision of the financial asset according to lifetime expected credit loss. Lifetime expected credit losses are credit losses arising from all events that may occur during the expected life of the financial asset. The probability of default, and loss given default are estimated over the life of the loan including the use of multiple scenarios. Expected cash flows are discounted using the original effective interest rate.

Stage 3:

Stage 3 includes financial assets with objective evidence of impairment as of the reporting date. Lifetime expected credit loss is recorded for these assets. The Parent Bank's methodology for loans at this stage is similar to loans classified in Stage 2, but the probability of default is considered 100%. Loss given default is calculated considering the period the loan waits in the non-performing loans and an aging curve formed from the historical data.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Significant Increase in Credit Risk

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

Past Due Date; significant increase in the credit risk since the granting date in the case of loans overdue more than 30 days.

Restruction: Classification of financial assets under the stage 2 as a result of the emergence of privileges and financial difficulties in the case of restructuring of financial receivables.

Qualitative Criteria: Implementation of set of qualitative criteria set by The Parent Bank in accordance with the information obtained.

Quantitative Criteria: As of the reporting date, the default risk for the borrower and the default risk as of the date of the initial allowance are compared with the change in the grade / score information as a result of the application of statistically determined threshold values.

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

Within the scope of the measures taken for COVID-19, the Parent Bank, pursuant to the BRSA's decision numbered 8970 dated March 27, 2020, effective as of March 17, 2020, and within the scope of Article 4 of the "Regulation on the Principles and Procedures Regarding the Classification of Loans and the Provisions", 30-day delay period which was envisaged for classification in the Group II has started to be applied as 90 days until December 31, 2020 for the loans followed in the Group I. This regulation will be valid until June 30, 2021 according to the decision of the BRSA dated December 8, 2020 and numbered 9312. In this context, receivables that are not collected by the Parent Bank for up to 90 days can be classified under the First Group. In the classification of loans, the Parent Bank also takes into account whether it is due to a temporary liquidity shortage experienced by the borrower because of the COVID-19 outbreak. The Parent Bank continues to calculate the Expected Credit Loss based on its own risk models.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Default Definition

The Parent Bank takes into account the requirements of IFRS 9 and the relevant BRSA in order to determine the default situation in accordance with the definition of default and its indicators included in the Communiqué on the Calculation of Provisions Regulation and the Amount Based on the Internal Risk Based Approach of the Credit Risk.

In terms of the default definition, the bank has set the following criterias;

- Over 90 days delayed collection of principal and / or interest amount,
- The customer has been bankrupt or has been found to apply for bankruptcy,
- The customer's creditworthiness is impaired,
- It is decided that the principal and / or interest payments of the borrower will be delayed by more than 90 days since the collaterals and / or borrower's own funds are insufficient to cover the payment of the receivables at maturity,
- It is decided that the principal and / or interest payments of the customer will be delayed by more than 90 days due to macroeconomic, sector specific or customer specific reasons.

Due to COVID-19, effective as of March 17, 2020, the "more than 90 days past due" condition used in the definition of default for the classification of loans has started to be applied as "more than 180 days past due" in accordance with the 4th and 5th articles of "Regulation on Classification of Loans and Procedures and Principles for Provisions to Be Allocated for them" announcement of BRSA. This regulation will be valid until June 30, 2021 according to the decision of the BRSA dated December 8, 2020 and numbered 9312. In this context, receivables that are not collected by the Parent Bank for up to 180 days can be classified under the Second Group. The Parent Bank, continues the calculate expected credit loss according to its own risk models for these loans. For loans that are not subject to individual evaluation on a customer basis and have a delay of more than 90 days, the Parent Bank determines the information and factors that cannot be included in the expected credit loss calculations based on expert opinion and reflects them in the provision.

Expected Credit Loss (ECL) Calculation

Expected credit loss calculation refers to the calculation to estimate the loss of the financial instrument in case of default and it is based on 3-stage impairment model based on the change in credit quality. It is possible to perform the expected credit loss calculations in accordance with IFRS 9, with three main parameters for each loan. Exposure at Default (EAD), Loss Given Default (LGD), Probability of Default (PD).

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Exposure at Default (EAD): Represents the amount of risk on the default date of the borrower in case of default. According to IFRS 9 in calculating EAD, the estimation of how customer risk rating changes over time is important. Amount of EAD for cash and non-cash loans are calculated in different ways.

Cash loans are divided into two parts as loans with payment plan and loans without payment plan. For loans with payment plan, EAD is calculated by considering the installments to be paid in the future. For cash loans without payment plan, EAD is calculated by keeping credit balance constant. For non-cash loans and limit commitments EAD is calculated by regarding to credit conversion factor and behavioral maturity periods.

Loss Given Default (LGD): The ratio that provides the uncollectable amount of the loans in the process after the default. The LGD ratio is the division of the uncollectable amount of a defaulted loan into the defaulted loan amount. This ratio enables to predetermine the risks in the case of default for the active credit portfolio and allows for provision under IFRS 9. In LGD methodology, all non-performing loans amounts and long term collection process has been taken into account and LGD rate is calculated after deducting net collections amounts from the default amount and discounted with effective interest rates or approximate rate over the net amounts with an approximate value.

For corporate and retail portfolios, different LGD calculations are performed. Since the dragging effect, LGD rates in corporate portfolios are considered on customer basis. For retail portfolios, LGD rates are considered on credit basis. In order to differentiate variable risk characteristics in accordance with IFRS 9, individual and corporate segments are divided into its own LGD ratios according to different risk factors.

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

The models used in PD calculations were developed based on historical data on past and quarterly and non-defaultable loans. PD rates used within the scope of IFRS 9 are calculated separately for each rating model and rating information. In this context, firstly, PD rates are calculated from historical data(through the cycle) from this model and rating values, then lifetime default rate curves are created. These lifetime default rate curves provide the following two basic estimation data in the calculation of expected credit losses as follows:

- 12 Months PD ratio: The probability of default within 12 months from the reporting date estimate
- Lifetime PD ratio: Estimation of the probability of default over the expected life of the financial instrument

The models developed under IFRS 9 have detailed segment structures based on corporate and retail portfolios.

While creating the corporate PD rates, the rating values assigned to the customers as of the date of each rating and the customers who default on the corporate side are considered. Retail portfolios are divided into sub-segments according to product groups and lifetime default rate curves vary according to product groups. By taking into account the periodic PD rates, a PD rate scale is generated on the basis of rating and model code through the cycle.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Impairment of Financial Assets (Continued)

Expected Credit Loss (ECL) Calculation (Continued)

The relation of all risk parameters with macroeconomic conditions has been tested and it has been determined that macroeconomic conditions have an effect on the probability of default. In this context, macroeconomic forecasts are taken into account in changing the probability of default.

Different macroeconomic models have been created for the retail portfolio and commercial portfolio, and macroeconomic forecasts affect the expected loss provision calculations in two separate scenarios, base and bad. The future macroeconomic expectations taken into account into IFRS 9 are in line with the Bank's current budget and ISEDES forecasts.

In the calculation of expected credit loss in accordance with IFRS 9, certain part of commercial and corporate loans are subject to individual assessment on a customer basis in accordance with internal evaluations. The models and methodologies used for IFRS 9 are evaluated at least once a year by the teams responsible for the model and methodology for their accuracy and suitability. The models and other issues that were created within the scope of IFRS 9 and which need to be updated in 2020 were revised and reflected in financial statements of December 2020.

Macroeconomic forecasts and risk delinquency data used in risk parameter models are re-evaluated every quarter to reflect changes in economic conjuncture and are updated if needed.

The maximum period to determine the expected credit losses except for demand and revolving loans is up to the contractual life of the financial asset.

Fair value

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

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

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly-i.e. as prices-or indirectly- i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Fair value (Continued)

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other variables used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

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

Significant accounting policies are as follows;

(a) Basis of consolidation

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

Subsidiaries are those investees that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The Bank reassesses its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. 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 not 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.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(a) Basis of consolidation (Continued)

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

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognized at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognized as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognized in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognized in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Bank and its subsidiaries' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Foreign currency transactions

Transactions are recorded in TL, which represents functional currency of the group's entities except for World Vakıf UBB Ltd. in Liquidation and Vakıfbank International AG. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into functional currency at the exchange rates ruling at the end of reporting period with the resulting exchange differences recognized in profit or loss as foreign exchange gains or losses.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Foreign currency transactions (Continued)

In March 24, 2020, Türkiye Vakıflar Bankası T.A.O. Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (ESV) shares, which are presented in the paid-in capital of Vakıfbank International AG Turkey Foundations Bank, are purchased by the Bank. Since the reporting period of September 30, 2016, the Group has been implementing net investment hedging strategy in order to avoid foreign exchange risk arising from the Group's € 75.7 million share capital in the VakıfBank International AG's € 100 million paid-in capital. In this context, 76.8 Million EUR portion of the securities issued by the Bank on May 4, 2016 with a nominal amount of 500 million Euros and the redemption date of May 4, 2021, were determined as hedging instruments. In this transaction, fair value changes related to the investment abroad, which is a hedged item, are reflected in the other accumulated comprehensive income or expenses to be reclassified in profit or loss under equity as long as the hedging transaction is effective. In this context, as of December 31, 2020, the foreign exchange income presented in the income statement is TL 184,408. The effectiveness of the transaction is the degree to balance the changes in the fair value of the hedged item that can be associated with the hedged currency risk by the hedging instrument.

As of December 31, 2020, it was identified that the evaluations that were made about the process to protect from the net investment hedge were effective. Efficiency testing, which is consistent with the Parent Bank's risk strategies, is conducted using the "Dollar off-set method" in the protection from risk process. According to this method, hedging compares the change in value of protection subject from risk with the change in value of protection tool from risk and calculates the relation with the effectiveness ratio of the hedge. The calculated effectiveness ratio is being evaluated within the TAS-39 Financial Instruments: Recognition and Measurement standards and hedge accounting principles are being applied. The Parent Bank documents the hedging strategies along with risk management goals. Hedge accounting ends when protection subject from risk ends or being sold or effectiveness test results are not effective anymore.

Foreign operations

The functional currencies of the foreign subsidiaries, World Vakıf UBB Ltd. In Liquidation and Vakıfbank International AG, are US Dollar and Euro, respectively and their financial statements are translated to the presentation currency, TL, for consolidation purposes, as summarized in the following paragraphs.

- The assets and liabilities of the foreign subsidiaries are translated at the exchange rate ruling at the end of the respective reporting period.
- The income and expenses of foreign operations are translated to TL using average exchange rates.
- Foreign currency differences arising from the translation of the financial statements of the foreign operations into TL for consolidation purpose are recognized in other comprehensive income and accumulated in the foreign currency translation reserve ("translation reserve"). Where a foreign operation is disposed of, in part or full, the full amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

(c) Interest

Interest income and expense are recognized in the consolidated profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Interest income and expense presented in the consolidated statement of profit or loss and other comprehensive income include:

- interest on financial assets and liabilities at amortized cost on an effective interest rate basis,
- interest on financial assets at fair value through other comprehensive income on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

(d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, commissions for insurance business (see also accounting policy (s)) are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(e) Net trading income

Net trading income includes gains and losses arising from revaluation and disposals of financial assets at fair value through profit or loss, the disposal of available-for-sale financial assets, and gains and losses on derivative financial instruments held for trading purpose.

(f) Dividends

Dividend income is recognized when the right to receive the income is established. Dividends are reflected as a component of other operating income.

(g) Leases

The Group as the lessee

The difference between operating leases and financial leases has been eliminated with the “IFRS 16 Leases” effective as of January 1, 2019, and on the transition date, the Group has applied the simplified transition approach and elected not to restate comparative figures. The group operates as a lessee and lessor.

The Group started to apply the “IFRS 16 Leases” standard which went into effect on January 1, 2019 to leases of service buildings and car rentals. However ATMs which are determined as low value by the Parent Bank and short term lease contracts with a duration of 12 months or less, have been evaluated within the scope of the exemption granted by the standard. The payments for these contracts are recorded as expense in the period they occurred.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

The Group as the lessee (Continued)

In accordance with “IFRS 16 Leases” standard, the Group calculates the “right of use” amount on the basis of the present value of the lease payments of the fixed asset leased at the beginning of the lease and includes them in “Property, plant and equipment”. The securities/properties having a right to use were capitalised by showing them under property, plant and equipment. In calculating assets having a right to use, outstanding rent amounts were discounted by a specific rate, considering the remaining term of the lease contract signed with the property owner, to determine net present value.

Instead of recognising leases in the scope of the “IFRS 16 Leases” standard as expenses or prepaid expenses, the Group recognised the total lease liabilities to be paid by the end of the lease contract as “Other Liabilities and Provisions” under liabilities on the balance sheet. Changes that may impact the lease liability are remeasured and included in the balance sheet accounts.

Monthly interest and depreciation are calculated on the net present value based on the period of the lease contract, and are recognised on the income statement.

The Group as the lessor

When the Group is the lessor in a financial lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized.

(h) Income taxes

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

Corporate tax

Turkey

In Turkey, corporate tax rate is 20%. Corporate tax rate has applied as 22% for a period of three years in between 2018-2020, according to Law No: 7061 “The Law regarding amendments on Certain Tax Laws and their implications on Deferred Tax Calculations” published in the Official Gazette dated 5 December 2017. The corporate tax rate is applied to tax base which is calculated by adding certain nondeductible expenses for tax purposes and deducting certain exemptions (like dividend income) and exclusion of deductions on accounting income. If there is no dividend distribution, no further tax charges are made.

Dividends paid to resident institutions and institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to those institutions, the withholding tax rate on the dividend payments is 15.0%. In applying the withholding tax rates on dividend payments to non-resident institutions and individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax. No further tax is paid if the profit is not distributed.

Prepaid corporate taxes for every three months are computed and paid using the related period’s tax rate. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Corporate tax (Continued)

75% of the profit from sales of associate shares that held at least 2 years and 50% of the profit from sales of real estates are exceptional from corporate taxes if there is a capital increase according to Corporate Tax Law or it is hold for 5 years on a special fund account.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of the 25th day of the fourth month following the close of the accounting period to which they relate. Tax returns are open to inspection for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue assessments based on their findings.

Foreign subsidiary

The corporate tax rate for the Group's subsidiary in Austria has been determined as 25.0%. Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. Taxes which have been paid for previous periods can be deducted from corporate taxes computed on annual taxable income. According to the Double Taxation Treaty Agreement between Turkey and Austria, Turkish corporations in Austria possess the right to benefit from tax returns of 10.0% on interest earned from the investments and loans granted in Turkey.

Deferred taxes

Deferred tax assets and liabilities are recognized on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities outside a business combination which affect neither accounting nor taxable profit.

The deferred tax assets and liabilities are reported as net in the consolidated financial statements only if the Group has a legal right to set off current year tax assets and current year tax liabilities and the deferred tax assets and deferred tax liabilities related to same taxable entity.

A deferred tax asset is recognized 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 utilized. 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 realized.

Transfer pricing regulations

In Turkey, the transfer pricing provisions have been stated under the Article 13 of the Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated November 18, 2007 sets details about implementation.

If a taxpayer enters into transactions regarding the sale or purchase of goods and services with related parties, where the prices are not set in accordance with the arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Transfer pricing regulations (Continued)

The files that should be sent to the tax authorities are prepared in accordance with the existing transfer pricing regulations. However such documents are open for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue tax assessments based on their findings.

Investment incentives

As per the provisional Article no. 69, effective from January 1, 2006, added to the Income Tax Law no. 193 by Law no. 5479 dated April 8, 2006 and published in Official Gazette no. 26133, tax payers could deduct investment incentives which were calculated according to the legislative provisions (including tax rate related provisions) in force on December 31, 2005, only from the taxable income for the years 2006, 2007, and 2008. The rights of tax payers who could not deduct investment incentives fully or partially due to insufficient taxable income during those years, were lost as at December 31, 2008.

In accordance with the decision taken by the Turkish Constitutional Court on October 15, 2009, the “2006, 2007 and 2008.” clause of the provisional Article no. 69 of the Income Tax Law mentioned above, is repealed and the time limitation for the use of the investment incentive is removed. The repeal related to the investment incentive was enacted and issued in the January 8, 2010 Official Gazette number 27456. Accordingly, the Group’s subsidiary operating in finance leasing business will be able to deduct its remaining investment incentives from taxable income in the future without any time limitation.

As per “Law regarding amendments to the Income Tax Law and Some Other Certain Laws and Decree Laws” accepted on July 23, 2010 at the Grand National Assembly of Turkey, the expression of “can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate) valid at this date” has been amended as “can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate as explained in the second clause of the temporary article no 61 of the Law) valid at this date” and the following expression of “ Investment incentive amount used in determination of the tax base shall not exceed 25% of the associated taxable income. Tax is computed on the remaining income per the enacted tax rate” has been added. This Law has been published in the Official Gazette on August 1, 2010.

The clause “The amount which to be deducted as investment incentive to estimate tax base cannot exceed 25% of related income” which has been added to first clause of the temporary 69th article of Law No: 193 with the 5th article of Law No: 6009 on Amendments to Income Tax Law and Some Other Laws and Decree Laws has been abrogated with the February 9, 2012 dated decisions no: E.2010/93 and K.2012/20.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(i) Financial Assets

Recognition

It shall be recognised a financial asset or a financial liability in the statement of financial position when, and only when, an entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting.

At initial recognition, the Group shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification and Measurement of Financial Instruments

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

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

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

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

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

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

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Financial Assets at Fair Value Through Profit or Loss

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

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

Financial Assets at Fair Value Through Other Comprehensive Income

In addition to financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial assets with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income.

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

Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Financial Assets at Fair Value Through Other Comprehensive Income (Continued)

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

Financial Assets Measured at Amortized Cost

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

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

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

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially a similar asset) at a fixed price on a future date (“reverse repo” or “stock borrowing”), the arrangement is accounted for as a loan and advance, and the underlying asset is not recognized in the Group’s financial statements. Such financial assets are presented separately on the face of consolidated statement of financial position.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

See also *specific instruments* below.

Measurement

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all financial assets at fair value through other comprehensive income are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities and financial assets at amortised cost are measured at amortized cost less impairment losses. The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting date.

Fair values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected in the income statement.

In the assessment of fair value of interest rate swap instruments, interest amounts to be paid or to be received due to/from the fixed rate on the derivative contract are discounted to the balance sheet date with the current applicable fixed rate in the market that is prevailing between the balance sheet date and the interest payment date, whereas interest amounts to be paid or to be received due to/from the floating rate on the derivative contract are recalculated with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date and are discounted to the balance sheet date again with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date. The differences between the fixed rate interest amounts and floating rate interest amounts to be received/paid are recorded in the profit/loss accounts in the current period.

The fair value of call and put option agreements are measured at the valuation date by using the current premium values of all option agreements, and the differences between the contractual premiums received/paid and the current premiums measured at valuation date are recognized in the statement of income.

Futures transactions are valued on a daily basis by the primary market prices and related unrealized gains or losses are reflected in the income statement.

De-recognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as at the date the Group commits to sell the assets. The specific identification method is used to determine the gain or loss on de-recognition.

Financial assets at amortised cost are derecognized on the date they are transferred by the Group.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Offsetting

Financial assets and liabilities are set off and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Specific instruments

Cash and cash equivalents: Cash and cash equivalents which is a base for preparation of consolidated statement of cash flows includes cash in TL, cash in FC (foreign currency), cheques, balances with the Central Bank, money market placements and loans and advances to banks whose original maturity is less than three months.

Loans and advances to banks and customers: Loans and advances provided by the Group to banks and customers are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Finance lease receivables: Leases where substantially all the risks and rewards incident to ownership of an asset are substantially transferred to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest method. Finance lease receivables are included in loans and advances to customers.

Factoring receivables: Factoring receivables are the loans and advances to customers arising from a financial transaction whereby the customers sell their accounts receivable (i.e., invoices) to the Group at a discount in exchange for immediate money with which to finance continued business. Factoring receivables are measured at amortized cost using the effective interest method after deducting unearned interest income and specific provision if impairment exists.

Deposits, funds borrowed, debt securities issued and subordinated debts: Deposits, funds borrowed, debt securities issued and subordinated debts are the Group's sources of debt funding. Deposits, funds borrowed, debt securities issued and subordinated debts are initially measured at fair value plus directly attributable transactions costs, and subsequently measured at their amortized cost using the effective interest method.

(j) Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements. Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accruals basis over the period of the transaction and are included in "interest income" or "interest expense".

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(k) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. The Group pursues only the properties for use according to their fair values in terms of separating the land and buildings within the context of IAS 16 as at December 31, 2016. As a result of the valuation by the independent appraisal company, revaluation difference of TL 859,346 after deferred tax effect is followed as the revaluation surplus under shareholder's equity.

Gains/losses arising from the disposal of the property and equipment are recognized in profit or loss and calculated as the difference between the net book value and the net sales price. Maintenance and repair costs incurred for property and equipment are recorded as expense unless they extend the economic useful life of related asset.

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods. Property and equipment are depreciated based on the straight line method. Depreciation rates and estimated useful lives are:

Property and equipment	Estimated useful lives (years)	Depreciation Rates (%)
Buildings	50	2
Office equipment, furniture and fixture, and motor vehicles	5-10	10-20
Vehicles obtained through finance leases	4-5	20-25

(l) Intangible assets

The Group's intangible assets consist of software programs. Intangible assets are recorded at cost. The costs of the intangible assets purchased before December 31, 2005 are restated for the effects of inflation from the purchasing dates to December 31, 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized based on straight line amortization. The economic lives of intangible assets vary within the range of three and fifteen years and hereby the amortization rates applied are between 33.33% and 6.67%.

(m) Provisions

A provision is recognized 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 recognized 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.

(n) Employee benefits

Pension and other post-retirement obligations

The Bank has a defined benefit plan for its employees as described below:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependents will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(n) Employee benefits (Continued)

Pension and other post-retirement obligations

T. Vakıflar Bankası T.A.O. Memur ve Hizmetleri Emekli ve Sağlık Yardım Sandığı Vakfı (“the Fund”), is a separate legal entity and a foundation recognized by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees. The Fund has a defined benefit plan (“the Plan”) under which the Bank pays a mixture of fixed contributions, and additional contractual amounts. The Plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	Employer %	Employee %
Pension contributions	11.0	9.0
Medical benefit contributions	7.5	5.0

This Plan is composed of the contractual benefits of the employees, which are subject to transfer to the Social Security Foundation (“SSF”) (“pension and medical benefits transferable to SSF”) and other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation (“excess benefits”).

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank’s obligation in respect of the pension and medical benefits transferable to SSF, will occur within three years from the enactment of the Law no. 5754: “Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations” (“New Law”) in May 2008.

Pension and medical benefits transferable to SSF:

As per the provisional Article no. 23 of the Turkish Banking Law no. 5411 (“Banking Law”) as approved by the Turkish Parliament on October 19, 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability, if any, on the transfer should be performed having regard to the methodology and parameters determined by the commission established by the Ministry of Labor and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated December 15, 2006 (“Decree”) for the purpose of determining the principles and procedures to be applied during the transfer of funds. However they said Article was vetoed by the President and at November 2, 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional Article no. 23.

On March 22, 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional Article no. 23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette no. 26731, dated December 15, 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(n) Employee benefits (Continued)

Following the publication of the verdict, the Grand National Assembly of Republic of Turkey (“Turkish Parliament”) worked on the new legal arrangements by taking the cancellation reasoning into account.

On April 17, 2008, the New Law was accepted by the Turkish Parliament and was enacted on May 8, 2008 following its publication in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The three year period has expired on May 8, 2011. According to the decision of the Council of Ministers published on the Official Gazette dated April 9, 2011 no. 27900, the time frame for related transfer has been extended for two years. Within the postponement right granted to the Council of Ministers through the change in the first clause of the 20th provisional article of the “Social Insurance and General Health Insurance Law no. 5510” published on the Official Gazette no. 28227 dated March 8, 2012, the transfer process has been postponed for one more year with the decision of the Council of Ministers published on the Official Gazette no. 28987 dated April 30, 2014. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated April 23, 2015 numbered 29335. “Council of Ministers” expression in “Council of Ministers is authorized to determine the date of transfer to the Social Security Institution” stated in provisional article 20 of Social Insurance and Universal Health Insurance Law No. 5510 is replaced with the “President” pursuant to the paragraph (I) of Article 203 of Statutory Decree No. 703 promulgated in repeated Official Gazette No. 30473, dated July 2018.

Excess benefit not transferable to SSF:

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF.

Actuarial valuation:

The technical financial statements of the Fund are audited by the certified actuary according to the “Actuaries Regulation” which is issued as per Article no. 21 of the Insurance Law no. 5684. As per the actuarial report dated January 2020, there is no technical or actual deficit determined which requires provision against.

Transferable Retirement and Health Liabilities:	December 31, 2020	December 31, 2019
Net Present Value of Transferable Retirement Liabilities	(9,103,430)	(8,016,606)
Net Present Value of Transferable Retirement and Health Contributions	7,319,847	6,813,970
General Administration Expenses	(91,034)	(80,166)
Present Value of Pension and Medical Benefits Transferable to SSF (1)	(1,874,618)	(1,282,802)
Fair Value of Plan Assets (2)	6,577,453	6,255,056
Asset Surplus over Transferrable Benefits ((2)-(1)=(3))	4,702,835	4,972,254

Actuarial assumptions used in valuation of Non Transferable Benefits based on IAS 19 are as follows:

Discount Rates	December 31, 2020	December 31, 2019
Benefits Transferable to SSF	9.80%	9.80%
Non Transferable Benefits	2.50%	2.50%

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(n) Employee benefits (Continued)

Distribution of total assets of the Retirement Fund as of December 31, 2020 and December 31, 2019 is presented below:

	December 31, 2020	December 31, 2019
Bank placements	2,462,572	639,362
Government Bonds and Treasury Bill, Fund and Accrual Interest	1,476,099	3,267,243
Income		
Tangible assets ^(*)	2,387,853	2,219,862
Other	250,929	128,589
Total	6,577,453	6,255,056

^(*) The tangible assets value indicates all the stocks' and real estate properties' market values, as of December 31, 2020.

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity.

Other benefits to employees

The Group has provided for undiscounted employee benefits earned during the financial period as per services rendered in the accompanying consolidated financial statements.

(o) Items held in trust

Assets, other than cash deposits, held by the Group in fiduciary or agency capacities for their customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not the assets of the Group.

(p) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee contracts are subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable.

(r) Insurance business

Through its insurance subsidiaries, the Group enters into contracts that contain insurance risk. An insurance contract is a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk covers all risks except for financial risks.

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(r) Insurance business (Continued)

Insurance and investment contracts issued/signed by the insurance subsidiaries are accounted for as follows:

Earned premiums: For short-term insurance contracts, premiums are recognized as revenue, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognized as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions given or received and deferred acquisitions costs, and are net of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognized as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under operating income in the accompanying consolidated statement of comprehensive income.

Premium received for an investment contract, is not recognized as revenue. Premiums for such contracts are recognized directly as liabilities.

Reserve for unearned premiums: The reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the reporting date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides actuarial provisions. The reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. The reserve for unearned premiums is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

Reserve for outstanding claims: The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported ("IBNR") is also established as described below. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends ("Actuarial Chain Ladder Method"). At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an 'each claim-file' basis. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

Receivables from reinsurance activities: In the accompanying consolidated financial statements, receivables from reinsurance activities are presented under other assets. These receivables comprise the actual and estimated amounts, which, under contractual reinsurance agreements, are recoverable from reinsurers in respect of technical provisions. Reinsurance assets relating to technical provisions are established based on the terms of the reinsurance contracts and valued on the same basis as the related reinsured liabilities.

Subrogation, salvage and quasi income: The Group may account for income accrual for subrogation receivables without any voucher after the completion of the claim payments made to the insured. If the amount cannot be collected from the counterparty insurance company, the Group provides provision for uncollected amounts due for six months. If the counter party is not an insurance Company, the provision is provided after four months.

Long term insurance contracts: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life and individual accident policies based on actuarial assumptions.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(r) Insurance business (Continued)

Long term insurance contracts are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Ministry of Treasury and Finance, which are applicable for all Turkish insurance companies. Long term insurance contracts are presented under other liabilities and provisions in the accompanying consolidated financial statements.

Investment contracts: Premiums received for such contracts are recognized directly as liabilities under investment contract liabilities. These liabilities are increased by bonus rate calculated by the Group and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Profit sharing reserves are the reserves provided against income obtained from asset backing investment contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Group from the eligible surplus available to date.

Deferred acquisition cost and deferred commission income: Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortized on a straight-line basis over the life of the contracts. Deferred acquisition costs are presented under other assets in the accompanying consolidated financial statements.

Commission income obtained against premiums ceded to reinsurance firms are also deferred and amortized on a straight-line basis over the life of the contracts. Deferred commission income is presented under other liabilities and provisions in the accompanying consolidated financial statements.

Liability adequacy test: At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are taken into consideration. Any deficiency is immediately charged to the consolidated statement of comprehensive income.

If the result of the test is that a loss is required to be recognized, the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

(s) Individual pension business

Individual pension system receivables presented under 'other assets' in the accompanying consolidated financial statements consists of 'receivable from pension investment funds for investment management fees', 'entrance fee receivable from participants' and 'receivables from the clearing house on behalf of the participants'. Pension funds are the mutual funds that the individual pension companies invest in, by the contributions of the participants. Shares of the participants are kept at the clearing house on behalf of the participants.

Fees received from individual pension business consist of investment management fees, fees levied on contributions and entrance fees. Fees received from individual pension business are recognized in other income in the accompanying consolidated profit or loss and other comprehensive income.

Investment management fees are the fees charged to the pension funds against the hardware, software, personnel and accounting services provided to those pension funds.

Fees levied on contributions may be deducted over the participants' contributions for the operational costs of the services rendered by the Group. The upper limit for such deductions is 2% over the contributions.

Entrance fees are received by the Group from participants during entry into the system and for the opening of a new individual pension account. In some pension plans, the Group receives some or all of the entrance fees when the participants leave the group before the completion of a 5-years 'staying period'. If the participants keep their pension accounts in the Group more than 5 years, the entrance fee is not charged in these pension plans. In such cases, the Group does not recognize the entrance fee as revenue.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(t) Earnings per share

Basic earnings per share from continuing operations disclosed in the accompanying consolidated profit or loss and other comprehensive income is determined by dividing the net profit for the period by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. There are no potentially dilutive instruments. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

(u) Subsequent events

Post-balance sheet events that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

(v) Segment reporting

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

(y) Assets classified as held for sale and related liabilities

As per IFRS 5 - "Non-current Assets Held for Sale and Discontinued Operations", a fixed asset classified as an asset kept for sales purposes (or a group of fixed assets to be disposed of) is measured with either its book value or fair value less costs to sell (with the lower one). A discontinued operation is a part of the Group's business classified as sold or held-for-sale. The operating results of the discontinued operations are disclosed separately in the income statement. The Group has no discontinued operations.

As per the Board of Directors decision in December 13th, 2019, the Bank has started the process of transfer of shares held in subsidiaries Güneş Sigorta and Vakıf Emeklilik ve Hayat AŞ respectively, including publicly held shares, to a new company to be established by Türkiye Varlık Fonu Yönetimi AŞ. These two companies have been removed from the subsidiaries account and started to be classified under the Assets Held for Sale and Discontinued Operations account. The method of consolidation of the related companies is specified in the note 2.3.a Basis of consolidation.

On April 22, 2020, a share transfer agreement was signed between TVF Financial Investments as the buyer and the Parent Bank as the seller, in order to transfer the Parent Bank's shares which represent 51.1% of Güneş Sigorta AŞ's capital and 53.9% of Vakıf Emeklilik ve Hayat AŞ's capital to TVF Financial Investments AŞ ("TVF Financial Investments"). The share transfer has been completed as of the same date.

As of April 22, 2020, all of the shares owned by the Parent Bank in Güneş Sigorta AŞ and Vakıf Emeklilik ve Hayat AŞ were transferred to TVF Finansal Yatırımlar AŞ, and the Parent Bank has not had any shares left in the relevant companies.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4. Statement of Cash Flows

The cash and cash equivalents balance comprises cash and balances with central banks (excluding restricted reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Group's operations. Cash flow movements of subsidiaries which are classified as held for sale asset are demonstrated in each related line of cash flow statement as if these subsidiaries are consolidated with full consolidation method in 2020.

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of subsidiaries, as well as acquisitions and disposals of premises and equipment. Changes in cash and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders and cash flows related to subordinated debt.

2.5. New and amended standards adopted by the Group

IFRS 16 Leases Standard was published in the Official Gazette dated 16 April 2018 and numbered 30393, effective from 1 January 2019. This Standard specifies the principles for the leasing, presentation, presentation and disclosure of leases. The purpose of the standard is to provide tenants and lessees with appropriate information and to provide them with appropriate information. This information is the basis for evaluating the impact of the leases on the entity's financial position, financial performance and cash flows by users of financial statements.

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

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Explanations on Prior Period Accounting Policies not Valid for the Current Period

2.6.1 Leases

The Group as the lessee

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

Finance leases

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the estimated useful life of the asset.

2.7 Explanations on IFRS 16 Standard

The amounts recognized under IFRS 16 as of December 31, 2020 and December 31, 2019 are presented below.

	December 31, 2020		
	Service Buildings	Vehicles	Total
Lease payables	1,362,596	24,393	1,386,989
Deferred rental expenses	384,516	3,158	387,674
Lease payables (Net)	978,080	21,235	999,315
Right of use assets	899,191	19,675	918,866

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

Short term lease contracts with a duration of 12 months or less and lease contracts for ATMs that are determined to be of low value by the Group have been evaluated within the scope of the exemption recognized by the standard, and payments for these contracts are recorded as expense in the period they occur. In this context, 81,040 thousand TL (December 31, 2019: TL 92,870) of rent was paid in the related period.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

3. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

This note presents information about the Group's exposure to each of the risks below, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- operational risk,

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the Audit Committee. Consequently, the Risk Management Department of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Introduction and overview (Continued)

In order to ensure the compliance with the rules as altered pursuant to Articles 23, and 29 to 31 of the Banking Law no. 5411 and Articles 36 to 69 of the Regulation on Internal Systems within the Banks, dated June 28, 2012 the Bank revised the written policies and implementation procedures regarding management of each risk encountered in its activities in September 2012.

Audit Committee: The Audit Committee consists of two members of the Board of Directors who do not have any executive functions. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Group, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

(b) Credit risk

Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth, covering the counterparty risks arising from not only from loans and debt securities but also credit risks originating from the transactions defined as loans in the Banking Law.

Management of credit risk

For credit risk management purposes the Risk Management Department is involved in

- the determination of credit risk policies in coordination with the Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- contribution to the formation of rating and scoring systems,
- submitting to the Board of Directors and the senior management not only credit risk management reports about the credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration, but also scenario analysis reports, stress tests and other analyses, and
- studies regarding the formation of advanced credit risk measurement approaches.

The credit risk is assessed through the internal rating system of the Group, by classifying loans from highest grade to lowest grade according to the probability of default. As of December 31, 2020, consumer loans are excluded from the internal rating system of the Bank. The risks that are subject to rating models can be allocated as follows:

Category*	Share in the Total % December 31, 2020	Share in the Total % December 31, 2019
Above average	37.36	30.31
Average	46.96	50.69
Below average	13.68	16.58
Unrated	2.00	2.42
Total	100.00	100.00

(*) Rating scale on the table has been determined between 1 - 10, and average score has been selected as 4-5

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Credit quality per class of financial assets as of December 31, 2020 and 2019 are as follows;

December 31, 2020	Stage 1	Stage 2	Stage 3	Total allowance for impairment (Stage 1+2+3)	Total
Cash and balances with central banks (excluding cash on hand)	93,390,696	-	-	(2,868)	93,387,828
Financial assets at fair value through profit or loss	16,199,275	-	-	-	16,199,275
Securities	7,458,290	-	-	-	7,458,290
Derivative financial instruments	8,740,985	-	-	-	8,740,985
Financial assets at fair value through OCI	85,007,132	-	-	-	85,007,132
Debt Securities	83,909,766	-	-	-	83,909,766
Equity Securities	1,097,366	-	-	-	1,097,366
Financial assets at amortised cost	447,901,811	42,790,050	17,930,171	(22,152,093)	486,469,939
Loans and advances to banks	2,860,294	-	-	(892)	2,859,402
Loans and advances to customers	386,294,265	42,790,050	17,930,171	(22,144,605)	424,869,881
- Commercial	276,933,204	32,549,755	15,029,808	(18,483,054)	306,029,713
- Consumer	94,967,658	1,251,391	1,758,795	(2,197,849)	95,779,995
- Credit cards	14,393,403	243,970	863,752	(1,114,329)	14,386,796
- Lease receivables (*)	-	3,055,519	215,491	(256,529)	3,014,481
- Factoring receivables (*)	-	5,689,415	62,325	(92,844)	5,658,896
Debt Securities	58,747,252	-	-	(6,596)	58,740,656
Other assets	4,825,010	-	-	(124,424)	4,700,586
Total	647,323,924	42,790,050	17,930,171	(22,279,385)	685,764,760

(*) Simplified approach has been applied for lease and factoring receivables so no staging allocation has been performed.

December 31, 2019	Stage 1	Stage 2	Stage 3	Total allowance for impairment (Stage 1+2+3)	Total
Cash and balances with central banks (excluding cash on hand)	39,930,367	-	-	(9,366)	39,921,001
Financial assets at fair value through profit or loss	6,815,205	-	-	-	6,815,205
Securities	2,307,977	-	-	-	2,307,977
Derivative financial instruments	4,507,228	-	-	-	4,507,228
Financial assets at fair value through OCI	26,584,063	-	-	-	26,584,063
Debt Securities	25,782,244	-	-	-	25,782,244
Equity Securities	801,819	-	-	-	801,819
Financial assets at amortised cost	294,661,795	34,913,874	17,712,516	(16,072,282)	331,215,903
Loans and advances to banks	1,266,251	-	-	(576)	1,265,675
Loans and advances to customers	246,380,911	34,913,874	17,712,516	(16,066,652)	282,940,649
- Commercial	178,337,870	29,738,663	14,367,257	(12,960,287)	209,483,503
- Consumer	55,354,636	1,648,613	2,091,605	(1,843,595)	57,251,259
- Credit cards	10,512,442	312,320	996,509	(993,080)	10,828,191
- Lease receivables	2,175,963	403,182	194,971	(189,690)	2,584,426
- Factoring receivables	-	2,811,096	62,174	(80,000)	2,793,270
Debt Securities	47,014,633	-	-	(5,054)	47,009,579
Other assets	2,340,865	-	-	(29,477)	2,311,388
Total	370,332,295	34,913,874	17,712,516	(16,111,125)	406,847,560

The table below shows the maximum exposure to credit risk for the components of the financial statements;

Gross maximum exposure	December 31, 2020	December 31, 2019
Cash and balances with central banks (excluding cash on hand)	93,387,828	39,921,001
Financial assets at fair value through profit or loss	16,199,275	6,815,205
Financial assets at fair value through OCI ("FVOCI")	85,007,132	26,584,063
- Debt Securities	83,909,766	25,782,244
- Equity Securities	1,097,366	801,819
Financial assets at amortised cost ("AC")	486,469,939	331,215,903
- Loans and advances to banks	2,859,402	1,265,675
- Loans and advances to customers	424,869,881	282,940,649
- Debt securities	58,740,656	47,009,579
Other assets	4,700,586	2,311,388
Total	685,764,760	406,847,560
Financial guarantees	102,445,738	78,252,294
Loan commitments	114,481,983	82,998,434
Total	216,927,721	161,250,728
Total credit risk exposure	902,692,481	568,098,288

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Sectorial distribution of the performing loans and advances to customers

	December 31, 2020		December 31, 2019	
	Amount	%	Amount	%
Consumer loans	96,219,049	22.43	57,003,250	20.27
<i>Mortgage loans</i>	40,613,169	9.47	23,616,133	8.40
<i>General purpose loans</i>	49,525,489	11.55	29,231,588	10.39
<i>Overdraft checking accounts</i>	5,599,393	1.30	3,737,703	1.33
<i>Auto loans</i>	478,516	0.11	415,757	0.15
<i>Other consumer loans</i>	2,482	-	2,069	-
Manufacturing	113,832,924	26.53	70,106,672	24.92
Wholesale and retail trade	58,080,392	13.54	38,409,929	13.65
Transportation and telecommunication	48,418,802	11.28	34,381,429	12.22
Construction	41,169,434	9.59	26,340,031	9.36
Credit cards	14,637,373	3.41	10,824,762	3.85
Hotel, food and beverage services	14,975,711	3.49	9,026,757	3.21
Financial institutions	5,761,819	1.34	6,790,353	2.41
Agriculture and stockbreeding	3,184,954	0.74	2,281,748	0.81
Health, social and education services	4,422,847	1.03	3,009,339	1.07
Others	28,381,010	6.62	23,120,515	8.23
Total performing loans and advances to customers	429,084,315	100.00	281,294,785	100.00

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

Carrying amount per class of loans whose terms have been renegotiated:

	December 31, 2020	December 31, 2019
Loans and receivables		
Commercial	14,578,505	14,002,997
Consumer	786,423	820,931
Credit Cards	66,585	85,665
Total	15,431,513	14,909,593

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

The amendment with respect to the regulation on the Principles and Procedures Regarding the Classification of Loans and Reserves Set Aside for These Loans entered into force with its publication in the Official Gazette No.30961 on November 27, 2019. Pursuant to the regulation, the banks are enabled to write down and move off the balance sheet the portion of a loan which is classified as "Group V Loan" (Loans Classified as Loss) if it cannot reasonably be expected to be recovered. In accordance with the amendment in the related regulation on provisions, the deduction of loans from the records is an accounting practice and does not result in the right to waive. In the current period, a write-off transaction has been made for non-performing loans in the amount of TL 890,789 for which 100% provision has been made. (December 31, 2019: None.)

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Set out below is an analysis of the gross and net (of specific impairment) amounts of individually impaired assets by risk grade.

December 31, 2020	Loans and advances to customers		Other assets	
	Gross	Net	Gross (*)	Net (*)
Individually Impaired	17,930,171	4,212,271	-	-

December 31, 2019	Loans and advances to customers		Other assets	
	Gross	Net	Gross (*)	Net (*)
Individually Impaired	17,712,516	5,233,729	259,915	12,533

(*) Impaired insurance receivables are included.

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2020 and 2019.

The breakdown of performing cash loans and advances to customers and non-cash loans (financial “guarantee contracts) by type of collateral are as follows:

Cash loans	December 31, 2020	December 31, 2019
Secured loans:	325,801,499	213,370,757
<i>Secured by mortgages</i>	79,279,008	57,759,070
<i>Secured by cash collateral</i>	2,432,473	1,701,967
<i>Guarantees issued by financial institutions</i>	1,066,489	888,161
<i>Secured by government institutions or government securities</i>	63,686,242	24,744,773
<i>Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)</i>	179,337,287	128,276,786
Unsecured loans	103,282,816	67,924,028
Total performing loans and advances to customers	429,084,315	281,294,785

Non-cash loans (financial guarantee contracts)	December 31, 2020	December 31, 2019
Secured loans:	59,292,422	44,610,715
<i>Secured by mortgages</i>	7,639,220	5,576,009
<i>Secured by cash collateral</i>	1,042,003	639,016
<i>Guarantees issued by financial institutions</i>	526,364	363,401
<i>Secured by government institutions or government securities</i>	306,285	396,293
<i>Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)</i>	49,778,550	37,635,996
Unsecured loans	43,153,316	33,641,579
Total non-cash loans	102,445,738	78,252,294

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

An estimate of the fair value of collateral held against non-performing loans and receivables is as follows:

	December 31, 2020	December 31, 2019
Mortgages	8,593,313	7,441,090
Others ^(*)	9,336,858	10,271,426
Total^(**)	17,930,171	17,712,516

^(*) Sureties obtained for impaired loans are not presented in this table

^(**) As a Bank policy, it is aimed to utilize cash collateral or liquidate promissory notes for an impaired loan which was previously collateralized by cash collateral or promissory notes to cover the credit risk. Hence, the cash collateral and promissory notes amounts are shown as very small and not presented in the table.

Sectorial and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans, finance lease and factoring receivables are shown below:

Sectorial concentration	December 31, 2020		December 31, 2019	
	Amount	%	Amount	%
Food	1,104,743	6.16	2,279,056	12.87
Consumer loans	1,739,547	9.70	2,080,572	11.75
Construction	3,754,035	20.94	1,957,276	11.05
Service sector	1,535,749	8.57	1,239,010	7.00
Metal and metal products	1,393,071	7.77	1,122,882	6.34
Durable consumer goods	576,311	3.21	650,497	3.67
Textile	347,634	1.94	368,826	2.08
Financial institutions	271,923	1.52	267,332	1.51
Agriculture and stockbreeding	165,839	0.92	173,821	0.98
Others	7,041,319	39.27	7,573,244	42.75
Total non-performing loans and advances to customers	17,930,171	100.00	17,712,516	100.00

Geographical concentration	December 31, 2020		December 31, 2019	
	Amount	%	Amount	%
Turkey	17,722,073	98.84	17,571,373	99.20
Germany	150,331	0.84	113,164	0.64
Austria	8,681	0.05	7,514	0.04
Other	49,086	0.27	20,465	0.12
Total non-performing loans and advances to customers	17,930,171	100.00	17,712,516	100.00

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- Zare subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

The similar agreements include derivative clearing agreements. Financial instruments subject to such agreements include derivatives. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

Such collateral is subject to each agreement terms. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The Group receives and gives collateral in the form of cash in respect of the derivative transactions.

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

	Types of financial assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		
					Financial instruments	Cash collateral received	Net amount
December 31, 2020							
	Derivatives - trading assets	8,740,985	-	8,740,985	-	1,709,523	7,031,462
	Reverse repurchase agreements	13,000	-	13,000	13,000	-	-
December 31, 2019							
	Derivatives - trading assets	4,507,228	-	4,507,228	-	1,210,663	3,296,565
	Reverse repurchase agreements	14,500	-	14,500	14,500	-	-

	Types of financial assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		
					Financial instruments	Cash collateral received	Net amount
December 31, 2020							
	Derivatives - trading liabilities	6,083,301	-	6,083,301	-	10,673,501	(4,590,200)
	Repurchase agreements	101,312,205	-	101,312,205	101,308,756	3,449	-
December 31, 2019							
	Derivatives - trading liabilities	3,311,997	-	3,311,997	-	7,996,486	(4,684,489)
	Repurchase agreements	25,424,068	-	25,424,068	25,414,146	9,922	-

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Transferred of Financial Assets Held or Pledged as Collaterals

Asset pledged	December 31, 2020		December 31, 2019	
	Asset	Related Liability	Asset	Related Liability
Balances with other banks	14,318,636	-	775,262	-
Trading securities	-	-	-	-
- <i>Legal requirements</i>	-	-	-	-
Investment securities	51,157,551	-	11,838,459	-
- Financial assets at fair value through other comprehensive income	39,214,021	-	2,925,989	-
- <i>Legal requirements</i>	39,214,021	-	2,925,989	-
- Financial assets at amortised cost	11,943,530	-	8,912,470	-
- <i>Legal requirements</i>	11,943,530	-	8,912,470	-
Total	65,476,187	-	12,613,721	-

Transferred asset that are not de-recognized	December 31, 2020		December 31, 2019	
	Asset	Related Liability	Asset	Related Liability
Investment securities				
- Financial assets at fair value through other comprehensive income portfolio	25,744,884	15,916,838	4,443,499	4,772,186
- <i>Repurchase agreement</i>	25,744,884	15,916,838	4,443,499	4,772,186
Investment securities				
- Financial assets at amortised cost portfolio	38,158,425	41,308,482	21,285,024	19,401,997
- <i>Repurchase agreement</i>	38,158,425	41,308,482	21,285,024	19,401,997
Total	63,903,309	57,225,320	25,728,523	24,174,183

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Treasury Department of the Bank receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, short-term loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business departments and subsidiaries are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset-Liability Committee ("ALCO"). Daily reports cover the liquidity position of both the Bank and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

In line with the Covid-19 outbreak, which caused a serious slowdown in global and regional economic activities, liquidity adequacy is constantly monitored through stress tests and scenario analyzes. It is observed that the impact of the Covid-19 outbreak on the Parent Bank's liquidity adequacy is limited. In accordance with the "Regulation on the Calculation of the Liquidity Coverage Ratio of Banks" published in the Official Gazette dated 21 March 2014 and numbered 28948, consolidated and non-consolidated total and foreign currency minimum liquidity coverage ratios are determined as 100% and 80%, respectively. Pursuant to the BRSA's regulation numbered 3520 dated March 26, 2020, it has been decided that deposit and participation banks will be exempted from Article 32 of the LCR regulation until December 31, 2020.

The consolidated liquidity coverage ratio averages for current period. The highest value and the lowest value occurred in this period are given below:

Liquidity Coverage Ratio	TL+FC		FC	
	DATE	RATIO (%)	DATE	RATIO (%)
The lowest value	November 2020	121.00	October 2020	232.42
The highest value	December 2020	127.06	December 2020	363.42

Exposure to liquidity risk

The calculation method used to measure the Bank's compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank-only basis (not including consolidated subsidiaries).

The Bank's banking subsidiary in the Austria is subject to a similar liquidity measurement, however the Austrian National Bank does not impose limits, but monitors the bank's overall liquidity position to ensure there is no significant deterioration in the liquidity of banks operating in Austria.

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

December 31, 2020	Demand	Less than one month	1-3 months	3-12 months	1-5 Years	Over 5 years	Carrying amount
Cash and balances with Central Banks	95,377,191	258,530	868,158	-	-	-	96,503,879
Financial assets at fair value through P/L	344,999	58,047	4,018,108	5,883,549	2,817,593	3,076,979	16,199,275
Loans and advances to banks	655,187	687	-	1,023,506	1,180,022	-	2,859,402
Loans and advances to customers ^(*)	16,716,335	38,021,186	16,710,619	51,337,278	216,454,399	85,630,064	424,869,881
Investment securities	1,097,366	1,445,152	1,772,423	15,027,961	85,312,922	39,091,964	143,747,788
Assets classified as held for sale	1,256,254	-	-	-	-	-	1,256,254
Other assets	12,997,641	3,199,266	769,790	308,824	298,764	215,836	17,790,121
Total assets	128,444,973	42,982,868	24,139,098	73,581,118	306,063,700	128,014,843	703,226,600
Derivative financial instruments	-	610,057	393,662	3,150,500	115,865	1,813,217	6,083,301
Deposits from banks	1,636,729	16,980,113	4,416,355	-	-	-	23,033,197
Deposits from customers	80,000,254	226,015,030	70,104,554	16,596,835	1,468,070	58,501	394,243,244
Obligations under repurchase agreements	-	84,629,165	884,084	6,033,879	9,352,737	412,340	101,312,205
Funds borrowed	-	1,719,144	4,277,662	23,308,613	13,276,839	9,109,790	51,692,048
Debt securities issued	-	2,137,454	4,224,438	10,134,605	22,508,680	7,149,346	46,154,523
Subordinated debts	-	-	-	-	11,339,072	8,119,726	19,458,798
Current tax liabilities	1,032	542,016	412,789	-	-	-	955,837
Liabilities classified as held for sale	-	-	-	-	-	-	-
Other liabilities and provisions	5,745,153	8,148,185	1,680,356	9,065	900,281	73	16,483,113
Total liabilities	87,383,168	340,781,164	86,393,900	59,233,497	58,961,544	26,662,993	659,416,266
Net	41,061,805	(297,798,296)	62,254,802	14,347,621	247,102,156	101,351,850	43,810,334

(*) The amount of the difference between non-performing loans and stage 3 provisions are shown in demand column.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

December 31, 2019	Demand	Less than one month	1-3 months	3-12 months	1-5 Years	Over 5 years	Carrying amount
Cash and balances with Central Banks	38,487,326	2,964,947	603,035	329,183	-	-	42,384,491
Financial assets at fair value through profit or loss	288,066	78,947	75,167	2,314,316	2,918,870	1,139,839	6,815,205
Loans and advances to banks	-	52,621	77,746	1,135,308	-	-	1,265,675
Loans and advances to customers ^(*)	1,764,508	23,071,259	10,221,118	41,914,291	126,456,613	79,512,860	282,940,649
Investment securities	801,819	1,921,554	1,249,682	5,913,330	41,196,698	22,510,559	73,593,642
Assets classified as held for sale	7,690,615	-	-	-	-	-	7,690,615
Other assets	10,088,364	2,473,166	172	2,773	380,114	32,108	12,976,697
Total assets	59,120,698	30,562,494	12,226,920	51,609,201	170,952,295	103,195,366	427,666,974
Derivative financial instruments	1,021,442	48	22,779	165,708	50,492	2,051,528	3,311,997
Deposits from banks	562,779	5,417,453	2,939,422	311,986	-	-	9,231,640
Deposits from customers	50,779,585	139,942,599	35,524,895	16,909,795	1,484,718	41,826	244,683,418
Obligations under repurchase agreements	-	21,550,539	2,749,500	383,796	740,233	-	25,424,068
Funds borrowed	-	2,023,546	5,090,388	18,150,754	10,686,147	9,115,902	45,066,737
Debt securities issued	-	2,219,364	3,621,254	655,942	21,185,480	1,566,016	29,248,056
Subordinated debts	-	-	-	-	8,614,505	10,630,948	19,245,453
Current tax liabilities	1,083	567,884	574,107	-	-	-	1,143,074
Liabilities classified as held for sale	5,378,292	-	-	-	-	-	5,378,292
Other liabilities and provisions	5,449,868	6,357,114	1,117,990	5,921	6,612	319,441	13,256,946
Total liabilities	63,193,049	178,078,547	51,640,335	36,583,902	42,768,187	23,725,661	395,989,681
Net	(4,072,351)	(147,516,053)	(39,413,415)	15,025,299	128,184,108	79,469,705	31,677,293

(*) The amount of the difference between non-performing loans and stage 3 provisions are shown in demand column.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Exposure to market risk - trading portfolios

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

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Bank's trading portfolios. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used is based on historical simulation and Monte Carlo simulation.

Exposure to interest rate risk - non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

December 31, 2020	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
Cash and balances with Central Banks	12,384,265	868,158	-	-	-	83,251,456	96,503,879
Financial assets at fair value through profit or loss	1,122,858	5,382,738	5,259,416	2,353,437	1,735,827	344,999	16,199,275
Loans and advances to banks	687	-	1,023,506	1,013,893	166,129	655,187	2,859,402
Loans and advances to customers	144,391,802	74,156,428	91,833,674	71,288,250	26,483,392	16,716,335	424,869,881
Investment securities	29,216,847	9,636,544	32,321,763	57,502,162	13,973,106	1,097,366	143,747,788
Assets classified as held for sale	-	-	-	-	-	1,256,254	1,256,254
Other assets	814,363	769,790	56,324	297,514	215,836	15,636,294	17,790,121
Total assets	187,930,822	90,813,658	130,494,683	132,455,256	42,574,290	118,957,891	703,226,600
Derivative financial instruments	612,360	411,564	3,130,825	115,335	1,813,217	-	6,083,301
Deposits from banks	16,980,113	4,416,355	-	-	-	1,636,729	23,033,197
Deposits from customers	226,936,292	70,322,107	16,543,169	1,454,495	58,501	78,928,680	394,243,244
Obligations under repurchase agreements	84,629,165	3,262,412	6,310,789	7,109,839	-	-	101,312,205
Funds borrowed	2,369,839	30,856,762	10,897,563	5,419,521	510,424	1,637,939	51,692,048
Debt securities issued	2,297,746	4,662,262	11,790,457	22,923,293	4,480,765	-	46,154,523
Subordinated debts	-	354,530	1,126,376	13,457,920	4,519,972	-	19,458,798
Current tax liabilities	543,048	360,486	-	-	-	52,303	955,837
Liabilities classified as held for sale	-	-	-	-	-	-	-
Other liabilities and provisions	613,474	1,680,360	9,065	900,281	73	15,050,205	18,253,458
Total liabilities	334,982,037	116,326,838	49,808,244	51,380,684	11,382,952	97,305,856	661,186,611
Net	(147,051,215)	(25,513,180)	80,686,439	81,074,572	31,191,338	21,652,035	42,039,988

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

December 31, 2019	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
Cash and balances with Central Banks	3,314,570	603,035	329,183	-	-	38,137,703	42,384,491
Financial assets at fair value through profit or loss	630,113	721,430	2,286,300	2,161,427	727,869	288,066	6,815,205
Loans and advances to banks	52,621	77,746	1,135,308	-	-	-	1,265,675
Loans and advances to customers	78,237,391	38,311,018	84,646,807	52,678,243	27,290,137	1,777,053	282,940,649
Investment securities	11,378,303	6,973,348	20,599,195	21,878,672	11,962,305	801,819	73,593,642
Assets classified as held for sale	-	-	-	-	-	7,690,615	7,690,615
Other assets	759,219	219,855	207	94,764	305,891	12,398,580	13,778,516
Total assets	94,372,217	46,906,432	108,997,000	76,813,106	40,286,202	61,093,836	428,468,793
Derivative financial instruments	23,024	189,968	50,492	2,027,070	1,021,443	-	3,311,997
Deposits from banks	5,417,453	2,939,422	311,986	-	-	562,779	9,231,640
Deposits from customers	140,472,826	35,680,327	16,962,447	1,484,183	41,826	50,041,809	244,683,418
Obligations under repurchase agreements	21,550,539	2,749,500	383,796	740,233	-	-	25,424,068
Funds borrowed	2,255,577	28,558,228	8,462,570	3,407,580	1,363,586	1,019,196	45,066,737
Debt securities issued	2,355,658	3,902,708	1,935,257	20,438,651	615,782	-	29,248,056
Subordinated debts	-	450,299	1,054,717	11,421,734	6,318,703	-	19,245,453
Current tax liabilities	543,358	574,107	-	-	-	25,609	1,143,074
Liabilities classified as held for sale	-	-	-	-	-	5,378,292	5,378,292
Other liabilities and provisions	201,943	43,867	2,611	6,612	319,441	12,682,472	13,256,946
Total liabilities	172,820,378	75,088,426	29,163,876	39,526,063	9,680,781	69,710,157	395,989,681
Net	(78,448,161)	(28,181,994)	79,833,124	37,287,043	30,605,421	(8,616,321)	32,479,112

The following table indicates the effective interest rates applied to monetary financial instruments by major currencies for the years ended December 31, 2020 and 2019:

December 31, 2020	US Dollar %	EUR %	TL%
Cash and cash equivalents	0.11	0.11	18.22
Financial assets at fair value through profit or loss	-	-	10.95
Loans and advances to banks	-	0.01	1.26
Loans and advances to customers	6.16	5.02	13.07
Investment securities	-	-	-
Deposits from banks	1.89	1.08	19.64
Deposits from customers	2.75	1.58	14.76
Obligations under repurchase agreements	1.88	1.25	17.08
Debt securities issued	6.02	2.58	14.87
Subordinated debts	6.30	5.08	13.30
Funds borrowed	2.61	1.99	14.50
December 31, 2019	US Dollar %	EUR %	TL%
Cash and cash equivalents	1.63	0.01	11.00
Financial assets at fair value through profit or loss	-	-	0.83
Loans and advances to banks	4.92	-	13.77
Loans and advances to customers	7.57	5.46	16.41
Investment securities	-	-	-
Deposits from banks	2.65	0.45	11.07
Deposits from customers	2.16	0.51	10.41
Obligations under repurchase agreements	2.86	0.85	10.58
Debt securities issued	6.13	4.04	12.59
Subordinated debts	6.53	5.08	13.27
Funds borrowed	4.16	2.00	8.01

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

Management of currency risk

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

Foreign currency translation rates used by the Group as of respective year-ends are as follows:

	EUR / TL	USD / TL
December 31, 2018	6.04	5.28
December 31, 2019	6.68	5.96
December 31, 2020	9.15	7.45

For the purposes of the evaluation of the table below, the figures represent the TL equivalent of the related foreign currencies.

Measurement Frequency of Interest Rate Risk

Interest rate risk arising from banking book accounts is calculated in accordance with “Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique” published in the August 23, 2011 dated Official Gazette no. 28034. Legal limit is monthly monitored and reported accordingly.

The economic value changes arising from the interest rate fluctuations which are measured according to “Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique” are presented in the below table:

Currency Unit-Current Period	Applied Shock (+/- x base point)	Gain/Loss	Gain/ Equity-Loss/Equity
1. TL	500 / (400)	(7,823,623) / 7,246,356	(11.97%) / 11.09%
2. EURO	200 / (200)	(1,342,194) / (206,353)	(1.50%) / 0.82%
3. USD	200 / (200)	(980,927) / 535,680	(2.05%) / (0.32%)
Total (For Negative Shocks)	-	7,575,682	11.59%
Total (For Positive Shocks)	-	(10,146,744)	(15.53%)

Currency Unit-Prior Period	Applied Shock (+/- x base point)	Gain/Loss	Gain/Equity-Equity
1. TL	500 / (400)	(3,460,645) / 2,719,186	(6.69%) / 5.26%
2. EURO	200 / (200)	(1,109,163) / 50,912	(2.15%) / 0.10%
3. USD	200 / (200)	(132,261) / 340,663	(0.26%) / 0.66%
Total (For Negative Shocks)	-	3,110,761	6.02%
Total (For Positive Shocks)	-	(4,702,069)	(9.10%)

The above table is prepared based on unconsolidated financial figures as of 31 December 2020.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

December 31, 2020	US Dollar	EUR	Other currencies	Total
Cash and balances with Central Banks	30,578,218	41,780,438	9,364,757	81,723,413
Financial assets at fair value through profit or loss	161,038	9,842	7,000,000	7,170,880
Loans and advances to banks	22,893	1,012,143	-	1,035,036
Loans and advances to customers	58,340,408	69,275,538	214,357	127,830,303
Investment securities	47,036,953	20,393,491	-	67,430,444
Other assets	6,822,446	6,245,838	155,039	13,223,323
Total foreign currency denominated monetary assets	142,961,956	138,717,290	16,734,153	298,413,399
Deposits from banks	6,395,505	7,630,195	184,045	14,209,745
Deposits from customers	102,509,016	66,471,357	20,090,259	189,070,632
Obligations under repurchase agreements	7,839,458	13,714,059	-	21,553,517
Funds borrowed	25,268,094	23,806,452	164,153	49,238,699
Debt securities issued	21,561,305	11,270,337	2,060,725	34,892,367
Subordinated debts	13,057,337	-	-	13,057,337
Other liabilities	3,484,952	2,185,846	4,837	5,675,635
Total foreign currency denominated monetary liabilities	180,115,667	125,078,246	22,504,019	327,697,932
Net statement of financial position	(37,153,711)	13,639,044	(5,769,866)	(29,284,533)
Net off balance sheet position	38,046,541	(11,457,360)	5,788,929	32,378,110
Net long/(short) position	892,830	2,181,684	19,063	3,093,577

December 31, 2019	US Dollar	EUR	Other currencies	Total
Cash and balance with Central Banks	17,901,088	19,822,729	2,656,674	40,380,491
Financial assets at fair value through profit or loss	112,041	5,867	2,017,593	2,135,501
Loans and advances to banks	252,970	668,421	-	921,391
Loans and advances to customers	48,234,710	46,589,210	96,651	94,920,571
Investment securities	8,837,112	11,300,052	-	20,137,164
Other assets	5,420,128	3,334,894	890	8,755,912
Total foreign currency denominated monetary assets	80,758,049	81,721,173	4,771,808	167,251,030
Deposits from banks	2,368,286	3,046,177	307,637	5,722,100
Deposits from customers	53,884,298	45,912,624	6,366,406	106,163,328
Obligations under repurchase agreements	3,167,566	2,431,228	-	5,598,794
Funds borrowed	25,629,015	17,140,789	7,114	42,776,918
Debt securities issued	9,231,436	8,224,043	-	17,455,479
Subordinated debts	12,850,576	-	-	12,850,576
Other liabilities	3,067,906	1,395,709	9,816	4,473,431
Total foreign currency denominated monetary liabilities	110,199,083	78,150,570	6,690,973	195,040,626
Net statement of financial position	(29,441,034)	3,570,603	(1,919,165)	(27,789,596)
Net off balance sheet position	24,202,253	(2,478,824)	1,937,708	23,661,137
Net long/(short) position	(5,238,781)	1,091,779	18,543	(4,128,459)

The figures of the foreign subsidiary of the Group are presented in the table above with respect to its functional currency.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

Exposure to currency risk

10 percent devaluation of the TL against the following currencies as at and for the years ended December 31, 2020 and 2019 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	December 31, 2020		December 31, 2019	
	Profit or loss	Equity	Profit or loss	Equity
US Dollar	71,674	71,674	(523,878)	(523,878)
EUR	197,419	344,959	109,178	184,407
Other currencies	1,900	1,900	1,854	1,854
Total, net	270,993	418,533	(412,846)	(337,617)

10 percent revaluation of the TL against the following currencies as at and for years ended December 31, 2020 and 2019 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	December 31, 2020		December 31, 2019	
	Profit or loss	Equity	Profit or loss	Equity
US Dollar	(71,674)	(71,674)	523,878	523,878
EUR	(197,419)	(344,959)	(109,178)	(184,407)
Other currencies	(1,900)	(1,900)	(1,854)	(1,854)
Total, net	(270,993)	(418,533)	412,846	337,617

This analysis assumes that all other variables, in particular interest rates, remain constant.

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, judgment is necessary to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities recorded at amortized cost are not materially different than their recorded values except for those of loans and advances to customers, investment securities and deposit from customers. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, loans and advances from banks, funds borrowed and other short-term assets and liabilities that are of a contractual nature. 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.

Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Deposits from customers

The estimated fair value of deposits from other banks and customer deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

Set out below is a comparison by category of carrying amounts and fair values of the Group's major financial instruments that are carried in the financial statements at other than fair values

	Carrying amount		Fair value	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Financial assets				
Loans and advances to customers	424,869,881	282,940,649	405,015,688	284,265,112
Financial assets at fair value through profit or loss	16,199,275	6,815,205	16,199,275	6,815,205
Investment securities	143,747,788	73,593,642	146,126,233	75,046,382
<i>Financial assets at fair value through other comprehensive income</i>	85,007,132	26,584,063	85,007,132	26,584,063
<i>Financial assets measured at amortised cost</i>	58,740,656	47,009,579	61,119,101	48,462,319
Financial liabilities				
Deposits from other banks	23,033,197	9,231,640	23,033,197	9,231,640
Deposits from customers	394,243,244	244,683,418	395,812,966	243,782,620
Funds borrowed	51,692,048	45,066,737	51,760,302	45,206,749

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique: Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities; Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

December 31, 2020	Level 1	Level 2	Level 3 ^(*)	Total
Asset carried at fair value				
Financial assets - FVPL	288,397	15,740,985	169,893	16,199,275
Debt securities	110,576	7,000,000	-	7,110,576
Equity securities	162,165	-	169,482	331,647
Derivative financial assets held for trading purposes	-	8,740,985	-	8,740,985
Other Financial Assets	15,656	-	411	16,067
Investment securities - FVOCI	83,320,472	589,294	950,277	84,860,043
Debt securities	81,506,602	-	-	81,506,602
Equity securities	-	-	950,277	950,277
Other Financial Assets	1,813,870	589,294	-	2,403,164
Investments accounted for using the equity method	521,929	-	-	521,929
Total financial assets	84,130,798	16,330,279	1,120,170	101,581,247
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(6,083,301)	-	(6,083,301)
Total financial liabilities	-	(6,083,301)	-	(6,083,301)

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

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

December 31, 2019	Level 1	Level 2	Level 3^(*)	Total
Asset carried at fair value				
Financial assets - FVPL	120,901	6,524,821	169,483	6,815,205
Debt securities	199	2,017,593	-	2,017,792
Equity securities	115,843	-	169,483	285,326
Derivative financial assets held for trading purposes	-	4,507,228	-	4,507,228
Other Financial Assets	4,859	-	-	4,859
Investment securities - FVOCI	25,212,228	570,014	733,075	26,515,317
Debt securities	24,100,604	-	-	24,100,604
Equity securities	-	-	733,075	733,075
Other Financial Assets	1,111,624	570,014	-	1,681,638
Investments accounted for using the equity method	442,194	-	-	442,194
Total financial assets	25,775,323	7,094,835	902,558	33,772,716
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(3,311,997)	-	(3,311,997)
Total financial liabilities	-	(3,311,997)	-	(3,311,997)

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

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

	December 31, 2020	December 31, 2019
Balance at the beginning of the period - 1 January	902,558	586,725
Total gains or losses for the period	217,612	315,833
Balance at the end of the period	1,120,170	902,558

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering as a whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this framework, an appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The data of operational losses may be exposed to during the Bank's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

The Group calculated the value at operational risk in accordance with the third section of "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" that is "Computation of Value of Operational Risk" published in June 28, 2012 dated Official Gazette no. 28337. The operational risk which the Group is exposed to is calculated according to the "Basic Indicator Method" hence by multiplying the average of the 15% of last three years' actual gross income with 12.5, in line with the effective legislation practices in the country. As at December 31, 2020, value of consolidated operational risk amounted to TL 25,510,114 (December 31, 2019: TL 21,759,874).

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management - regulatory capital

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its financial subsidiaries' consolidated regulatory capital is analyzed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and commitment and contingencies exposures. Operational risk capital requirements and market risk capital requirements as at December 31, 2020 and 2019 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

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

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year and the previous year.

The Bank's regulatory capital position on a consolidated basis at December 31, 2020 and 2019 is as follows:

	Consolidated		Parent Bank	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Capital Requirement for Credit Risk (CRCR)	30,663,082	23,485,908	29,696,363	22,658,091
Capital Requirement for Market Risk (CRMR)	274,216	591,648	208,992	566,405
Capital Requirement for Operational Risk (CROR)	2,040,809	1,740,790	1,910,307	1,666,774
Common Equity Tier 1 Capital	46,728,139	33,111,191	46,082,321	32,615,710
Tier 1 Capital	58,125,153	42,781,571	57,479,335	42,286,090
Tier 2 Capital	8,064,303	9,554,991	7,911,477	9,413,882
Deductions from Capital	(11,112)	(5,614)	(11,112)	(5,614)
Total Capital	66,178,344	52,330,948	65,379,700	51,694,358
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	16.05	16.22	16.44	16.61
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	14.10	13.26	14.45	13.59
Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	11.34	10.26	11.59	10.48

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

4. INSURANCE RISK MANAGEMENT

The risk under any insurance contract is the possibility that the insured event occurs and the amount of the resulting claim is uncertain. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of the probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claim and benefit payments exceed carrying amount of the insured liabilities. These could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is likely to be affected across the board by a change in any subset of portfolio.

The Group has developed its life and non-life insurance underwriting strategies to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Pricing policies

The pricing policies and principles of the Group are as follows:

- i) While determining risk premiums, the amount of expected losses are considered and premium limits are determined accordingly.
- ii) During the study of pricing activities as a part of developing a new product, working of relevant units together within the Group is maintained by considering the needs of the customers and competition in the market.
- iii) It is aimed to achieve profitability in product basis and providing continuity.

Results of the pricing studies are compared with the prices of the competitors and international pricing cases.

Management of risks

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. All non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

4. INSURANCE RISK MANAGEMENT (Continued)

Concentrations of risk can arise in low frequency, high-severity events such as natural disasters; in situations where the Group is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behavior; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

Within non-life insurance, the management believes that the Group has no significant concentration of exposure to any group of policyholders measured by social, professional, age or similar criteria.

The greatest likelihood of significant losses to the Group arises from catastrophe events, such as flood, damage, storm or earthquake damage. The techniques and assumptions that the Group uses to calculate these risks are as follows:

- Measurement of geographical accumulations.
- Assessment of probable maximum losses.
- Excess of loss reinsurance.

Reinsurance

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources.

Reinsurance companies, providing reinsurance protection against life insurance and other additional risks are the most important service providers for the insurance subsidiaries of the Group. The decisive criteria for the relationship with reinsurers are as follows:

- i) Financial strength,
- ii) Long-term relationship approach,
- iii) Competitive prices
- iv) Capacity provided for facultative and un-proportional (catastrophic) reinsurance contracts.
- v) Opportunities and information provided in risk assessment process, product development, trainings, information about new developments in the sector and etc.

Performance of the reinsurance companies in treaty agreements is evaluated for each year by considering the payment performance of the reinsurers for the claims paid and other due payables to the insurance subsidiaries of the Group. Performance of the reinsurance companies in facultative agreements is evaluated by considering capacity provided to the insurance subsidiaries of the Group, speed in operational reinsurance transactions, and technical and market information provided to the insurance subsidiaries of the Group. In cases where the performance of the reinsurer is not seen as adequate, the insurance subsidiaries of the Group will decide to contract with alternative reinsurance companies.

The Parent bank has sold Güneş Sigorta A.Ş. and Vakıf Emeklilik A.Ş. to TVF as of April 22,2020 and the insurance operations has been discontinued.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

5. SEGMENT REPORTING

Geographical information

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

Operating segments

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

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

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

Investment banking: Includes the Group's trading and corporate finance activities.

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

Leasing: Includes the Group's finance lease business.

Factoring: Includes the Group's factoring business.

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

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

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

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

5. SEGMENT REPORTING (Continued)

Information about operating segments

December 31, 2020	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	10,028,411	21,446,385	5,334,966	-	36,809,762	-	352,762	43,171	37,205,695	(135,276)	37,070,419
Interest expense on deposit	(6,524,939)	(9,323,496)	(689,063)	-	(16,537,498)	-	-	-	(16,537,498)	91,243	(16,446,255)
Operating profit	2,623,384	5,133,235	8,244,081	(184,114)	15,816,586	109,623	131,398	706,681	16,764,288	857,838	17,622,126
Profit before income tax	1,144,772	896,332	6,562,892	(2,081,970)	6,522,026	80,216	113,008	282,310	6,997,560	1,007,538	8,005,098
Income tax expense	-	-	-	-	-	-	-	-	(1,512,514)	(23,603)	(1,536,117)
Profit for the year									5,485,046	983,935	6,468,981
December 31, 2020											
Segment assets	109,522,550	249,657,814	317,740,849	30,772,479	707,693,692	3,621,665	5,760,337	4,717,803	721,793,497	(10,018,867)	711,774,630
Investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	538,516	538,516
Total assets	109,522,550	249,657,814	317,740,849	30,772,479	707,693,692	3,621,665	5,760,337	4,717,803	721,793,497	(9,480,351)	712,313,146
Segment liabilities	159,193,919	236,260,695	242,476,047	21,391,585	659,322,246	3,325,370	5,317,235	2,893,249	670,858,100	(6,107,439)	664,750,661
Equity including non-controlling interest	-	-	-	48,371,446	48,371,446	296,295	443,102	1,824,554	50,935,397	(3,372,912)	47,562,485
Total liabilities and equity	159,193,919	236,260,695	242,476,047	69,763,031	707,693,692	3,621,665	5,760,337	4,717,803	721,793,497	(9,480,351)	712,313,146
Tangible fixed assets	-	-	-	774,710	774,710	-	-	-	774,710	-	774,710
Intangible fixed assets	-	-	-	(33,345)	(33,345)	-	-	-	(33,345)	-	(33,345)
Depreciation	-	-	-	(295,573)	(295,573)	-	-	-	(295,573)	-	(295,573)
Amortization	-	-	-	(37,904)	(37,904)	-	-	-	(37,904)	-	(37,904)

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

5. SEGMENT REPORTING (Continued)

December 31, 2019	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	8,613,963	22,290,710	3,868,967	-	34,773,640	-	520,668	14,332	35,308,640	(131,708)	35,176,932
Interest expense on deposit	(9,345,908)	(8,035,204)	(787,652)	-	(18,168,764)	-	-	-	(18,168,764)	222,769	(17,945,995)
Operating profit	(1,134,736)	10,473,261	835,689	224,566	10,398,780	91,814	178,533	2,943,541	13,612,668	(575,126)	13,037,542
Profit before income tax	(2,407,939)	7,287,252	(223,340)	(984,087)	3,671,886	65,674	161,443	610,650	4,509,653	26,215	4,535,868
Income tax expense									(1,033,209)	-	(1,033,209)
Profit for the year									3,476,444	26,215	3,502,659
December 31, 2019											
Segment assets	68,112,914	168,651,541	164,293,791	24,148,316	425,206,562	2,978,609	2,812,434	9,515,412	440,513,017	(7,728,028)	432,784,989
Investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	456,087	456,087
Total assets	68,112,914	168,651,541	164,293,791	24,148,316	425,206,562	2,978,609	2,812,434	9,515,412	440,513,017	(7,271,941)	433,241,076
Segment liabilities	112,872,965	132,061,657	128,758,181	17,178,174	390,870,977	2,747,803	2,458,135	7,330,787	403,407,702	(4,077,251)	399,330,451
Equity including non-controlling interest	-	-	-	34,335,585	34,335,585	230,806	354,299	2,184,625	37,105,315	(3,194,690)	33,910,625
Total liabilities and equity	112,872,965	132,061,657	128,758,181	51,513,759	425,206,562	2,978,609	2,812,434	9,515,412	440,513,017	(7,271,941)	433,241,076
Tangible fixed assets				1,509,748	1,509,748				1,509,748		1,509,748
Intangible fixed assets				229,583	229,583				229,583		229,583
Depreciation				(416,929)	(416,929)				(416,929)		(416,929)
Amortization				(120,094)	(120,094)				(120,094)		(120,094)

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

6. CASH AND BALANCES WITH CENTRAL BANKS

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

	December 31, 2020	December 31, 2019
Cash on hand	3,115,986	2,463,490
Due from Central Bank	26,517,182	11,470,013
Balances with the CBRT excluding reserve deposits	61,517,690	21,792,413
Money market placements and receivables from repurchase agreements	206,589	14,535
Loans and advances to banks with original maturity less than three months	3,089,504	5,865,024
Others	2,056,928	779,016
Total cash and cash equivalents in the consolidated statement of financial position	96,503,879	42,384,491
Accruals on cash and cash equivalents	(912)	(17,346)
Blocked bank deposits	(14,318,636)	(775,262)
Due from Central Bank	(26,517,182)	(11,470,013)
Advances to banks with original maturity less than three months classified assets held for sale	-	935,335
Expected Credit Loss	2,866	9,366
Total cash and cash equivalents in the consolidated statement of cash flows	55,670,015	31,066,571

As of December 31, 2020, TL 14,318,636 is blocked bank deposits (December 31, 2019: TL 775,262) consist of held against the “Diversified Payment Rights” securitizations.

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

In accordance with “Announcement on Reserve Deposits” of CBRT numbered 2013/15, all banks operating in Turkey shall provide a reserve rate ranging from 1.0% to 6.0% (December 31, 2019: ranging from 1.0% to 7.0%). For foreign currency liabilities, all banks shall provide a reserve rate ranging from 5.0% to 22.0% in US Dollar or Euro (December 31, 2019: ranging from 5.0% to 21.0%).

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	December 31, 2020		December 31, 2019	
	<i>Face Value</i>	<i>Carrying Value</i>	<i>Face Value</i>	<i>Carrying Value</i>
<i>Debt instruments held at fair value:</i>				
Government bonds in TL	108,045	110,576	200	199
Asset-backed securities	-	-	-	-
Eurobonds issued by the Turkish Government	6,942,486	7,000,000	2,001,510	2,017,593
Corporate bonds in TL	-	-	-	-
Bonds issued by banks	3,545	3,522	-	-
Total	7,054,076	7,114,098	2,001,710	2,017,792
<i>Equity and other non-fixed income instruments:</i>				
Investment funds	-	12,720	-	4,858
Equity shares	-	331,472	-	285,327
<i>Derivative financial assets held for trading purposes</i>	-	8,740,985	-	4,507,228
Total	-	9,085,177	-	4,797,413
Total financial assets at fair value through profit or loss	7,054,076	16,199,275	2,001,710	6,815,205

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Gains and losses arising on derivative financial instruments held for trading purposes and income from sale of debt instruments held at fair value are reflected in net trading income. As at and for the year ended December 31, 2020 net income from trading of financial assets (including investment securities) amounting to TL 58,345 (December 31, 2019 net trading expense: TL 3,161,071) is included in “trading income”.

Securities that were deposited as collateral with respect to various banking and insurance transactions

None.

Derivative financial instruments held for trading purposes

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

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

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

	December 31, 2020	December 31, 2019
	Notional Amounts	Notional Amounts
Trading Derivatives		
Foreign Currency Related Derivative Transactions	120,966,766	85,949,525
Currency Forwards	3,073,644	4,537,627
Currency Swaps	116,344,721	80,075,495
Currency Futures	382,085	-
Currency Options	1,166,316	1,336,403
Interest Rate Derivative Transactions	79,926,312	66,326,016
Interest Rate Forwards	-	-
Interest Rate Swaps	79,926,312	66,326,016
Interest Rate Options	-	-
Interest Rate Futures	-	-
Other Trading Derivatives	29,788,647	23,593,260
Total Derivative Transactions	230,681,725	175,868,801

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

	December 31, 2020					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Currency swaps:						
Purchases	26,476,028	11,801,238	6,715,770	-	223,500	45,216,536
Sales	29,727,665	11,491,289	6,926,215	-	-	48,145,169
Currency forwards:						
Purchases	50,100	301,063	1,178,211	17,153	-	1,546,527
Sales	50,014	300,610	1,159,418	17,075	-	1,527,117
Cross currency interest rate swaps:						
Purchases	-	-	7,579,285	1,639,000	3,278,760	12,497,045
Sales	-	-	6,817,007	1,177,650	2,491,314	10,485,971
Interest rate swaps:						
Purchases	65,000	95,000	5,272,432	4,363,072	30,167,652	39,963,156
Sales	65,000	95,000	5,272,432	4,363,072	30,167,652	39,963,156
Currency options:						
Purchases	442,822	93,412	38,000	-	-	574,234
Sales	461,568	97,208	33,306	-	-	592,082
Futures:						
Purchase	-	-	186,250	-	-	186,250
Sale	-	-	195,835	-	-	195,835
Other:						
Purchases	2,614,950	563,977	2,045,191	4,085,486	7,884,604	17,194,208
Sales	4,386	563,977	1,789,764	3,139,412	7,096,900	12,594,439
Total of purchases	29,648,900	12,854,690	23,015,139	10,104,711	41,554,516	117,177,956
Total of sales	30,308,633	12,548,084	22,193,977	8,697,209	39,755,866	113,503,769
Total of derivatives	59,957,533	25,402,774	45,209,116	18,801,920	81,310,382	230,681,725

	December 31, 2019					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Currency swaps:						
Purchases	15,005,140	6,896,536	3,989,479	133,623	178,650	26,203,428
Sales	16,274,347	6,921,551	4,029,209	105,000	-	27,330,107
Currency forwards:						
Purchases	101,976	537,671	1,171,136	461,825	-	2,272,608
Sales	101,790	536,140	1,166,826	460,263	-	2,265,019
Cross currency interest rate swaps:						
Purchases	-	122,124	357,300	10,734,025	2,501,707	13,715,156
Sales	-	282,977	169,645	10,002,448	2,371,734	12,826,804
Interest rate swaps:						
Purchases	10,000	111,160	1,333,330	8,113,874	23,594,644	33,163,008
Sales	10,000	111,160	1,333,329	8,113,875	23,594,644	33,163,008
Currency options:						
Purchases	429,818	94,300	137,745	-	-	661,863
Sales	440,210	96,002	138,328	-	-	674,540
Futures:						
Purchase	-	-	-	-	-	-
Sale	-	-	-	-	-	-
Other:						
Purchases	1,306,719	173,000	-	5,540,430	6,733,189	13,753,338
Sales	-	178,433	-	4,073,741	5,587,748	9,839,922
Total of purchases	16,853,653	7,934,791	6,988,990	24,983,777	33,008,190	89,769,401
Total of sales	16,826,347	8,126,263	6,837,337	22,755,327	31,554,126	86,099,400
Total of derivatives	33,680,000	16,061,054	13,826,327	47,739,104	64,562,316	175,868,801

Set out below accruals of derivative assets:

	December 31, 2020	December 31, 2019
Forwards	60,626	65,583
Swaps	8,677,596	4,438,751
Options	2,763	2,894
Fair value of derivative assets	8,740,985	4,507,228

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

8. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The Group lends its extra fund as a result of daily operations to other financial institutions through reverse repurchase agreements. Assets purchased under reverse repurchase agreements are as follows:

	December 31, 2020		December 31, 2019	
	Fair value of underlying assets	Carrying Value of corresponding assets	Fair value of underlying assets	Carrying Value of corresponding assets
Reverse repurchase agreements	13,000	13,000	14,500	14,500

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 counterparties cannot resell or re-pledged the assets. Assets sold under repurchase agreements comprise the following:

	December 31, 2020		December 31, 2019	
	Fair value of underlying assets	Carrying value of corresponding liabilities	Fair value of underlying assets	Carrying value of corresponding liabilities
Financial assets at fair value through profit or loss ("FVPL")	25,744,884	15,916,838	4,443,499	5,481,046
Financial assets at fair value through OCI ("FVOCI")	38,158,425	41,308,482	21,285,024	19,943,022
Total	63,903,309	57,225,320	25,728,523	25,424,068

Accrued interest on obligations under repurchase agreements amounted to TL 52,459 (December 31, 2019: TL 33,552) and is included in the carrying amount of corresponding liabilities.

In general, the fair values of such assets are more than the corresponding liabilities due to the margins set between parties, since such funding is raised against assets collateralized.

9. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise balances with more than three months maturity from the date of acquisition and are as follows as at December 31, 2020 and 2019:

	December 31, 2020			December 31, 2019		
	TL	FC	Total	TL	FC	Total
Domestic banks	1,825,255	938,960	2,764,215	757	1,265,365	1,266,122
Foreign banks	-	96,079	96,079	-	129	129
Provisions	(892)	-	(892)	(576)	-	(576)
Total	1,824,363	1,035,039	2,859,402	181	1,265,494	1,265,675

As at December 31, 2020, the group has no loans and advances to banks with more than three months maturity from the date of acquisition include blocked accounts (December 31, 2019: None) held against the insurance liabilities of the Group in favor of the Turkish Treasury.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

10. LOANS AND ADVANCES TO CUSTOMERS

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

December 31, 2020	Commercial	Consumer	Credit Cards	Factoring	Leasing	Total
Stage 1 loans to customers	276,933,204	94,967,658	14,393,403	-	-	386,294,265
Stage 2 loans to customers	32,549,755	1,251,391	243,970	5,689,415	3,055,519	42,790,050
Stage 3 loans to customers	15,029,808	1,758,795	863,752	62,325	215,491	17,930,171
Total gross loans to customers	324,512,767	97,977,844	15,501,125	5,751,740	3,271,010	447,014,486
Less: Stage 1 expected credit loss	2,334,328	513,241	330,780	-	-	3,178,349
Less: Stage 2 expected credit loss	4,835,446	248,036	28,919	32,304	103,651	5,248,356
Less: Stage 3 expected credit loss	11,313,280	1,436,572	754,630	60,540	152,878	13,717,900
Total expected credit loss	18,483,054	2,197,849	1,114,329	92,844	256,529	22,144,605
Total loans and advances to customers	306,029,713	95,779,995	14,386,796	5,658,896	3,014,481	424,869,881

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

The credit quality analysis of outstanding allowance loans and advances to customers:

Current Period	Stage 1	Stage 2	Stage 3
Balances at January 1, 2020	1,623,637	1,964,228	12,478,787
Transfer to Stage 1	126,682	(126,122)	(560)
Transfer to Stage 2	(48,999)	1,124,446	(1,075,447)
Transfer to Stage 3	(7,126)	(343,580)	350,706
Recoveries and reversals ^(*)	(453,094)	(552,124)	(1,659,736)
Provision for the period	1,937,249	3,181,508	3,624,150
Balances at the end of the period	3,178,349	5,248,356	13,717,900

^(*) As of December 31, 2020, the Parent Bank has written-off loans and provisions for these loans, which were classified in the "Stage 3 Loans" (Loans Classified as Loss) amounting to TL 890,789, unsecured, do not have reasonable expectations for recovery and with %100 provision, in accordance with the Amendments Regulation published in the Official Gazette dated November 27, 2019 and numbered 30961 by BRSA. Following the written-off loans, the Parent Bank's non-performing loan ratio decreased from 4.16% to 3.97%.

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

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

10. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Aging analysis for overdue receivables^(*)

The aging analysis of the loans and advances past due but not impaired is as follows:

	Current Period December 31, 2020	Prior Period December 31, 2019
31-60 days	2,562,274	1,917,753
61-90 days	2,067,323	2,434,914
91-180 days	2,122,903	-

^(*) Loan receivables with overdue loans are taken into consideration.

The fair value of collaterals, capped with the respective outstanding loan balance relating to loans individually impaired:

	December 31, 2020	December 31, 2019
Mortgage	7,436,378	4,544,466
Vehicle	450,185	680,126
Other ^(*)	2,815,934	3,903,356
Total	10,702,497	9,127,948

^(*) Includes guarantees from Treasury and Credit Guarantee Fund amounting to TL 1,311,367 (December 31, 2019: TL 2,372,400).

The fair value of collaterals, capped with the respective outstanding loan balance relating to those that are past due but not impaired:

	December 31, 2020	December 31, 2019
Mortgage	9,622,212	10,089,190
Vehicle	867,841	1,211,496
Cash	218,006	162,431
Other ^(*)	12,172,352	9,266,847
Total	22,880,411	20,729,964

^(*) Includes guarantees from Treasury and Credit Guarantee Fund amounting to TL 4,827,750 (December 31, 2019: TL 4,084,965).

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

11. INVESTMENT SECURITIES

Financial asset at fair value through OCI:

	December 31, 2020		December 31, 2019	
	Face Value	Carrying Value	Face Value	Carrying Value
<i>Debt and other instruments FVOCI:</i>				
Government bonds in TL	27,996,982	31,011,998	15,888,538	17,659,222
Eurobonds issued by the Turkish Government	48,175,490	49,412,449	5,664,507	6,036,410
Government bonds in foreign currencies	1,554,729	1,671,449	891,905	974,990
Lease Certificates	-	-	-	-
Bonds issued by banks	719,929	696,871	537,833	520,027
Corporate bonds	1,088,127	1,117,000	560,883	591,595
Asset-backed securities	-	-	-	-
Equity shares	-	1,097,365	-	801,819
Total FVOCI financial assets	79,535,257	85,007,132	23,543,666	26,584,063

As at December 31, 2020 and 2019, investment securities comprise the following:

	December 31, 2020	December 31, 2019
Financial assets at fair value through OCI ("FVOCI")	85,007,132	26,584,063
Financial assets at amortised cost ("AC")	58,740,656	47,009,579
Total investment securities	143,747,788	73,593,642

As at December 31, 2020 and 2019, equity shares comprised the following:

	December 31, 2020	December 31, 2019
<i>Unquoted investments:</i>		
Roketsan Roket Sanayi ve Ticaret A.Ş.	840,181	659,036
Vakıf Pazarlama Sanayi ve Ticaret A.Ş.	98,679	98,681
Vakıf Gayrimenkul Değerleme A.Ş.	36,059	22,386
Takas ve Saklama Bankası A.Ş.	29,901	29,901
Borsa İstanbul	13,579	13,579
İzmir Enternasyonel A.Ş.	6,177	6,178
Vakıf İnşaat Restorasyon A.Ş.	4,921	4,921
Güney Ege Enerji Ltd. Şti.	653	653
Bayek Tedavi ve Sağlık Hizmetleri A.Ş.	106	106
Others	104,218	23,914
Impairment	(37,108)	(57,536)
Total	1,097,366	801,819

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

11. INVESTMENT SECURITIES (Continued)

The following table summarizes fair value through OCI financial assets that were deposited as collaterals with respect to various banking transactions:

	December 31, 2020		December 31, 2019	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial institutions for repurchase transactions	24,001,952	25,744,884	6,753,307	7,369,488
Others	-	-	-	-
Total	24,001,952	25,744,884	6,753,307	7,369,488

Amortized cost investment securities:

	December 31, 2020			December 31, 2019		
	Face Value	Carrying Value*	Fair Value	Face Value	Carrying Value*	Fair Value
<i>Debt instruments:</i>						
Government bonds in TL	34,099,760	44,218,604	45,829,858	27,872,698	34,945,547	35,136,137
Certificate of deposits	-	-	-	58,419	250,570	119,100
Eurobonds issued by the Turkish Government	15,019,247	14,528,648	15,295,839	-	4,930,308	-
Other Bonds	-	-	-	7,147,775	6,888,208	13,331,235
Total amortized cost investment securities	49,119,007	58,747,252	61,125,697	35,078,892	47,014,633	48,586,472

(*) ECL provision amount of amortized cost investment securities has not been included in carrying value.

Movements of investment securities are as follows:

	December 31, 2020			December 31, 2019		
	FVOCI Financial Assets	Amortized Cost Investments	Total	FVOCI Financial Assets	Amortized Cost Investments	Total
Balances at January 1, 2020	26,584,063	47,009,579	73,593,642	11,385,945	39,976,063	51,362,008
Additions (*)	76,735,038	10,980,105	87,715,143	21,066,241	6,514,751	27,580,992
Disposals (sale and redemption)	(22,320,198)	(5,718,504)	(28,038,702)	(7,761,711)	(1,664,238)	(9,425,949)
Transferred to available for sale financial assets	-	-	-	-	-	-
Changes in amortized cost and fair value	3,305,516	3,055,750	6,361,266	1,482,335	1,233,186	2,715,521
Change in Provision for Impairment	368,857	-	368,857	(168,151)	-	(168,151)
Exchange differences	333,856	3,415,268	3,749,124	579,404	950,424	1,529,828
Expected Credit Loss	-	(1,542)	(1,542)	-	(607)	(607)
Total	85,007,132	58,740,656	143,747,788	26,584,063	47,009,579	73,593,642

(*) The Parent Bank issued subordinated debts to a group accounted for under "Subordinated debts" in 2019, in exchange acquired government securities, as disclosed under "Financial assets at amortised cost" as debt securities, from the same group as part of a qualified sale and purchase transition differing from market.

The following table summarizes financial assets measured at amortized cost that were deposited as collaterals with respect to various banking transactions:

	December 31, 2020		December 31, 2019	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial and other institutions for repurchase transactions	33,660,771	38,158,425	17,208,139	21,285,024
Deposited at Central Bank of Turkey for repurchase transactions	-	-	-	-
Deposited at Central Bank of Turkey for interbank transactions	3,188,554	4,897,956	5,883,778	4,832,033
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	1,369,964	1,914,293	1,067,000	1,703,104
Others	5,340,293	5,131,281	1,142,050	1,288,344
Total	43,559,582	50,101,955	25,300,967	29,108,505

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

12. INVESTMENTS IN ASSOCIATES

As at December 31, 2020 and 2019 investments in equity participations accounted for using the equity method are as follows:

	December 31, 2020	December 31, 2019
<i>Unquoted investments:</i>		
T. Sınai Kalkınma Bankası A.Ş.	521,929	442,194
Kıbrıs Vakıflar Bankası Ltd.	16,587	13,893
Total	538,516	456,087

13. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Movements in property and equipment and intangible assets from January 1 to December 31, 2020 and January 1 to December 31, 2019 are as follows:

Property and equipment	January 1, 2020	Currency translation difference	Valuation	Transfers	Additions	Disposals	December 31, 2020
<i>Cost:</i>							
Land and buildings	1,665,142	(97,817)	100,873	1,435,074	720,653	(348,516)	3,475,409
Motor vehicles	140,829	146	-	-	92,482	(2,305)	231,152
Furniture, office equipment & leasehold improvements	1,831,507	(73,658)	76,797	-	119,222	(28,376)	1,925,492
Right of use assets	1,136,446	-	-	-	456,269	(200,919)	1,391,796
Other tangibles	35,481	6,561	-	-	2,246	-	44,288
Total	4,809,405	(164,768)	177,670	1,435,074	1,390,872	(580,116)	7,068,137
<i>Accumulated depreciation:</i>							
Land and buildings	(99,077)	91,533	(94,381)	12,139	(14,645)	497	(103,934)
Motor vehicles	(32,724)	-	-	-	(28,202)	1,198	(59,728)
Furniture, office equipment & leasehold improvements	(1,267,008)	62,397	(65,905)	-	(3,781)	2,247	(1,272,050)
Right of use assets	(243,225)	-	-	-	(262,168)	32,463	(472,930)
Other tangibles	(10,495)	-	-	-	(161,436)	32,882	(139,049)
Impaired	(20,509)	-	-	-	-	7,434	(13,075)
Total	(1,673,038)	153,930	(160,286)	12,139	(470,232)	76,721	(2,060,766)
Net book value	3,136,367	(10,838)	17,384	1,447,213	920,640	(503,395)	5,007,371
<i>Intangible assets</i>							
	January 1, 2020	Currency translation difference	Valuation	Transfers	Additions	Disposals	December 31, 2020
<i>Cost:</i>							
Software programs	484,812	-	-	-	73,128	(2,563)	555,377
Rights	55,178	(46,538)	48,007	-	4,043	(76)	60,614
Other intangible assets	14,596	-	-	-	-	-	14,596
Total	554,586	(46,538)	48,007	-	77,171	(2,639)	630,587
<i>Accumulated amortization:</i>							
Software programs	(182,605)	-	-	-	(36,405)	-	(219,010)
Rights	(44,905)	-	-	-	(7,208)	-	(52,113)
Other intangible assets	14,701	33,647	(35,072)	-	(838)	40	12,478
Total	(212,809)	33,647	(35,072)	-	(44,451)	40	(258,645)
Net book value	341,777	(12,891)	12,935	-	32,720	(2,599)	371,942

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

13. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

Property and equipment	January 1, 2019	IFRS 16 Transition Effect	Currency translation difference	Valuation	Transfers	Additions	Disposals	December 31, 2019
<i>Cost:</i>								
Land and buildings	2,373,075	-	944	-	38,782	34,626	(782,285)	1,665,142
Motor vehicles	62,211	-	69	-	-	80,551	(2,002)	140,829
Furniture, office equipment & leasehold improvements	1,804,232	-	6,313	-	-	135,238	(114,276)	1,831,507
Right of use assets	-	794,812	-	-	-	486,053	(144,419)	1,136,446
Other tangibles	42,056	-	2,904	-	-	(660)	(8,819)	35,481
Total	4,281,574	794,812	10,230	-	38,782	735,808	(1,051,801)	4,809,405
<i>Accumulated depreciation:</i>								
Land and buildings	(92,679)	-	(892)	-	4,766	(10,754)	482	(99,077)
Motor vehicles	(21,557)	-	-	-	-	(13,012)	1,845	(32,724)
Furniture, office equipment & leasehold improvements	(1,175,063)	-	(6,779)	-	-	(154,900)	69,734	(1,267,008)
Right of use assets	-	-	-	-	2,558	(254,301)	8,518	(243,225)
Other tangibles	(15,071)	-	-	-	-	(1,669)	6,245	(10,495)
Impaired	(27,760)	-	-	-	-	-	7,251	(20,509)
Total	(1,332,130)	-	(7,671)	-	7,324	(434,636)	94,075	(1,673,038)
Net book value	2,949,444	794,812	2,559	-	46,106	301,172	(957,726)	3,136,367
<i>Intangible assets</i>								
Intangible assets	January 1, 2019	IFRS 16 Transition Effect	Currency translation difference	Valuation	Transfers	Additions	Disposals	December 31, 2019
<i>Cost:</i>								
Software programs	509,224	-	-	-	-	36,015	(60,427)	484,812
Rights	80,589	-	438	-	-	1,470	(27,319)	55,178
Other intangible assets	14,596	-	-	-	-	-	-	14,596
Total	604,409	-	438	-	-	37,485	(87,746)	554,586
<i>Accumulated amortization:</i>								
Software programs	(164,813)	-	-	-	-	(32,200)	14,408	(182,605)
Rights	(37,840)	-	-	-	-	(7,065)	-	(44,905)
Other intangible assets	(5,118)	-	(9,560)	9,096	-	(530)	20,813	14,701
Total	(207,771)	-	(9,560)	9,096	-	(39,795)	35,221	(212,809)
Net book value	396,638	-	(9,122)	9,096	-	(2,310)	(52,525)	341,777

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

14. ASSETS CLASSIFIED AS HELD FOR SALE

As of December 31, 2020, the cost of property and equipment held for sale purpose and related to discontinued operations are TL 1,263,718 (December 31, 2019: TL 3,125,252) and the provision for impairment is TL 7,467 (December 31, 2019: TL 12,981). The amount of other assets held for sales and discontinued operations is 3 TL (December 31, 2019: None.)

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

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

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

As at December 31, 2020, net book value of assets held for sale of the Group is amounting to TL 1,256,254 (December 31, 2019: TL 7,690,615).

	December 31, 2020	December 31, 2019
Real Estate	1,256,251	3,112,271
Fixed Assets	-	-
Subsidiaries and Affiliates	-	4,578,344
Other	3	-
Total	1,256,254	7,690,615

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

15. OTHER ASSETS

	December 31, 2020	December 31, 2019
Collaterals for derivative financial instruments	10,673,501	7,996,486
Receivables from credit card payments	2,377,152	1,695,301
Prepaid expenses	1,749,705	969,892
Investment properties	502,143	608,990
Receivables from term sales of fixed assets	539,262	112,364
Assets held for resale	33,243	33,243
Prepaid taxes other than income tax and funds	14,615	13,004
Guarantees given for repurchase agreements	3,449	9,922
Other	3,607,743	2,199,140
Total	19,500,813	13,638,342

As of December 31, 2020, net balance sheet value of the Group's subsidiary operating in real estate investment trust amounts to TL 502,143, and the Group has investment properties with a fair value of TL 867,782. (December 31, 2019: Net balance sheet value of the Group's subsidiary operating in real estate investment trust amounts to TL 608,990, and the Group has investment properties with a fair value of TL 1,018,635.)

As at December 31, 2020, TL 33,243 (December 31, 2019: TL 33,243) of the other assets is comprised of foreclosed real estate acquired by the Group against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

16. TRADING LIABILITIES

As at December 31, 2020 and 2019, trading liabilities comprise negative fair value differences of derivative financial instruments held for trading purpose and are as follows:

	December 31, 2020	December 31, 2019
Swaps	6,032,976	3,250,742
Forwards	47,867	58,397
Options	2,458	2,858
Total trading liabilities	6,083,301	3,311,997

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

17. DEPOSITS FROM BANKS

As at December 31, 2020 and 2019, deposits from banks comprise the following:

	December 31, 2020	December 31, 2019
Time deposits	21,396,468	8,722,666
Demand deposits	1,636,729	508,974
Total deposits from banks	23,033,197	9,231,640

18. DEPOSITS FROM CUSTOMERS

As at December 31, 2020 and 2019, deposits from customers comprise the following:

	December 31, 2020		December 31, 2019	
	Demand Deposit	Time Deposit	Demand Deposit	Time Deposit
Saving deposits	10,033,091	60,751,163	8,578,245	50,150,136
Foreign currency deposits	26,859,872	143,401,214	16,360,792	83,798,474
<i>Residents in Turkey</i>	<i>24,614,226</i>	<i>130,918,702</i>	<i>14,650,994</i>	<i>72,248,090</i>
<i>Residents abroad</i>	<i>2,245,646</i>	<i>12,482,512</i>	<i>1,709,798</i>	<i>11,550,384</i>
Commercial deposits	6,887,033	56,555,805	4,512,058	30,835,029
Public sector deposits	9,869,935	26,743,128	8,186,969	16,071,779
Precious metal deposit	17,226,185	1,565,891	5,596,470	306,639
Others	9,124,138	25,225,789	7,545,083	12,741,744
Total deposits from customers	80,000,254	314,242,990	50,779,617	193,903,801

19. FUNDS BORROWED

As at December 31, 2020 and 2019, funds borrowed comprise the followings in accordance with their original maturities:

	December 31, 2020		December 31, 2019	
	TL	Foreign Currency	TL	Foreign Currency
Short-term funds	1,764,288	3,453,141	1,280,038	4,485,291
Short-term portion of long term funds	357,516	23,605,253	213,513	18,109,384
Total short-term funds	2,121,804	27,058,394	1,493,551	22,594,675
Medium/long term funds	331,545	22,180,305	793,403	20,185,108
Total funds borrowed	2,453,349	49,238,699	2,286,954	42,779,783

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 7.77% (December 31, 2019: 11.28%) of the Group's liabilities. There is no risk concentration on funding sources of the Group.

Syndicated Loans Receive

Beginning From	Maturity (Days)	Currency	Amount (Millions)	Interest rate	Coordinator Bank	Agent Bank
May 4, 2020	367	USD	312	Libor+2.25%	Abu Dhabi Commercial Bank Emirates NBD Bank (P.J.S.C)	Mizuho Bank, LTD.
	367	EUR	589.5	Euribor+2.00%	Abu Dhabi Commercial Bank Emirates NBD Bank (P.J.S.C)	Mizuho Bank, LTD.
December 7, 2020	367	USD	160	Libor+2.50%	The Commercial Bank (P.S.Q.C.) Emirates NBD Bank (P.J.S.C)	Emirates NBD Bank (P.J.S.C)
	367	EUR	421	Euribor+2.25%	The Commercial Bank (P.S.Q.C.) Emirates NBD Bank (P.J.S.C)	Emirates NBD Bank (P.J.S.C)

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

19. FUNDS BORROWED (Continued)

Syndicated Loans Received

Beginning from	Due date	Currency	Amount (USDMillions)	Loan Type
May 13, 2011	June 15, 2023	USD	346.5	Based on international remittance flows
December 19, 2014	December 15, 2021	USD/EUR	428.6	Based on international remittance flows / Based on treasury financing transactions
	September 15, 2021	USD/EUR	354.4	Based on international remittance flows
October 4, 2016	June 15, 2023	USD/EUR	535.7	Based on international remittance flows / Based on treasury financing transactions
May 4, 2018	March 15, 2023	USD/EUR	380	Based on international remittance flows
October 5, 2018	September 15, 2028	USD	300	Based on international remittance flows / Based on treasury financing transactions
October 15, 2019	December 15, 2026	USD	417	Based on international remittance flows / Based on treasury financing transactions

As of December 31, 2020, the total securitization balance is equivalent of USD 1,175 million and EUR 168 million. (December 31, 2019: USD 1,453 million and EUR 227 million).

20. DEBT SECURITIES ISSUED

	December 31, 2020		December 31, 2019	
	TL	FC	TL	FC
Nominal	11,175,240	34,507,623	11,734,890	17,233,590
Cost	11,017,983	34,353,772	11,562,300	17,160,519
Net Book Value	11,262,156	34,892,367	11,792,577	17,455,479

December 31, 2020	Currency	Maturity	Interest Rate	Original Amount	TL Amount
Bank Bonds	TL	July 2020-February 2027	6.50 % - 20.44 %	11,262,156	11,262,156
Bank Bonds	USD	October 2021-February 2025	4.92 % - 8.13 %	3,783,779	28,189,153
Bank Bonds	EUR	May 2021	2.58 %	507,499	4,642,488
Bank Bonds	GBP	July 2020-September 2020	0.95 % - 1.50 %	202,995	2,060,726

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

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

As of December 8, 2020 with 5 year maturity date, the yield and the coupon rate has been set at 6.625% and 6.5% respectively amounting to USD 750 Million which is the first Sustainable Eurobond issuance among deposit banks in Turkey.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

21. SUBORDINATED DEBTS

Stated bonds' total balance sheet value is TL 19,458,798 as of December 31, 2020 (December 31, 2019: TL 19,245,453)

	December 31, 2020		December 31, 2019	
	TL	FC	TL	FC
Debt instruments to be included in the additional Tier 1 capital calculation	5,144,984	6,627,849	5,139,810	4,839,684
Debt instruments to be included in the additional Tier 2 capital calculation	1,256,477	6,429,488	1,255,067	8,010,892
Total	6,401,461	13,057,337	6,394,877	12,850,576

22. OTHER LIABILITIES AND PROVISIONS

The principal components of other liabilities and accrued expenses are as follows:

	December 31, 2020	December 31, 2019
Accounts against expenditures of credit card holders	7,531,662	6,028,086
Miscellaneous payables	3,340,103	1,901,660
Unearned income	1,971,787	1,115,043
Margin deposit for derivative financial instruments	1,709,523	1,210,663
Cheque clearing account	1,475,966	1,142,745
Other provisions	1,240,038	957,244
Lease Payables	999,315	935,938
Import letter of credit	992,031	1,479,780
Provision for employee termination benefits	795,844	610,600
Provision for non-cash loans	278,244	168,114
Blocked accounts	111,322	70,856
Provision for unused vacations	94,479	102,631
Payment orders	55,961	52,044
Investment contract liabilities	-	-
Cheques response	-	-
Reserve for short term employee benefits	673,541	447,777
Other liabilities	490,064	342,926
Total other liabilities and provisions	21,759,880	16,566,107

As of 31 December 2020, the free provision in the financial statements amounted to a total of TL 1,072,000 (31 December 2019: TL 852,000), of which is constituted by TL 220,000 in the current period and TL 852,000 in the prior periods.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

22. OTHER LIABILITIES AND PROVISIONS (Continued)

Obligations under finance leases

	December 31, 2020		December 31, 2019	
	Gross	Net	Gross	Net
Under 1 year	24,659	23,607	20,932	19,639
1-4 Years	344,322	297,430	465,352	374,544
Over 4 years	1,018,008	678,278	947,841	541,755
Total	1,386,989	999,315	1,434,125	935,938

Movement in the reserve for employee severance indemnity is as follows:

Reserve for employee severance indemnity	December 31, 2020	December 31, 2019
At the beginning of the year	610,600	463,120
Currency translation difference	888	(1,570)
Interest cost	70,439	65,401
Service cost	60,867	40,002
Payment during the year	(40,771)	(45,851)
Actuarial remeasurement	93,821	89,498
At the end of the year	795,844	610,600

23. TAXATION

Components of income tax expense recognized in the consolidated statement of comprehensive income are as follows:

	December 31, 2020	December 31, 2019
<i>Income tax recognized in profit or loss for the year</i>		
Current income tax related to income from operations	(2,040,485)	(1,880,222)
Deferred income tax related to income from operations	504,368	847,013
	(1,536,117)	(1,033,209)
<i>Income tax recognized in other comprehensive income</i>		
Current income tax recognized in other comprehensive income	-	-
Deferred income tax recognized in other comprehensive income	(184,408)	(252,949)
	(184,408)	(252,949)
Income tax expense recognized in the consolidated profit or loss and other comprehensive income	(1,720,525)	(1,286,158)

Details of tax liability are as follows:

	December 31, 2020	December 31, 2019
Corporate tax payable	396,020	586,727
Taxation on securities	283,597	257,672
Banking and Insurance Transaction Tax (BITT)	201,314	202,056
Value added tax payable	11,758	13,276
Capital gains tax on property	1,561	3,515
Taxes on foreign exchange transactions	8,002	4,428
Other	53,585	75,400
Total tax liability	955,837	1,143,074

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

23. TAXATION (Continued)

The movement of corporate tax payable is as follows:

	December 31, 2020	December 31, 2019
At the beginning of the year	586,727	317,752
Current income tax charge	2,040,485	1,880,222
Taxes paid during the year	(2,231,192)	(1,611,247)
Corporate tax payable	396,020	586,727

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Group's effective income tax rate for the years ended December 31, 2020 and 2019 is as follows:

	December 31, 2020	Tax rate (%)	December 31, 2019	Tax rate (%)
Profit from ordinary activities before income tax and non-controlling interest	8,005,098		4,535,868	
Taxes on income per statutory tax rate	(1,931,783)	(24.13)	(1,016,826)	(22.42)
Disallowable expenses	395,666	4.94	(16,383)	(0.36)
Income tax expense	(1,536,117)	(19.19)	(1,033,209)	(22.78)

Deferred tax assets and liabilities at December 31, 2020 and 2019 are attributable to the items below:

	December 31, 2020	December 31, 2019
Expected credit loss	1,516,646	557,969
Valuation differences of financial assets and liabilities	289,956	431,022
Free provision	214,400	170,400
Provision for employee severance indemnity and unused vacations	176,791	143,769
Valuation difference of associates and subsidiaries	115,214	49,298
Other provisions	25,804	13,997
Investment incentive	302	4,345
Reporting standards-tax code depreciation differences	-	49
Tax losses carried forward	-	-
Valuation difference for property and equipment	42	-
Other temporary differences	233,064	204,996
Deferred tax assets	2,572,219	1,575,845
Net-off of the deferred tax assets and liabilities from the same entity	(1,117,284)	(600,480)
Deferred tax assets, (net)	1,454,935	975,365
Valuation differences of financial assets and liabilities	896,839	460,570
Valuation difference for property and equipment	96,345	74,679
Valuation difference of associates and subsidiaries	133,178	61,962
Other temporary differences	48,550	34,878
Deferred tax liability	1,174,912	632,089
Net-off of the deferred tax assets and liabilities from the same entity	(1,117,284)	(600,480)
Deferred tax liability, (net)	57,628	31,609

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

24. EARNINGS PER SHARE

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

There is no dilution of shares as at December 31, 2020 and 2019.
The following reflects the basic earnings per share computations:

	December 31, 2020	December 31, 2019
Net profit attributable for the year	6,468,981	3,502,659
Net profit attributable to owners of the Bank	6,392,954	3,363,189
Number of 100 ordinary shares for basic earnings per shares	3,905,622,490	2,500,000,000
Basic earnings per 100 share	1.9134	1.3453
Diluted earnings per 100 share	1.9134	1.3453

(*) For the period between January 1, 2020 – May 22, 2020 “2,500,000,000” and for the period between May 22, 2020– December 31, 2020 “3,905,622,490” has been considered for the earning per 100 share calculation.

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

25. EQUITY

Share capital

The Parent Bank increased its paid-in capital from TL 2,500,000 to TL 3,905,622, provided that it is within the registered capital ceiling, based on the decision taken at the Board of Directors meeting dated 11 May 2020. Accordingly, the amendment made in the related article of the Articles of Association was registered on 9 June 2020.

Paid-in capital of the Parent Bank amounted to TL 3,905,622 is divided into groups comprised of 27.52% Group (A), 10.00 % Group (B), 10.35% Group (C) and 52.13% Group (D).

Board of Directors’ members; three members representing Group (A), one member representing Group (B), and two members representing Group (C); among the nominees shown by the majority of each group, and one member among the nominees offered by the shareholders at the General Assembly are selected. Preference of Group (D) is primarily taken into account in the selection of the last mentioned member.

Legal reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (“TCC”). The TCC stipulates that the first legal reserve is appropriated out of the statutory profits of the Bank and its subsidiaries at the rate of 5%, until the total reserve reaches 20% of paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

25. EQUITY (Continued)

Non-controlling interest

As at December 31, 2020 and 2019, non-controlling interest is analyzed as follows:

	December 31, 2020	December 31, 2019
Capital and other reserves	730,075	779,953
Legal reserves	17,158	14,473
Share Premium	131,132	122,011
Revaluation surplus	8,247	234,212
Retained earnings	(26,754)	(191,753)
Profit for the year	76,027	154,861
Total non-controlling interest	935,885	1,113,757

Set out below is non-controlling profit and dividend payment for the year by subsidiaries:

	December 31, 2020		December 31, 2019	
	Profit or loss attributable to non- controlling interest	Dividends paid to non- controlling interest during the year	Profit or loss attributable to non-controlling interest	Dividends paid to non- controlling interest during the year
Taksim Otelcilik AŞ	4,827	-	8,098	-
Vakıf Emeklilik ve Hayat AŞ	-	-	24,145	(79,557)
Güneş Sigorta AŞ	-	-	70,041	-
Vakıf Faktoring AŞ	16,820	-	14,199	-
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ	27,636	-	(2,355)	-
Vakıfbank International AG	-	-	4,775	-
Vakıf Finansal Kiralama AŞ	24,243	-	18,783	-
Vakıf Enerji ve Madencilik AŞ	1,272	-	800	-
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.	279	-	821	-
Vakıf Yatırım Menkul Değerler A.Ş.	950	-	163	-
Total	76,027	-	139,470	(79,557)

Fair value reserves of FVOCI financial assets:

	December 31, 2020	December 31, 2019
Balance at the beginning of the year	1,492,861	315,654
Effects of accounting policy changes	-	-
Net gains/(losses) from changes in fair values	454,805	1,071,163
Net gains transferred to profit or loss on disposal	10,279	400,346
Related deferred and current income taxes	(93,017)	(294,302)
Balance at the end of the year	1,864,928	1,492,861

Summarised financial information on subsidiaries

Summarised financial information for each subsidiary that has non-controlling interests that are material to the group as follows:

	Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.		Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.	
	December 2020	December 2019	December 2020	December 2019
Non-controlling interest ratio (%)	54.29	61.30	82.63	82.63
Total Asset	2,928,981	1,781,467	29,411	19,462
Current Asset	1,204,036	92,602	29,206	19,196
Non-current Asset	1,724,945	1,688,866	205	266
Total Liabilities	1,484,506	717,807	318	752
Total Equity	1,444,475	1,063,661	29,093	18,710
Interest Income	41,859	7,091	1,662	2,952
Income on securities portfolio	-	-	912	465
Profit/(loss)	118,592	96,152	350	1,173

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

26. RELATED PARTY TRANSACTIONS

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

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

Related party	December 31, 2020			December 31, 2019		
	Cash loans	Non-cash loans	Deposits	Cash loans	Non-cash loans	Deposits
Direct/Indirect shareholders	-	32,511	2,237,815	-	29,783	298,755
Associates	57,561	447,116	1,581,484	334,885	377,754	54,095
Key management personnel	5,762	-	8,063	110	-	328
Total	63,323	479,627	3,827,362	334,995	407,537	353,178

Related party	December 31, 2020				December 31, 2019			
	Commission Income	Interest income	Interest expense	Other operating expense	Commission Income	Interest income	Interest expense	Other operating expense
Direct/Indirect shareholders	-	-	99,294	-	141	49,350	204,471	141
Associates	205	19,596	36,197	2,860	-	-	17,271	443
Total	205	19,596	135,491	2,860	141	49,350	221,742	584

Key Management Remuneration

For the period ended December 31, 2020, the key management personnel received remuneration and fees amounted to TL 48,738 (December 31, 2019: TL 53,150).

27. FEE AND COMMISSION INCOME

	December 31, 2020	December 31, 2019
Fee and commission income		
Debit and credit card fee and commission	1,201,992	1,785,156
Collection and payment commissions	789,508	861,562
Non-cash loan commission	771,180	718,014
Reinsurance commission	446,557	327,286
Investigation charges	112,765	269,989
Money transfer charges	119,040	161,791
Mutual funds commission	34,397	25,370
Account maintenance fee	10,293	19,201
Other	357,651	348,914
Total fee and commission income	3,843,383	4,517,283
Fee and commission expense		
Debit and credit card fee and commission	496,424	751,398
Fee and commission for funds borrowed	93,312	113,377
Fee and commission for marketable securities issued	79,474	54,996
Money transfer charges	33,787	24,042
Other	156,306	174,355
Total fee and commission expense	859,303	1,118,168
Net fee and commission income	2,984,080	3,399,115

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

28. OTHER INCOME

As at and for years ended December 31, 2020 and 2019, other income comprised the followings:

	December 31, 2020	December 31, 2019
Reversal of miscellaneous provision	5,385,947	3,526,244
Gain on sale of fixed assets	739,410	315,137
Individual pension business income	39,340	161,784
Earned premiums	268,629	2,015,707
Written premiums	268,629	2,344,871
Change in reserve for unearned premiums	-	(329,164)
Rent income	99,219	20,314
Dividend income from equity shares	17,633	8,682
Excess fee charged to customers for communication expenses	16,148	37,251
Others	1,540,098	517,671
Total	8,106,424	6,602,790

29. SALARIES AND EMPLOYEE BENEFITS

As at and for the years ended December 31, 2020 and 2019, salaries and employee benefits comprised the following:

	December 31, 2020	December 31, 2019
Wages and salaries	(1,436,172)	(1,364,415)
Employer's share of social security premiums	(1,399,656)	(1,234,814)
Other fringe benefits	(647,564)	(550,429)
Total	(3,483,392)	(3,149,658)

The average number of employees of the Group during the year is:

	December 31, 2020	December 31, 2019
The Bank	16,748	16,835
Subsidiaries	532	2,139
Total	17,280	18,974

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. It is computed and reflected in the financial statements on an accruals basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are TL (full TL) 7,117 and TL (full TL) 6,380 as at December 31, 2020 and December 31, 2019, respectively.

IFRS require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity. The main actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Discount Rate	12.80%	12.10%
Inflation Rate	9.50%	8.20%
Increase in Real Wage Rate	10.50%	9.20%

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

30. OTHER EXPENSES

As at and for the years ended December 31, 2020 and 2019, other expenses comprised the following:

	December 31, 2020	December 31, 2019
Banking services promotion expenses	(1,147,255)	(943,361)
Provision for Severance pay and Employee Benefits	(474,312)	(328,419)
Other provision expenses	(293,224)	(57,270)
Saving Deposit Insurance Fund premiums	(286,352)	(283,627)
Incurred insurance claims	(222,175)	(1,117,881)
<i>Insurance claims paid</i>	<i>(188,972)</i>	<i>(1,034,866)</i>
<i>Change in provision for outstanding claims</i>	<i>(33,203)</i>	<i>(83,015)</i>
Communication expenses	(179,742)	(151,659)
Advertising expenses	(175,359)	(197,051)
Cleaning service expenses	(112,745)	(73,661)
BRSA participation fee	(83,885)	(66,271)
Computer usage expenses	(83,840)	(64,871)
Leasing expenses related to IFRS 16 exceptions	(81,040)	(92,870)
Maintenance expenses	(79,918)	(77,078)
Energy expenses	(73,223)	(66,262)
Office supplies	(68,567)	(37,750)
Credit card promotion expenses	(64,599)	(49,665)
Hosting expenses	(31,811)	(28,478)
Loss on sale of assets	(30,778)	(7,306)
Consultancy expenses	(23,568)	(31,004)
Transportation expenses	(23,289)	(30,618)
Other various administrative expenses	(1,737,611)	(851,543)
Total	(5,273,293)	(4,556,645)

31. COMMITMENTS AND CONTINGENCIES

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

	December 31, 2020	December 31, 2019
Letters of guarantee	75,424,836	58,980,316
Letters of credit	20,921,424	13,732,645
Acceptance credits	5,115,792	4,582,834
Other guarantees	983,686	956,499
Total non-cash loans (financial guarantee contracts)	102,445,738	78,252,294
Loan granting commitments	26,088,692	18,079,079
Credit card limit commitments	21,320,698	17,293,741
Commitments for cheque payments	5,723,932	3,528,150
Commitments for credit card and banking operations promotions	597,623	484,519
Other commitments	60,751,038	43,612,945
Total commitments	114,481,983	82,998,434
Total commitments and contingencies	216,927,721	161,250,728

Contingent assets and liabilities

There are various legal cases against the Group for which TL 44,200 (December 31, 2019: TL 37,306) has been provided, excluding routine insurance claims.

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

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

31. COMMITMENTS AND CONTINGENCIES (Continued)

Pending tax audits

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

32. SUBSEQUENT EVENTS

As of January 8, 2021, all of the shares of the Parent Bank in Keskinöğlü Tavukçuluk ve Damız İşletmeleri Sanayi ve Ticaret AŞ, a subsidiary of the Bank, were transferred to TC Ziraat Bankası AŞ. Thus, the Parent Bank does not have any shares in the company.

On May 18, 2020, the Qatar Financial Center Regulatory Authority (QFCRA) approved the Parent Bank's license application to carry out its banking activities and allowed the Qatar branch to be operational as of February 2, 2021.

A temporary article has been added to the Corporate Tax Law No. 5520 with the Law No. 7316 on the Procedure for the Collection of Public Claims and the Law on Amendment to Certain Laws published in the Official Gazette dated April 22, 2021. The stated amendment will be applied to the declarations to be submitted as of July 1, 2021 and entered into force as of April 22, 2021 starting from the fiscal period of January 1, 2021, and the corporate tax rate, which is 20% in the current law, is 25% for 2021, it has been decided to apply as 23% for the revenues of 2022. Accordingly, corporate tax will be applied as 20% in the first advance tax period of 2021, and 25% as of the second temporary taxation period.

The Parent Bank has issued financing bills with various maturities between January 1, 2021 and May 20, 2021.

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