

HSBC BANK A.Ş.

PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITOR'S LIMITED REVIEW REPORT AT SEPTEMBER 30, 2020

(Convenience translation of publicly announced unconsolidated financial statements and independent auditor's limited review report at September 30, 2020, See Note I. of Section Three)

AUDITOR’S REVIEW REPORT ON INTERIM FINANCIAL INFORMATION

(Convenience translation of the independent auditor’s review report originally issued in Turkish, See Note I of Section Three)

To the Board of Directors of HSBC Bank A.Ş.;

Introduction

We have reviewed the unconsolidated balance sheet of HSBC Bank A.Ş. (“the Bank”) at September 30, 2020 and the related unconsolidated statement of profit or loss, unconsolidated statement of profit or loss and other comprehensive income, unconsolidated statement of changes in shareholders’ equity, unconsolidated statement of cash flows and a summary of significant accounting policies and other explanatory notes to the unconsolidated financial statements for the nine-month-period then ended. The Bank Management is responsible for the preparation and fair presentation of interim financial information in accordance with the Banking Regulation and Supervision Agency (“BRSA”) Accounting and Financial Reporting Legislation” which includes “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette no.26333 dated November 1, 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by BRSA and Turkish Accounting Standard 34 “Interim Financial Reporting” for those matters not regulated by the aforementioned regulations. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the Standard on Review Engagements (SRE) 2410, “Limited Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial reporting process, and applying analytical and other review procedures. A review of interim financial information is substantially less in scope than an independent audit performed in accordance with the Independent Auditing Standards and the objective of which is to express an opinion on the financial statements. Consequently, a review of the interim financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unconsolidated financial information do not present fairly in all material respects the financial position of HSBC Bank A.Ş. at September 30, 2020 and the results of its operations and its cash flows for the nine-month-period then ended in accordance with the BRSA Accounting and Financial Reporting Legislation.

Report on other regulatory requirements arising from legislation

Based on our review, nothing has come to our attention that causes us to believe that the financial information provided in the accompanying interim report in Section Seven, is not consistent with the reviewed financial statements and disclosures in all material respects.

Additional Paragraph for Convenience Translation

The effects of differences between accounting principles and standards explained in detail in Section Three and accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards (“IFRS”) have not been quantified in the accompanying unconsolidated financial statements. Accordingly, the accompanying unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited



Danla Harman
Partner, SMMM

November 9, 2020
İstanbul, Turkey



CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED
FINANCIAL STATEMENTS AND REVIEW REPORT
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE


UNCONSOLIDATED FINANCIAL REPORT OF HSBC BANK A.Ş.
AS OF AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2020

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The unconsolidated financial report for the nine month period prepared in accordance with Communiqué on the Financial Statements and the Related Disclosures and Footnotes to be Publicly Announced as regulated by Banking Regulation and Supervision Agency, is comprised of the following sections:

- GENERAL INFORMATION ABOUT THE BANK
- UNCONSOLIDATED INTERIM FINANCIAL STATEMENTS OF THE BANK
- EXPLANATIONS ON ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE BANK
- EXPLANATORY DISCLOSURES AND FOOTNOTES ON UNCONSOLIDATED FINANCIAL STATEMENTS
- INDEPENDENT AUDITOR'S LIMITED REVIEW REPORT
- INTERIM ACTIVITY REPORT


The unconsolidated financial statements for the nine month period and related explanations and footnotes in this report are prepared in accordance with the Regulation on Banks' Accounting Applications and Principles and Procedures Concerning the Preservation of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and annexes interpretations thereof and are denominated as **TL thousand** unless otherwise specified, are held to subject to limited independent review and are presented enclosed.



Hamit Aydoğan
Vice President of the
Executive Board


Süleyman Selim Kervancı
General
Manager


Burçin Ozan
Financial Reporting
Assistant General
Manager


Yerihozan Küllü
Group Head


Robert Adrian Underwood
Head of
Audit Committee


Neslihan Erkazancı
Member of
Audit Committee

Information about the responsible personnel whom questions may be asked:

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HSBC Bank A.Ş.

Sicil Numarası: İstanbul Ticaret Sicil Müdürlüğü - 268376

Ticaret Ünvanı: HSBC Bank A.Ş.

Şirket Merkezi: Esentepe Mah. Büyükdere Cad. No: 128 Şişli 34394 İstanbul

Sicile Kayıtlı Olduğu Yer: Esentepe Mah. Büyükdere Cad. No: 128 Şişli 34394 İstanbul - İstanbul Ticaret Sicil Md.

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**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED
IN TURKISH, SEE IN NOTE 3.I**

HSBC BANK A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2020
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

SECTION ONE

GENERAL INFORMATION ABOUT THE BANK

I. BANK’S FOUNDATION DATE, START-UP STATUS, HISTORY REGARDING THE CHANGES IN THIS STATUS

It has been approved by the decision of the Council of Ministers dated June 27, 1990 and numbered 90/644 that HSBC Bank A.Ş. (“The Bank”) was established to conduct banking activities and the articles of association published in the Official Gazette No. 2611 dated September 18, 1990. The Bank is a foreign-capitalized bank which has been registered in accordance with the Law on Encouraging Foreign Investments numbered 6224. On September 20, 2001, the ‘Share Sales Agreement’ regarding the sale of all shares of Demirbank T.A.Ş., which was under in Saving Deposit Insurance Fund, was signed by the Bank’s main shareholder HSBC Bank Plc. According to this agreement, the required procedures shall be completed by October 31, 2001 and all shares of the Demirbank T.A.Ş., together with a part of the assets and liabilities shall be transferred to HSBC Bank Plc on October 31, 2001. In December 14, 2001, Demirbank T.A.Ş. and the Bank merged under the name of HSBC Bank Anonim Şirketi and continued its activities. Based on the approval of the Banking Regulation and Supervision Agency dated June 21, 2017, 10,01% share of HSBC Bank Plc.'s 100% ownership of the Bank’s capital was transferred to HSBC Bank Middle East Limited and remaining 89,99% share of HSBC Bank Plc. was transferred to HSBC Middle East Holdings B.V. through share transfer agreement dated June 29, 2017.

II. EXPLANATION ABOUT THE BANK’S CAPITAL STRUCTURE, SHAREHOLDERS OF THE BANK WHO ARE IN CHARGE OF THE MANAGEMENT AND/OR AUDITING OF THE BANK DIRECTLY OR INDIRECTLY, CHANGES IN THESE MATTERS (IF ANY) AND THE GROUP THAT THE BANK BELONGS TO

As of September 30, 2020, the Bank’s nominal capital amounting to TL 652.290 is dividend to 65.229.000.000 shares with a nominal value of TL 0,01. Based on the approval of the Banking Regulation and Supervision Agency dated June 21, 2017, 10,01% share of HSBC Bank Plc.'s 100% ownership of the Bank’s capital was transferred to HSBC Bank Middle East Limited and remaining 89,99% share of HSBC Bank Plc. was transferred to HSBC Middle East Holdings B.V. through share transfer agreement dated June 29, 2017. As of September 30, 2020 there has been no changes regarding the Bank’s capital structure and shareholders of the Bank who are in charge of the management or auditing of the Bank directly or indirectly.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED
IN TURKISH, SEE IN NOTE 3.I**

HSBC BANK A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2020
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

III. EXPLANATION ON THE BOARD OF DIRECTORS, MEMBERS OF THE AUDIT COMMITTEE, PRESIDENT AND EXECUTIVE VICE PRESIDENTS, IF AVAILABLE, SHARES OF THE BANK THEY POSSESS AND THEIR AREAS OF RESPONSIBILITIES

<u>Title</u>	<u>Name</u>	<u>Responsibility</u>	<u>Education</u>
Chairman of the Board:	David Gordon ELDON	Chairman	Undergraduate
Vice President of the Executive Board:	Hamit AYDOĞAN	Deputy Chairman	Undergraduate
Board of Directors:	Süleyman Selim KERVANCI	Member, CEO	Graduate
	Robert Adrian UNDERWOOD	Member	Undergraduate
	Mehmet Gani SÖNMEZ	Member	Undergraduate
	Edward Michael FLANDERS	Member	Undergraduate
	Neslihan ERKAZANCI	Member	Undergraduate
	Martin François Christian TRICAUD	Member	Phd
CEO:	Süleyman Selim KERVANCI	CEO	Graduate
Head of Internal Audit:	Umut PASİN	Head of Internal Audit	Undergraduate
Deputy CEO:	Rüçhan ÇANDAR	Technology and Services	Graduate
Executive Vice Presidents:	Anthony WRIGHT	Credit and Risk	Graduate
	Yiğit ARSLANCIK	Corporate and Investment Banking	Graduate
	Ayşe YENEL	Retail Banking	Undergraduate
	Burçin OZAN	Finance	Undergraduate
	Rüçhan ÇANDAR	Technology and Services	Graduate
	Funda TEMOÇİN AYDOĞAN	Human Resources	Undergraduate
	İbrahim Namık AKSEL	Treasury and Capital Markets	Graduate
	Fatoş Pınar FADILLIOĞLU	Head of Corporate Communication	Undergraduate
	Tolga TÜZÜNER	Head of Legal Advisor	Graduate
Audit Committee:	Robert Adrian UNDERWOOD	Head of the Audit Committee	Graduate
	Neslihan ERKAZANCI	Member of the Audit Committee	Undergraduate

The individuals mentioned above do not possess any share of the Bank.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED
IN TURKISH, SEE IN NOTE 3.I**

HSBC BANK A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2020
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

IV. INFORMATION ON INDIVIDUALS OR INSTITUTIONS OWNING THE PREFERRED SHARES OF THE BANK

Name/Commercial Title	Share Amounts (Nominal) (*)	Share Percentages	Paid-in capital (Nominal) (*)	Unpaid Portion
HSBC Middle East Holdings B.V.	586.995.771	89,99%	586.995.771	-
HSBC Bank Middle East Limited	65.294.226	10,01%	65.294.226	-

(*) The amounts are expressed in full TL.

V. SUMMARY INFORMATION ON THE BANK’S ACTIVITIES AND SERVICES

The Bank’s activities in accordance with related regulations and the articles of association of the Bank summarized are as follows;

- To accept all kinds of deposits both in Turkish Lira and in foreign currency,
- To provide funds in Turkish Lira and foreign exchange, for own use or as an intermediary,
- To launch cash and non-cash loans,
- To perform discount and purchase activities,
- To perform order transmissions brokerage, transactions brokerage, portfolios brokerage, restricted custody and general custody activities in accordance with Capital Markets regulations,
- To perform factoring activities,
- To perform payment services.

In addition to regular banking operations in accordance to the articles of association, the Bank also provides insurance intermediary services as an agency of Axa Sigorta, Zurich Sigorta, Allianz Hayat ve Emeklilik, Allianz Sigorta, Gulf Sigorta, Euler Hermes and Anadolu Hayat Emeklilik, and Marsh Sigorta ve Reasürans Broker through its branches and investment intermediary services, also undertaking the role of steering customers for portfolio sharing as an agent for transmitting orders of HSBC Yatırım.

As of September 30, 2020, the Bank has 77 branches dispersed throughout the country (December 31, 2019: 77 branches).

As of September 30, 2020, the number of employees of the Bank is 1.970 (December 31, 2019: 2.015).

VI. OTHER MATTERS

Unless otherwise stated, the financial statements and explanations and notes regarding the financial statements have been prepared in thousands of Turkish Lira.

VII. DIFFERENCES BETWEEN THE COMMUNIQUE ON PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS OF BANKS AND TURKISH ACCOUNTING STANDARDS AND SHORT EXPLANATION ABOUT INSTITUTIONS SUBJECT TO FULL CONSOLIDATION METHOD OR PROPORTIONAL CONSOLIDATION AND INSTITUTIONS WHICH ARE DEDUCTED FROM EQUITY OR NOT INCLUDED IN THESE THREE METHODS

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards, the non-financial associates, HSBC Ödeme Sistemleri ve Bilgisayar Teknolojileri Basın Yayın ve Müşteri Hizmetleri A.Ş. are not consolidated in the consolidated financial statements prepared in accordance with TAS based on line-by-line method. The Bank’s subsidiary HSBC Yatırım ve Menkul Değerler A.Ş. is included in the scope of consolidation by line-by-line method.

VIII. THE EXISTING OR POTENTIAL, ACTUAL OR LEGAL OBSTACLES ON THE TRANSFER OF SHAREHOLDERS’ EQUITY BETWEEN THE PARENT BANK AND ITS SUBSIDIARIES OR REIMBURSEMENT OF LIABILITIES

None.

SECTION TWO

UNCONSOLIDATED FINANCIAL STATEMENTS

- I. Balance Sheet**
- II. Statement of Off - Balance Sheet**
- III. Statement of Profit or Loss**
- IV. Statement of Profit or Loss and Other Comprehensive Income**
- V. Statement of Changes in Shareholders' Equity**
- VI. Statement of Cash Flows**

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN
TURKISH, SEE IN NOTE 3.I**

HSBC BANK A.Ş.

**UNCONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019
(STATEMENT OF FINANCIAL POSITION)**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

**SECTION TWO
UNCONSOLIDATED FINANCIAL STATEMENTS**

I. BALANCE SHEET	Note (Section Five I)	Reviewed Current Period			Audited Prior Period		
		(30.09.2020)			(31.12.2019)		
		TL	FC	Total	TL	FC	Total
ASSETS							
I. FINANCIAL ASSETS (NET)		11.088.798	10.835.296	21.924.094	6.995.148	10.436.516	17.431.664
1.1 Cash and Cash Equivalents		2.938.500	8.596.021	11.534.521	4.880.096	9.236.495	14.116.591
1.1.1 Cash and Balances with Central Bank	(I-a)	213.633	4.073.437	4.287.070	558.602	2.553.119	3.111.721
1.1.2 Banks	(I-c)	150.050	292.451	442.501	4	10.974	10.978
1.1.3 Money Market Placements		2.580.856	4.230.133	6.810.989	4.321.936	6.672.402	10.994.338
1.1.4 Expected Loss Provision (-)		6.039	-	6.039	446	-	446
1.2 Financial Assets at Fair Value Through Profit or Loss	(I-b)	274.118	110.013	384.131	397.866	89.407	487.273
1.2.1 Government Debt Securities		269.893	51.098	320.991	393.641	62.186	455.827
1.2.2 Equity Instruments		4.225	58.915	63.140	4.225	27.221	31.446
1.2.3 Other Financial Assets		-	-	-	-	-	-
1.3 Financial Assets at Fair Value Through Other Comprehensive Income	(I-d)	7.320.857	-	7.320.857	1.230.698	-	1.230.698
1.3.1 Government Debt Securities		7.320.857	-	7.320.857	1.230.698	-	1.230.698
1.3.2 Equity Instruments		-	-	-	-	-	-
1.3.3 Other Financial Assets		-	-	-	-	-	-
1.4 Derivative Financial Assets	(I-b)	555.323	2.129.262	2.684.585	486.488	1.110.614	1.597.102
1.4.1 Derivative Financial Assets at Fair Value Through Profit or Loss		555.323	2.129.262	2.684.585	486.488	1.110.614	1.597.102
1.4.2 Derivative Financial Assets at Fair Value Through Other Comprehensive Income	(I-k)	-	-	-	-	-	-
II. FINANCIAL ASSETS MEASURED AT AMORTIZED COST (NET)		9.949.824	16.069.293	26.019.117	7.978.394	8.310.861	16.289.255
2.1 Loans	(I-e)	11.335.166	16.069.293	27.404.459	9.257.489	8.310.861	17.568.350
2.2 Lease Receivables	(I-j)	-	-	-	-	-	-
2.3 Factoring Receivables		277.787	-	277.787	126.556	-	126.556
2.4 Other Financial Assets Measured at Amortized Cost	(I-f)	-	-	-	-	-	-
2.4.1 Government Debt Securities		-	-	-	-	-	-
2.4.2 Other Financial Assets		-	-	-	-	-	-
2.5 Expected Credit Losses (-)		1.663.129	-	1.663.129	1.405.651	-	1.405.651
III. PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND RELATED TO DISCONTINUED OPERATIONS (NET)	(I-p)	594	-	594	2.095	-	2.095
3.1 Held for Sale Purpose		594	-	594	2.095	-	2.095
3.2 Related to Discontinued Operations		-	-	-	-	-	-
IV. EQUITY INVESTMENTS		34.973	-	34.973	34.973	-	34.973
4.1 Investments in Associates (Net)	(I-g)	-	-	-	-	-	-
4.1.1 Accounted Under Equity Method		-	-	-	-	-	-
4.1.2 Unconsolidated Associates		-	-	-	-	-	-
4.2 Subsidiaries (Net)	(I-h)	34.973	-	34.973	34.973	-	34.973
4.2.1 Unconsolidated Financial Subsidiaries		34.753	-	34.753	34.753	-	34.753
4.2.2 Unconsolidated Non-Financial Subsidiaries		220	-	220	220	-	220
4.3 Entities under Common Control (Joint Venture) (Net)	(I-i)	-	-	-	-	-	-
4.3.1 Joint Ventures Valued Based on Equity Method		-	-	-	-	-	-
4.3.2 Unconsolidated Joint Ventures		-	-	-	-	-	-
V. TANGIBLE ASSETS (Net)	(I-l)	224.397	-	224.397	223.408	-	223.408
VI. INTANGIBLE ASSETS (Net)	(I-m)	174.621	-	174.621	168.255	-	168.255
6.1 Goodwill		-	-	-	-	-	-
6.2 Other		174.621	-	174.621	168.255	-	168.255
VII. INVESTMENT PROPERTY (Net)	(I-n)	-	-	-	-	-	-
VIII. CURRENT TAX ASSET		19.351	-	19.351	-	-	-
IX. DEFERRED TAX ASSET	(I-o)	238.206	-	238.206	209.428	-	209.428
X. OTHER ASSETS	(I-r)	177.826	475.878	653.704	100.096	487.781	587.877
TOTAL ASSETS		21.908.590	27.380.467	49.289.057	15.711.797	19.235.158	34.946.955

The accompanying explanations and notes set out on pages 13 to 85 form an integral part of these financial statements.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN
TURKISH, SEE IN NOTE 3.I**

HSBC BANK A.Ş.

**UNCONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019
(STATEMENT OF FINANCIAL POSITION)**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

I. BALANCE SHEET	Note (Section Five II)	Reviewed Current Period			Audited Prior Period		
		(30.09.2020)			(31.12.2019)		
		TL	FC	Total	TL	FC	Total
LIABILITIES							
I. DEPOSITS	(II-a)	9.416.584	22.423.528	31.840.112	7.203.753	20.597.525	27.801.278
II. FUNDS BORROWED	(II-d)	-	3.370.691	3.370.691	-	30.720	30.720
III. MONEY MARKET BALANCES	(II-c)	5.194.346	-	5.194.346	-	-	-
IV. MARKETABLE SECURITIES ISSUED (Net)		-	-	-	-	-	-
4.1 Bills		-	-	-	-	-	-
4.2 Assets Backed Securities		-	-	-	-	-	-
4.3 Bonds		-	-	-	-	-	-
V. BORROWER FUNDS		-	-	-	-	-	-
5.1 Borrower Funds		-	-	-	-	-	-
5.2 Other		-	-	-	-	-	-
VI. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-	-	-	-	-
VII. DERIVATIVE FINANCIAL LIABILITIES	(II-b)	403.734	2.073.731	2.477.465	464.612	975.820	1.440.432
7.1 Derivative Financial Liabilities at Fair Value Through Profit or Loss		403.734	2.073.731	2.477.465	464.612	975.820	1.440.432
7.2 Derivative Financial Liabilities at Fair Value Through Other Comprehensive Income	(II-g)	-	-	-	-	-	-
VIII. FACTORING LIABILITIES		-	-	-	-	-	-
IX. LEASE LIABILITIES	(II-f)	93.008	9.596	102.604	113.169	11.022	124.191
X. PROVISIONS	(II-h)	162.747	1.783	164.530	166.334	1.307	167.641
10.1 Restructuring Provisions		2.754	-	2.754	4.114	-	4.114
10.2 Reverse for Employee Benefits		65.513	-	65.513	65.476	-	65.476
10.3 Insurance Technical Provisions (Net)		-	-	-	-	-	-
10.4 Other Provisions		94.480	1.783	96.263	96.744	1.307	98.051
XI. CURRENT TAX LIABILITY	(II-i)	61.735	-	61.735	30.986	-	30.986
XII. DEFERRED TAX LIABILITY	(II-i)	-	-	-	-	-	-
XIII. LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)	(II-j)	-	-	-	-	-	-
13.1 Held for Sale Purpose		-	-	-	-	-	-
13.2 Related to Discontinued Operations		-	-	-	-	-	-
XIV. SUBORDINATED DEBT INSTRUMENTS	(II-k)	-	1.700.117	1.700.117	-	1.337.281	1.337.281
14.1 Loans		-	1.700.117	1.700.117	-	1.337.281	1.337.281
14.2 Other Debt Instruments		-	-	-	-	-	-
XV. OTHER LIABILITIES	(II-e)	623.466	433.776	1.057.242	761.656	173.102	934.758
XVI. SHAREHOLDERS' EQUITY	(II-l)	3.320.215	-	3.320.215	3.079.668	-	3.079.668
16.1 Paid-in capital		652.290	-	652.290	652.290	-	652.290
16.2 Capital Reserves		272.693	-	272.693	272.693	-	272.693
16.2.1 Share Premium		-	-	-	-	-	-
16.2.2 Share Cancellation Profits		-	-	-	-	-	-
16.2.3 Other Capital Reserves		272.693	-	272.693	272.693	-	272.693
16.3 Accumulated Other Comprehensive Income or Loss Not Reclassified Through Profit or Loss		(16.873)	-	(16.873)	(24.410)	-	(24.410)
16.4 Accumulated Other Comprehensive Income or Loss Reclassified Through Profit or Loss		4.468	-	4.468	26.399	-	26.399
16.5 Profit Reserves		2.152.696	-	2.152.696	1.682.765	-	1.682.765
16.5.1 Legal Reserves		184.141	-	184.141	184.141	-	184.141
16.5.2 Status Reserves		-	-	-	-	-	-
16.5.3 Extraordinary Reserves		1.968.555	-	1.968.555	1.498.624	-	1.498.624
16.5.4 Other Profit Reserves		-	-	-	-	-	-
16.6 Profit Or Loss		254.941	-	254.941	469.931	-	469.931
16.6.1 Prior Years' Profit/Loss		-	-	-	-	-	-
16.6.2 Current Year Profit/Loss		254.941	-	254.941	469.931	-	469.931
16.7 Minority Interest		-	-	-	-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		19.275.835	30.013.222	49.289.057	11.820.178	23.126.777	34.946.955

The accompanying explanations and notes set out on pages 13 to 85 form an integral part of these financial statements.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED
IN TURKISH, SEE IN NOTE 3.I**

HSBC BANK A.Ş.

**UNCONSOLIDATED STATEMENT OF OFF-BALANCE SHEET COMMITMENTS
AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

II. OFF-BALANCE SHEET COMMITMENTS	Note (Section Five III)	Reviewed Current Period (30.09.2020)			Audited Prior Period (31.12.2019)		
		TL	FC	Total	TL	FC	Total
A. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)		36.304.150	120.367.606	156.671.756	40.296.164	94.305.392	134.601.556
I. GUARANTEES AND COLLATERALS	(III-a-2,3)	1.261.321	5.811.076	7.072.397	1.149.090	3.616.445	4.765.535
1.1 Letters of Guarantee		1.243.321	3.064.770	4.308.091	1.125.883	1.741.436	2.867.319
1.1.1 Guarantees Subject to State Tender Law		-	-	-	-	-	-
1.1.2 Guarantees Given for Foreign Trade Operations		-	-	-	-	-	-
1.1.3 Other Letters of Guarantee		1.243.321	3.064.770	4.308.091	1.125.883	1.741.436	2.867.319
1.2 Bank Acceptances		-	408	408	-	1.029	1.029
1.2.1 Import Letter of Acceptance		-	408	408	-	1.029	1.029
1.2.2 Other Bank Acceptance		-	-	-	-	-	-
1.3 Letters of Credit		18.000	2.525.415	2.543.415	23.207	1.655.053	1.678.260
1.3.1 Documentary Letters of Credit		18.000	1.645.431	1.663.431	23.207	984.121	1.007.328
1.3.2 Other Letters of Credit		-	879.984	879.984	-	670.932	670.932
1.4 Prefinancing Given as Guarantee		-	-	-	-	-	-
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to the Central Bank of Turkey		-	-	-	-	-	-
1.5.2 Other Endorsements		-	-	-	-	-	-
1.6 Securities Issue Purchase Guarantees		-	-	-	-	-	-
1.7 Factoring Guarantees		-	-	-	-	-	-
1.8 Other Guarantees		-	220.483	220.483	-	218.927	218.927
1.9 Other Collaterals		-	-	-	-	-	-
II. COMMITMENTS	(III-a-1)	5.531.129	11.994.140	17.525.269	5.968.023	4.753.441	10.721.464
2.1 Irrevocable Commitments		5.531.129	11.994.140	17.525.269	5.968.023	4.753.441	10.721.464
2.1.1 Forward Asset Purchase and Sale Commitments		1.439.035	11.993.437	13.432.472	1.609.602	4.752.902	6.362.504
2.1.2 Forward Deposit Purchase and Sales Commitments		-	-	-	-	-	-
2.1.3 Share Capital Commitments to Associates and Subsidiaries		-	-	-	-	-	-
2.1.4 Loan Granting Commitments		188.843	-	188.843	578.715	-	578.715
2.1.5 Securities Underwriting Commitments		-	-	-	-	-	-
2.1.6 Commitments for Reserve Deposit Requirements		-	-	-	-	-	-
2.1.7 Payment Commitment for Checks		16.869	-	16.869	20.119	-	20.119
2.1.8 Tax and Fund Liabilities from Export Commitments		2.286	-	2.286	2.286	-	2.286
2.1.9 Commitments for Credit Card Expenditure Limits		3.321.483	-	3.321.483	3.206.861	-	3.206.861
2.1.10 Commitments for Promotions Related with Credit Cards and Banking Activities		17.770	-	17.770	13.950	-	13.950
2.1.11 Receivables from Short Sale Commitments		-	-	-	-	-	-
2.1.12 Payables for Short Sale Commitments		-	-	-	-	-	-
2.1.13 Other Irrevocable Commitments		544.843	703	545.546	536.490	539	537.029
2.2 Revocable Commitments		-	-	-	-	-	-
2.2.1 Revocable Loan Granting Commitments		-	-	-	-	-	-
2.2.2 Other Revocable Commitments		-	-	-	-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS	(III-b)	29.511.700	102.562.390	132.074.090	33.179.051	85.935.506	119.114.557
3.1 Derivative Financial Instruments for Hedging Purposes		-	-	-	-	-	-
3.1.1 Fair Value Hedge		-	-	-	-	-	-
3.1.2 Cash Flow Hedge		-	-	-	-	-	-
3.1.3 Hedge of Net Investment in Foreign Operations		-	-	-	-	-	-
3.2 Held for Trading Transactions		29.511.700	102.562.390	132.074.090	33.179.051	85.935.506	119.114.557
3.2.1 Forward Foreign Currency Buy/Sell Transactions		6.042.880	11.043.996	17.086.876	5.511.577	9.157.496	14.669.073
3.2.1.1 Forward Foreign Currency Transactions-Buy		4.331.824	4.146.930	8.478.754	4.346.642	2.997.361	7.344.003
3.2.1.2 Forward Foreign Currency Transactions-Sell		1.711.056	6.897.066	8.608.122	1.164.935	6.160.135	7.325.070
3.2.2 Swap Transactions Related to Foreign Currency and Interest Rate		14.233.982	75.126.998	89.360.980	14.966.436	63.391.217	78.357.653
3.2.2.1 Foreign Currency Swap-Buy		4.243.555	26.183.504	30.427.059	3.892.839	23.141.100	27.033.939
3.2.2.2 Foreign Currency Swap-Sell		9.990.427	23.154.612	33.145.039	11.073.597	17.570.101	28.643.698
3.2.2.3 Interest Rate Swap-Buy		-	12.894.441	12.894.441	-	11.340.008	11.340.008
3.2.2.4 Interest Rate Swap-Sell		-	12.894.441	12.894.441	-	11.340.008	11.340.008
3.2.3 Foreign Currency, Interest Rate, and Securities Options		9.234.836	12.060.410	21.295.246	12.701.036	11.500.072	24.201.108
3.2.3.1 Foreign Currency Options-Buy		4.617.418	6.030.205	10.647.623	6.350.518	5.750.036	12.100.554
3.2.3.2 Foreign Currency Options-Sell		4.617.418	6.030.205	10.647.623	6.350.518	5.750.036	12.100.554
3.2.3.3 Interest Rate Options-Buy		-	-	-	-	-	-
3.2.3.4 Interest Rate Options-Sell		-	-	-	-	-	-
3.2.3.5 Securities Options-Buy		-	-	-	-	-	-
3.2.3.6 Securities Options-Sell		-	-	-	-	-	-
3.2.4 Foreign Currency Futures		-	-	-	-	-	-
3.2.4.1 Foreign Currency Futures-Buy		-	-	-	-	-	-
3.2.4.2 Foreign Currency Futures-Sell		-	-	-	-	-	-
3.2.5 Interest Rate Futures		-	-	-	-	-	-
3.2.5.1 Interest Rate Futures-Buy		-	-	-	-	-	-
3.2.5.2 Interest Rate Futures-Sell		-	-	-	-	-	-
3.2.6 Other		2	4.330.986	4.330.988	2	1.886.721	1.886.723
B. CUSTODY AND PLEDGES SECURITIES (IV+V+VI)		143.529.854	49.259.383	192.789.237	169.740.680	35.816.881	205.557.561
IV. ITEMS HELD IN CUSTODY		75.790.727	13.019.124	88.809.851	102.241.612	9.991.040	112.232.652
4.1 Customers' Securities Held		-	-	-	-	-	-
4.2 Investment Securities Held in Custody		74.108.112	4.464.817	78.572.929	100.714.174	6.698.385	107.412.559
4.3 Checks Received for Collection		16.554	111.085	127.639	4.243	95.029	99.272
4.4 Commercial Notes Received for Collection		130.885	28.263	159.148	130.213	39.467	169.680
4.5 Other Assets Received for Collection		-	-	-	-	-	-
4.6 Assets Received for Public Offering		-	-	-	-	-	-
4.7 Other Items Under Custody		1.535.176	8.414.959	9.950.135	1.392.982	3.158.159	4.551.141
4.8 Custodians		-	-	-	-	-	-
V. PLEDGES ITEMS		65.445.338	23.457.338	88.902.676	66.025.279	16.404.321	82.429.600
5.1 Marketable Securities		24.426	1.169.875	1.194.301	51.931	862.707	914.638
5.2 Guarantee Notes		33.377	428.984	462.361	34.602	297.485	332.087
5.3 Commodity		571.647	985.530	1.557.177	669.505	726.493	1.395.998
5.4 Warranty		-	-	-	-	-	-
5.5 Real Estate		3.350.176	10.585.997	13.936.173	3.694.067	7.149.704	10.843.771
5.6 Other Pledged Items		61.465.712	10.286.952	71.752.664	61.575.174	7.367.932	68.943.106
5.7 Pledged Items-Depository		-	-	-	-	-	-
VI. ACCEPTED BILL OF EXCHANGE AND COLLATERALS		2.293.789	12.782.921	15.076.710	1.473.789	9.421.520	10.895.309
TOTAL OFF BALANCE SHEET COMMITMENTS (A+B)		179.834.004	169.626.989	349.460.993	210.036.844	130.122.273	340.159.117

The accompanying explanations and notes set out on pages 13 to 85 form an integral part of these financial statements.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED
IN TURKISH, SEE IN NOTE 3.I**

HSBC BANK A.Ş.

**UNCONSOLIDATED STATEMENT OF PROFIT OR LOSS
AS OF SEPTEMBER 30, 2020 AND SEPTEMBER 30, 2019**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

III. STATEMENT OF PROFIT OR LOSS		Reviewed				
		Note (Section Five IV)	Current Period (01.01.2020 – 30.09.2020)	Current Period (01.07.2020 – 30.09.2020)	Prior Period (01.01.2019– 30.09.2019)	Prior Period (01.07.2019– 30.09.2019)
INCOME AND EXPENSE ITEMS						
I.	INTEREST INCOME	(IV-a)	1.633.439	614.349	2.562.599	803.690
1.1	Interest Income on Loans	(IV-a-1)	1.193.952	434.978	1.785.884	537.842
1.2	Interest Received from Reserve Requirements		1.009	1.009	38.871	10.862
1.3	Interest Received from Banks	(IV-a-2)	31.958	8.879	139.754	19.032
1.4	Interest Received from Money Market Transactions		103.153	6.754	488.150	188.955
1.5	Interest Received from Marketable Securities Portfolio	(IV-a-3)	300.854	162.113	105.502	45.026
1.5.1	Financial Assets at Fair Value through Profit or (Loss)		38.484	6.320	42.562	15.628
1.5.2	Financial Assets at Fair Value Through Other Comprehensive Income		262.370	155.793	62.940	29.398
1.5.3	Financial Assets at Measured at Amortized Cost		-	-	-	-
1.6	Financial Lease Income		-	-	-	-
1.7	Other Interest Income		2.513	616	4.438	1.973
II.	INTEREST EXPENSE (-)	(IV-b)	728.311	296.409	1.449.743	459.737
2.1	Interest Expense on Deposits	(IV-b-4)	462.426	147.560	1.204.737	385.985
2.2	Interest Expense on Funds Borrowed	(IV-b-1)	88.652	42.604	214.716	67.557
2.3	Interest Expense on Money Market Transactions		118.787	83.176	10.668	1.845
2.4	Interest on Securities Issued	(IV-b-3)	-	-	-	-
2.5	Interest Expense on Lease		12.779	4.593	16.111	4.247
2.6	Other Interest Expenses		45.667	18.476	3.511	103
III.	NET INTEREST INCOME/EXPENSE (I - II)		905.128	317.940	1.112.856	343.953
IV.	NET FEES AND COMMISSIONS INCOME/EXPENSE		250.005	83.379	306.118	100.366
4.1	Fees and Commissions Received		286.118	95.703	336.762	110.520
4.1.1	Non-Cash Loans		65.365	25.865	48.877	16.875
4.1.2	Other	(IV-l)	220.753	69.838	287.885	93.645
4.2	Fees and Commissions Paid (-)		36.113	12.324	30.644	10.154
4.2.1	Non-Cash Loans		590	195	493	173
4.2.2	Other		35.523	12.129	30.151	9.981
V.	DIVIDEND INCOME	(IV-e)	25.196	-	31.499	6
VI.	TRADING INCOME/(LOSS) (Net)	(IV-d)	431.166	137.072	(53.019)	(44.408)
7.1	Trading Gains/(Losses) on Securities		121.012	36.661	49.558	31.466
7.2	Derivative Financial Transactions Gains/(Losses)		888.852	326.679	(107.260)	(144.890)
7.3	Foreign Exchange Gains/(Losses)		(578.698)	(226.268)	4.683	69.016
VII.	OTHER OPERATING INCOME	(IV-e)	190.845	50.543	225.518	83.785
VIII.	TOTAL OPERATING INCOME (III+IV+V+VI+VII)		1.802.340	588.934	1.622.972	483.702
IX.	PROVISION FOR LOAN LOSSES (-)	(IV-f)	403.889	114.097	180.014	14.910
X.	OTHER PROVISION EXPENSES (-)		2.990	(955)	12.660	5.392
XI.	PERSONNEL EXPENSES (-)		370.905	122.690	356.682	118.499
XII.	OTHER OPERATING EXPENSES (-)	(IV-g)	676.265	186.721	492.927	146.279
XIII.	NET OPERATING INCOME/(LOSS) (VIII-IX-X-XI-XII)		348.291	166.381	580.689	198.622
XIV.	EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER INCOME/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD		-	-	-	-
XVI.	INCOME/(LOSS) ON NET MONETARY POSITION		-	-	-	-
XVII.	INCOME/EXPENSE BEFORE TAXES FROM CONTINUING OPERATIONS (XIII+...+XVI)		-	-	-	-
XVIII.	PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)		348.291	166.381	580.689	198.622
18.1	Current Tax Provision	(IV-i)	(93.350)	(29.699)	(124.619)	(46.976)
18.2	Deferred Tax Income Effect (+)		(123.987)	2.836	(97.154)	(31.565)
18.3	Deferred Tax Expense Effect (-)		-	1.288	(27.465)	(15.411)
XIX.	NET PROFIT/LOSSES FROM CONTINUING OPERATIONS (XVII±XVIII)		30.637	(33.823)	-	-
XX.	INCOME FROM DISCONTINUED OPERATIONS	(IV-j)	254.941	136.682	456.070	151.646
20.1	Income from Non-Current Assets Held for Resale		-	-	-	-
20.2	Profit from Sales of Associates, Subsidiaries and Joint Ventures (Business Partners)		-	-	-	-
20.3	Other Income From Discontinued Operations		-	-	-	-
XXI.	EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-	-	-
21.1	Expenses for Non-Current Assets Held for Resale		-	-	-	-
21.2	Loss from Sales of Associates, Subsidiaries and Joint Ventures (Business Partners)		-	-	-	-
21.3	Other Expenses From Discontinued Operations		-	-	-	-
XXII.	PROFIT/LOSSES BEFORE TAXES FROM DISCONTINUED OPERATIONS (XX-XXI)		-	-	-	-
XXIII.	PROVISION FOR INCOME TAXES FROM DISCONTINUED OPERATIONS (±)		-	-	-	-
23.1	Current Tax Provision		-	-	-	-
23.2	Deferred Tax Income Effect (+)		-	-	-	-
23.3	Deferred Tax Expense Effect (-)		-	-	-	-
XXIV.	NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XXII±XXIII)		-	-	-	-
XXV.	NET PROFIT/LOSSES (XIX+XXIV)		-	-	-	-
	Earnings/Loss per Share	(IV-k)	254.941 0,003908	136.682 0,002095	456.070 0,006992	151.646 0,002325

The accompanying explanations and notes set out on pages 13 to 85 form an integral part of these financial statements.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED
IN TURKISH, SEE IN NOTE 3.I**

HSBC BANK A.Ş.

**UNCONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
AS OF SEPTEMBER 30, 2020 AND SEPTEMBER 30, 2019**

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

IV. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
	Reviewed Current Period (30.09.2020)	Reviewed Prior Period (30.09.2019)
I.	CURRENT PERIOD INCOME/LOSS	254.941
II.	OTHER COMPREHENSIVE INCOME	456.070
2.1	Not Reclassified Through Profit or Loss	53.766
		341
2.1.1	Property and Equipment Revaluation Increase/Decrease	-
2.1.2	Intangible Assets Revaluation Increase/Decrease	-
2.1.3	Defined Benefit Pension Plan Remeasurement Gain/Loss	9.505
2.1.4	Other Comprehensive Income Items Not Reclassified Through Profit or Loss	-
2.1.5	Tax Related Other Comprehensive Income Items Not Reclassified Through Profit or Loss	(1.968)
2.2	Reclassified Through Profit or Loss	(21.931)
2.2.1	Foreign Currency Translation Differences	-
2.2.2	Valuation and/or Reclassification Income/Expense of the Financial Assets at Fair Value through Other Comprehensive Income	(29.234)
2.2.3	Cash Flow Hedge Income/Loss	(498)
2.2.4	Foreign Net Investment Hedge Income/Loss	-
2.2.5	Other Comprehensive Income Items Reclassified Through Profit or Losses	-
2.2.6	Tax Related Other Comprehensive Income Items Reclassified Through Profit or Loss	7.801
III.	TOTAL COMPREHENSIVE INCOME (I+II)	240.547
		509.836

The accompanying explanations and notes set out on pages 13 to 85 form an integral part of these financial statements.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN
TURKISH, SEE IN NOTE 3.1**

HSBC BANK A.Ş.

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF SEPTEMBER 30, 2019

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY															
						Accumulated Other Comprehensive Income or Expense Not Reclassified through Profit or Loss			Accumulated Other Comprehensive Income or Expense Reclassified through Profit or Loss						
Reviewed Prior Period September 30, 2019	Note Section Five	Paid-in Capital	Share Premium	Share Cancel Profits	Other Capital Reserves	1	2	3	4	5	6	Profit Reserves	Prior Period Profit/ (Loss)	Net Profit/ (Loss)	Total Equity
I. Balances at the Beginning of the Period -December 31, 2018		652.290	-	-	272.693	-	(28.096)	-	-	(46.092)	2.384	1.744.824	-	335.584	2.933.587
II. Corrections According to TAS 8		-	-	-	-	-	-	-	-	-	-	-	(397.643)	-	(397.643)
2.1 Effects of Corrections		-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effects of the Changes in Accounting Policies		-	-	-	-	-	-	-	-	-	-	-	(397.643)	-	(397.643)
III. Adjusted Beginning Balance (I+II)		652.290	-	-	272.693	-	(28.096)	-	-	(46.092)	2.384	1.744.824	(397.643)	335.584	2.535.944
IV. Total Comprehensive Income		-	-	-	-	-	341	-	-	54.975	(1.550)	-	-	456.070	509.836
V. Capital Increase by Cash	(V-a)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Capital Increase by Internal Sources		-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Paid-in capital inflation adjustment difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Convertible Bonds to Shares		-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Subordinated Debt Instruments		-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Increase/Decrease by Other Changes		-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Profit Distribution		-	-	-	-	-	-	-	-	-	-	(62.059)	397.643	(335.584)	-
11.1 Dividends Paid		-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.2 Transfers to Reserves		-	-	-	-	-	-	-	-	-	-	(62.059)	397.643	(335.584)	-
11.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period-End Balance (III+IV+.....+X+XI)		652.290	-	-	272.693	-	(27.755)	-	-	8.883	834	1.682.765	-	456.070	3.045.780

- Increase/Decrease of Accumulated Revaluation Reserve on Tangible,
- Accumulated Gains/Losses on Remeasurement of Defined Benefit Plans,
- Other (Other Comprehensive Income of Associates and Joint Ventures Accounted with Equity Method That Will Not Be Reclassified at Profit and Loss and Other Accumulated Amounts of Other Comprehensive Income Items That Will Not Be Reclassified at Profit or Loss,
- Exchange Differences on Translation Reserve,
- Accumulated Revaluation and/or Classification Gains / (Losses) of Financial Assets at Fair Value Through Other Comprehensive Income,
- Other (Cash Flow Hedge Gains/Losses, Other Comprehensive Income of Associates and Joint Ventures Accounted with Equity Method That Will Be Reclassified at Profit or Loss and Other Accumulated Amounts of Other Comprehensive Income Items That Will Be Reclassified at Profit or Loss).

The accompanying explanations and notes set out on pages 13 to 85 form an integral part of these financial statements.

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UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF SEPTEMBER 30, 2020

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL").)

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY																
						Accumulated Other Comprehensive Income or Expense Not Reclassified through Profit or Loss			Accumulated Other Comprehensive Income or Expense Reclassified through Profit or Loss							
Reviewed Current Period September 30, 2020	Note Section Five	Paid-in Capital	Share Premium	Share Cancel Profits	Other Capital Reserves	1	2	3	4	5	6	Profit Reserves	Prior Period Profit/ (Loss)	Net Profit/ (Loss)	Total Equity	
I. Balances at the Beginning of the Period -December 31, 2019		652.290	-	-	272.693	-	(24.410)	-	-	26.011	388	1.682.765	-	469.931	3.079.668	
II. Corrections According to TAS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2.1 Effects of Corrections		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2.2 Effects of the Changes in Accounting Policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
III. Adjusted Beginning Balance (I+II)		652.290	-	-	272.693	-	(24.410)	-	-	26.011	388	1.682.765	-	469.931	3.079.668	
IV. Total Comprehensive Income		-	-	-	-	-	7.537	-	-	(21.543)	(388)	-	-	254.941	240.547	
V. Capital Increase by Cash	(V-a)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VI. Capital Increase by Internal Sources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VII. Paid-in capital inflation adjustment difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VIII. Convertible Bonds to Shares		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
IX. Subordinated Debt Instruments		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
X. Increase/Decrease by Other Changes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XI. Profit Distribution		-	-	-	-	-	-	-	-	-	-	469.931	-	(469.931)	-	
11.1 Dividends Paid		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
11.2 Transfers to Reserves		-	-	-	-	-	-	-	-	-	-	469.931	-	(469.931)	-	
11.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Period-End Balance (III+IV+.....+X+XI)		652.290	-	-	272.693	-	(16.873)	-	-	4.468	-	2.152.696	-	254.941	3.320.215	

1. Increase/Decrease of Accumulated Revaluation Reserve on Tangible,
2. Accumulated Gains/Losses on Remeasurement of Defined Benefit Plans,
3. Other (Other Comprehensive Income of Associates and Joint Ventures Accounted with Equity Method That Will Not Be Reclassified at Profit and Loss and Other Accumulated Amounts of Other Comprehensive Income Items That Will Not Be Reclassified at Profit or Loss,
4. Exchange Differences on Translation Reserve,
5. Accumulated Revaluation and/or Classification Gains/(Losses) of Financial Assets at Fair Value Through Other Comprehensive Income,
6. Other (Cash Flow Hedge Gains/Losses, Other Comprehensive Income of Associates and Joint Ventures Accounted with Equity Method That Will Be Reclassified at Profit or Loss and Other Accumulated Amounts of Other Comprehensive Income Items That Will Be Reclassified at Profit or Loss).

The accompanying explanations and notes set out on pages 13 to 85 form an integral part of these financial statements

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UNCONSOLIDATED STATEMENT OF CASH AS OF SEPTEMBER 30, 2020 AND SEPTEMBER 30, 2019

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”).)

VI. STATEMENT OF CASH FLOWS			
	Note (Section Five VI)	Reviewed Current Period (30.09.2020)	Reviewed Prior Period (30.09.2019)
A. CASH FLOWS FROM BANKING OPERATIONS			
1.1 Operating Profit Before Changes in Operating Assets and Liabilities	(VI-a)	1.048.869	1.219.845
1.1.1 Interest Received		1.670.650	2.654.777
1.1.2 Interest Paid		(749.153)	(1.429.633)
1.1.3 Dividend Received		-	31.499
1.1.4 Fees and Commissions Received		258.370	325.839
1.1.5 Other Income		71.911	62.393
1.1.6 Collections From Previously Written-Off Loans and Other Receivables		72.921	88.729
1.1.7 Cash Payments to Personnel and Service Suppliers	(VI-a)	(371.365)	(358.981)
1.1.8 Taxes Paid		(122.589)	(100.961)
1.1.9 Other		218.124	(53.817)
1.2 Changes in Operating Assets and Liabilities Subject to Banking Operations		1.664.425	(1.757.564)
1.2.1 Net (Increase)/Decrease in Financial Assets at Fair Value Through Profit or Loss		131.471	(306.686)
1.2.2 Net Decrease in Due From Banks		(859.635)	(508.211)
1.2.3 Net (Increase) in Loans		(10.133.071)	(1.035.007)
1.2.4 Net (Increase) in Other Assets		(225.146)	(350.085)
1.2.5 Net Increase in Bank Deposits		324.932	(1.750.685)
1.2.6 Net Increase/(Decrease) in Other Deposits		3.738.614	2.207.013
1.2.7 Net Increase/(Decrease) in Financial Liabilities at Fair Value Through Profit or Loss		-	-
1.2.8 Net (Decrease) in Funds Borrowed		3.334.548	(10.152)
1.2.9 Net Increase/(Decrease) in Matured Payables		-	-
1.2.10 Net Increase/(Decrease) in Other Liabilities		5.352.712	(3.751)
I. Net Cash Provided From Banking Operations		2.713.294	(537.719)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
II. Net Cash Provided From Investing Activities		(6.123.357)	(505.191)
2.1 Cash Paid for the Purchase of Associates, Subsidiaries and Joint Ventures		-	-
2.2 Cash Obtained from the Sale of Associates, Subsidiaries and Joint Ventures		-	-
2.3 Cash Paid for the Purchase of Tangible and Intangible Asset		(58.020)	(2.280)
2.4 Cash Obtained from the Sale of Tangible and Intangible Asset		-	-
2.5 Cash Paid for Purchase of Financial Assets at Fair Value Through Other Comprehensive Income		(6.639.627)	(541.076)
2.6 Cash Obtained from the Sale of Financial Assets at Fair Value Through Other Comprehensive Income		613.375	59.426
2.7 Cash Paid for Purchase of Financial Assets at Amortized Cost		-	-
2.8 Cash Obtained From Sale of Financial Assets at Amortized Cost		-	-
2.9 Other		(39.085)	(21.261)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
III. Net Cash Provided From Financing Activities		(44.494)	(950.178)
3.1 Cash Obtained From Funds Borrowed and Securities Issued		-	-
3.2 Cash Outflow From Funds Borrowed and Securities Issued		-	(916.051)
3.3 Equity Instruments Issued		-	-
3.4 Dividends Paid		-	-
3.5 Payments for Finance Lease Liabilities		(44.494)	(34.127)
3.6 Other		-	-
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents	(VI-a)	12.853	(12.557)
V. Net (Decrease)/Increase in Cash and Cash Equivalents (I+II+III+IV)		(3.441.704)	(2.005.645)
VI. Cash and Cash Equivalents at Beginning of the Period	(VI-d)	11.880.540	13.193.713
VII. Cash and Cash Equivalents at End of the Period	(VI-d)	8.438.836	11.188.068

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SECTION THREE

EXPLANATIONS ON ACCOUNTING POLICIES

I. EXPLANATIONS ON BASIS OF PRESENTATION

a. The preparation of the financial statements and related notes and explanations in accordance with the Turkish Accounting Standards and Regulation on the Principles and Procedures Regarding Banks’ Accounting Application and Keeping Documents:

The Bank prepared the accompanying unconsolidated financial statements within the scope of the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” related with Banking Law numbered 5411 published in the Official Gazette no.26333 dated November 1, 2006 and in accordance with the regulations, communiqués, interpretations and legislations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency (“BRSA”) and in case where a specific regulation is not made by BRSA and Turkish Accounting Standards published by the Public Oversight Accounting for the format and detail of the publicly announced unconsolidated financial statements and notes to these statements have been prepared in accordance with the “Communiqué on Publicly Announced Financial Statements, Explanations and Notes to These Financial Statements”, published in Official Gazette no. 28337, dated June 28, 2012, and amendments to this Communiqué dated February 1, 2019 which include Turkish Accounting Standard principles.

The unconsolidated financial statements have been prepared in TL, under the historical cost convention as modified in accordance with inflation adjustments until December 31, 2004, except for the financial assets and liabilities, which are carried at fair value.

The preparation of the unconsolidated financial statements in conformity with TFRS requires the Bank Management to use of certain make assumptions and estimates on the assets and liabilities of the balance sheet and contingent issues as of the balance sheet date. These estimates are reviewed regularly and, when necessary, corrections are made and the effects of these corrections are reflected to the income statement. The estimations and projections used are explained in corresponding disclosures.

b. Accounting policies and valuation principles applied in the presentation of financial statements:

Accounting policies and valuation principles used in the preparation of the financial statements are determined and applied, in accordance with the regulations, communiqués, interpretations and legislations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency (“BRSA”),and are consistent with the accounting policies applied in the annual financial statements prepared for the year ended December 31, 2019 except new regulations specified in Notes VIII.

The accounting policies and valuation principles related with current period are explained in Notes II to XXXII .

The ongoing COVID-19 pandemic, which has recently emerged in China, has spread to various countries in the world, causing potentially fatal respiratory infections, negatively affects both regional and global economic conditions, as well as it causes disruptions in operations, especially countries that are exposed to the epidemic. As a result of the spread of COVID-19 around the world, several measures have been taken in our country as well as in the world in order to prevent the spread of the virus and measures are still being taken. In addition to these measures, economic measures are also taken to minimize the economic impact of the virus outbreak on individuals and businesses in our country and worldwide.

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I. EXPLANATIONS ON BASIS OF PRESENTATION (Continued)

Since it is aimed to update the most recent financial information in the interim financial statements prepared as of September 30, 2020, considering the magnitude of the economic changes due to COVID-19, the Bank made certain estimates in the calculation of expected credit losses and disclosed them in footnote numbered VIII “Explanations on Expected Credit Losses”. In the upcoming periods, the Bank will update its relevant assumptions as necessary and revise the realizations of past estimates.

Changes in Accounting policies and disclosures

New and revised TAS/IFRS effective for annual periods beginning on or after January 1, 2020 have no material effect on the financial statements, financial performance and on the Bank’s accounting policies. New and revised Turkish Accounting Standards issued but not yet effective as of the finalization date of the financial statements have no material effect on the financial statements, financial performance and on the Bank’s accounting policies.

Explanation for convenience translation into English:

The differences between accounting principles and standards set out by regulations inconformity with BRSA Accounting and Reporting Legislation, account principles, generally accepted in countries in which the complying unconsolidated financial statements are to be distributed and International Financial Reporting Standards (“IFRS”) have not been quantified in these unconsolidated financial statements. Accordingly, these unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

**II. EXPLANATIONS ON STRATEGY OF USING FINANCIAL INSTRUMENTS AND
EXPLANATIONS ON FOREIGN CURRENCY TRANSACTIONS**

The main sources of the Bank are customer deposits and borrowings from abroad. The Bank’s liquidity structure covers the financing of all liabilities at due date. This liquidity structure of the Bank has been established by diversifying fund resources and keeping sufficient cash and cash equivalences.

The Bank applies sophisticated methods of the group in daily market risk managing and control activities. In measuring the market risk and determining limits, “Value at Risk” (“VaR”) approach is being applied. For the portfolios which are subject to market risk; interest rate and currency risks are monitored; with regard to this, limits such as daily and monthly maximum loss limits regarding the exchange rate and share price risk, Value at Risk limits, maturity limits and quantity limits are being applied. The limit usages are being monitored through various checkpoints and reported to the top management. Risk monitoring and control activities are being performed by independent units. For the portfolios, which are subject to the interest risks, sensitivity of the changes in interest rates are being analyzed by “Present Value Basis Points” method (“PVBP”) and relevant limits are being determined.

Various stress scenarios, liquidity, gap, and volatility analysis have been performed regarding the control, monitor and management of the market risks. The purpose of these analyses is to be prepared for the possible risks and to make quick decisions regarding the targeted profitability.

Analyses that are conducted related to determined risks are being tracked by committees such as the Asset-Liability Committee and value adding decisions are made. The foreign exchange gains and losses from the foreign exchange transactions are being recorded at the date of transactions conducted. Foreign currency denominated monetary assets and liabilities are translated with the exchange rates prevailing. Gains and losses arising from such valuations are recognized in the income statement under the account of “Foreign exchange gains or losses”, except for foreign currency, non-performing loans and other foreign currency denominated non-monetary assets and liabilities.

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III. EXPLANATIONS ON INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

The Bank has no investments in associates as of September 30, 2020. Investments in subsidiaries are accounted in accordance with the “Turkish Accounting Standard for Individual Financial Instruments” (“TAS 27”) in the unconsolidated financial statements. Investments in subsidiaries that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less provision for impairment. Non-financial subsidiary of the Bank is HSBC Ödeme Sistemleri ve Bilgisayar Teknolojileri Basın Yayın ve Müşteri Hizmetleri A.Ş. (HSBC Ödeme Sistemleri). HSBC Ödeme Sistemleri ve Bilgisayar Teknolojileri Basın Yayın ve Müşteri Hizmetleri A.Ş. was established on December 10, 1999 to provide VIP services either for its clients or the clients of the legal entities, and in this respect, to provide hospitality, catering and private waiting room. As of October 17, 2019, dischargement process of HSBC Ödeme has started.

IV. EXPLANATIONS ON FORWARD TRANSACTIONS, OPTIONS AND DERIVATIVE INSTRUMENTS

In order to reduce the foreign exchange position risk the Bank conducts currency forward purchase and sale transaction agreements, currency swap purchase and sale transaction agreements and option purchase and sale agreements. In order to reduce the interest risk, the Bank conducts interest futures and forward interest rate agreements. The fair value differences of derivative instruments that are reflected in the profit and loss accounts are measured at fair value and associated with income statement during recognition. If the fair value of derivative financial instruments is positive, it is disclosed under the main account “Derivative Financial Assets at Fair Value Through Profit or Loss”; and if the fair value difference is negative, it is disclosed under “Derivative Financial Liabilities at Fair Value Through Profit or Loss”. Differences arising from the valuation of fair value are reflected in the “Derivative Financial Transactions Gains/Losses” account under income.

V. EXPLANATIONS ON INTEREST INCOME AND EXPENSES

Interest income is recorded according to the effective interest rate method (rate equal to net present value of future cash flows or financial assets and liabilities) defined in the TFRS 9 “Financial Instruments” standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. When applying the effective interest rate method, an entity identifies fees that are an integral part of the effective interest rate method of a financial instrument. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognized in profit or loss.

When applying the effective interest method, The Bank amortized any fees, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate over the expected life of the financial instrument. In case an interest was accrued on a security before its acquisition, the collected interest is divided into two parts as interest before and after the acquisition and only the interest of the period after the acquisition is recorded as interest income in the financial statements. If the expectation for the cash flows from financial asset is revised for reasons other than the credit risk, the change is reflected in the carrying amount of asset and in the related statement of profit or loss line and is amortized over the estimated life of financial asset.

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VI. EXPLANATIONS ON FEE AND COMMISSION INCOME AND EXPENSES

All fees and commission income are recognised on an accrual basis in accordance with the matching principle or “Effective Rate Method (Internal Rate of Return Method)” and according to the TFRS 15 “Revenue From Contracts With Customers”, except for certain commission income for various banking services, which are recorded as income at the time of collection.

VII. EXPLANATIONS ON FINANCIAL ASSETS

The Bank categorizes its financial assets as fair value through profit/loss, fair value through other comprehensive income or measured at amortized cost. Such financial assets are recognized or derecognized according to TFRS 9 Financial Instruments Part 3 Issued for classification and measurement of the financial instruments published in the Official Gazette No. 29953 dated January 19, 2017 by the Public Oversight Accounting and Auditing Standards Authority. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value Through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

The Bank recognize a financial asset into financial statements when it becomes a party to the contractual terms of a financial instrument. During the first recognition of a financial asset into the financial statements, business model determined by Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Bank's management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments is made to earnings, losses or interest that were previously recorded in the financial statements.

Classification and measurement of financial instruments

According to TFRS 9 requirements, classification and measurement of financial assets will depend on the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent “Solely Payments of Principal and Interest” (“SPPI”).

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank consider:

- Contingent events that would change the amount and timing of cash flows
- Leverage features
- Prepayment and extension terms
- Features that modify consideration for the time value of money

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VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)

a. 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 aimed 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 in case of the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and measured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement. According to uniform chart of accounts explanations interest income earned on financial asset and the difference between their acquisition costs and amortized costs are recorded as interest income in the statement of profit or loss. The differences between the amortized costs and the fair values of such assets are recorded under trading account income/losses in the statement of profit or loss. In cases where such assets are sold before their maturities, the gains/losses on such sales are recorded under trading account income/losses.

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

b. Financial Assets at Fair Value Through Other Comprehensive Income:

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

“Unrealized gains and losses” arising from changes in the fair value of financial assets classified as financial assets at fair value through other comprehensive income are recognized in the shareholders’ equity as “Other accumulated comprehensive income that will be reclassified in profit or loss”, until the related fair value differences accumulated in the shareholders’ equity are transferred to the income statement. Interest and dividends received from financial assets at fair value through other comprehensive income are recorded in interest income and dividend income as appropriate.

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

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VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)

c. Financial Assets Measured in 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. These financial assets are initially recognized at total of acquisition and transaction cost. After their initial recognition, they are carried at "Amortized Cost" using the "effective interest method". As of September 30, 2020 and December 31, 2019, the Bank has no marketable securities measured at amortized cost.

d. Loans:

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

Bank's loans are recorded under the "Measured at Amortized Cost" account.

VIII. EXPLANATIONS ON EXPECTED CREDIT LOSSES

The Bank recognizes a loss allowance for expected credit losses on financial assets measured in amortized cost and financial assets at fair value through other comprehensive income.

As of January 1, 2019, the Bank recognizes a loss allowance for credit losses based on the regulation published in the Official Gazette no. 29750 dated June 22, 2016 in connection with "Procedures and Principals regarding Classification of Loans and Allowances Allocated for Such Loans" in accordance with TFRS 9. In this context, the loan provision calculation method which is set out in accordance with the relevant legislation of BRSA as of December 31, 2018 changed by applying expected credit loss model with the implementation of TFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

Within the scope of Article 4 and 5 of the Regulation On Procedures And Principles For Classification Of Loans And Provisions in accordance with the BRSA Decision numbered 8948 dated March 17, 2020, in order to continue economic and commercial activities in a healthy way resulting from the Covid-19 outbreak, the 90 days default period for loans to be classified as non-performing loans shall be applied as 180 days according to assembly's resolution dated on March 17, 2020. This measure will be effective until December 31, 2020. In this context;

- Loans receivables that cannot be collected for up to 90 days are classified in the stage 1 and the 90 days default period for loans to be classified as non performing loans (NPL) up to 180 days. The application has no significant impact on the Bank's financial statements.
- In restructured installment receivables, the practice of shifting installments without a contract breakdown, within the defined terms has started for customers who do not want to be late in their instalments.
- Deferral and postponement possibilities of installment payments started to be evaluated within the scope of applications of customers that are in need.

The Bank continued to calculate expected credit losses in accordance with its risk models and TFRS 9 regulations for the receivables with related payment plan changes.

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VIII. EXPLANATIONS ON EXPECTED CREDIT LOSSES (Continued)

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

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument’s lifetime expected credit losses.

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, a lifetime expected credit loss is recorded.

Calculation of expected credit losses

The calculation of expected credit losses consists of three main parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD). PDs and LGDs used in the ECL calculation are point in time (“PIT”)-based for key portfolios and consider both current conditions and expected cyclical changes.

While the expected credit loss is estimated, three scenarios (baseline scenario, adverse scenario, optimistic scenario) are evaluated. Each of these scenarios was associated with the different PD and LGD.

In addition, a certain portion of commercial and corporate loans is assessed individually in accordance with the internal policies in the calculation of the expected credit losses based on TFRS 9. Such calculations are made by discounting the expected cash flows from the individual financial instrument to its present value using the effective interest rate.

When measuring expected credit losses, it shall be considered the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low. Such assessment is made by reflecting the estimate of expected credit losses which is unbiased and probability-weighted determined by evaluating a range of possible outcomes.

Probability of Default (PD)

The PD represents the likelihood of a default over a specified time period. A 12-month PD represents the likelihood of default determined for the next 12 months and a lifetime PD represents the probability of default over the remaining lifetime of the instrument. The lifetime PD calculation is based on a series of 12-month PIT PDs. In modeling, factors such as segment information, systematic and non-systematic information are taken into consideration.

It is used internal rating systems for commercial and corporate portfolio to measure risk level. The internal rating models used for the commercial portfolio include customer financial information and qualitative survey responses. Whereas behavioral and application scorecards used in the individual portfolio include; the behavioral data of the customer and the product in the Bank, the demographic information of the customer, and the behavioral data of the customer in the sector. In the retail portfolio, a structure was constructed on the segment based structure and the distribution of the customers among the predetermined segments. Segments are formed by product-specific variables and product based. Probability of default calculation has been carried out based on past information, current conditions and forward looking macroeconomic parameters.

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VIII. EXPLANATIONS ON EXPECTED CREDIT LOSSES (Continued)

Loss Given Default (LGD)

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

The Bank determines the assignment of LGD by using historical data which best reflects current circumstances for individual loans and corporate loans that are individually assessed. LGD summarizes all cash flows from customers subsequent to default. It covers all costs and collections that occur during the collection cycle, including collections from collaterals. It also includes the "time value of money" calculated by means of deducting costs and additional losses from the present value of collections. However, LGD assignment of corporate loans executed by portfolio based LGD calculation which is being used for estimating credit risk parameters under the tactical method and it is based on a complete economic cycle as prescribed by the Basel Committee. In order to demonstrate the statistical significance required thresholds can vary according to the specified portfolios.

Exposure at Default (EAD)

The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial instrument. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals, discounted at the effective interest rate. Future drawdowns on facilities are considered through a credit conversion factor (CCF) that is reflective of historical drawdown and default patterns and the characteristics of the respective portfolios. While the expected credit loss is estimated, three scenarios (baseline scenario, bad scenario, optimistic scenario) are evaluated. Each of these scenarios was associated with the probability of different default and loss in default.

Consideration of the Macroeconomic Factors

Probability of default parameters are determined by considering macroeconomic factors. The macroeconomic variables used in the calculation of the expected loss are as follows:

- Annual percentage change of GDP in USD
- Annual percentage change in revenue growth rate
- Annual change in export amount
- Annual percentage change in USD/TRY
- Unemployment rate
- Inflation rate
- Industrial production index

Stages were determined through the models created using internal information for the Bank simplified method has been applied for other financial institutions.

As of September 30, 2020, the Bank has reflected the possible effects of the COVID-19 outbreak to the estimates and judgments used in the calculation of expected credit losses by using the data that is received with the maximum effort with the best estimation method. Within the light of the aforementioned data, the Bank revised its macroeconomic expectations and weights in the expected credit loss calculation and the calculation which is made by taking into consideration the changes in PD and LGD is reflected in the financial statements as of September 30, 2020. In this context the Bank reflected the annual change rate in housing prices and short-term foreign debt change in USD in order to determine the PD and LGD. The model effects are tardily reflected to the financial statements due to the nature of the events that cause change and the effects of the events occur at different times. Therefore, the Bank has established an additional provisions for the entire loan portfolio for the sector and customers who are considered to have a high impact by performing individual assessments in order to eliminate the timing difference.

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VIII. EXPLANATIONS ON EXPECTED CREDIT LOSSES (Continued)

Calculating the Expected Loss Period

Lifetime ECL is calculated by taking into account maturity extensions, repayment options and the period during which the Bank will be exposed to credit risk. The time in financial guarantees and other irrevocable commitments represents the credit maturity for which the liabilities of the Bank. Behavioral maturity analysis has been performed on credit cards and overdraft accounts. With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless there is the legal right to call it earlier. But due to segment-based approach to retail loans the maturity of the 95 percentile is calculated as the credit life.

Significant Increase in Credit Risk

The Bank makes qualitative and quantitative assessments regarding assessment of significant increase in credit risk of financial assets to be classified as stage 2 (Significant Increase in Credit Risk).

Within the scope of quantitative assessment, the quantitative reason explaining the significant increase in the credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date. If there is a significant deterioration in PD, it is considered that there is a significant increase in credit risk and the financial asset is classified as stage 2. In this context, the Bank has calculated thresholds at which point the relative change is a significant deterioration. In the quantitative evaluation of the significant increase in credit risk, the Bank considers the absolute thresholds as well as the relative thresholds as an additional layer. Receivables below the absolute threshold value of default are not included in the relative threshold value comparison.

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

- Loans overdue more than 30 days as of the reporting date
- Loans classified as watch-list
- When there is a change in the payment plan
- Receivables with a negative probability above the predetermined threshold values between the probability of default at the date of release and the probability of default at the reporting date

In accordance with the BRSA’s decision dated March 27, 2020 no. 8970, as a result of the COVID-19 epidemic, in order to ensure a healthy continuation of economic and commercial activities, according to the forth article of the “Regulation on Classification of Loans and Procedures and Principles for provisions to be Allocated for them”, as of March 17, 2020, the loans overdue as 30 days are classified in the Stage 2 will be applied as 90 days until December 31, 2020 and provisions for the loans that continue to be classified as Stage 1 up to 90 days. The banks will continue according to their own risk models used in calculating expected credit losses under TFRS 9.

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IX. DERECOGNITION OF FINANCIAL INSTRUMENTS

a) Derecognition of financial assets due to change in contractual terms

Based on TFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset could lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a ‘new’ financial asset. When the Bank assesses the characteristics of the new contractual terms of the financial asset, it evaluates the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognized a modification gain or loss in profit or loss. Where all risks and rewards of ownership of the asset have not been transferred to another party and the Bank retains control of the asset, the Bank continues to recognize the remaining portion of the asset and liabilities arising from such asset. When the Bank retains substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognized in its entirety and the consideration received is recognized as a liability.

b) Derecognition of financial assets without any change in contractual terms

The Bank derecognizes the asset if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party. Except for equity instruments measured at fair value through other comprehensive income, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognized in profit/loss.

c) Derecognition of financial liabilities

It shall be removed a financial liability (or a part of a financial liability) from the statement of financial position when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

d) Reclassification of financial instruments

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

e) Restructuring and refinancing of financial instruments

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

The restructuring is the modification of the loan contract terms of the borrower or the partial or complete refinancing of the loan due to financial difficulties that the borrower may encounter or will likely encounter in the payments.

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IX. DERECOGNITION OF FINANCIAL INSTRUMENTS (Continued)

To reclassify the restructured corporate and commercial loans as performing loans from non-performing loans, the following conditions must be met:

- All of the overdue payments that cause the loan to be classified in the non-performing loans have been collected without using the collaterals.
- There is no delayed payment of the receivable as of the reclassification date and the last two payments before this date are due and complete.
- Ensuring the classification requirements of the company in the first or second stage.

In the case of Personal Loans, if the non-fulfillment of the payment obligation to the Bank results from the temporary liquidity shortage, loans may be restructured in order to provide the borrower with liquidity power and to collect the receivable of the Bank. Removal of customers from the scope of restructuring is done within the scope of the Communiqué Related to Principles and Procedures on Determining the Qualifications of Banks’ Loans and Other Receivables and the Provision for These Loans and Other Receivables.

- The loan, which is restructured in the process of performing-private restructuring loans (need-vehicle-housing), is considered as close monitoring and is followed in close monitoring at the time of restructured loan period.
- There is no restructuring of loan and credit card related to the non-performing loans.

X. EXPLANATIONS ON PRIOR PERIOD ACCOUNTING POLICIES

None.

XI. EXPLANATIONS ON OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to offset the recognized amounts and there is an intention to collect/pay related financial assets and liabilities on a net basis.

XII. EXPLANATIONS ON SALES AND REPURCHASE AGREEMENTS AND SECURITIES’ LENDING TRANSACTIONS

Securities subject to repurchase agreements (“Repo”) are classified as “Financial assets at fair value difference through profit or loss”, “Financial assets at fair value difference through other comprehensive income” and “Measured at amortized cost” in the balance sheet according to the investment purposes and measured according to the portfolio of the Bank to which they belong. Funds obtained under repurchase agreements are accounted under “Funds provided under repurchase agreements” in liability accounts and differences between the sale and repurchase prices determined by these repurchase agreements are accrued evenly over the life of the repurchase agreement using the “Effective interest (internal return) method”. Funds given against securities purchased under agreements to resell (“Reverse repo”) are accounted under “Receivables from money market” in the balance sheet. The difference between the purchase and resell price determined by these repurchase agreements is accrued evenly over the life of repurchase agreements using the “Effective interest rate method”. The bank has no securities lending transactions.

XIII. EXPLANATIONS ON PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND RELATED TO DISCONTINUED OPERATIONS AND LIABILITIES RELATED WITH THESE ASSETS

Property and equipment held-for-sale consist of tangible assets that were acquired due to non-performing receivables, and are accounted in the financial statements in accordance with the regulations of “Turkish Financial Reporting Standard for Assets Held for Sale and Discontinued Operations (TFRS 5)”.

As of September 30, 2020 and December 31, 2019, the Bank has no discontinued operations.

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XIV. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

The Bank’s intangible assets are composed of software, goodwill and establishment expenditures. Intangible assets are measured in accordance with “Intangible Assets Standard” (“TAS 38”) at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical cost after the deduction of accumulated depreciation and the provision for value decreases. The depreciable amount of an intangible asset is allocated on a systematic basis over its useful life. The costs of the intangible assets purchased before December 31, 2004, end of the high inflation period is accepted as December 31, 2004, are subject to inflation indexation until December 31, 2004. Intangible assets purchased after December 31, 2004 are recognised with their acquisition cost in the financial statements.

As of September 30, 2020, there is no net book value of goodwill (December 31, 2019: None).

XV. EXPLANATIONS ON PROPERTY AND EQUIPMENT

All property and equipment are measured in accordance with “Property, Plant and Equipment Standard” (“TAS 16”) at its cost when initially recognized and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. Subsequently, property and equipment is carried at cost less accumulated depreciation and provision for value impairment. The costs of the property and equipment purchased before December 31, 2004 or subject to inflation indexation until December 31, 2004. Property and equipment purchased after December 31, 2004 are recognized with their purchase cost in the financial statements. Property and equipment are amortized by using the straight line method based on their useful lives, such as buildings depreciated at rate 2%, vehicles at rates 20%, furniture at rate 20%, and other tangible assets at rates ranging from 2% to 33%. The depreciation charge for items remaining in the property and equipment for less than an accounting period at the balance sheet date is calculated in proportion to the period the item will remain in property and equipment. Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its net sales revenue. Repair and maintenance expenses in order to increase the useful life of the property and equipment are capitalized, other repair and maintenance costs are recognized as expenses. There are no mortgages, pledges or similar precautionary measures on tangible fixed assets.

XVI. EXPLANATIONS ON LEASING TRANSACTIONS

The Bank recognized assets held under finance leases on the basis of the lower of its fair value and the present value of the lease payments. Fixed assets acquired under finance lease contracts are classified in tangible assets and amortized over their estimated useful lives. Leased assets are included in the property and equipment and depreciation is charged on a straight-line basis over the useful life of the asset. If there is any diminution in value of the leased asset, a “Provision for value decrease” is recognized. Liabilities arising from the leasing transactions are included in “Financial lease payables” in the balance sheet. Interest and foreign exchange expenses regarding lease transactions are presented in the income statement. The Bank does not provide finance lease services as a “Lessor”.

At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognizes an asset representing the right to use the underlying asset and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee’s incremental borrowing rate. Lessees are required to recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

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XVI. EXPLANATIONS ON LEASING TRANSACTIONS (Continued)

Explanations on TFRS 16 Leasing Transactions:

TFRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognizing finance leases in the balance sheet whereas not recognizing operational lease. Instead, it is set forth a single model similar to the accounting of finance leases (on balance sheet). For lessors, the accounting stays almost the same. The bank has started to apply the "TFRS 16 Leases" Standard with using the modified retrospective approach from January 1, 2019.

Set out below are the accounting policies of the Bank upon application of TFRS 16:

Right of use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The right use includes the presence of:

- The initial measurement of the lease,
- The amount obtained by deducting all lease payments received from all lease payments made on or on the date of actual lease; and
- All initial direct costs incurred by the Bank

At the end of the lease term of the underlying asset's service, the transfer of the Bank is reasonably finalized, and the Bank depreciates the asset until the end of the life of the underlying asset on which the lease actually began. Right-of-use assets are subject to impairment.

Lease Liabilities

The Bank measures the lease obligation at the present value of the unpaid lease payments on the date that the lease commences.

Lease payments included in the measurement of the lease obligation on the date that the lease actually commences, consists of the following payments to be made for the right of use of the underlying asset during the lease period and not paid on the date the lease actually starts:

- Fixed payments,
- Variable lease payments based on an index or rate, the first measurement made using an index or rate on the actual date of the lease,
- Amounts expected to be paid by the Bank under the residual value commitments
- The use price of this option and, if the Bank is reasonably confident that it will use the purchase option
- Fines for termination of the lease if the lease term indicates that the Bank will use an option to terminate the lease.

Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which the event or condition that triggered the payment occurred. The Bank revises the revised discount rate for the remainder of the lease term, if the implicit interest rate in the lease can be easily determined; the Bank's alternative borrowing interest rate at the date of the revaluation.

After the effective date of the lease, the Bank measures the lease obligation as follows:

- Increase the carrying amount to reflect the interest on the lease obligation; and
- Decreases the carrying amount to reflect the lease payments made.

In addition, in the event of a change in the lease term, in essence a change in fixed lease payments or a change in the assessment of the option to buy the underlying asset, the value of the lease obligations is remeasured.

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**XVI. EXPLANATIONS ON LEASING TRANSACTIONS (Continued)
Short-term leases and leases of low-value assets**

The Bank applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Due to the Bank’s implementation of TFRS 16, assets classified under tangible assets as of September 30, 2020 amounted to TL 178.090 (December 31, 2019: TL 154.480), lease liability amounted to TL 102.604 (December 31, 2019: TL 124.191), depreciation expense amounted to TL 30.247 (September 30, 2019: TL 25.077) and interest expense amounted to TL 12.779 (September 30, 2019: TL 16.111).

XVII. EXPLANATIONS ON PROVISIONS AND CONTINGENT LIABILITIES

Provisions and contingent liabilities are accounted in accordance with, “Provisions, Contingent Liabilities and Contingent Assets Standard” (“TAS 37”). Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and a reliable estimate of the amount of the obligation can be made. When the amount of the obligation cannot be estimated and there is no possibility of an outflow of resources from the Bank, it is considered that a “contingent” liability exists and it is disclosed in the related notes to the financial statements.

XVIII. EXPLANATIONS ON CONTINGENT ASSETS

The contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Bank. Contingent assets are not recognized in financial statements since this may result in recognition of income that may never be realized. If an inflow of economic benefits to the Bank has become probable, then the contingent asset is disclosed in the footnotes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

XIX. EXPLANATIONS ON OBLIGATIONS RELATED TO EMPLOYEE RIGHTS

Obligations related to employment termination and vacation rights are accounted for in accordance with “Employee Rights Standard” (“TAS 19”) and are classified under “Reserve for Employee Rights” account in the balance sheet. Under the Turkish Labour Law, the Bank is required to pay a specific amount to the employees who have retired or whose employment is terminated other than the reasons specified in the Turkish Labour Law. The Bank provides provision for retirement and termination liabilities by estimating the net present value of future payments of the Bank arising from the retirement of employees and reflects this provision amount in the financial statements. For employee termination benefit provision calculation, future liability amounts are calculated and yearly discount rate is 4,83% (December 31, 2019: 2,55%).

As of September 30, 2020, actuarial loss amounted to TL 16.873 (December 31, 2019: TL 24.410 loss) is recognized under other income reserves in the financial statements.

All actuarial gains and losses are recognized under equity in accordance with TAS 19.

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XX. EXPLANATIONS ON TAXATION

a. Current Tax:

According to the article no. 32 of “Corporate Tax Law” No. 5520 was published in the Official Gazette, No. 26205 dated June 21, 2006, the corporate tax rate is 20%. However, 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 December 5, 2017, corporate tax rate applies as 22% for the three year period between 2018 and 2020. Corporate tax is calculated on the total income of the Bank after adjusting for certain disallowable expenses, exempt income and other allowances. No further tax is payable unless there is a profit distribution.

Dividends paid to non-resident corporations, which have a place of business in Turkey or are resident corporations, are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related “Double Tax Treaty Agreements” are taken into account. An increase in capital via issuing bonus share is not considered as profit distribution and thus does not incur withholding tax.

The prepaid taxes are calculated and paid at the rates valid for the corporate tax rate of the related years. Advance tax paid by corporations, which is for the current period is credited against the annual corporation tax, calculated on their annual corporate income in the following year. Companies file their tax returns until the 25th day of the fourth month after the closing of the accounting year to which they relate.

Under the Turkish Corporate Tax Law, 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.

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XX. EXPLANATIONS ON TAXATION (Continued)

b. Deferred Tax Asset/Liability:

The Bank calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with “Income Taxes Standard” (“TAS 12”) and the related decrees of the BRSA concerning income taxes. In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date. Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized. Deferred tax assets and liabilities are presented as net in the financial statements in accordance with TAS 12.

In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date. The Law regarding amendments on Certain Tax Laws was approved in the Grand National Assembly of Turkey on November 28, 2017 and the Law was published in the Official Gazette on 5 December 2017. Accordingly, the corporate income tax rate will be increased from 20% to 22% for the years 2018, 2019 and 2020. According to the Law that have been enacted, deferred tax assets and liabilities shall be measured at the tax rate 22% that are expected to apply to these periods when the assets is realized or the liability is settled. From 2021 onwards, deferred tax assets and liabilities were measured by 20% tax rate.

The calculated deferred tax asset and deferred tax liability are presented as net in these financial statements. After net off the net deferred tax asset is presented as deferred tax asset on the balance sheet and net deferred tax liability presented as deferred tax liability on balance sheet. As of September 30, 2020, the Bank has recognized deferred tax receivables amounting to TL 238.206 as assets (December 31, 2019: Deferred tax receivables amounting to TL 209.428 as assets).

Various operations and calculations with unascertained effects on final tax amount occur during standard workflow, and these require important judgement in determining income tax provision. Bank records tax liabilities caused by projections of additional taxes to be paid as a result of tax related incidents. In cases, which final tax results based on these incidents differ from initially recorded amounts, differences may effect income tax and deferred tax assets of the period they are recognized.

c. Transfer Pricing:

The article no.13 of the Corporate Tax Law describes the issue of transfer pricing under the title of “disguised profit distribution” by way of transfer pricing. “The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing” published at November 18, 2007, explains the application related issues on this topic. According to this communiqué, the taxpayers conduct transactions like purchase and sale of goods or services with the related parties where the prices are not determined according to the arm’s length principle, then it will be concluded that there is a disguised profit distribution by way of transfer pricing. Such disguised profit distributions will not be deducted from the corporate tax base for tax purposes. As stated in the “7.1 Annual Documentation” section of this communiqué, the taxpayers are required to fill out the “Transfer Pricing, Controlled Foreign Entities and Thin Capitalization” form for the purchase and sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices. Bank has filled out the related form and presented it to the tax office.

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XXI. EXPLANATIONS ON BORROWINGS

The funds borrowed are recorded at their costs and discounted by using the effective interest rate method. In the unconsolidated financial statements enclosed, foreign currency borrowings are translated according to the Bank’s period end exchange rate. Interest expenses of the current period regarding the borrowing amounts are recognized in the financial statements. The Bank has no marketable securities issued and convertible bonds as of September 30, 2020 and December 31, 2019.

XXII. EXPLANATIONS ON ISSUANCE OF SHARE CERTIFICATES

As of September 30, 2020 and December 31, 2019, the Bank has no issued share certificates.

XXIII. EXPLANATIONS ON AVALIZED DRAFTS AND ACCEPTANCES

Availed drafts and acceptances are realized simultaneously with the customer payments and recorded in off-balance sheet accounts, if any.

XXIV. EXPLANATIONS ON GOVERNMENT INCENTIVES

As of September 30, 2020 and December 31, 2019, the Bank has no government incentives.

XXV. EXPLANATIONS ON OPERATING SEGMENTS

Segment reporting is presented in Note XII of Section Four.

XXVI. EXPLANATIONS ON TFRS 9 FINANCIAL INSTRUMENTS

The Bank has adopted TFRS 9 Financial Instruments (“TFRS 9”) with the exclusion of loan provision calculations, to replace TAS 39 Financial Instruments: Recognition and Measurement as of January 1, 2018, as issued by Public Oversight Accounting and Auditing Standards Authority published in the Official Gazette No. 29953 dated January 19, 2017, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Bank did not early adopt TFRS 9 in previous periods.

As of January 1, 2019, the Bank recognizes a loss allowance for expected credit losses on financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, loan commitments and non-cash loans based on TFRS 9 and the regulation published in the Official Gazette no. 29750 dated June 22, 2016 in connection with “Procedures and Principals regarding Classification of Loans and Allowances Allocated for Such Loans” effective from January 1, 2018.

TFRS 9 sets out the new principles for the classification and measurement of financial instruments, expected credit loss which will be calculated for financial assets and hedge accounting.

In accordance with the transition rules option provided by the TFRS 9 "Financial Instruments", the Bank is not restated the prior period financial statements and recognized the transition effect of the standard as of January 1, 2019 under equity’s “prior year profit or loss” accounts then The Bank reclassified this effect to extraordinary reserves.

The Bank applies the above-mentioned procedures for all financial assets to the balance sheet classification and measurement criteria.

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XXVI. EXPLANATIONS ON TFRS 9 FINANCIAL INSTRUMENTS (Continued)

Each financial assets classified as financial asset at fair value through profit or loss, at amortized cost, or at fair value through profit or loss at initial recognition. For the classification and measurement of financial liabilities, the application of the existing provisions in TAS 39 does not change much.

Explanations on the impact of TFRS 9 implementation of The Bank is stated below.

Reconciliation of statement of financial position balances as at the transition of TFRS 9

The following table shows the reconciliation of provision of impairment loss as of December 31, 2018 and the new expected credit loss in accordance with TFRS 9 as of January 1, 2019.

Financial Assets	Book value before TFRS 9 December 31, 2018	Remeasurements	Book value After TFRS 9 January 1, 2019
Loans	949.304	619.041	1.568.345
Stage 1&2	258.605	665.430	924.035
Stage 3	690.699	(46.389)	644.310
Other Assets	105.818	(102.373)	3.445
Non-Cash Loans	44.680	(20.725)	23.955
Stage 1&2	40.337	(22.689)	17.648
Stage 3	4.343	1.964	6.307
Total	1.099.802	495.943	1.595.745

Effects on equity with TFRS 9 transition

According to paragraph 15 of Article 7 of TFRS 9 Financial Instruments Standards published in the Official Gazette numbered 29953 dated January 19, 2017, it is stated that it is not compulsory to restate previous period information in accordance with TFRS 9 and if the previous period information is not revised, it is stated that the difference between the book value of January 1, 2019 at the date of application should be reflected in the opening aspect of equity. The explanations about the transition effects to TFRS 9 presented in the equity items under the scope of this article are given below.

The amounting to TL 495.943 difference which is an expense between the provision for impairment of the previous period of the Bank and the provision for loss that is measured in accordance with TFRS 9 impairment model as of January 1, 2019 is classified as "Extraordinary Reserves" in shareholders' equity.

Deferred tax assets amounting to TL 108.073 and corporate tax loss amounting to TL 9.773 which have been cancelled due to TFRS 9 transition, have been reflected to the opening financials of January 1, 2019 and the related amount has been classified under "Extraordinary Reserves" in shareholders' equity.

XXVII. PROFIT RESERVES AND PROFIT DISTRIBUTION

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code (“TCC”), the legal reserves are composed of first and second reserves. The TCC requires first reserves to be 5% of the profit until the total reserves is equal to 20% of issued and fully paid-in share capital. Second reserves are required to be 10% of all cash profit distributions that are in excess of 5% of the issued and fully paid-in share capital. However, holding companies are exempt from this application. According to the Turkish Commercial Code, legal reserves can only be used to compensate accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

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XXVIII. EARNINGS/LOSS PER SHARE

Earnings per share disclosed in the statement of profit or loss are calculated by dividing net earnings/ (loss) for the year to the number of shares.

	Current Period September 30, 2020	Prior Period September 30, 2019
Net Earnings/(Loss)for the Period	254.941	456.070
Number of Shares	65.229.000.000	65.229.000.000
Earnings/(Loss) per Share (*)	0,003908	0,006992

(*) Amounts are expressed in full TL.

XXIX. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement cash includes cash on hand, cash in transit, purchased bank cheques and demand deposits including balances with the Central Bank of the Republic of Turkey; and cash equivalents include interbank money market placements, reserve deposit average accounts, time deposits at banks and investments at marketable securities with original maturity periods of less than three months.

XXX. RELATED PARTIES

Parties stated in the article no. 49 of the Banking Law No. 5411, Bank’s senior management, and board members are deemed as related parties. Transactions with related parties are presented in Note VII of Section Five.

XXXI. RECLASSIFICATIONS

None.

XXXII. OTHER MATTERS

None.

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SECTION FOUR

EXPLANATIONS RELATED TO FINANCIAL STRUCTURE AND RISK MANAGEMENT

I. EXPLANATIONS RELATED TO COMPONENTS OF SHAREHOLDERS’ EQUITY

Equity and Capital Adequacy Standard Ratio of the Bank is calculated in accordance with “Communiqué on Measurement and Assessment of Capital Adequacy of Banks”, and “Communiqué on Equities of Banks”. As of September 30, 2020, equity of the Bank is amounting to TL 4,993.374 and the Bank’s capital adequacy ratio is 17,03%. As of December 31, 2019, equity of the Bank is amounting to TL 4.762.444 and the Banks’s capital adequacy ratio is 20,42%. Capital adequacy ratio of the Bank is higher than the minimum rate required by the related regulation.

a. Information about shareholders’ equity items:

	Current Period September 30, 2020	Amount as per the regulation before 01.01.2014 (*)
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	652.290	
Share Premium	-	
Reserves	2.425.389	
Other Comprehensive Income according to TAS	4.468	
Profit	254.941	
Current Period Profit	254.941	
Prior Period Profit	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	-	
Common Equity Tier I Capital Before Deductions	3.337.088	
Deductions From Common Equity Tier I Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS	16.873	
Leasehold Improvements on Operational Leases	30.172	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	174.621	174.621
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	-	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses from changes in bank’s liabilities’ fair values due to changes in creditworthiness	-	
Net amount of defined benefit plans	-	
Direct and Indirect Investments of the Bank on its own Tier I Capital	-	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank owns more than 10% of the issued share capital (amount above 10% threshold)	-	
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital	-	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
Amounts exceeding 15% of Tier 1 Capital according to second paragraph of the provisional article 2 in the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank owns more than 10% of the issued common share capital of the entity	-	
Amounts related to mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	
Other items to be Defined by the BRSA	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals	-	
Total Deductions from Common Equity Tier I Capital	221.666	
The positive difference between the expected loan loss provisions under TFRS 9 and the total provision amount calculated before the application of TFRS 9	303.430	
Total Common Equity Tier I Capital	3.418.852	

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**I. EXPLANATIONS RELATED TO COMPONENTS OF SHAREHOLDERS’ EQUITY
(Continued)**

	Current Period September 30, 2020	Amount as per the regulation before 01.01.2014 (*)
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	-
Additional Tier I Capital before Deductions	-	-
Deductions from Additional Tier I Capital	-	-
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital	-	-
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank’s Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued Share Capital (amount above 10% threshold)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	-
Other items to be defined by the BRSA (-)	-	-
Items to be Deducted from Tier I Capital during the Transition Period	-	-
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	-
Total Deductions from Additional Tier I Capital	-	-
Total Additional Tier I Capital	-	-
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	3.418.852	
TIER II CAPITAL		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	1.303.781	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	-
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	307.636	-
Total Deductions from Tier II Capital	1.611.417	-
Deductions from Tier II Capital		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	-
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank’s Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the issued share capital exceeding the 10% Threshold of Common Equity Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Other items to be defined by the BRSA (-)	188	-
Total Deductions from Tier II Capital	188	-
Total Tier II Capital	1.611.229	-
Total Equity (Total Tier I and Tier II Capital)	5.030.081	-
Amounts Deducted from Equity		
Loans Granted against the Articles 50 and 51 of the Banking Law	-	-
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	36.707	-
Other items to be Defined by the BRSA	-	-
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period	-	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation	-	-

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**I. EXPLANATIONS RELATED TO COMPONENTS OF SHAREHOLDERS’ EQUITY
(Continued)**

	Current Period September 30, 2020	Amount as per the regulation before 01.01.2014 ^(*)
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	4.993.374	
Total Risk Weighted Assets	29.326.639	
CAPITAL ADEQUACY RATIOS		
CET1 Capital Ratio (%)	11,66	
Tier I Capital Ratio (%)	11,66	
Capital Adequacy Ratio (%)	17,03	
BUFFERS		
Total Additional Core Capital Requirement Ratio (a+b+c)	2,51	
a) Capital Conservation Buffer Ratio (%)	2,50	
b) Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0,01	
c) Systemic significant Bank Buffer Ratio (%)	-	
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital conservation and countercyclical Capital buffers to Risk weighted Assets (%)	3,15	
Amounts Lower Than Excesses as per the Deduction Rules		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	-	
Remaining Mortgage Servicing Rights	-	
Net Deferred Tax Assets arising from Temporary Differences	-	
Limits for Provisions Used in Tier II Capital Calculation		
General provisions for standard based receivables (before ten thousand twenty five limitation)	1.184.772	
Up to 1,25% of total risk-weighted amount of general reserves for receivables where the standard approach used	307.636	
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Debt Instruments Covered by Temporary Article 4 (effective between January 1, 2018- January 1, 2022)		
Upper limit for Additional Tier I Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-	
Upper limit for Additional Tier II Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-	

(*) Amounts to be recognized under transition regulations.

Based on the press release made by the BRSA on March 23, 2020; due to the fluctuations in the financial markets as a result of the COVID-19 outbreak; in the calculation of the amount subject to credit risk in accordance with the Regulation on Measurement and Evaluation of Capital Adequacy; with monetary assets and non-monetary assets excluding assets that are measured in terms of historical cost in a foreign currency valued amount of items in accordance with TAS and its special provision amounts, spot purchase exchange rate can be used in preparation of financial statements as of December 31, 2019, may be considered in the calculation of Turkish Lira equivalent of credit risk exposures in foreign currencies, and negative revaluation differences of the securities classified under “Financial Assets Measured at Fair Value through Other Comprehensive Income” which acquired before March 23, 2020 may not be included in capital calculation.

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	Prior Period December 31, 2019	Amount as per the regulation before 01.01.2014 ^(*)
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	652.290	
Share Premium	-	
Reserves	1.955.458	
Other Comprehensive Income according to TAS	26.011	
Profit	469.931	
Current Period Profit	469.931	
Prior Period Profit	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	-	
Common Equity Tier I Capital Before Deductions	3.103.690	
Deductions From Common Equity Tier I Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS	24.410	
Leasehold Improvements on Operational Leases	34.569	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	168.255	168.255
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(388)	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses due to changes in own credit risk on fair value of Bank's liabilities	-	
Net amount of defined benefit plans	-	
Direct and Indirect Investments of the Bank on its own Tier I Capital	-	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank owns more than 10% of the issued share capital (amount above 10% threshold)	-	
Mortgage Servicing Rights exceeding the 10% Threshold of Tier I Capital	-	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
Amounts exceeding 15% of Tier I Capital according to Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (2nd article temporary second paragraph)	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
Amounts related to mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	
Other items to be defined by the BRSA	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals	-	
Total Deductions from Common Equity Tier I Capital	226.846	
The positive difference between the expected loan loss provisions under TFRS 9 and the total provision amount calculated before the application of TFRS 9	404.572	
Total Common Equity Tier I Capital	3.281.416	

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	Prior Period December 31, 2019	Amount as per the regulation before 01.01.2014 (*)
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	-
Additional Tier I Capital before Deductions	-	-
Deductions from Additional Tier I Capital		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-	-
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank’s Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	-
Other items to be defined by the BRSA	-	-
Items to be Deducted from Tier I Capital during the Transition Period		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks	-	-
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	-
Total Deductions from Additional Tier I Capital	-	-
Total Additional Tier I Capital	-	-
Total Tier I Capital (Tier I Capital = Common Equity Tier I Capital + Additional Tier I Capital)	3.281.416	
TIER II CAPITAL		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	1.249.437	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Temporary Article 4)	-	-
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	244.671	-
Total Deductions from Tier II Capital	1.494.108	-
Deductions from Tier II Capital		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	-
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank’s Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the issued share capital exceeding the 10% Threshold of Common Equity Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital	-	-
Other items to be defined by the BRSA (-)	135	-
Total Deductions from Tier II Capital	135	-
Total Tier II Capital	1.493.973	-
Total Equity (Total Tier I and Tier II Capital)	4.775.389	-
Amounts Deducted from Equity		
Loans Granted against the Articles 50 and 51 of the Banking Law	-	-
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	12.945	-
Other items to be Defined by the BRSA	-	-
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation	-	-

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I. EXPLANATIONS RELATED TO COMPONENTS OF SHAREHOLDERS’ EQUITY (Continued)

	Prior Period December 31, 2019	Amount as per the regulation before 01.01.2014 ^(*)
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	4.762.444	
Total Risk Weighted Assets	23.327.662	
CAPITAL ADEQUACY RATIOS		
Common Equity Tier 1 Capital Ratio (%)	14,07	
Tier I Capital Ratio (%)	14,07	
Capital Adequacy Ratio (%)	20,42	
BUFFERS		
Bank-specific total CET1 Capital Ratio (%) (a+b+c)	2,69	
a) Capital Conservation Buffer Ratio (%)	2,50	
b) Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0,24	
c) Systematic-important Bank Buffer Ratio (%)	-	
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital conservation and countercyclical Capital buffers to Risk weighted Assets (%)	6,83	
Amounts Lower Than Excesses as per Deduction Rules		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	
Remaining Mortgage Servicing Rights	-	
Net Deferred Tax Assets arising from Temporary Differences	-	
Limits for Provisions Used in Tier II Capital Calculation		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	945.032	
Up to 1,25% of total risk-weighted amount of general reserves for receivables where the standard approach used	244.671	
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Debt instruments subjected to Article 4 (to be implemented between January 1, 2018 and January 1, 2022)		
Upper limit for Additional Tier 1 Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier 1 Capital subjected to temporary Article 4	-	
Upper limit for Additional Tier 2 Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier 2 Capital subjected to temporary Article 4	-	

^(*) Amounts to be recognized under transition regulations.

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**I. EXPLANATIONS RELATED TO COMPONENTS OF SHAREHOLDERS’ EQUITY
(Continued)**

b. Items included in capital calculation:

Information about instruments that will be included in total capital calculation:	
Details on Subordinated Liabilities:	
Issuer	HSBC HOLDINGS PLC
Identifier(s) (CUSIP, ISIN vb.)	Subordinated Loans
Governing law (s) of the instrument	BRSA
Regulatory treatment	
Subject to 10% deduction as of 1/1/2015	Not Deducted
Eligible on unconsolidated and /or consolidated basis	Eligible
Instrument type	Loan
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	1.304
Nominal value of instrument	1.630
Accounting classification of the instrument	Liability –Subordinated Loan
Issuance date of instrument	28.01.2015
Maturity structure of the instrument (demand/maturity)	Maturity
Original maturity of the instrument	10 Year
Issuer call subject to prior supervisory (BRSA) approval	Yes
Optional call date, contingent call dates and redemption amount	According to written approval of the BRSA, it can be fully repaid in the 5th year of the loan.
Subsequent call dates, if applicable	None
Coupon/dividend payment	
Fixed or floating coupon/dividend payments	Floating
Coupon rate and any related index	LIBOR + 4,48%
Existence of any dividend payment restriction	-
Fully discretionary, partially discretionary or mandatory	-
Existence of step up or other incentive to redeem	-
Noncumulative or cumulative	-
Convertible or non-convertible into equity shares	
	In case of the possibility of cancelling the Bank’s operational permit or transferring to the Fund; The principal amount and interest payment liabilities of the loan may be terminated in whole or in part in accordance with the decision of the Board in this direction or it may be converted into capital by complying with the required legislation.
If convertible, conversion trigger (s)	
If convertible, fully or partially	Fully convertible
If convertible, conversion rate	The conversion rate / value shall be calculated based on the market data in the case of the exercise of the right.
If convertible, mandatory or optional conversion	-
If convertible, type of instrument convertible into	-
If convertible, issuer of instrument to be converted into	-
Write-down feature	
If bonds can be written-down, write-down trigger(s)	-
If bond can be written-down, full or partial	-
If bond can be written-down, permanent or temporary	-
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in case of liquidation (instrument type immediately senior to the instrument)	After borrowing, before additional capital, same as other contribution capital
In compliance with article number 7 and 8 of " Own fund regulation "	In compliance with the requirements of Article 7 and 8 of "Own fund regulation"
Details of incompliances with article number 7 and 8 of " Own fund regulation "	In compliance with the requirements of Article 7 and 8 of "Own fund regulation"

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**I. EXPLANATIONS RELATED TO COMPONENTS OF SHAREHOLDERS' EQUITY
(Continued)**

Information on Article 5 of the Regulation on Equities of Banks:

EQUITY ITEMS	T	T-1	T-2	T-3
Common Equity	3.418.852	3.317.709	3.216.565	3.115.422
Transition process not implemented Common Equity	3.115.422	3.115.422	3.115.422	3.115.422
Tier 1 Capital	3.418.852	3.317.709	3.216.565	3.115.422
Transition process not implemented Tier 1 Capital	3.115.422	3.115.422	3.115.422	3.115.422
Total Capital	4.993.374	4.892.231	4.791.087	4.689.944
Transition process not implemented Equity	4.689.944	4.689.944	4.689.944	4.689.944
TOTAL RISK WEIGHTED AMOUNTS				
Total Risk Weighted Amounts	29.326.639	29.326.639	29.326.639	29.326.639
Capital Adequacy Ratio				
Common Equity	11,66	11,31	10,97	10,62
Transition process not implemented Common Equity Ratio (%)	10,62	10,62	10,62	10,62
Tier 1 Capital	11,66	11,31	10,97	10,62
Transition process not implemented Tier 1 Capital Adequacy Ratio (%)	10,62	10,62	10,62	10,62
Capital	17,03	16,68	16,34	15,99
Transition process not implemented Capital Adequacy Ratio (%)	15,99	15,99	15,99	15,99
LEVERAGE				
Leverage Ratio Total Risk Amount	62.362.871	62.362.871	62.362.871	62.362.871
Leverage (%)	5,48	5,32	5,16	5,00
Transition process not implemented Leverage Ratio (%)	5,00	5,00	5,00	5,00

c. Approaches for assessment of adequacy of internal capital requirements for current and future activities:

The HSBC Bank A.Ş.'s assessment process of adequacy of internal capital requirements and capital adequacy policies was prepared in order to describe the assessment process of adequacy of internal capital requirements and capital adequacy policies, and approved by its board of directors in February 27, 2017. The ultimate aim of this internal capital requirements process is to maintain the continuity of capital adequacy under the Bank's strategies, business plan, and scope or in case of changes in developed assumption and methodology, the assessment methodology of internal capital requirements is a developing process, accordingly, the future improvement areas are determined and the working plans are set.

With this evaluation process, on a prospective basis ensuring the continuity of the legal minimum limits of capital, keeping capital adequately to support the Bank's targeted risk profile and ensuring the maintenance of capital adequately as well as the process of compliance with laws and regulations.

d. Explanations on reconciliation of capital items with balance sheet amounts:

The difference between Total Capital and Equity in the unconsolidated balance sheet mainly arises from the general provision and subordinated debts. In the calculation of Total Capital, general provision up to 1,25% credit risk is taken into consideration as Tier II Capital. Besides, losses that are subject to deductions from Common Equity Tier I and reflected to Equity in line with the TAS, are determined by excluding the losses related to cash flow hedge transactions. On the other hand, in the calculation of the Total Capital, improvement costs for operating leases followed under tangible assets in the balance sheet, intangible assets and related deferred tax liabilities, net book value of immovables that are acquired against overdue receivables and retained more than five years, other items defined by the regulator are taken into consideration as amounts deducted from "Total Capital".

As of January 1, 2019, the Bank started to apply TFRS 9 "Financial Instruments Standard" and started to include the expected credit losses for financial assets in the financial statements as of this date. According to Article 5 of the "Regulation on Equities of Banks", the positive difference between the total expected loan loss reserve amount calculated as of the date when the expected credit loss provisions under TFRS 9 began to be separated and the total amount of provisions calculated before the implementation of TFRS 9, after the tax amount arising from the difference was deducted. Part has been subjected to a five-year transition period. The effects of this calculation are shown under the heading "Explanations on the temporary article 5 of the Regulation on Banks' Equity".

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II. EXPLANATIONS ON CREDIT RISK

Not disclosed in compliance with interim financial statements the Article 25 of the communiqué “Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks”.

III. EXPLANATIONS ON COUNTER CYCLICAL CAPITAL BUFFER RATIO CALCULATION

Not disclosed in compliance with interim financial statements the Article 25 of the communiqué “Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks”.

IV. EXPLANATIONS ON CURRENCY RISK

a. Exposed risk of foreign currency, estimations on the effects of this matter, limits for the daily followed positions are determined by the Board of Directors:

In foreign currency risk management, the Bank makes tiny distinctions and generally attentive to not taking long position when organizing the currency risk. In organizing foreign currency positions, the Bank acts in accordance with both the legal limitations and the limitations determined by the board of the directors.

b. Hedge against foreign exchange debt instruments and net foreign exchange investments by hedging derivative instruments, if material:

The Bank, as a general principle does not carry any foreign currency position, by hedging its foreign currency positions with derivative products except long positions held for foreign currency expected credit losses in accordance with TFRS 9 . Foreign exchange bid rate of important foreign currencies are indicated in the table below.

c. Management policy for foreign currency risk:

Policy of the foreign currency risk management is explained in the first article.

d. Current foreign exchange bid rates of the Bank for the last five business days prior to the financial statement date:

The Bank’s foreign exchange bid rates for US Dollar, and Euro as of the date of the financial statements and for the last five days prior to that date are presented below:

Current Period – September 30, 2020	USD (\$)	Euro (€)
Balance Sheet Date		
Bank Evaluation Rate	7,7606	9,1009
Prior Balance Sheet Date		
September 29, 2020	7,8405	9,2032
September 28, 2020	7,7775	9,0748
September 25, 2020	7,6562	8,9019
September 24, 2020	7,6335	8,8904
September 23, 2020	7,7022	8,9896
Prior Period – December 31, 2019	USD (\$)	Euro (€)
Balance Sheet Date		
Bank Evaluation Rate	5,9497	6,6779
Prior Balance Sheet Date		
December 30, 2019	5,9411	6,6546
December 27, 2019	5,9576	6,6579
December 26, 2019	5,9487	6,5944
December 25, 2019	5,9487	6,5944
December 24, 2019	5,9487	6,5944

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IV. EXPLANATIONS ON CURRENCY RISK (Continued)

e. The simple arithmetic average of the Bank’s foreign exchange bid rates for the last thirty days preceding the balance sheet date for major foreign currencies:

As of September 2020, the Bank’s simple arithmetic average foreign exchange rate for USD is TL 7,5520 (December 2019: TL 5,8610) and exchange rate for Euro is TL 8,9005 (December 2019: TL 6,5110).

f. Information related to Bank’s currency risk:

Current Period – September 30, 2020	Euro	USD	Other FC	Total
Assets				
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	1.023.076	2.014.682	1.035.679	4.073.437
Banks	32.158	121.197	139.096	292.451
Financial Assets at Fair Value through Profit or Loss (Net) (***)	788.353	1.427.698	23.224	2.239.275
Interbank Money Market Placements	-	4.230.133	-	4.230.133
Financial Assets at Fair Value Through Other Comprehensive Income	-	-	-	-
Loans (*)	8.816.772	7.251.345	10.154	16.078.271
Investments in Associates, Subsidiaries and Joint Ventures (Business Partners)	-	-	-	-
Financial Assets Measured at Amortized Cost	-	-	-	-
Hedging Derivative Financial Assets	-	-	-	-
Tangible Assets (Net)	-	-	-	-
Intangible Assets (Net)	-	-	-	-
Other Assets	414.340	61.461	77	475.878
Total Assets	11.074.699	15.106.516	1.208.230	27.389.445
Liabilities				
Bank Deposits	8	21	-	29
Foreign Currency Deposits	4.220.196	12.587.348	5.615.955	22.423.499
Funds from Interbank Money Market	-	-	-	-
Fund Borrowed	455.100	4.615.708	-	5.070.808
Issued Marketable Securities (Net)	-	-	-	-
Miscellaneous Payables	8.408	336.972	8.126	353.506
Hedging Derivative Financial Liabilities	-	-	-	-
Other Liabilities (**)	798.725	1.357.354	9.301	2.165.380
Total Liabilities	5.482.437	18.897.403	5.633.382	30.013.222
Net on Balance Sheet Position (****)	5.592.262	(3.790.887)	(4.425.152)	(2.623.777)
Net Off-Balance Sheet Position (****)	(5.438.370)	4.297.353	4.321.381	3.180.364
Financial Derivative Assets	12.149.190	26.706.068	7.110.788	45.966.046
Financial Derivative Liabilities	17.587.560	22.408.715	2.789.407	42.785.682
Non-cash Loans	1.872.588	3.589.077	349.411	5.811.076
Prior Period – December 31, 2019				
Total Assets	6.538.659	12.102.013	614.229	19.254.901
Total Liabilities	7.033.202	12.472.840	3.620.735	23.126.777
Net on-Balance Sheet Position	(494.543)	(370.827)	(3.006.506)	(3.871.876)
Net off-Balance Sheet Position	501.101	976.514	3.042.133	4.519.748
Financial Derivative Assets	11.806.580	19.194.480	5.145.378	36.146.438
Financial Derivative Liabilities	11.305.479	18.217.966	2.103.245	31.626.690
Non-cash Loans	1.299.514	1.936.838	380.093	3.616.445

(*) As of September 30, 2020, total loans amount consists foreign indexed loans amounting to TL 8.978 (December 31, 2019: TL 19.743).

(**) As of September 30, 2020, Other liabilities consists derivative financial liabilities amounting to TL 2.073.731 (December 31, 2019: TL 975.820).

(***) As of September 30, 2020, financial assets at fair value through profit or loss consists derivative financial assets amounting to TL 2.129.262 (December 31, 2019: TL 1.110.614).

(****) It is consist of long positions on the balance sheet for stage 1&2 foreign currency expected credit losses in accordance with TFRS 9.

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V. EXPLANATIONS ON INTEREST RATE RISK

There is a short term interest sensitivity gap at the balance sheet of the Bank due to a structural risk of the banking sector; obligation of funding of long-term assets with short-term deposits. Derivative financial instruments are used to mitigate possible interest rate risk of interest sensitive assets and liabilities. Interest rate futures and interest rate swap transactions are performed to reduce the balance sheet and off-balance sheet interest rate risk.

The Bank managed interest rate and prepayment risks of mortgages and other long-term loans with derivative financial instruments efficiently taking into consideration cost-benefit analysis and reduced the risk against to the fluctuations in global and local markets.

a. Interest rate sensitivity of assets, liabilities and off-balance sheet items (Based on repricing dates):

Current Period – September 30, 2020	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Non- Interest Bearing	Total
Assets							
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey ^(*)	122.289	-	-	-	-	4.164.005	4.286.294
Banks ^(*)	188.680	-	-	-	-	253.648	442.328
Financial Assets at Fair Value Through Profit or Loss (Net) ^(**)	393.019	562.518	700.981	435.272	913.786	63.140	3.068.716
Interbank Money Market Placements	6.805.899	-	-	-	-	-	6.805.899
Financial Assets at Fair Value Through Other Comprehensive Income	1.389.041	793.389	999.651	4.130.409	8.367	-	7.320.857
Loans	5.126.258	2.905.691	10.294.990	6.064.359	1.468.566	159.253	26.019.117
Financial Assets Measured at Amortized Cost	-	-	-	-	-	-	-
Other Assets	1.346	-	8	348.352	-	996.140	1.345.846
Total Assets	14.026.532	4.261.598	11.995.630	10.978.392	2.390.719	5.636.186	49.289.057
Liabilities							
Bank Deposits	370.369	-	-	-	-	189.949	560.318
Other Deposits	14.755.774	2.490.425	525.276	1.691	-	13.506.628	31.279.794
Funds from Interbank Money Market	5.194.346	-	-	-	-	-	5.194.346
Miscellaneous Payables	-	-	-	-	-	736.358	736.358
Issued Marketable Securities (Net)	-	-	-	-	-	-	-
Funds Borrowed	2.137.499	1.233.192	1.700.117	-	-	-	5.070.808
Other Liabilities ^(***)	418.235	410.044	805.188	699.146	729.583	3.385.237	6.447.433
Total Liabilities	22.876.223	4.133.661	3.030.581	700.837	729.583	17.818.172	49.289.057
Balance Sheet Long Position	-	127.937	8.965.049	10.277.555	1.661.136	-	21.031.677
Balance Sheet Short Position	(8.849.691)	-	-	-	-	(12.181.986)	(21.031.677)
Off-Balance Sheet Long Position	-	101.371	32.387	23.552	-	-	157.310
Off-Balance Sheet Short Position	(337.150)	-	-	-	-	-	(337.150)
Total Position	(9.186.841)	229.308	8.997.436	10.301.107	1.661.136	(12.181.986)	(179.840)

^(*) Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the CBRT, Banks and interbank money market balances consist of expected credit losses amounting to TL 6.039.

^(**) Financial Derivative Assets are shown in “Financial Assets at Fair Value Through Profit or Loss”, and Financial Derivative Liabilities are shown in “Other Liabilities”.

^(***) Shareholders’ equity is presented under “Other Liabilities” item in “Non- Interest Bearing”.

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V. EXPLANATIONS ON INTEREST RATE RISK (Continued)

Prior Period – December 31, 2019	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Non- Interest Bearing	Total
Assets							
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey ^(*)	-	-	-	-	-	3.111.287	3.111.287
Banks ^(*)	-	-	-	-	-	10.975	10.975
Financial Assets at Fair Value Through Profit or Loss (Net) ^(**)	169.901	606.601	294.377	580.485	401.565	31.446	2.084.375
Interbank Money Market Placements ^(*)	10.994.329	-	-	-	-	-	10.994.329
Financial Assets at Fair Value Through Other Comprehensive Income	-	-	498.825	482.253	249.620	-	1.230.698
Loans	6.422.332	1.316.312	2.982.240	4.738.816	609.071	220.484	16.289.255
Financial Assets Measured at Amortized Cost	-	-	-	-	-	-	-
Other Assets	1.052	-	51	244.797	-	980.136	1.226.036
Total Assets	17.587.614	1.922.913	3.775.493	6.046.351	1.260.256	4.354.328	34.946.955
Liabilities							
Bank Deposits	107.446	-	-	-	-	127.864	235.310
Other Deposits	18.476.940	3.242.756	394.864	5.358	-	5.446.050	27.565.968
Funds from Interbank Money Market	-	-	-	-	-	-	-
Miscellaneous Payables	-	-	-	-	-	441.257	441.257
Issued Marketable Securities (Net)	-	-	-	-	-	-	-
Funds Borrowed	1.337.281	-	-	-	-	30.720	1.368.001
Other Liabilities ^(***)	76.474	531.032	372.427	658.415	552.927	3.145.144	5.336.419
Total Liabilities	19.998.141	3.773.788	767.291	663.773	552.927	9.191.035	34.946.955
Balance Sheet Long Position	-	-	3.008.202	5.382.578	707.329	-	9.098.109
Balance Sheet Short Position	(2.410.527)	(1.850.875)	-	-	-	(4.836.707)	(9.098.109)
Off-Balance Sheet Long Position	60.417	27.581	-	11.982	-	-	99.980
Off-Balance Sheet Short Position	-	-	(19.106)	-	-	-	(19.106)
Total Position	(2.350.110)	(1.823.294)	2.989.096	5.394.560	707.329	(4.836.707)	80.874

(*) Cash (Cash in Vault, Foreign Currency Cash Money in Transit, Cheques Purchased) and Balances with T.R. Central Bank, Banks and Receivables from Money Markets includes amount of TL 446 expected loss provision.

(**) Financial Derivative Assets are shown in “Financial Assets at Fair Value Through Profit or Loss”, and Financial Derivative Liabilities are shown in “Other Liabilities”.

(***) Shareholders’ equity is presented under “Other Liabilities” item in “Non- Interest Bearing”.

b. Effective average interest rates for monetary financial instruments:

Current Period – September 30, 2020	Euro	USD	Yen	TL
Assets				
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	-	-	-	7
Banks	-	0,11	-	-
Financial Assets at Fair Value Through Profit or Loss (Net)	5,27	5,56	-	13,17
Interbank Money Market Placements	-	0,04	-	12,11
Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	10,44
Loans	4,20	5,69	-	13,63
Financial Assets Measured at Amortized Cost	-	-	-	-
Liabilities				
Bank Deposits	-	-	-	9,23
Other Deposits	0,07	0,33	-	9,18
Funds From Interbank Money Market	-	-	-	9,65
Miscellaneous Payables	-	-	-	-
Securities Issued (Net)	-	-	-	-
Funds Provided from Other Financial Institutions	2,25	3,49	-	-

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V. EXPLANATIONS ON INTEREST RATE RISK (Continued)

Prior Period – December 31, 2019	Euro	USD	Yen	TL
Assets				
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	-	-	-	-
Banks	-	-	-	-
Financial Assets at Fair Value Through Profit or Loss (Net)	3,29	5,82	-	9,22
Interbank Money Market Placements	-	1,55	-	11,40
Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	13,83
Loans	4,23	6,33	-	17,47
Investments Held-to-Maturity	-	-	-	-
Liabilities				
Bank Deposits	-	-	-	5,27
Other Deposits	0,40	1,52	-	9,61
Funds From Interbank Money Market	-	-	-	-
Miscellaneous Payables	-	-	-	-
Securities Issued (Net)	-	-	-	-
Funds Provided from Other Financial Institutions	-	7,51	-	-

VI. EXPLANATIONS ON POSITION RISK OF EQUITY SECURITIES IN BANKING BOOK

Position risk of equity securities in banking book:

As of September 30, 2020, the Bank has no financial assets that would cause a significant effect on its equity securities position (December 31, 2019: None).

VII. EXPLANATIONS ON LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO

Information about the liquidity risk management including factors such as risk capacity of the Bank, responsibilities and the structure of liquidity risk management, reporting of the liquidity risk within the Bank and providing communication with Board of Directors and line of businesses in terms of liquidity risk strategy, policy and applications:

The Bank has adopted principle of funding the liquidity and funding management of the Bank with stable funding instruments. Funds required must be available even under stressed conditions particular to the Bank and the Market.

The Balance Sheet Management, which is associated to the treasury function, and the management of liquidity manage the Bank’s short term liquidity and funding risks of the banking portfolio is conducted by Assets and Liabilities and Capital Management Unit (ALCM) operating under Finance department, within the framework of risk policies and risk appetite approved by Board of Directors. Board of Directors determines risk appetite and internal risk limits of liquidity. In terms of the approving risk appetite, inherent liquidity limits, and considering Bank’s strategy and market conditions, Assets and Liabilities Committee (ALCO) is the decision making body regarding balance sheet management, identification and efficiency of funding sources, and determination of potential risks. The Asset-Liability Management Committee is responsible for preparing middle and long term liquidity strategies.

Strategic funding plan forms up the primary basis of the liquidity and funding risk management, updated at least in annual basis and formed up within the scope of risk appetite. According to the strategic funding plan approved by ALCO, actions are considered in order to provide the most cost-efficient, diversified and stable funding resources in terms of maturity, currency and funding resource to monitor and evaluate balance sheet movements and projections and the current status of the balance sheet by ALCM.

In addition, current and planned liquidity positions of bank is tracked at tactical ALCO meetings with the participation of business representatives at least on weekly basis and business line representatives are informed if necessary actions are to be taken. The aim of these meetings is to ensure prevention of negative net cash flow of the bank liquidity and prevention exceeding limits by comparing the current situation regarding to the balance sheet structure of business line with the approved limit usage of strategic funding plans and liquidity.

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**VII. EXPLANATIONS ON LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE
RATIO (Continued)**

**Information regarding functioning of liquidity management and the extent of centralization in
funding strategy amid the Bank and its subsidiaries:**

All subsidiaries of the controlling shareholder of the Bank plan and manage their liquidity within the limits of their risk appetite and internal limits.

**The information about the Bank’s funding strategy including policies on diversification of its
sources and tenor of funding:**

Liquidity and funding management of the Bank adopts funding illiquid assets with stable funding instruments and funds in the need of to be always available as a principle. Stable funding instruments consist of stable deposit and long term debt instruments. Within this context, liquidity and funding management is primarily based on the stability of Banks’ deposit base and considers total stable deposits as primary measurement. Deposits of retail banking customers is the primary component of funding management because they are more stable and cost-efficient compared to other line of businesses. Moreover, other debt instruments with maturities of medium and long term are also used because of diversifying and balancing funding base in terms of maturity, currency, fund resource and cost; and because their average deposit maturity is less compared to the assets.

**Information on liquidity management based on currency, which consists of a minimum of 5% of
the Bank’s total liabilities:**

Almost all of Banks’ total liabilities are in TL, USD and EUR. Liabilities in TL are generally consists of deposits, repurchase agreements and Shareholder’s Equity. Liabilities in FC consists of deposits in FC and other debt instruments in FC.

Consolidated liquidity measurement of the Banks’ total liquidity and selected currencies for short and long terms is planned within the context of strategic funding plan. The FC and total internal risk limits approvals of Board of Directors is available.

Information on liquidity risk mitigation techniques:

Internal liquidity limits above legal limits and liquidity buffer is used in order to lower liquidity risk. Funding resources are diversified as much as possible by planning cash inflows and outflows within the context of strategic funding plan. Therefore, effective management of concentrations is ensured in terms of maturity, currency and funding resources. The Bank also uses derivative transactions in order to lower liquidity risks.

Explanation of the usage of stress test:

Along with the legal liquidity risk calculations and restrictions, in terms of liquidity management, stress tests and scenario analyses are performed in accordance with the international liquidity management policies of HSBC. In these scenarios, liquidity crisis scenarios of Bank and macro liquidity crisis scenarios are evaluated and triggering factors of liquidity risk and prewarning signals are trackAnalyses and results of the liquidity risk are tracked in tactical ALCO meetings weekly and in ALCO-Market Risk Committees monthly.

General Information on liquidity emergency and contingency plans:

Liquidity Emergency and Contingency Plan is approved by the Board of Directors and ALCO and renewed on yearly basis. The plan contains detailed analyses and information about the actions to be taken in crisis management and employees responsible for the process, liquidity Access resources, liquidity situation of the Bank, early warning indicators within graded liquidity crisis scenarios.

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VII. EXPLANATIONS ON LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

Due to the financial uncertainty caused by the coronavirus epidemic, undemonstrative liquidity management has been one of the top priorities of the Bank within this scope, liquidity stress tests have been launched by taking consideration of possible liquidity outflows and term-based cash flow changes, at the same time daily monitoring market variables and liquidity movements reported to the top management. Although a flexibility provided to comply with the minimum ratios of the Liquidity Coverage Ratio (LCR) according to the regulation published by the BRSA on March 26, 2020, the bank, within the scope of current risk appetite, manages high quality liquid assets in accordance with the internal liquidity coverage ratio (LCR) limit. The bank sources of funds are formed of customer deposits substantially and the need for funding to be provided from interbank markets is at a minimum. Within the scope of stress tests shared with the executives, without providing any new funds from the market, considering possible utilisation requests such as possible late payments on loans which are subject in LCR and deposit outflows, restructuring or deferment requests, irrevocable and revocable commitments which are offered to the customers. In this context, it has been measured for how long they could afford the cumulative cash outflows. As a results of the scenarios, there is no foreseeable risk for LCR or net liquid position.

a. Liquidity coverage rate:

The change in matters that impact liquidity coverage rate and units that are used for the calculation of the ratio:

Liquidity coverage rate is calculated by dividing high quality liquid assets that Bank owns to net cash outflows with maturity of 1 month. Reserve requirements kept by Central Bank of the Republic of Turkey (CBRT), reverse repurchase agreements, securities that are not subject to repurchase/collateral held for providing liquidity, corporate and bank deposits that may cause high cash outflows, non-deposit borrowings that are became due and receivables from banks form the most important components which affect the results of liquidity coverage rate due to the liquidity of the assets, having high volume in net cash outflows and having high rate of consideration. The ratio may fluctuate periodically due to reasons listed below;

- Transfer of the short-term liquidity to Money markets instead of debt instruments issued by CBRT based on market conditions.
- Fluctuations of bank and corporate deposits that are highly considered in fund resources.
- Fluctuations that may occur due to the aging of borrowings.
- Less than 1 month remaining maturity of cash inflows/outflows resulted specifically from FC derivative transactions.

Explanation regarding the components of high quality liquid assets:

High quality liquid assets consists of cash, effective depot, cheques purchased, time and demand deposit by CBRT, reverse repurchase transactions and securities that are not subject to repurchase/collateral for providing liquidity.

Components density of fund resources in all funds:

The Bank’s founding sources are consisted of real person and retail deposit, corporate bank deposits, repurchase agreements and borrowings. Deposits that are used for founding consists 65% of total liabilities.

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VII. EXPLANATIONS ON LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

Information about cash outflows resulted from derivative transactions and transactions that are likely to be collateralized:

Cash outflows resulted from derivative transactions are taken into account of liquidity coverage rate calculation by considering TL and FC net cash flows with 30-days maturity. Net cash flows resulted from derivative transactions have minimal effect on total liquidity coverage rate. However, as a result of shifts in derivative volumes due to FC derivatives used in the management of cash flows and incoming maturities of derivative transactions, periodic fluctuations on FC liquidity coverage rate may occur.

Concentration limits of collaterals in terms of fund resources based on counterparty and products:

Within the context of strategic funding plan, cash inflows and outflows are planned and effective management of concentration of fund resources in terms of maturity, currency and fund resource is projected. In the context, customer-based deposit concentrations, limits and usages set up for the counterparties in non-deposit borrowings and maturity-based distribution of borrowings are tracked and reported to ALCO every month periodically.

Current Period – 30.09.2020	Total value to which the consideration ratio is not applied (*)		Total value to which the consideration ratio is applied (*)	
	TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUID ASSETS				
High Quality Liquid Assets			10.257.068	6.879.664
Cash Outflows				
Real person and retail deposits	19.938.102	16.002.996	1.912.600	1.600.300
Stable deposits	1.624.201	-	81.210	-
Less stable deposits	18.313.901	16.002.996	1.831.390	1.600.300
Unsecured debts other than real person and retail deposits	10.432.505	5.259.987	4.999.070	2.323.804
Operational deposits	-	-	-	-
Non-operational deposits	9.972.432	5.221.495	4.538.997	2.285.313
Other unsecured debts	460.073	38.492	460.073	38.491
Secured debts	-	-	-	-
Other cash outflows	1.809.345	4.438.212	1.809.345	4.438.212
Derivative liabilities and collateral completion liabilities	1.809.345	4.438.212	1.809.345	4.438.212
Debts related to the structured financial products	-	-	-	-
Payment commitments for debts to financial markets and other off-the-balance sheet liabilities	-	-	-	-
Other off-the-balance sheet and revocable (without contingency) liabilities and other contractual liabilities	10.050.187	4.658.396	1.212.540	819.680
Other irrevocable or revocable (based on conditions) off-the balance sheet debts	-	-	-	-
TOTAL CASH OUTFLOWS			9.933.555	9.181.996
Cash inflows				
Secured liabilities	-	-	-	-
Unsecured liabilities	4.467.852	2.674.567	3.330.125	2.264.084
Other cash inflows	208.809	4.604.541	208.809	4.604.541
TOTAL CASH INFLOWS	4.676.661	7.279.108	3.538.934	6.868.625
			Values to which the upper limit is applied	
TOTAL HIGH QUALITY LIQUID ASSETS INVENTORY			10.257.068	6.879.664
TOTAL NET CASH OUTFLOWS			6.394.621	2.313.371
LIQUIDITY COVERAGE RATIO (%)			160,40	297,39

(*) Simple arithmetic average for last 3 months is calculated for items of the table, which are calculated by weekly simple arithmetic averages.

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VII. EXPLANATIONS ON LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

Table below represents lowest, highest and average liquidity coverage rates for the last three months.

	Current Period - 30.09.2020	
	TL+FC	FC
Highest (%)	206,43	401,16
Date	07.08.2020	12.08.2020
Lowest (%)	128,63	172,43
Date	05.08.2020	07.07.2020
Average (%)	160,40	297,39

	Total value to which the consideration ratio is not applied ^(*)		Total value to which the consideration ratio is applied ^(*)	
	TL+FC	FC	TL+FC	FC
Prior Period – 31.12.2019				
HIGH QUALITY LIQUID ASSETS				
High Quality Liquid Assets			11.893.696	8.044.833
Cash Outflows				
Real person and retail deposits	18.352.853	15.504.026	1.765.065	1.540.048
Stable deposits	1.404.398	207.086	70.220	10.354
Less stable deposits	16.948.455	15.296.940	1.694.845	1.529.694
Unsecured debts other than real person and retail deposits	7.996.039	4.725.673	3.946.020	2.081.521
Operational deposits	-	-	-	-
Non-operational deposits	7.469.018	4.628.418	3.418.999	1.984.266
Other unsecured debts	527.021	97.255	527.021	97.255
Secured debts	-	-	-	-
Other cash outflows	1.935.294	3.176.662	1.935.294	3.176.662
Derivative liabilities and collateral completion liabilities	1.935.294	3.176.662	1.935.294	3.176.662
Debts related to the structured financial products	-	-	-	-
Payment commitments for debts to financial markets and other off-the-balance sheet liabilities	-	-	-	-
Other off-the-balance sheet and revocable (without contingency) liabilities and other contractual liabilities	8.374.356	4.217.126	883.168	567.771
Other irrevocable or revocable (based on conditions) off-the balance sheet debts	-	-	-	-
TOTAL CASH OUTFLOWS			8.529.547	7.366.002
Cash inflows				
Secured liabilities	-	-	-	-
Unsecured liabilities	4.455.808	1.800.637	2.892.007	1.276.208
Other cash inflows	978.211	4.781.450	978.211	4.781.450
TOTAL CASH INFLOWS	5.434.019	6.582.087	3.870.218	6.057.658

Values to which the upper limit is applied

TOTAL HIGH QUALITY LIQUID ASSETS INVENTORY	11.893.696	8.044.833
TOTAL NET CASH OUTFLOWS	4.659.329	1.841.501
LIQUIDITY COVERAGE RATIO (%)	255,27	436,86

^(*) Simple arithmetic average for last 3 months is calculated for items of the table, which are calculated by weekly simple arithmetic averages.

Table below represents lowest, highest and average liquidity coverage rates for year 2019.

	Prior Period - 31.12.2019	
	TL+FC	FC
Highest (%)	424,37	514,37
Date	09.12.2019	18.12.2019
Lowest (%)	180,34	170,32
Date	29.11.2019	5.11.2019
Average (%)	255,27	436,86

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VII. EXPLANATIONS ON LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

b. Breakdown of assets and liabilities according to their outstanding maturities:

Current Period - September 30, 2020	Demand	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Unallocated	Total
Assets								
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the CBRT ^(****)	1.191.195	3.095.099	-	-	-	-	-	4.286.294
Banks ^(****)	253.648	188.680	-	-	-	-	-	442.328
Financial Assets at Fair Value through Profit or Loss (Net) ^(***)	-	302.483	338.144	623.904	634.702	1.106.343	63.140	3.068.716
Interbank Money Market Placements ^(****)	-	6.805.899	-	-	-	-	-	6.805.899
Financial Assets at Fair Value through Other Comprehensive Income	-	1.389.041	793.389	999.651	4.130.409	8.367	-	7.320.857
Loans	-	3.990.804	2.189.777	12.216.605	6.022.170	1.440.508	159.253	26.019.117
Financial Assets at Fair Value Through Amortized Cost	-	-	-	-	-	-	-	-
Other Assets ^(*)	-	1.346	-	8	348.352	-	996.140	1.345.846
Total Assets	1.444.843	15.773.352	3.321.310	13.840.168	11.135.633	2.555.218	1.218.533	49.289.057
Liabilities								
Bank Deposits	189.949	370.369	-	-	-	-	-	560.318
Other Deposits	13.506.628	14.755.774	2.490.425	525.276	1.691	-	-	31.279.794
Funds from Interbank Money Market	-	5.194.346	-	-	-	-	-	5.194.346
Miscellaneous Payables	-	-	-	-	-	-	736.358	736.358
Issued Marketable Securities (Net)	-	-	-	-	-	-	-	-
Funds Borrowed	-	-	-	2.915.592	2.155.216	-	-	5.070.808
Other Liabilities ^(**) ^(***)	-	263.927	273.509	826.275	815.939	882.546	3.385.237	6.447.433
Total Liabilities	13.696.577	20.584.416	2.763.934	4.267.143	2.972.846	882.546	4.121.595	49.289.057
Net Liquidity Excess / (Gap)	12.251.734	(4.811.064)	557.376	9.573.025	8.162.787	1.672.672	(2.903.062)	-
Net Off Balance Sheet Position	-	(219.433)	45.329	(50.509)	44.773	-	-	(179.840)
Derivative Financial Assets	-	31.795.732	6.559.478	12.456.044	14.268.557	7.088.260	-	72.168.071
Derivative Financial Liabilities	-	32.015.165	6.514.149	12.506.553	14.223.784	7.088.260	-	72.347.911
Non-cash Loans	(7.379)	3.240	445.461	6.579.847	50.586	642	-	7.072.397
Prior Period – December 31, 2019								
Total Assets	886.258	19.240.155	1.409.183	3.981.675	6.627.229	1.570.389	1.232.066	34.946.955
Total Liabilities	5.604.634	18.629.267	3.353.482	726.945	858.427	2.187.799	3.586.401	34.946.955
Net Liquidity Excess / (Gap)	(4.718.376)	610.888	(1.944.299)	3.254.730	5.768.802	(617.410)	(2.354.335)	-
Net Off-Balance Sheet Position	-	51.683	7.826	7.953	13.412	-	-	80.874
Derivative Financial Assets	-	17.215.343	9.334.351	11.181.102	18.813.937	5.912.648	-	62.457.381
Derivative Financial Liabilities	-	17.163.660	9.326.525	11.173.149	18.800.525	5.912.648	-	62.376.507
Non-cash Loans	4.043.093	30.807	85.927	437.596	167.505	607	-	4.765.535

(*) Assets that are necessary for banking activities and that cannot be liquidated in the short-term, such as fixed and intangible assets, investments, subsidiaries, stationery, pre-paid expenses and non-performing loans, are classified in this column.

(**) Shareholders' Equity is presented under "Other Liabilities" item in the "Unallocated" column.

(***) Financial Derivative Assets are shown in "Financial Assets at Fair Value Through Profit or Loss", and Financial Derivative Liabilities are shown in "Other Liabilities".

(****) Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the CBRT, Banks and interbank money market balances consist of expected credit losses amounting to TL 6.039.

c. Information on securitization positions:

None.

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VIII. EXPLANATIONS ON LEVERAGE RATIO

Below is the table on leverage ratio according to the Guideline of the Measuring and Evaluating Banks’ Leverage Rate, published in the Official Gazette no.28812 and dated 5 November 2013.

	Current Period 30.09.2020 ^(*)	Prior Period 31.12.2019 ^(*)
Assets On the Balance Sheet		
1 Assets on the balance sheet (excluding derivative financial instruments and loan derivatives, including collaterals)	43.781.695	25.107.707
2 (Assets deducted from core capital)	(203.669)	(201.997)
3 Total risk amount for assets on the balance sheet (sum of lines 1 and 2)	43.578.026	24.905.710
Derivative Financial Instruments and Loan Derivatives		
4 Renewal cost of derivative financial instruments and loan derivatives	829.988	608.667
5 Potential credit risk amount of derivative financial instruments and loan derivatives	515.626	768.370
6 Total risk amount of derivative financial instruments and loan derivatives (sum of lines 4 and 5)	1.345.614	1.377.037
Financing Transactions with Securities or Goods Warranties		
7 Risk amount of financial transactions with securities or goods warranties (excluding those in the balance sheet)	89.751	99.561
8 Risk amount arising from intermediated transactions	-	-
9 Total risk amount of financing transactions with securities or goods warranties (sum of lines 7 and 8)	89.751	99.561
Off-the-Balance Sheet Transactions		
10 Gross nominal amount of the off-the-balance sheet transactions	17.349.480	19.610.331
11 Adjustment amount arising from multiplying by the credit conversion rate	-	-
12 Total risk amount for off-the-balance sheet transactions (sum of lines 10 and 11)	17.349.480	19.610.331
Capital and Total Risk		
13 Core capital	3.310.426	3.250.620
14 Total risk amount (sum of lines 3,6,9 and 12)	62.362.871	45.992.639
Transition Process Unapplied Leverage Ratio		
15 Transition process unapplied leverage ratio (%)	5,31	7,07

^(*) Table represents three month average amounts.

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IX. EXPLANATIONS ON RISK MANAGEMENT

Notes and explanations in this section have been prepared in accordance with the Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks that have been published in Official Gazette no. 29511 on October 23, 2015 and became effective as of March 31, 2016. According to Communiqué have to be presented on a quarterly basis. Due to usage of standard approach for the calculation of capital adequacy by the Bank, the following required tables have not been presented on September 30, 2020:

- RWA flow statements of CCR exposures under the Internal Model Method (IMM)
- RWA flow statements of credit risk exposures under IRB
- RWA flow statements of market risk exposures under an IMA

a. Explanations on risk management and risk weighted amount:

Overview of risk weighted amounts:

	Risk Weighted Amounts		Minimum Capital Requirements
	Current Period September 30, 2020	Prior Period December 31, 2019	Current Period September 30, 2020
Credit risk (excluding counterparty credit risk)	23.591.391	18.275.102	1.887.311
Standardised approach	23.591.391	18.275.102	1.887.311
Internal rating-based approach	-	-	-
Counterparty credit risk	1.019.520	1.298.586	81.562
Standardised approach for counterparty credit risk	1.019.520	1.298.586	81.562
Internal model method	-	-	-
Equity position in banking book under basic risk weighting or internal rating-based	-	-	-
Equity investments in funds – look-through approach	-	-	-
Equity investments in funds – mandate-based approach	-	-	-
Equity investments in funds – 1250% risk weighting approach	-	-	-
Settlement risk	-	-	-
Securitisation exposures in banking book	-	-	-
IRB ratings-based approach	-	-	-
IRB supervisory formula approach	-	-	-
SA/simplified supervisory formula approach	-	-	-
Market risk	1.826.950	1.120.938	146.156
Standardised approach	1.826.950	1.120.938	146.156
Internal model approaches	-	-	-
Operational risk	2.888.778	2.633.036	231.102
Basic indicator approach	2.888.778	2.633.036	231.102
Standardised approach	-	-	-
Advanced measurement approach	-	-	-
Amounts below the thresholds for deduction from capital (subject to 250% risk weight)	-	-	-
Floor adjustment	-	-	-
Total	29.326.639	23.327.662	2.346.131

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X. EXPLANATIONS ON THE PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT THEIR FAIR VALUES

Not disclosed in compliance with interim financial statements.

XI. EXPLANATIONS ON THE ACTIVITIES CARRIED OUT ON BEHALF AND ACCOUNT OF OTHER PEOPLE

Not disclosed in compliance with interim financial statements.

XII. EXPLANATIONS ON OPERATING SEGMENTS

The Bank operates in retail banking, corporate and investment banking, treasury and capital markets.

In the retail banking segment, the Bank provides debit card, credit card, deposits, consumer loan, payment and collection, premier customer services, custodian services, financial planning, insurance products services. In corporate and commercial banking segment, the Bank provides loans, commercial card, foreign trade financing, structured trading financing, project and export financing, syndications, custodian services, cash and risk management services. In the corporate and investment banking segment, loan and investment services, commercial card, insurance products, cash and risk management services are provided to customers. Also, the Bank provides marketable securities transactions, gold and foreign exchange transactions, derivative transactions and money market transactions services to its customers.

	Retail Banking	Corporate and Investment Banking	Treasury and Capital Markets	Other	Bank’s Total Activities
Current Period – September 30, 2020					
Operating Income	560.963	790.238	469.592	(18.453)	1.802.340
Other	-	-	-	-	-
Operating Income	560.963	790.238	469.592	(18.453)	1.802.340
Segment Net Profit	-	-	-	-	-
Undistributed Cost	-	-	-	-	-
Operating Profit/(Loss)	(168.829)	173.935	345.892	(2.707)	348.291
Profit before Tax	(168.829)	173.935	345.892	(2.707)	348.291
Corporate Tax Provision ^(*)	-	-	-	(93.350)	(93.350)
Profit after Tax	(168.829)	173.935	345.892	(96.057)	254.941
Non-Controlling Interest	-	-	-	-	-
Net Profit for the Period	(168.829)	173.935	345.892	(96.057)	254.941
Segment Assets	3.402.528	14.951.861	30.899.695	-	49.254.084
Associates and Subsidiaries	-	-	34.753	220	34.973
Undistributed Assets	-	-	-	-	-
Total Assets	3.402.528	14.951.861	30.934.448	220	49.289.057
Segment Liabilities	21.229.686	12.993.353	10.216.118	1.529.685	45.968.842
Undistributed Liabilities	-	-	-	3.320.215	3.320.215
Total Liabilities	21.229.686	12.993.353	10.216.118	4.849.900	49.289.057
Other Segment Items	815.541	(1.394)	(10.518)	97.105	900.734
Capital Investment	-	-	-	97.105	97.105
Amortization	(81.006)	(1.394)	(382)	-	(82.782)
Impairment	-	-	(10.136)	-	(10.136)
Non-Cash Other Income-Expense ^(**)	896.547	-	-	-	896.547

^(*) Corporate tax provision is not distributed.

^(**) Non-Cash Other Income-Expense includes other income and expense accruals and provisions.

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XII. EXPLANATIONS ON OPERATING SEGMENTS (Continued)

	Retail Banking	Corporate and Investment Banking	Treasury and Capital Markets	Other	Bank’s Total Activities
Prior Period – December 31, 2019 ^(***)					
Operating Income	487.693	734.415	400.864	-	1.622.972
Other	-	-	-	-	-
Operating Income	487.693	734.415	400.864	-	1.622.972
Segment Net Profit	-	-	-	-	-
Undistributed Cost	-	-	-	-	-
Operating Profit/(Loss)	(82.764)	378.738	281.459	3.256	580.689
Profit before Tax	(82.764)	378.738	281.459	3.256	580.689
Corporate Tax Provision ^(*)	-	-	-	(124.619)	(124.619)
Profit after Tax	(82.764)	378.738	281.459	(121.363)	456.070
Non-Controlling Interest	-	-	-	-	-
Net Profit for the Period	(82.764)	378.738	281.459	(121.363)	456.070
Segment Assets	3.041.068	9.850.745	22.020.169	-	34.911.982
Associates and Subsidiaries	-	-	34.753	220	34.973
Undistributed Assets	-	-	-	-	-
Total Assets	3.041.068	9.850.745	22.054.922	220	34.946.955
Segment Liabilities	19.287.478	8.509.234	2.783.545	1.287.030	31.867.287
Undistributed Liabilities	-	-	-	3.079.668	3.079.668
Total Liabilities	19.287.478	8.509.234	2.783.545	4.366.698	34.946.955
Other Segment Items	259.145	(9.047)	(15.079)	23.541	258.560
Capital Investment	-	-	-	23.541	23.541
Amortization	(44.245)	(9.047)	(7.561)	-	(60.853)
Impairment	-	-	(7.518)	-	(7.518)
Non-Cash Other Income-Expense ^(**)	303.390	-	-	-	303.390

^(*) Corporate tax provision is not distributed.

^(**) Non-Cash Other Income-Expense includes other income and expense accruals and provisions.

^(***) Items of income and expense are the amounts for the period ended September 30, 2019.

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SECTION FIVE

**EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED
FINANCIAL STATEMENTS**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS

a. Information related to cash equivalents and balances with the Central Bank of the Republic of Turkey (The “CBRT”):

1. Information on cash equivalents and balances with the CBRT:

	Current Period		Prior Period	
	September 30, 2020		December 31, 2019	
	TL	FC	TL	FC
Cash/Foreign Currency	89.988	971.660	86.936	293.585
The CBRT	123.645	3.095.685	471.666	2.236.046
Other ^(*)	-	6.092	-	23.488
Total	213.633	4.073.437	558.602	2.553.119

^(*) As of September 30, 2020, account of Precious Metal is amounting to TL 6.092 (December 31, 2019: TL 23.488). As of September 30, 2020 the bank has no Money in Transit (December 31, 2019: None).

2. Information related to balances with the CBRT:

	Current Period		Prior Period	
	September 30, 2020		December 31, 2019	
	TL	FC	TL	FC
Unrestricted Demand Deposit	123.645	-	471.351	-
Unrestricted Time Deposit ^(*)	-	-	315	-
Restricted Time Deposit	-	-	-	-
Reserve Requirements	-	3.095.685	-	2.236.046
Total	123.645	3.095.685	471.666	2.236.046

^(*) “Transactions Related to Foreign Currency Deposits in Turkish Lira Deposits” published by Central Bank of the Republic of Turkey as of January 17, 2017 are recorded in the balance sheet under cash assets and deposit accounts.

3. Explanation on reserve deposits:

The banks operating in Turkey are subject to the Central Bank of the Republic of Turkey’s Communiqué numbered 2013/15 and are required to keep a deposit at the CBRT for their Turkish Lira, U.S. Dollar and/or Euro and standard gold.

As of September 30, 2020, the reserve deposit rates vary according to their maturity structure; the reserve deposit rates are realized between 1% - 4% (December 31, 2019: 1% - 7%) for TL deposits and other liabilities and between 5% - 21% for FC deposits (December 31, 2019: 5% - 21%).

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

b. Information on financial assets at fair value through profit or loss:

1. Financial assets given as collateral/blocked and subject to repurchase agreements:

	Current Period September 30, 2020	Prior Period December 31, 2019
Collateral/Blocked	-	-
Repurchase Agreement	-	-
Unrestricted	320.991	455.827
Total	320.991	455.827

2. Positive differences table related to trading derivative financial assets:

	Current Period September 30, 2020		Prior Period December 31, 2019	
	TL	FC	TL	FC
Forward Transactions	29	271.314	-	121.590
Swap Transactions	555.294	684.152	486.488	372.405
Futures Transactions	-	-	-	-
Options	-	1.173.796	-	616.619
Other	-	-	-	-
Total	555.323	2.129.262	486.488	1.110.614

c. Information on banks:

1. Information on banks and other financial institutions:

	Current Period September 30, 2020		Prior Period December 31, 2019	
	TL	FC	TL	FC
Banks				
Domestic	150.050	-	-	-
Foreign	-	292.451	4	10.974
Foreign Head Office and Branches	-	-	-	-
Total	150.050	292.451	4	10.974

As of September 30, 2020, amount of TL 173 provision provided for the Bank account within the scope of TFRS 9 (December 31, 2019: TL 3).

2. Information on foreign bank accounts:

Not disclosed in compliance with interim financial statements.

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

d. Information on financial assets fair value through other comprehensive income given as collateral/blocked and subject to repurchase agreements

1. Financial assets given as collateral/blocked and subject to repurchase agreements:

	Current Period September 30, 2020	Prior Period December 31, 2019
Collateral/Blocked	977.237	264.634
Repurchase Agreement	5.100.338	-
Unrestricted	1.243.282	966.064
Total	7.320.857	1.230.698

2. Information on financial assets at fair value through other comprehensive income:

	Current Period September 30, 2020	Prior Period December 31, 2019
Debt Securities	7.331.451	1.230.698
Quoted to Stock Exchange	7.331.451	1.230.698
Not Quoted	-	-
Share Certificate	-	-
Quoted to Stock Exchange	-	-
Not Quoted	-	-
Impairment Provision (-)	10.594	-
Total	7.320.857	1.230.698

e. Information related to loans:

1. Information on all types of loans and advances given to shareholders and employees of the Bank:

	Current Period September 30, 2020		Prior Period December 31, 2019	
	Cash	Non-cash	Cash	Non-cash
Direct Loans Granted to Shareholders	-	85.928	-	95.320
Corporate Shareholders	-	85.928	-	95.320
Real Person Shareholders	-	-	-	-
Indirect Loans Granted to Shareholders	-	678.162	1.483	561.736
Loans Granted to Employees	17.056	-	15.166	-
Total	17.056	764.090	16.649	657.056

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

2. Information on the standard loans and loans under close monitoring including loans that have been restructured or rescheduled:

Cash Loans	Standard Loans	Loans under Close Monitoring		
		Loans not Subject to Restructuring	Restructured Loans	Refinance
		Loans with Revised Contract Terms		
Non-specialized Loans^(*)	20.799.367	3.684.064	2.529.645	-
Discount Notes	13.782.093	3.277.575	2.361.607	-
Export Loans	2.219.829	74.003	121.626	-
Import Loans	561.159	-	-	-
Loans Given to Financial Sector	1.673.959	31.214	-	-
Retail Loans	1.118.846	34.568	2.678	-
Credit Cards	1.443.481	266.704	43.734	-
Other	-	-	-	-
Specialized Loans	-	-	-	-
Other Receivables	-	-	-	-
Total	20.799.367	3.684.064	2.529.645	-

(*) Includes the factoring receivables amounting to TL 277.787.

	Current Period September 30, 2020		Prior Period December 31, 2019	
	Standard Loans	Loans Under Close Monitoring	Standard Loans	Loans Under Close Monitoring
12 Months Expected Credit Loss	137.424	-	124.466	-
Significant Increase in Credit Risk	-	1.015.788	-	794.265
Total	137.424	1.015.788	124.466	794.265

3. Breakdown of loans according to their maturities:

Not disclosed in compliance with interim financial statements.

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

4. Information on consumer loans, personal credit cards, personnel loans and personnel credit cards:

	Short-term	Medium and Long-term	Total
Consumer Loans-TL	63.169	945.372	1.008.541
Mortgage Loans	-	282.092	282.092
Automotive Loans	100	2.658	2.758
Consumer Loans	63.069	659.097	722.166
Other	-	1.525	1.525
Consumer Loans- Indexed to FC	-	448	448
Mortgage Loans	-	448	448
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	1.715.760	24.125	1.739.885
Instalment	604.089	24.125	628.214
Non Instalment	1.111.671	-	1.111.671
Individual Credit Cards-FC	4.027	-	4.027
Instalment	328	-	328
Non Instalment	3.699	-	3.699
Personnel Loans-TL	1.320	9.746	11.066
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	1.320	9.746	11.066
Other	-	-	-
Personnel Loans- Indexed to FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	5.931	3	5.934
Instalment	2.800	3	2.803
Non Instalment	3.131	-	3.131
Personnel Credit Cards-FC	56	-	56
Instalment	-	-	-
Non Instalment	56	-	56
Overdraft Account-TL (Individual)	136.037	-	136.037
Overdraft Account-FC (Individual)	-	-	-
Total Consumer Loans	1.926.300	979.694	2.905.994

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

5. Information on commercial instalment loans and corporate credit cards:

	Short-term	Medium and Long-term	Total
Commercial Instalment Loans-TL	-	8.902	8.902
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	8.902	8.902
Other	-	-	-
Commercial Instalment Loans- FC Indexed	-	24.998	24.998
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	24.998	24.998
Other	-	-	-
Commercial Instalment Loans-FC	-	-	-
Mortgage Loans	-	-	-
Automotive loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Corporate Credit Cards-TL	3.661	-	3.661
Instalment	473	-	473
Non Instalment	3.188	-	3.188
Corporate Credit Cards-FC	356	-	356
Instalment	-	-	-
Non Instalment	356	-	356
Overdraft Account-TL (Commercial)	96	-	96
Overdraft Account-FC (Commercial)	-	-	-
Total	4.113	33.900	38.013

6. Loans according to types of borrowers:

Not disclosed in compliance with interim financial statements.

7. Distribution of domestic and foreign loans:

	Current Period September 30, 2020	Prior Period December 31, 2019
Domestic Loans	26.738.999	16.848.715
Foreign Loans	274.077	138.787
Total (*)	27.013.076	16.987.502

(*) As of September 30, 2020, Includes the factoring receivables amounting to TL 277.787 (December 31, 2019: TL 126.556).

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

8. Loans granted to investments in associates and subsidiaries:

As of September 30, 2020 and December 31, 2019, the Bank has no loans granted to investments in associates and subsidiaries.

9. Specific provisions provided against loans:

	Current Period September 30, 2020	Prior Period December 31, 2019
Loans with Limited Collectability	221	17.593
Loans with Doubtful Collectability	28.302	76.799
Uncollectible Loans	481.394	392.528
Total	509.917	486.920

10. Information on non-performing loans (Net):

10 (i). Information on non-performing loans and other receivables restructured or rescheduled:

	III. Group Loans with Limited Collectability	IV. Group Loans with Doubtful Collectability	V. Group Uncollectible Loans
Current Period: September 30, 2020			
Gross Amounts Before Provisions	434	6.266	46.617
Rescheduled Loans	434	6.266	46.617
Prior Period: December 31, 2019			
Gross Amounts Before Provisions	8.880	7.700	24.796
Rescheduled Loans	8.880	7.700	24.796

10 (ii). Information on the movement of total non-performing loans:

	III. Group Loans with Limited Collectability	IV. Group Loans with Doubtful Collectability	V. Group Uncollectible Loans
Balance at the end of Prior Period: December 31, 2019	36.220	138.980	532.204
Additions (+)	20.306	19.579	140
Transfers from Other Categories of Non-Performing Loans (+)	-	49.179	160.076
Transfers to Other Categories of Non-Performing Loans (-)	49.181	160.076	3
Collections (-)	6.778	11.070	55.073
Write-offs (-)	-	-	5.333
Sold Portfolio (-)	-	-	-
Corporate and Commercial Loans	-	-	-
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
Balance at the End of the Period: September 30, 2020	567	36.592	632.011
Provisions (-)	221	28.302	481.394
Net Balance in Balance Sheet	346	8.290	150.617

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

10 (iii). Information on non-performing loans granted as foreign currency loans:

As of September 30, 2020, there are no non-performing loans granted as foreign currency loans (December 31, 2019: None).

10 (iv). Breakdown of gross and net values of the non-performing loans according to their beneficiary group:

	III. Group Loans with Limited Collectability	IV. Group Loans with Doubtful Collectability	V. Group Uncollectible Loans
Current Period (Net): September 30, 2020	346	8.290	150.617
Loans granted to corporate entities and real persons (Gross)	567	36.592	632.011
Provisions Amount (-)	221	28.302	481.394
Loans granted to corporate entities and real persons (Net)	346	8.290	150.617
Banks (Gross)	-	-	-
Provisions Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Advances (Gross)	-	-	-
Provisions Amount (-)	-	-	-
Other Loans and Advances (Net)	-	-	-
Prior Period (Net): December 31, 2019	18.627	62.181	139.676
Loans granted to corporate entities and real persons (Gross)	36.220	138.980	532.204
Provisions Amount (-)	17.593	76.799	392.528
Loans granted to corporate entities and real persons (Net)	18.627	62.181	139.676
Banks (Gross)	-	-	-
Provisions Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Advances (Gross)	-	-	-
Provisions Amount (-)	-	-	-
Other Loans and Advances (Net)	-	-	-

	III. Group Loans with Limited Collectability	IV. Group Loans with Doubtful Collectability	V. Group Uncollectible Loans
Current Period (Net)	6.971	7	1
Interest Accruals and Rediscount with Valuation Differences	17.247	7	1
Provision amount (-)	10.276	-	-
Prior Period (Net)	8.132	9	1
Interest Accruals and Rediscount with Valuation Differences	15.992	9	1
Provision amount (-)	7.860	-	-

11. Information on the collection policy of non-performing loans and other receivables:

For uncollectible loans, primarily, a reach for an agreement with the company and third parties (natural and/or legal) having guarantees subject to the risk is being sought and actions either aimed at liquidation of collateral in the loan risk warranty or aimed at proceedings without judgement are taken. In case of obtaining no result in consequence of these actions, liquidation subject to requirements within the framework of legal regulations designated by the Bank's top management occurs.

12. Information on the write-off policy of the Bank:

The general policy of the Bank is oriented to the collection, whereas written off is applied exceptionally.

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

f. Explanations on financial assets measured at amortized cost:

1. Rep Information on financial assets given an collateral/blocked and subject to repurchase agreements and those:

As of September 30, 2020, the Bank has no financial assets measured at amortized cost given as collateral/blocked and subject to repurchase agreements (December 31, 2019: None).

2. Information on Government debt securities held-to-maturity:

(i) Financial assets measured at amortized cost:

As of September 30, 2020, the Bank has no government debt securities measured at amortized (December 31, 2019: None).

3. Information on financial assets measured at amortized cost:

As of September 30, 2020, the Bank has no financial assets measured at amortized cost (December 31, 2019: None).

4. The movement of financial assets measured at amortized cost:

As of September 30, 2020, the Bank has no movements of financial assets measured at amortized cost within the period (December 31, 2019: None).

g. Information on associates (Net):

The Bank has no associates as of September 30, 2020 and December 31, 2019.

h. Information on subsidiaries (Net):

1. Information on subsidiaries which are not included in the scope of consolidation:

a) Unconsolidated subsidiaries:

Title	Address (City/Country)	Bank's share percentage If different voting percentage (%)	Bank's risk group share percentage (%)
HSBC Ödeme Sistemleri ve Bilgisayar Teknolojileri Basın Yayın ve Müşteri Hizmetleri A.Ş.	Esentepe Mahallesi Büyükdere Caddesi No:128 Şişli 34394, İSTANBUL	100,00	0,00

b) Main financial figures of the subsidiaries, in the order of the above table (*):

Total Assets	Shareholders' Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
2.794	2.794	-	-	-	501	1.932	-

(*) Prepared with the non-reviewed financial statements as of September 30, 2020.

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

1. Information on the consolidated subsidiaries:

HSBC Yatırım was established as Demir Yatırım on December 23, 1996. The merger of the Demir Yatırım and HSBC Yatırım was realized and the merger agreement was signed, with the Board of Directors decision, No. 222 and dated December 6, 2001 based on the authority given to the Board of Directors in accordance with General Assembly decision dated October 30, 2001. Also dissolution of HSBC Yatırım and change of the title of the new merged company to HSBC Yatırım Menkul Değerler A.Ş. was agreed and the merger of these two companies was accomplished as of January 11, 2002.

a) Consolidated subsidiaries:

Title	Address (City/Country)	Bank’s Share Percentage- If Different Voting Percentage (%)	Bank’s Risk Group Share Percentage (%)
HSBC Yatırım ve Menkul Değerler A.Ş.	Esenteppe Mahallesi Büyükdere Caddesi No:128 Şişli 34394, İSTANBUL	100,00	-

b) Main financial figures of the subsidiaries, in the order of the above table (*):

Total Assets	Shareholders’ Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss (**)	Fair Value
121.227	96.197	4.903	14.208	2.677	33.330	31.792	-

(*) Prepared with the audited financial statements as of December 31, 2019.

(**) Refers to the independently audited 31 December 2018 amounts.

2. Movement schedule of the consolidated subsidiaries:

	Current Period September 30, 2020	Current Period December 31, 2019
Balance at the Beginning of the Period	34.753	34.753
Movements During the Period	-	-
Purchases	-	-
Bonus Shares and Contributions to Capital	-	-
Dividends From Current Year Profit	-	-
Sales/Liquidation	-	-
Revaluation Increase	-	-
Increase/(Decrease) of Valuation	-	-
Balance at the End of the Period	34.753	34.753
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	100,00	99,87

3. Sectoral information on financial subsidiaries and the related carrying amounts:

	Current Period September 30, 2020	Prior Period December 31, 2019
Banks	-	-
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Finance Companies	-	-
Other Financial Subsidiaries	34.753	34.753

4. Subsidiaries quoted on a stock exchange:

The Bank has no subsidiaries quoted on a stock exchange as of September 30, 2020 and December 31, 2019.

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

i. Information on jointly controlled entities:

- a. The Bank has no jointly controlled entities as of September 30, 2020 and December 31, 2019.
- b. As of September 30, 2020 and December 31, 2019, the accounting method is not determined since the Bank has no jointly controlled entities.

j. Information on financial lease receivables (Net):

As of September 30, 2020 and December 31, 2019, the Bank has no finance leases.

k. Information on hedging derivative financial assets:

The Bank has no hedging of derivative financial assets as of September 30, 2020 and December 31, 2019.

l. Explanations on property and equipment:

Not disclosed in compliance with interim financial statements.

m. Information on intangible assets:

Not disclosed in compliance with interim financial statements.

n. Information on the investment properties:

As of September 30, 2020 and December 31, 2019, the Bank has no investment properties.

o. Explanations on deferred tax asset:

As of September 30, 2020, foreign currency deferred tax asset of the Bank is TL 238.206 (December 31, 2019: TL 209.428). Temporary differences subject to deferred tax calculation result from mainly the loan provisions to be deducted from tax, other provisions allocated within the scope of TAS 37, tax values and debts of fixed assets and financial assets, and provision for employee rights.

Deferred tax assets and liabilities, which are accounted for the temporary differences arising between applicable accounting policies and valuation principles and tax legislation in the Bank, are netted-off and accounted. As of September 30, 2020, The Bank’s information regarding deferred tax have been explained in Note XX of Section Three.

p. Information on assets held for sale and related to discontinued operations:

As of September 30, 2020, assets held for sale of the Bank is TL 594 (December 31, 2019: TL 2.095).

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I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

r. Information on other assets:

1. There are no further explanations of the Bank related to prepaid expenses, tax and other operations.

	Current Period September 30, 2020	Prior Period December 31, 2019
Miscellaneous Receivables (*)	467.437	476.997
Prepaid Expenses	60.662	26.696
Debited Suspense Accounts	75.638	56.920
Other Rediscount Income (**)	49.967	27.264
Total	653.704	587.877

(*) Includes BIST and derivative securities.

(**) As of September 30, 2020 amount of TL 6.675 provision provided for Miscellaneous Receivables within the scope of TFRS 9 (December 31, 2019: TL 4.998).

(**) Includes dividend payments and other income accruals.

s. Information on receivables from forward sale of the assets classified in the miscellaneous receivables:

As of September 30, 2020 and December 31, 2019, the Bank has no receivables from forward sale of the assets classified in the miscellaneous receivables.

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES

a. Information on deposits

1. Information on maturity structure of the deposits:

The Bank has no deposits with 7 days maturity and no cumulative deposits.

1(i). Current Period – September 30, 2020:

	Demand	With 7 Days Maturity	Up to 1 Month	1-3 Months	3-6 Months	6 Months - 1 Year	1 Year And Over	Cumulative Deposit	Total
Saving Deposits	417.942	-	716.054	3.035.454	119.552	36.938	27.055	-	4.352.995
Foreign Currency Deposits	8.996.724	-	3.251.224	5.596.659	493.420	74.633	164.702	-	18.577.362
Residents in Turkey	8.090.942	-	3.037.659	5.026.215	396.778	34.559	54.365	-	16.640.518
Residents Abroad	905.782	-	213.565	570.444	96.642	40.074	110.337	-	1.936.844
Public Sector Deposits	2.698	-	-	-	-	-	-	-	2.698
Commercial Deposits	642.517	-	3.517.460	336.132	45	-	-	-	4.496.154
Other Institutions Deposits	4.371	-	76	-	-	-	-	-	4.447
Precious Metal Deposit	3.442.376	-	8.799	383.736	6.351	4.500	376	-	3.846.138
Bank Deposits	189.949	-	370.369	-	-	-	-	-	560.318
The CBRT	-	-	-	-	-	-	-	-	-
Domestic Banks	-	-	220.072	-	-	-	-	-	220.072
Foreign Banks	189.949	-	150.297	-	-	-	-	-	340.246
Participation Banks	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	13.696.577	-	7.863.982	9.351.981	619.368	116.071	192.133	-	31.840.112

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

1(ii). Prior Period – December 31, 2019:

	Demand	With 7 Days Maturity	Up to 1 Month	1-3 Months	3-6 Months	6 Months - 1 Year	1 Year And Over	Cumulative Deposit	Total
Saving Deposits	335.609	-	1.287.513	1.942.865	68.616	49.390	49.718	-	3.733.711
Foreign Currency Deposits	3.508.861	-	5.947.517	9.072.709	419.547	138.000	127.691	-	19.214.325
Residents in Turkey	3.057.949	-	5.725.445	8.394.476	361.775	107.393	45.970	-	17.693.008
Residents Abroad	450.912	-	222.072	678.233	57.772	30.607	81.721	-	1.521.317
Public Sector Deposits	3.118	-	-	-	-	-	-	-	3.118
Commercial Deposits	465.213	-	2.265.510	223.009	91.688	125.816	55.981	-	3.227.217
Other Institutions Deposits	4.328	-	89	-	-	-	-	-	4.417
Precious Metal Deposit	1.128.921	-	19.815	226.083	2.832	5.529	-	-	1.383.180
Bank Deposits	127.864	-	107.446	-	-	-	-	-	235.310
The CBRT	-	-	-	-	-	-	-	-	-
Domestic Banks	-	-	-	-	-	-	-	-	-
Foreign Banks	127.864	-	107.446	-	-	-	-	-	235.310
Participation Banks	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	5.573.914	-	9.627.890	11.464.666	582.683	318.735	233.390	-	27.801.278

2. Information on saving deposits insurance:

2(i). Information on saving deposits under the guarantee of the Saving Deposits Insurance Fund and amounts exceeding the limit of the deposit insurance fund:

	Covered by Deposit Insurance Fund		Exceeding Deposit Insurance Limit	
	Current Period	Current Period	Prior Period	Prior Period
	September 30, 2020	September 30, 2020	December 31, 2019	December 31, 2019
Saving Deposits				
Saving Deposits	2.054.494	2.298.501	1.983.508	1.750.203
Foreign Currency Saving Deposits	3.389.741	9.773.979	3.330.674	12.173.517
Other Deposits in the Form of Saving Deposits	636.835	3.030.904	137.541	1.226.965
Foreign Branches' Deposits under Foreign Authorities' Insurance Coverage	-	-	-	-
Off-Shore Banking Regions' Deposits under Foreign Authorities' Insurance Coverage	-	-	-	-
Total	6.081.070	15.103.384	5.451.723	15.150.685

2(ii). Since the head office of the Bank is not located abroad, saving deposit in Turkey are not covered by the saving deposits insurance in another country.

2(iii). Saving deposits of individuals, which are not covered by the Saving Deposit Insurance Fund:

	Current Period September 30, 2020	Prior Period December 31, 2019
Foreign Branches' Deposits and other accounts	-	-
Saving Deposits and Other Accounts of Major Shareholders and Deposits of their Mother, Father, Spouse, Children under their wardship	-	-
Saving Deposits and Other Accounts of President and Members of Board of Directors, CEO and Vice Presidents and Deposits of their Mother, Father, Spouse, Children under their wardship	55.142	24.227
Saving Deposits and Other Accounts in Scope of the Property Holdings Derived from Crime Defined in Article 282 of Turkish Criminal Law No:5237 dated 26/09/2004	-	-
Saving Deposits in Deposit Bank Which Established in Turkey in Order to Engage in Off-shore Banking Activities	-	-

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

b. Information on trading derivative financial liabilities:

Table of negative differences for trading derivative financial liabilities:

	Current Period September 30, 2020		Prior Period December 31, 2019	
	TL	FC	TL	FC
Forward Transactions	-	474.723	-	188.735
Swap Transactions	403.734	423.525	464.612	169.598
Future Transactions	-	-	-	-
Options	-	1.175.483	-	617.487
Other	-	-	-	-
Total	403.734	2.073.731	464.612	975.820

c. Information on funds provided under repurchase agreements:

As of September 30, 2020, the Bank has TL 5.194.346 amount funds provided under repurchase agreements (December 31, 2019: None).

d. Information on funds borrowed:

1. Information on banks and other financial institutions:

	Current Period September 30, 2020		Prior Period December 31, 2019	
	TL	FC	TL	FC
Borrowings from the CBRT	-	-	-	-
Domestic Bank and Institutions	-	-	-	-
Foreign Banks and Institutions and Funds	-	3.370.691	-	30.720
Total	-	3.370.691	-	30.720

2. Information on the maturity structure of funds borrowed:

	Current Period September 30, 2020		Prior Period December 31, 2019	
	TL	FC	TL	FC
Short-Term	-	2.328.180	-	30.720
Medium and Long-Term	-	1.042.511	-	-
Total	-	3.370.691	-	30.720

3. Further information is disclosed for the areas of liability concentrations:

Bank diversifies its funding sources by customer deposits and loans from foreign countries.

e. Information on foreign other liabilities:

Other foreign liabilities of the Bank under “Other Liabilities” do not exceed 10% of the total liabilities.

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

f. Information on financial leasing agreements:

With the "IFRS 16 Leases" standard valid from January 1, 2019, the difference between operating leases and finance leases has been eliminated and the lease transactions have been expressed under the "Lease Payables" as liability by lessees.

	Current Period September 30, 2020	Prior Period December 31, 2019
Less than 1 year	9.186	2.963
Between 1- 4 years	36.792	75.670
More than 4 years	56.626	45.558
Total	102.604	124.191

g. Information on derivative financial liabilities for hedging purposes:

As of September 30, 2020, the Bank has no derivative financial liabilities for hedging purposes (December 31, 2019: None).

h. Information on provisions:

1. Information on general provisions:

	Current Period September 30, 2020	Prior Period December 31, 2019
Provisions for off-balance sheet commitments ^(*)	25.521	25.855

^(*) In accordance with IFRS 9, the expected loss provisions for the 1st, 2nd and 3rd stage non-cash loans are in the "Other Provisions" column in the liabilities. With IFRS 9 transaction expected loss for cash loans and other financial assets are classified under assets.

2. Information on employee benefit provisions:

As of September 30, 2020, the Bank has employee termination benefit provision amounting to TL 52.796 (December 31, 2019: TL 55.884), and unused vacation provision amounting to TL 12.717 (December 31, 2019: TL 9.592).

In accordance with existing Turkish Labour Law, the Bank is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or as mentioned in related legislation.

The computation of the liability is based upon the retirement pay ceiling announced. The applicable ceiling amount is TL 7.117,17 (full TL) (December 31, 2019: TL 6.379,86 (full TL)). Employee termination benefit liability is not legally dependent on any kind of funding, and there is no requirement on funding.

The reserve for employment termination benefits represents the present value of the estimated total liability for the future probable obligation of the Bank determined by using certain actuarial assumptions. TAS 19 requires actuarial valuation methods to be used in order to calculate Bank's liabilities.

The assumption is that retirement pay ceiling is expected to increase as per the inflation rate every year. Thus discount rate applied shall represent real rate, net of inflation. Since retirement pay ceiling amount is determined once every six months, employee benefit liability of the Bank is calculated from the ceiling amount valid from July 1, 2020, TL 7.117,17 (full TL) (December 31, 2019: TL 6.379,86 (full TL)).

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

	Current Period September 30, 2020	Prior Period December 31, 2019
As of January 1	55.884	54.775
Service Cost	2.883	3.912
Interest Cost	4.865	7.692
Actuarial Loss / (Gain)	(9.505)	(4.649)
Paid in Current Period	(1.331)	(5.846)
Total	52.796	55.884

3. Information on provisions related to foreign currency difference on the principles of foreign indexed loans and finance lease receivables:

As of September 30, 2020, the bank has no provisions related to foreign currency difference on the principles of foreign currency indexed loans (December 31, 2019: None).

4. Information on specific provisions for non-cash loans that is non-funded and non-transformed into cash:

As of September 30, 2020, provision for non-cash loans that are non-funded and non-transformed into cash is amounting to TL 1.743 (December 31, 2019: TL 1.857).

5. Information on restructuring provisions:

As of September 30, 2020, provision for restructuring is amounting to TL 2.754 (December 31, 2019: TL 4.114).

6. Information on other provisions:

6 (i). Information on free provisions for possible risks:

As of September 30, 2020, the Bank has no free provisions for possible risks (December 31, 2019: None).

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6 (ii). The names and amounts of sub-accounts of other provision under the condition of other provisions exceed 10% of total provisions:

	Current Period September 30, 2020	Prior Period December 31, 2019
Provision for Lawsuits	35.344	35.412
Provision for Accumulated Credit Card Bonus	2.747	4.058
Return Provision of Case File Expenses	330	570
Specific Provision for Non-Cash Loans that are Non-Funded and Non-Transformed into Cash	1.743	1.857
Other Provisions (*)	56.099	56.154
Total	96.263	98.051

(*) As of September 30, 2020, other provisions amounting TL 25.521 (December 31, 2019: TL 25.855) with TFRS 9 Stage 1 and Stage 2 non-cash loans provision for expected losses and includes other provisions within TAS 37.

i. Explanations on tax liability:

1. Explanations on current tax liability:

The corporate tax provisions calculation of the Bank is explained in Note XX of Section Three.

1(i). Information on taxes payable:

	Current Period September 30, 2020	Prior Period December 31, 2019
Taxation on Marketable Securities	21.736	23.262
Banking Insurance Transaction Tax (BITT)	10.073	11.398
Value Added Tax Payable	495	706
Capital Gains Tax on Property	250	408
Foreign Exchange Transaction Tax	9.043	2.190
Corporate Taxes Payable	-	(24.430)
Other (*)	9.807	7.734
Total	51.404	21.268

(*) As of September 30, 2020, other taxes payable amount consists of payroll tax amounting to TL 9.155 (December 31, 2019: TL 6.731), stamp tax amounting to TL 275 (December 31, 2019: TL 220), other taxes amounting to TL 264 (December 31, 2019: TL 606), and self-employed income tax amounting to TL 113 (December 31, 2019: TL 177).

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

1(ii). Information on premium payables:

	Current Period September 30, 2020	Prior Period December 31, 2019
Social Security Premiums – Employer	5.649	5.000
Social Security Premiums – Employee	3.732	3.657
Bank Social Aid Pension Fund Premium – Employer	-	-
Bank Social Aid Pension Fund Premium – Employee	-	-
Pension Fund Membership Fees and Provisions – Employer	-	-
Pension Fund Membership Fees and Provisions – Employee	-	-
Unemployment Insurance – Employer	397	350
Unemployment Insurance – Employee	553	711
Other	-	-
Total	10.331	9.718

2. Information on deferred tax liability:

Information on the Bank’s deferred tax liability as of September 30, 2020 is explained in Note XX of Section Three.

j. Information on liabilities regarding assets held for sale and discontinued operations:

As of September 30, 2020 and December 31, 2019, the Bank has no liabilities regarding assets held for sale and discontinued operations.

k. Explanations on the number of subordinated loans the Bank used, maturity, interest rate, institution that the loan was borrowed from, and conversion option, if any:

Not disclosed in compliance with interim financial statements.

l. Information on shareholder’s equity:

1. Presentation of paid-in capital:

	Current Period September 30, 2020	Prior Period December 31, 2019
Common Stock Provision	652.290	652.290
Preferred Stock Provision	-	-

Amount of paid-in capital of the Bank is presented in nominal amount. As of September 30, 2020 capital reserve due to adjustment of the paid-in capital for inflation amounts to TL 272.693 has been classified under the other capital reserve sub-account (December 31, 2019: Other capital reserve is amounting to TL 272.693).

2. Amount of paid-in-capital, explanations as to whether the registered share capital system is applied, if so, and the amount of registered share capital ceiling:

Registered share capital system is not applied.

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II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

3. Information on the share capital increases during the period, their sources and other information:

The Bank has not increased its share capital during the current period.

4. Information on share capital increases from capital reserves during the current period:

The Bank has no share capital increases from capital reserves during the current period.

5. Information on capital commitments, the purpose and the sources until the end of the fiscal year and the subsequent interim period:

The Bank has no capital commitments.

6. The effects of anticipations based on the financial figures for prior periods regarding the Bank’s income, profitability and liquidity, and the anticipations regarding the uncertainty of these indicators on the shareholders’ equity:

The Bank tends to strengthen its shareholders’ equity according to the assessment of financial figures for prior periods regarding the Bank’s income, profitability and liquidity, and the anticipations regarding changes in the accounting standards.

7. Information on privileges given to shares representing the capital:

The Bank has no privileges given to shares representing the capital.

8. Information on valuation differences of marketable securities:

	Current Period		Prior Period	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
	TL	FC	TL	FC
From Investments in Associates, Subsidiaries, and Joint Ventures				
Valuation Difference	-	-	-	-
Foreign Currency Difference	-	-	-	-
Financial Assets at Fair Value through Other Comprehensive Income				
Valuation Difference	4.468	-	26.011	-
Foreign Currency Difference	-	-	-	-
Total	4.468	-	26.011	-

9. Information on revaluation value increase fund:

As of September 30, 2020 and December 31, 2019, the Bank has no revaluation value increase fund.

10. Information on shareholders having more than 10% share in capital and/or voting right:

With the decision taken at The Ordinary General Assembly meeting held on March 30, 2020, the bank has no capital increase during the current period. Within the framework of the resolution of the General Assembly, it was decided to transfer the profit of 2019 to extraordinary reserves.

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III. EXPLANATIONS AND NOTES RELATED TO OFF-BALANCE SHEET ACCOUNTS

a. Explanations on off-balance sheet commitments:

1. Type and amount of irrevocable commitments:

	Current Period September 30, 2020	Prior Period December 31, 2019
Asset Purchase and Sale Commitments	13.432.472	6.362.504
Commitments for Credit Card Limits	3.321.483	3.206.861
Commitments for Cheques	16.869	20.119
Loan Granting Commitments	188.843	578.715
Short Sale Commitments	-	-
Commitments for Credit Cards and Banking Services Promotions	17.770	13.950
Tax and Fund Liabilities from Export Commitments	2.286	2.286
Other Irrevocable Commitments	545.546	537.029
Total	17.525.269	10.721.464

2. Type and amount of probable losses and obligations arising from off-balance sheet items:

The Bank has no probable losses arising from off-balance sheet items. Obligations arising from the off-balance sheet are disclosed in “Off-balance sheet commitments”.

2 (i). Non-cash loans including guarantees, bank acceptances, collaterals and others that are accepted as financial commitments and other letters of credit:

	Current Period September 30, 2020	Prior Period December 31, 2019
Letters of Guarantee	4.308.091	2.867.319
Letters of Credit	2.543.415	1.678.260
Bank Acceptances	408	1.029
Other Guarantees	220.483	218.927
Total	7.072.397	4.765.535

2 (ii). Certain guarantees, temporary guarantees, surety ships and similar transactions:

The Bank has no certain guarantees, temporary guarantees, surety ships and similar transactions except explained above in the Section 2 (i).

3. Information on the non-cash loans:

3 (i). Total amount of non-cash loans:

	Current Period September 30, 2020	Prior Period December 31, 2019
Non- Cash Loans Given for Cash Loan Risks		
Non- Cash Loans	-	-
With Original Maturity of One Year or Less	-	-
With Original Maturity of More Than One Year	-	-
Other Non-Cash Loans	7.072.397	4.765.535
Total	7.072.397	4.765.535

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**III. EXPLANATIONS AND NOTES RELATED TO OFF-BALANCE SHEET ACCOUNTS
(Continued)**

3 (ii). Information on sectoral risk concentration within the non-cash loans:

Not disclosed in compliance with interim financial statements.

3 (iii). Information on the non-cash loans classified under Group I and Group II:

Not disclosed in compliance with interim financial statements.

b. Explanations on derivative transactions:

Not disclosed in compliance with interim financial statements.

c. Explanations on credit derivatives and risk exposures on credit derivatives:

None.

d. Explanations on contingent liabilities and assets:

Contingent assets are recognised if the probability of occurrence is almost virtually certain, whereas they are disclosed in the notes, if the probability of occurrence is probable. As of September 30, 2020, there is no contingent assets to be disclosed.

Contingent liabilities are recognized if the probability of occurrence is probable and the liability can be measured reliably, whereas they are disclosed in the notes, if they cannot be measured reliably or the possibility of the occurrence is remote or does not exist.

The Bank has certain contingent liabilities relating to various lawsuits due to the transactions it performed in the scope of banking operations. As of September 30, 2020, the total amount of these lawsuits filed against the Bank is TL 35.344 (December 31, 2019: TL 35.412). A total provision of TL 330 (December 31, 2019: TL 570) has been made for those lawsuits as the probability of being concluded against the bank is higher than the probability of their concluding in its favor, with TL 35.674 (December 31, 2019: TL 35.982) being for provisions for refunds related to case document charges.

e. Explanations on fiduciary services rendered on behalf of third parties:

The Bank acts as an investment agent for the trading of marketable securities and provides custodian services on behalf of its customers.

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IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT

a. Information on interest income:

1. Information on interest income received from loans:

	Current Period		Prior Period	
	September 30, 2020		September 30, 2019	
	TL	FC	TL	FC
Interest Income on Loans ^(*)				
Short-Term Loans	598.779	75.163	1.186.446	54.013
Medium and Long-Term Loans	171.039	332.290	290.902	239.123
Interest on Loans Under Follow-Up	16.581	100	15.400	-
Resource Utilization Support Fund	-	-	-	-
Total	786.399	407.553	1.492.748	293.136

^(*) Fee and commission income from cash loans are included.

2. Information on interest income received from banks:

	Current Period		Prior Period	
	September 30, 2020		September 30, 2019	
	TL	FC	TL	FC
The CBRT	569	-	60.420	-
Domestic Banks	27.196	-	67.058	41
Foreign Banks	1.207	2.986	2.185	10.050
Headquarters and Branches of Foreign Banks	-	-	-	-
Total	28.972	2.986	129.663	10.091

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IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT (Continued)

3. Information on interest income on marketable securities:

	Current Period		Prior Period	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	TL	FC	TL	FC
Financial Assets at Fair Value Through Profit or Loss	34.106	4.378	38.734	3.828
Financial Assets at Fair Value Through Other Comprehensive Income	262.370	-	62.940	-
Financial Assets Measured at Amortized Cost	-	-	-	-
Total	296.476	4.378	101.674	3.828

4. Information on interest income received from investments in associates and subsidiaries:

As of September 30, 2020 and September 30, 2019, the Bank has no interest income received from investments in associates and subsidiaries.

b. Information on interest expense:

1. Information on interest expense on funds borrowed^(*):

	Current Period		Prior Period	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	TL	FC	TL	FC
Banks				
The CBRT	-	-	-	-
Domestic Banks	-	-	-	-
Foreign Banks	-	88.652	142.842	71.874
Headquarters and Branches Abroad	-	-	-	-
Other Institutions	-	-	-	-
Total	-	88.652	142.842	71.874

2. Information on interest expense paid to associates and subsidiaries :

	Current Period	Current Period
	September 30, 2020	September 30, 2019
Interest Expenses Given to Subsidiaries and Associates	2.578	6.026

3. Information on interest expense paid on securities issued:

The Bank has no interest expense paid on securities as of September 30, 2020. (September 30, 2019:None.)

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IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT (Continued)

4. Maturity structure of the interest expense on deposits:

Current Period: September 30, 2020	Time Deposit							Total
	Demand Deposit	Up to 1 Month	Up to 3 Month	Up to 6 Month	Up to 1 Year	More Than 1 year	Cumulative Deposit	
Turkish Lira								
Interbank deposits	-	15.364	-	-	-	-	-	15.364
Saving deposits	-	49.015	168.555	4.303	2.809	3.624	-	228.306
Public sector deposits	-	-	-	-	-	-	-	-
Commercial deposits	-	139.602	19.284	3.843	3.128	2.712	-	168.569
Other deposits	-	6	-	-	-	-	-	6
Deposits with 7 days maturity	-	-	-	-	-	-	-	-
Total	-	203.987	187.839	8.146	5.937	6.336	-	412.245
Foreign Currency								
Foreign currency deposits	-	13.683	28.578	2.092	3.686	1.614	-	49.653
Interbank deposits	-	6	-	-	-	-	-	6
Deposits with 7 days maturity	-	-	-	-	-	-	-	0
Precious metal deposits	-	4	492	9	17	-	-	522
Total	-	13.693	29.070	2.101	3.703	1.614	-	50.181
Grand Total	-	217.680	216.909	10.247	9.640	7.950	-	462.426

Prior Period: September 30, 2019	Time Deposit							Total
	Demand Deposit	Up to 1 Month	Up to 3 Month	Up to 6 Month	Up to 1 Year	More Than 1 year	Cumulative Deposit	
Turkish Lira								
Interbank deposits	-	16.459	-	-	-	-	-	16.459
Saving deposits	-	129.914	337.847	57.462	21.876	24.235	-	571.334
Public sector deposits	-	-	-	-	-	-	-	-
Commercial deposits	-	319.071	69.143	3.408	7.461	20.094	-	419.177
Other deposits	-	193	1.282	-	-	-	-	1.475
Deposits with 7 days maturity	-	-	-	-	-	-	-	-
Total	-	465.637	408.272	60.870	29.337	44.329	-	1.008.445
Foreign Currency								
Foreign currency deposits	-	62.380	110.495	11.172	3.043	2.065	-	189.155
Interbank deposits	-	6.185	-	-	-	-	-	6.185
Deposits with 7 days maturity	-	-	-	-	-	-	-	-
Precious metal deposits	-	13	882	15	42	-	-	952
Total	-	68.578	111.377	11.187	3.085	2.065	-	196.292
Grand Total	-	534.215	519.649	72.057	32.422	46.394	-	1.204.737

5. Information on interest given on repurchase agreements:

As of September 30, 2020, the Bank has interest given on repurchase agreements amounting to TL 118.787 (September 30, 2019: TL 10.668).

6. Information on finance lease expenses:

As of September 30, 2020, the Bank has lease expenses amounting to TL 12.779 (September 30, 2019: TL 16.111).

7. Information on interest given on factoring payables:

The Bank has no interest given on factoring payables during the period ended on September 30, 2020 and September 30, 2019.

c. Explanations on dividend income:

As of September 30, 2020, the share of the Bank in the dividend distribution of its subsidiaries is TL 25.196 (September 30, 2019: TL 31.499).

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IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT (Continued)

d. Information on trading income/loss (Net):

1. Trading income/loss (Net):

	Current Period	Prior Period
	September 30, 2020	September 30, 2019
Profit	81.168.554	37.996.799
Capital Market Transactions Income	275.383	191.410
Gain on Derivative Financial Transactions	7.875.608	5.335.809
Foreign Exchange Gains	73.017.563	32.469.580
Loss (-)	80.737.388	38.049.818
Capital Market Transactions Loss	154.371	141.852
Loss on Derivative Financial Transactions	6.986.756	5.443.069
Foreign Exchange Loss	73.596.261	32.464.897
Total (Net)	431.166	(53.019)

e. Information on other operating income:

	Current Period	Prior Period
	September 30, 2020	September 30, 2019
Reverse of Previous Years Expenses ^(*)	143.386	198.027
Gain on Sale of Assets	1.761	698
Provision for Telecommunication Expense	2.450	2.324
Other Income	43.248	24.469
Total	190.845	225.518

^(*) Consist of collections or cancellations made from amounts transferred to expense accounts and other provision cancellations through loan loss provision in previous years.

f. Impairment provisions related to loans and other receivables of the Bank:

	Current Period	Prior Period
	September 30, 2020	September 30, 2019
Expected Credit Loss	393.753	172.496
12 Months Expected Credit Loss (Stage 1)	67.133	12.649
Significant Increase in Credit Risk (Stage 2)	252.676	80.882
Non-performing Loans (Stage 3)	73.944	78.965
Marketable Securities Impairment Expense	10.136	7.518
Financial Assets at Fair Value Through Profit or Loss	10.136	7.385
Financial Assets at Fair Value Through Other Comprehensive Income	-	133
Investments in Associates, Subsidiaries and Held-to-Maturity Securities Value Decrease	-	-
Investments in Associates	-	-
Subsidiaries	-	-
Jointly Controlled Entities (Joint Ventures)	-	-
Other	-	-
Total	403.889	180.014

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IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT (Continued)

g. Information related to other operating expenses:

	Current Period September 30, 2020	Prior Period September 30, 2019
Reserve for Employee Termination Benefits	-	-
Bank Social Aid Provision Fund Deficit Provision	-	-
Impairment Expenses of Property and Equipment	-	-
Depreciation Expenses of Property and Equipment	53.411	42.592
Impairment Expenses of Intangible Assets	-	-
Goodwill Impairment Expenses	-	-
Amortization Expenses of Intangible Assets	29.350	18.234
Impairment Expenses of Equity participants for which Equity Method is Applied	-	-
Impairment Expenses of Assets Held for Sale	-	-
Depreciation Expenses on Assets Held for Sale	21	27
Impairment Expenses on Non-Current Assets Held for Sale and Discontinued Operations	-	-
Other Operating Expenses	301.222	164.771
Leasing Expenses on TFRS 16 Exceptions	4.914	14.174
Maintenance Licensing Expenses	41.319	36.819
Maintenance Expenses	19.181	16.138
Communication Expenses	11.193	10.746
Advertisement Expenses	21.254	31.363
Other Expenses ^(**)	203.361	55.531
Loss on Sales of Assets	5.709	958
Tax, Duties, Charges and Funds Expenses	61.918	66.390
Saving Deposit Insurance Fund Expenses	42.386	28.714
Other ^(*)	182.248	171.241
Total	676.265	492.927

^(*) Other line amount TL 182.248 (September 30, 2019: TL 171.241) consists of balances from these items respectively; TL 844 of audit and consultancy fees (September 30, 2019: TL 797), TL 437 of the arbitration committee expenses (September 30, 2019: TL 804) and the remaining TL 180.967 consists of other expenses (September 30, 2019: TL 169.640).

^(**) The amount shown in the other operating expenses line 136.392 TL of the 203.361 TL refers to the amounts related to the administrative fines notified to the Bank by the BRSA due to the Bank's asset ratio below the rate determined in May, June, and July. The Bank fully complied with the asset ratio regulation in August.

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IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT (Continued)

h. Explanation on income/loss before tax for the period for continued and discontinued operations:

Not disclosed in compliance with interim financial statements.

i. Information on tax provision for continuing and discontinued operations:

As of September 30, 2020, the Bank has corporate tax provision expense amounting to TL 123.987 (September 30, 2019: TL 97.154 current tax provision expense) and deferred tax expense of TL 30.637 (September 30, 2019: TL 27.465 expense).

j. Explanation on net profit/loss for the period for continued and discontinued operations:

There are no matters to be disclosed regarding operating profit/loss after tax.

k. Explanation on net profit and loss for the period:

1. Any further explanation on operating results needed for a proper understanding of the Bank’s performance:

Net interest income, amounting to TL 905.128 (September 30, 2019: TL 1.112.856), net wage and commission income amounting to TL 250.005 (September 30, 2019: TL 306.118) have an important role among the income items in the accounting period ending on September 30, 2020. The wage and commission income received from cash loans are presented in the net interest income. Considering the distribution in interest income, the most important sources of the Bank’s interest income are the interests received from loans and interbank money market. The main portion of the interest expenses consists of the interests paid for deposits and loans received. The most important portion of the commission income consists of the commissions received from credit card transactions and other banking transactions.

The amount shown in the other operating expenses line 136.392 TL of the 676.265 TL refers to the amounts related to the administrative fines notified to the Bank by the BRSA due to the Bank's asset ratio below the rate determined in May, June, and July. The Bank fully complied with the asset ratio regulation in August.

2. The effect on the current period profit/loss of the changes in estimations related to financial statements made by the Bank, explanation if any effect of these changes in the subsequent periods:

No changes have been made in the accounting estimates, which may have a material effect in current period and materially affect subsequent periods.

l. Explanation on other items stated in the income statement:

Explanations on “Other fees and commissions received” in the income statement:

	Current Period September 30, 2020	Prior Period September 30, 2019
Credit Card Transactions	103.806	200.900
Insurance Commissions	28.987	28.224
Commissions Received from Banking Transactions	9.253	9.304
Tefas Fund Platform	25.295	10.755
Other Fee and Commissions	53.412	38.702
Total	220.753	287.885

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V. EXPLANATIONS AND NOTES RELATED TO CHANGES IN SHAREHOLDERS' EQUITY

a. Information on the current year adjustments made in accordance with the requirements of the accounting standard on financial instruments:

1. Decreases/increases after the revaluation of financial assets at fair value through other comprehensive income:

Not disclosed in compliance with interim financial statements.

2. Information on increases in cash flow hedges:

Not disclosed in compliance with interim financial statements.

b. Information on adjustments made for the application of standard on accounting for financial instruments in the current year:

1. Information on financial investments at fair value through other comprehensive income:

Not disclosed in compliance with interim financial statements.

2. Information on cash flow hedges:

Not disclosed in compliance with interim financial statements.

c. Information on dividend distribution:

None.

d. Information on issuance of common stock:

Not disclosed in compliance with interim financial statements.

e. Effects of the adjustments to prior periods on the opening balance sheets:

Not disclosed in compliance with interim financial statements.

f. Offsetting prior period's losses:

Not disclosed in compliance with interim financial statements.

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VI. EXPLANATIONS AND NOTES RELATED TO STATEMENT OF CASH FLOWS

a. Explanations about other cash flow items and the effect of changes in foreign exchange rates on cash and cash equivalents:

Not disclosed in compliance with interim financial statements.

b. Information on cash flow arising from acquisition of associates, subsidiaries and other investments:

Not disclosed in compliance with interim financial statements.

c. Information on disposals of associates, subsidiaries or other investments:

Not disclosed in compliance with interim financial statements.

d. Information on cash and cash equivalents:

Not disclosed in compliance with interim financial statements.

e. Additional information:

None.

VII. EXPLANATIONS AND NOTES RELATED TO BANK’S RISK GROUP

1. Volume of transactions with the Bank’s risk group, lending and deposits outstanding at the period end and income and expenses in the current period:

Current Period – September 30, 2020

Risk Group of the Bank	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Individuals and Legal Entities in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans						
Opening Balance	-	109	1.483	657.056	-	-
Closing Balance	-	133	-	764.090	-	-
Interest and Commission Income	-	-	1.207	137	-	-

Prior Period – December 31, 2019:

Risk Group of the Bank	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Individuals and Legal Entities in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables						
Opening Balance	-	102	15.268	633.491	-	-
Closing Balance	-	109	1.483	657.056	-	-
Interest and Commission Income ^(*)	-	-	2.185	888	-	-

^(*) The prior period balances present amounts of September 30, 2019.

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VII. EXPLANATIONS AND NOTES RELATED TO BANK’S RISK GROUP (Continued)

2. Deposits held by the Bank’s risk group:

Risk Group of the Bank	Subsidiaries, Associates and Jointly Controlled Entities(Joint Ventures)	Direct or Indirect Shareholders of the Bank	Other Individuals and Legal Entities in the Risk Group
	Current Period September 30, 2020	Current Period September 30, 2020	Current Period September 30, 2020
Deposit			
Opening Balance	63.180	127.787	24.029
Closing Balance	83.072	299.835	46.433
Interest expense on deposits	2.578	-	306

Risk Group of the Bank	Subsidiaries, Associates and Jointly Controlled Entities(Joint Ventures)	Direct or Indirect Shareholders of the Bank	Other Individuals and Legal Entities in the Risk Group
	Prior Period December 31, 2019	Prior Period December 31, 2019	Prior Period December 31, 2019
Deposit			
Opening Balance	19.867	92.407	13.244
Closing Balance	63.180	127.787	24.029
Interest expense on deposits ^(*)	6.026	-	438

^(*) The prior period balances present amounts of September 30, 2019.

**3. Information on forward transactions, option agreements and similar transactions between
the Bank’s risk groups:**

Risk Group of the Group	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)	Direct or Indirect Shareholders of the Parent Bank	Other Individuals and Legal Entities in the Risk Group
	Current Period September 30, 2020	Current Period September 30, 2020	Current Period September 30, 2020
The Fair Value Differences Through Profit and Loss			
Opening Balance	-	28.671.672	-
Closing Balance	-	38.105.036	3.754
Total Profit/Loss	-	47.784	-
Transactions for Hedging Purposes			
Opening Balance	-	-	-
Closing Balance	-	-	-
Total Profit/Loss	-	-	-

Risk Group of the Group	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)	Direct or Indirect Shareholders of the Parent Bank	Other Individuals and Legal Entities in the Risk Group
	Prior Period December 31, 2019	Prior Period December 31, 2019	Prior Period December 31, 2019
The Fair Value Differences Through Profit and Loss			
Opening Balance	-	18.861.471	-
Closing Balance	-	28.671.672	1.342
Total Profit/Loss ^(*)	-	40.927	-
Transactions for Hedging Purposes			
Opening Balance	-	-	-
Closing Balance	-	-	-
Total Profit/Loss ^(*)	-	154.299	-

^(*) The prior period balances present amounts of September 30, 2019.

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VII. EXPLANATIONS AND NOTES RELATED TO BANK’S RISK GROUP (Continued)

4. Explanations on total remuneration and other benefits, which are paid by the Bank to top executives of the Bank:

As of September 30, 2020, payment is made to the Board of Directors and top executives of the Bank amounting to TL 37.770 (September 30, 2019: TL 24.544).

VIII. EXPLANATIONS AND NOTES RELATED TO DOMESTIC, FOREIGN, OFF-SHORE BRANCHES OR AFFILIATES AND FOREIGN REPRESENTATIVES OF THE BANK

Information on the Bank’s domestic and foreign branches and foreign representatives of the Bank:

Not disclosed in compliance with interim financial statements.

IX. EXPLANATIONS AND NOTES RELATED TO SUBSEQUENT EVENTS

On October 7, 2020, the Bank issued bill with a nominal value of TL 1.000.000.000 and term of 210 days.

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SECTION SIX

EXPLANATIONS ON INDEPENDENT AUDITOR’S REVIEW REPORT

I. EXPLANATIONS ON INDEPENDENT AUDITOR’S REVIEW REPORT

The unconsolidated financial statements for the period ended September 30, 2020 have been reviewed by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member firm of Ernst & Young Global Limited). The independent auditor’s audit report dated November 9, 2020 is presented preceding the financial statements.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITOR

None.

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SECTION SEVEN

INTERIM ACTIVITY REPORT

**I. INTERIM ACTIVITY REPORT WHICH WILL INCLUDE EVALUATIONS FROM
CHAIRMAN OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER
RELATED TO ACTIVITIES IN THE INTERIM PERIOD**

GENERAL INFORMATION

1. Summary information about HSBC Bank A.Ş.

HSBC Bank was established as Midland Bank Anonim Şirketi in Istanbul in 1990 and changed its title to HSBC Bank Anonim Şirketi in 1999.

HSBC Bank, which has been operating in the corporate banking field and capital markets since establishment, started providing personal banking services after 1997.

HSBC Bank expanded its products and services range with a branch network after HSBC Bank Plc. acquired Demirbank T.A.Ş. and its selected affiliates in September 2001 and merged with HSBC Bank A.Ş. in December 2001.

HSBC Bank provides services within fields such as Corporate Banking and Investment Banking, Retail Banking and Savings Management and Private Banking with its branches, telephone banking, ATM banking, and digital banking channels.

Based on the approval of the Banking Regulation and Supervision Agency dated June 21, 2017, 10,01% share of HSBC Bank Plc.'s 100% ownership of the Bank's capital was transferred to HSBC Bank Middle East Limited and remaining 89,99% share of HSBC Bank Plc. was transferred to HSBC Middle East Holdings B.V. through share transfer agreement dated June 29, 2017.

2. Capital and shareholding structure

The Bank has made no changes in their capital and shareholding structure as well as its shareholders who directly or indirectly; individually or as a group has an influence over the Bank's audit and management, as of the accounting period ended on September 30, 2020. HSBC Middle East Holdings B.V. has a shareholding rate of 89,99% and HSBC Bank Middle East Limited has 10,01% shareholding rate of the Bank's shares. HSBC Bank A.Ş.'s Chairman of the Board of Directors, its members, and general manager and his/her assistants' shares of ownership are insignificant. As of September 30, 2020, HSBC Bank A.Ş.'s paid-in capital is TL 652.290 Thousand and its capital structure is as follows:

Shareholder's Name and Surname/Title	Number of shares	Share amount (TL)
Publicly offered	-	-
Non-publicly offered	65.229.000.000	652.290.000
HSBC Middle East Holdings B.V.	58.699.577.100	586.995.771
HSBC Bank Middle East Limited	6.529.422.600	65.294.226
HSBC Group Nominees UK Limited	100	1
HSBC Latin America Holdings (UK) Limited	100	1
HSBC Overseas Holdings (UK) Limited	100	1
Total	65.229.000.000	652.290.000

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**I. INTERIM ACTIVITY REPORT WHICH WILL INCLUDE EVALUATIONS FROM
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3. Information on Branches and Personnel

As of September 30, 2020, the Bank has 77 branches dispersed throughout the country (December 31, 2019: 77 branches). As of September 30, 2020, the number of employees of the Bank is 1.970 (December 31, 2019: 2.015).

4. Amendments made to the articles of association during the period

HSBC Bank A.Ş.'s Articles of Association had no changes in January 1 – September 30, 2020 period.

5. Chairman and Members of the Board of Directors

HSBC Bank A.Ş. Board of Directors as of September 30, 2020:

Name and Surname	Title
David Gordon Eldon	Chairman
Hamit Aydoğan	Chairman Deputy
Süleyman Selim Kervancı	Member, CEO
Robert Adrian Underwood	Member
Mehmet Gani Sönmez	Member
Edward Michael Flanders	Member
Neslihan Erkazancı	Member
Martin François Christian Tricaud	Member

6. Audit Committee

HSBC Bank A.Ş. Audit Committee was selected from members of the Board of Directors and consists of one chairman and one member who do not have operational duties.

Name and Surname	Title
Robert Adrian Underwood	Head of the Audit Committee
Neslihan Erkazancı	Member of the Audit Committee

Audit Committee, on behalf of HSBC Bank A.Ş. Board of Directors, is in charge and responsible for supervising efficiency and competency of the Bank's internal systems, operation of such systems and accounting and reporting systems within the framework of Banking Law and relevant regulations, and also supervising the consistency of the information provided, making the necessary pre-assessments related to the selection of evaluations and support service institutions by the Board of Directors and regularly following the activities of such institutions, which were selected and made in agreement with the Board of Directors, and maintaining and coordinating the consolidation of internal audit activities of partnerships subject to consolidation as per the regulations with regard to the Banking Law.

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7. Executive Management

HSBC Bank A.Ş. Executive Management as of September 30, 2020:

Name and Surname	Title	Area of Responsibility
Süleyman Selim Kervancı	CEO	HSBC Bank A.Ş.
Anthony Wright	Deputy CEO	Credit and Risk
Yiğit Arslancık	Executive Vice President	Corporate and Investment Banking
Ayşe Yenel	Executive Vice President	Retail Banking
Burçin Ozan	Executive Vice President	Finance
Rüçhan Çandar	Deputy CEO	Technology and Services
Funda Temoçin Aydoğan	Executive Vice President	Human Resources
İbrahim Namık Aksel	Executive Vice President	Treasury and Capital Markets
Fatoş Pınar Fadilloğlu	Executive Vice President	Corporate Communications
Tolga Tüzüner	Head Legal Advisor	Legal

8. HSBC Bank's Financial Power Rating

According to Moody's Credit Rating Institution's evaluations, HSBC Bank A.Ş.'s rating as of September 30, 2020 is as follows:

Definitions	Rating
Baseline Credit Assessment	caa2
Outlook	Negative
Long-term foreign currency deposit rating	caa1
Long-term TL deposit rating	B3
Short-term foreign currency deposit rating	NP
Short-term TL deposit rating	NP
Long-term national scale TL deposit	Baa2.tr

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9. Summary of unconsolidated financial information for the period

HSBC Bank A.Ş introduces customers to international market opportunities, continues to create value for them and support them in expanding our customers' business using our global network, knowledge and expertise. The synergy Bank have created with our customers and grow together with our customers and to Turkey's economy has continued to add value to the banking sector.

According to unconsolidated financial statements, for the period ending on September 30, 2020, HSBC Bank A.Ş.'s total assets realised at TL 49 billion increased by 41% compared to the end of 2019. Loans, which form nearly 56% of the assets, seem to be around TL 27 billion gross. Deposits, which are the balance sheet's biggest funding source, have been realised at around TL 32 billion and formed 65% of liabilities. The balance sheet's unconsolidated items groups' period-end balances on the relevant dates are shown below.

ASSETS (Thousand TL)	30.09.2020	31.12.2019
Financial Assets (Net)	21.924.094	17.431.664
Other Financial Assets Measured at Amortized Cost	26.019.117	16.289.255
Non-Current Assets or Disposal Groups "Held for Sale" and "Held from Discontinued Operations" (Net)	594	2.095
Equity Investments	34.973	34.973
Property and Equipment (Net)	224.397	223.408
Intangible Assets (Net)	174.621	168.255
Investment Property (Net)	-	-
Current Tax Asset	-	-
Deferred Tax Asset	238.206	209.428
Other Assets	653.704	587.877
Total Assets	49.289.057	34.946.955
LIABILITIES (Thousand TL)	30.09.2020	31.12.2019
Deposits	31.840.112	27.801.278
Funds Borrowed	3.370.691	30.720
Money markets	5.194.346	-
Securities Issued (Net)	-	-
Funds	-	-
Financial Liabilities at Fair Value Through Profit or Loss	-	-
Derivative Financial Liabilities	2.477.465	1.440.432
Factoring Liabilities	-	-
Lease Liabilities	102.604	124.191
Provisions	164.530	167.641
Current Tax Liability	61.735	30.986
Deferred Tax Liability	-	-
Liabilities Related to Non-Current Assets "Held For Sale" and "Held from Discontinued Operations"(Net)	-	-
Subordinated Debt	1.700.117	1.337.281
Other Liabilities	1.057.242	934.758
Shareholders' Equity	3.320.215	3.079.668
Total Liabilities	49.289.057	34.946.955

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Information related to HSBC Bank's unconsolidated income statement for September 30, 2020 and September 30, 2019 were shown below with the changes.

STATEMENT OF INCOME (Thousand TL)	30.09.2020	30.09.2019
Net Interest Income	905.128	1.112.856
Other Non-Interest Income	897.212	510.116
Total Operating Income/Expense	1.802.340	1.622.972
Other Operating Expenses (-)	1.047.170	849.609
Provision for Loan Losses (-)	406.879	192.674
Net Operating Income/(Loss)	348.291	580.689
Tax Provision (-)	(93.350)	(124.619)
NET PROFIT/LOSS FOR THE PERIOD	254.941	456.070

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Message from David Gordon Eldon, Chairman

After economies around the world slowly started opening up in the second quarter, the global economies have continued their cautious recovery, which is evident from the rebound of economic activity in the third quarter. Central banks continue to maintain a generally loose monetary policy stance to support their economies and keep financial markets operating smoothly. But with the COVID-19 pandemic continuing to spread, many countries have slowed reopening and many are reinstating partial lockdowns to protect susceptible populations. While recovery in the third quarter has been faster than expected, the global economy's ascent back to pre-pandemic levels of activity remains uncertain. We project global growth at 4,1% contraction in 2020, a less severe contraction than our previous forecast 4,8%, thanks to upward revisions in the US, Eurozone and mainland China.

The Turkish economy contracted by 9,9% over a year ago in the second quarter yet is performing well compared to its peers. Meanwhile, the economic recovery, which started in May, continued in the third quarter thanks to an increase in demand, previously deferred and relative recovery in the export markets. High-frequency indicators like manufacturing purchasing managers' index, and credit/debit card expenditures also affirm an ongoing recovery. The depreciation in the Lira and the resulting double-digit inflation outlook have led the Central Bank to increase the average cost of funding starting early August. Despite the increase in loan rates, economic activity remains resilient thanks to the dynamic structure of the economy and the recovery in export orders. We continue to expect a relatively lower contraction for Turkey this year compared to the market consensus.

Amid the challenging environment, 2020 has witnessed how we have supported our customers with their significant evolving needs and adapted quickly to new ways of working. Even in these challenging times, we have increased our loan book. Despite the increase in loan impairment charges, expected due to Covid-19 related stresses, we managed our asset quality prudently and kept the non-performing loans ratio below the banking sector average in Q3 2020. The Asset Ratio requirement has become one of the most important agenda items of the Bank. Due to the material impact of this new regulation on the Bank's balance sheet structure and strategy, we were initially unable able to comply fully with the ratio in the last quarter due to timing. However, as an HSBC Group entity, we are committed to complying with all the regulations in the country and have taken the necessary action to comply. As a result, the Bank, with the full support of the HSBC Group, has been in full compliance with the Asset Ratio since August 2020. As HSBC we will continue to support the Turkish economy, and add value to our customers, employees and our shareholders.

We believe in the strength and resilience of our business which will enable us to emerge stronger post the pandemic. I would like to thank the Board, the Management Team, our colleagues and our customers for their trust and continuing commitment to HSBC.

Sincerely,

David G.Eldon
Chairman

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Message from Süleyman Selim Kervancı , CEO

The third quarter of the year witnessed continuation of normalization or cautious reopening across global economies. Whilst the global economy is rebounding slowly, the return to normal is likely to be uncertain, long and uneven. The path ahead will require skilful policies to recover from the challenges posed by COVID-19 and addressing medium term challenges.

Looking at Turkey, a combination of a quick economic activity recovery, double-digit inflation, and relatively high current account deficit were the dominant local macro theme in the third quarter. The Turkish economy contracted by 9,9% YoY in Q2, which was one of the lowest contraction figures among emerging markets. The recovery in the economic activity, which started in May with the normalization and strong loan growth, continued in the third quarter. The manufacturing PMI rose to 54,7 on average in Q3 from 42,7 in Q2. Due to the pass-through from a weaker Lira and an increase in unit service costs, consumer inflation remained in double-digit territory, falling to 11,7% in September from 12,6% in June. The current account deficit widened further in Q3 on very weak tourism revenues and record gold imports on retail investor demand. In January-August current account balance posted USD 26,5bn deficit. Against the lira weakness, the central bank hiked its interest rates by 2% points in September. The Central Bank has been increasing the average cost of funding by using its interest rate corridor since early August. Despite the recent increase in loan rates since the start of August, the economic recovery will likely continue in Q4, albeit at a decelerated pace.

Turkish banking sector has weathered the challenges from COVID-19 well hitherto. Sector's TRY loans grew 31% YTD as banks supported COVID-19 stricken companies with working capital at affordable rates. State banks spear headed the effort reaching 39% YTD growth. Payment holidays and several forbearances provided by the regulator has caused NPL ratio of the system to improve from 5,4% by YE19 to roughly 4,15% today. With continued profitability and regulatory forbearance, system's CET-1 ratio remained resilient within 14-15% band despite the pandemic.

As HSBC Bank A.Ş. we have demonstrated the resilience and strength of our business through our actions to support the significant needs of our customers, employees and the community. Enhancing our customers' digital capability to interact with the Bank was a key focus area in terms of both meeting customer needs and improving operational efficiency. With a vision of providing best in class customer service, we have recently launched Facebook Messenger channel as an additional customer communication channel for our retail customers and added swift transactions to our mobile banking channel. We also acted swiftly to align with new regulatory measures that were introduced to alleviate the adverse economic impact of the pandemic on businesses and consumers. At HSBC Bank, A.Ş., we have put in place measures to ensure the health and well-being of our employees and customers ranging from extensive hygienic measures at our branches and offices to wellness programs encompassing social, physical and mental wellbeing of our colleagues and their families.

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One of the new regulatory measures introduced in Covid-19 pandemic was Asset Ratio, which is aiming to reduce the negative impacts of Covid-19 pandemic and revive the economy as soon as possible. Since mid-April it has become one of the most important agenda items of our Bank, hence we have implemented investment and growth actions by prioritizing the areas that is supporting Asset Ratio. Due to the material impact of this new regulation on the Bank's balance sheet structure and the strategy, we were not able to comply the ratio fully at the previous quarter. However, as a HSBC Group entity, HSBC Turkey is committed to comply all the regulations in the country, and necessary actions were successfully implemented in Q3 2020, with the continuous support of HSBC Group. As a result, the Bank has fully complied with the Asset Ratio since August 2020.

Despite the Asset Ratio fine, thanks to our growth agenda, supported by disciplined cost management, our operating income went up by 11%, while the increase in operating expenses (adjusted) was limited by 7,2% and HSBC Turkey reported 3,8% (adjusted) positive Jaws. On the other hand, we have continued to support our customers and the economy, by growing our loans by 56,4% and increasing the governments bonds investments by more than three times compared to 2019, which resulted with a 41% increase in the asset size of the Bank, reaching up to TRY49,2bn. At the same time, we continued to manage our asset quality prudently and kept the ratio of non-performing loans as 2,4%, which was far below the banking sector average in Q3 2020. Moreover, we kept our strong capital and liquidity position above the Banking Regulation and Supervision Agency targeted minimum ratios. In the following periods, we will closely follow up all the developments related to COVID-19 and guidance of the regulatory authorities and immediately take the necessary actions to protect our Bank and customers.

2020 has been a challenging year so far and as HSBC Bank, A.Ş, we are committed to supporting our customers get through these unprecedented times. I would like to thank the entire HSBC Turkey team for their hard work during these difficult times. I strongly believe a better and stronger future lies ahead for all of us. We will thrive and continue to create sustainable value for our customers and shareholders. Thank you for your trust in us as your banking partner.

Sincerely,

Selim Kervancı
Chief Executive Officer

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10. Additional Information on Period Between 01.01.2020-30.09.2020

None.