

AKBANK T.A.Ş.

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



INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Akbank T.A.Ş.

Qualified opinion

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

What we have audited

The Group’s consolidated financial statements comprise:

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

Basis for qualified opinion

As explained in Note 19, the accompanying consolidated financial statements as at 31 December 2020 include a free provision amounting to TL 1,150,000 thousand which consist of TL 650,000 thousand provided in prior years and TL 500,000 thousand recognized in the current year. The free provision recognized by the Bank management is not within the requirements of the recognition criteria of IAS 37 “Provisions, contingent liabilities and contingent assets. In addition, as of 31 December 2020, the Bank reversed the related deferred tax asset of TL 143,000 thousand previously recognised with respect to its free provision. The reversal of the deferred taxes is charged to current year consolidated statement of income as deferred tax expense.

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

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



Independence

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

Our audit approach

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

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

Key audit matters

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



Key Audit Matters

Impairment of loans and advances to customers in accordance with IFRS 9

The Group has total provision for impairment of TL 16,969,515 thousands in respect to loans and advances of TL 284,816,083 thousands which represent a significant portion of the Group's total assets in its consolidated financial statements as at 31 December 2020. Explanations and notes related to provision for impairment of loans and advances are presented in note 8 in the accompanying consolidated financial statements as at 31 December 2020.

The Group recognizes provisions for impairment in accordance with "IFRS 9 Financial Instruments" expected credit loss model. IFRS 9 is a complex accounting standard which requires considerable judgement and interpretation. These judgements are key in the development of the financial models built to measure the expected credit losses on loans recorded at amortized cost. In addition, the operation of the models requires large data inputs that are generated through more than one system and the accuracy and completeness of the data are key in the determination of expected credit losses on loans. Impairment allowances are calculated on a collective basis for portfolios of loans of a similar nature and on individual basis for significant loans taking into account Management's best estimate at the balance sheet date and historical losses incurred. As of 31 December 2020, the impacts of COVID-19 global pandemic have increased the importance of the estimations and assumptions used by the Bank management in determination of the expected credit loan loss provision. The uncertainties arising from these impacts have been evaluated by the management in their judgements and estimations.

Our audit was focused on this area due to existence of complex estimates and information used in the impairment assessment such as macro-economic expectations, current conditions, historical loss experiences; the significance of the loan balances; the appropriateness of classification of loans and advances to customers as per their credit risk (staging) and the importance of determination of the associated impairment allowances. Timely and correctly identification of loss event and the level of judgements and estimations made by the management have significant impacts on the amount of impairment provisions for loans. Therefore, this area is considered as key audit matter.

How Our Audit Addressed the Key Audit Matter

Within our audit procedures, we assessed policies and procedures together with the overall governance established by the Group with respect to classification of loans and advances to customers and estimation of impairment considering also the impacts of COVID-19. We have tested the design and operating effectiveness of controls implemented by the Group in line with its governance, policies and procedures.

Together with our modelling specialists, we have evaluated and tested the methodologies used in building impairment models in line with the requirement of IFRS 9 and the Group's policies for the significant portfolio of loans. We have tested model calculations through re-performance together with our modelling specialists on a sample basis. We have independently assessed together with our related specialists methodologies used in the models with respect to segmentation, life time expected credit losses, losses given default and use of macro-economic expectations that include the impacts of COVID-19.

We have carried loan review on a selected sample of loans and advances with the objective to identify whether the classification of loans is performed, whether the loss event had occurred and whether the provision for impairment has been recognized in a timely manner within the IFRS 9 framework.

In addition, for non-performing loans and other significant loans that are subject to individual assessment based on the Group policies, we have evaluated the appropriateness of specific impairment provision with supportable input. Based on our discussions with the Group management, we have evaluated and challenged whether the key assumptions and other judgements underlying the estimation of impairment were reasonable including the areas affected by the uncertainties related to COVID-19.

We have reviewed the appropriateness and sufficiency of disclosures made in the financial statements of the Group with respect to loan and lease receivables and related impairment provision.



Key Audit Matters

How Our Audit Addressed the Key Audit Matter

Valuation of Pension Fund Obligations

The Bank has booked provision amounting to TL 126,263 thousand for Pension Fund Liabilities in the accompanying consolidated financial statements as at 31 December 2020. Explanations on Valuation of Pension Obligations are presented in note 20 in the accompanying consolidated financial statements as at 31 December 2020.

The Bank's Personnel Pension Fund Foundation (Pension Fund) is established in accordance with the Social Security Law numbered 506 article No 20 and is within the scope of Funds to be transferred to the Social Security Institution (SSI). The President of the Republic of Turkey is authorized to determine the transfer date. The total obligation of the fund is estimated using separate methods and assumption for benefits to be transferred and for non-transferrable benefits. The valuations of the pension obligations require significant judgement and technical expertise in choosing appropriate assumptions. The Bank's management uses external actuaries for the purpose of valuations of pension obligations. The reason we focused on this area during our audit is; the importance of the actuarial and economic assumptions such as discount rates, salary increases, demographic assumptions used in the valuation of pension obligations with respect to social benefits and the significant impact that may arise from the possible change in the assumptions used in the evaluation of pension fund liabilities.

Within our audit we tested on a sample basis the accuracy of the employee data supplied by the Bank management to the consulting firm for the purpose of evaluation pension obligation. In addition, we verified the existence and values of the Pension Fund assets.

Through use of our actuarial specialist, we assessed the reasonableness of assumptions and evaluation made by the external actuaries in the calculation of the liability.

In addition to the above procedures we have reviewed disclosures made with respect to pension fund.



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

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

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

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

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

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

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

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



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

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

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

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

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

Talar Gül, SMMM
Partner

Istanbul, 4 March 2021

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AKBANK T.A.Ş.
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020**

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

	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and due from banks and balances with the Central Bank of Turkey	6	60,575,803	47,900,076
Derivative financial instruments	7	22,858,366	16,517,762
Loans and advances to customers	8	275,189,478	225,932,960
-Measured at amortised cost	8	267,846,568	219,209,541
-Fair value through profit or loss	8	7,342,910	6,723,419
Investment securities	9	101,928,119	83,630,906
-Financial assets at fair value through profit or loss ("FVPL")	9	1,836,502	541,420
-Financial assets at fair value through OCI ("FVOCI")	9	58,218,940	67,523,961
-Financial assets at amortised cost ("AC")	9	41,872,677	15,565,525
Assets held for sale	10	250,778	666,067
Current tax asset	17	-	9,971
Deferred tax assets	17	147,990	278,972
Property, plant and equipment	11	6,003,406	4,919,697
Intangible assets	12	1,190,909	953,188
Other assets and pre-payments	13	10,171,726	6,505,838
Total assets		478,316,575	387,315,437
LIABILITIES			
Deposits and obligations under repurchase agreements	14	312,997,257	254,668,100
Interbank money market deposits	15	429,094	150,783
Derivative financial instruments	7	14,840,973	8,945,702
Funds borrowed	15	22,377,917	17,453,217
Debt securities issued	16	43,909,328	36,301,743
Income taxes payable	17	1,126,257	326,797
Provisions	19	1,943,434	1,141,758
Other liabilities and accrued expenses	18	17,086,179	12,533,788
Employment benefit obligations	20	557,621	450,884
Deferred tax liabilities	17	124,458	837,212
Total liabilities		415,392,518	332,809,984
EQUITY			
Capital and reserves attributable to the equity holders of the parent:			
- Share capital	21	5,200,000	5,200,000
- Adjustment to share capital		1,529,151	1,529,151
Total paid-in share capital		6,729,151	6,729,151
Share premium		3,514,840	3,514,840
Translation reserve		4,732,835	2,775,385
Other reserves		650,773	319,146
Retained earnings		47,296,276	41,166,772
Total shareholders' equity		62,923,875	54,505,294
Non-controlling interest		182	159
Total equity		62,924,057	54,505,453
Total liabilities and equity		478,316,575	387,315,437

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

AKBANK T.A.Ş.

**CONSOLIDATED STATEMENT OF INCOME FOR
THE PERIOD ENDED 31 DECEMBER 2020**

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

	Notes	1 January 2020- 31 December 2020	1 January 2019- 31 December 2019
Interest income		35,128,018	36,498,492
Interest expense		(14,429,250)	(19,560,065)
Net interest income	23	20,698,768	16,938,427
Fee and commission income		5,611,371	6,302,331
Fee and commission expense		(1,054,506)	(1,333,809)
Net fee and commission income	24	4,556,865	4,968,522
Impairment losses on loans and credit related commitments		(7,903,990)	(6,977,099)
Foreign exchange gains and losses, net		2,088,261	377,351
Trading gains and losses, net	25	(2,763,808)	(1,523,026)
Dividend income		4,866	6,743
Other operating income		234,600	181,136
Operating income		16,915,562	13,972,054
Operating expenses	26	(8,631,403)	(7,045,228)
Profit before income taxes		8,284,159	6,926,826
Income taxes		(2,167,511)	(1,552,487)
Income tax expense	17	(2,387,901)	(1,830,603)
Deferred tax income	17	220,390	278,116
Profit for the period		6,116,648	5,374,339
Attributable to:			
Equity holders of the Group		6,116,625	5,374,325
Non-controlling interest		23	14
		6,116,648	5,374,339
Basic and diluted earnings per share (expressed in TL, full amount, per share)	4	0.0118	0.0107

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

AKBANK T.A.Ş.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

	1 January 2020- 31 December 2020	1 January 2019- 31 December 2019
Net profit for the period	6,116,648	5,374,339
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Changes in the fair value of debt instruments at fair value through OCI	432,714	3,987,740
Foreign exchange differences on translation of foreign operations	1,957,450	453,906
Gain/(Loss) from cash flow hedges (effective part of fair value changes)	550,820	(1,321,392)
Gain/(Loss) from net foreign investment hedges (effective part of exchange difference on borrowings)	(1,464,540)	(198,880)
Tax related to gain and loss recognized directly in equity	54,219	(542,843)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	1,530,662	2,378,531
Other comprehensive income not being reclassified to profit or loss in subsequent periods		
Remeasurement gain/(loss) on defined benefit plans, net of taxes	(68,211)	(89,142)
Property and plant revaluation differences	912,544	-
Other comprehensive income items not reclassified through profit or loss	5,687	-
Tax related to gain and loss recognized directly in equity	(78,898)	19,611
Net other comprehensive income net of tax not reclassified to profit or loss in subsequent periods	771,122	(69,531)
Other comprehensive income net of tax	2,301,784	2,309,000
Total comprehensive income, net of tax	8,418,432	7,683,339
Attributable to:		
Equity holders of the Group	8,418,409	7,683,325
Non-controlling interest	23	14

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

AKBANK T.A.Ş.

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

(Amounts expressed in thousands of Turkish lira (“TL”) unless otherwise stated.)

	Attributable to equity holders of the Group								
	Share capital			Share premium	Translation reserve	Other Reserve	Retained Earnings	Non-controlling interest	Total
	Share Capital	Adjustment to share capital	Total paid-in share capital						
Balance at 31 December 2018	4,000,000	1,529,151	5,529,151	1,709,098	2,321,479	(1,536,009)	35,884,196	126	43,908,041
First time adoption impact of IFRS 16, net (Note 4)	-	-	-	-	-	-	(92,680)	-	(92,680)
Restated total equity at 1 January 2019	4,000,000	1,529,151	5,529,151	1,709,098	2,321,479	(1,536,009)	35,791,516	126	43,815,361
Transfer to retained earnings	-	-	-	-	-	-	931	-	931
Property and Plant Revaluation Differences, net of tax	-	-	-	-	-	61	-	-	61
Paid in capital	1,200,000	-	1,200,000	1,805,742	-	-	-	19	3,005,761
Actuarial Gains and Losses	-	-	-	-	-	(69,531)	-	-	(69,531)
Net unrealized market value gains from FVOCI portfolio	-	-	-	-	-	3,110,437	-	-	3,110,437
Cash flow hedges, net of tax	-	-	-	-	-	(1,185,812)	-	-	(1,185,812)
Translation reserve	-	-	-	-	453,906	-	-	-	453,906
Other comprehensive income (expense)	1,200,000	-	1,200,000	1,805,742	453,906	1,855,094	-	-	2,309,000
Profit for the period	-	-	-	-	-	-	5,374,325	14	5,374,339
Total comprehensive income for the period	1,200,000	-	1,200,000	1,805,742	453,906	1,855,094	5,375,256	14	7,683,339
Dividends paid	-	-	-	-	-	-	-	-	-
Balance at 31 December 2019	5,200,000	1,529,151	6,729,151	3,514,840	2,775,385	319,146	41,166,772	159	54,505,453

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

AKBANK T.A.Ş.

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

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

	Attributable to equity holders of the Group								
	Share capital			Share premium	Translation reserve	Other Reserve	Retained Earnings	Non-controlling interest	Total
	Share Capital	Adjustment to share capital	Total paid-in share capital						
Balance at 1 January 2020	5,200,000	1,529,151	6,729,151	3,514,840	2,775,385	319,146	41,166,772	159	54,505,453
Transfer to retained earnings	-	-	-	-	-	(12,707)	12,789	-	172
Property and Plant Revaluation Differences, net of tax	-	-	-	-	-	821,647	-	-	821,647
Paid in capital	-	-	-	-	-	-	-	-	-
Actuarial Gains and Losses	-	-	-	-	-	(56,212)	-	-	(56,212)
Net unrealized market value gains (losses) from FVOCI portfolio	-	-	-	-	-	341,687	-	-	341,687
Cash flow hedges, net of tax	-	-	-	-	-	(762,788)	-	-	(762,788)
Translation reserve	-	-	-	-	1,957,450	-	-	-	1,957,450
Other comprehensive income (expense)	-	-	-	-	1,957,450	344,334	-	-	2,301,784
Profit for the period	-	-	-	-	-	-	6,116,625	23	6,116,648
Total comprehensive income for the period	-	-	-	-	1,957,450	344,334	6,116,625	23	8,418,432
Dividends paid	-	-	-	-	-	-	-	-	-
Balance at 31 December 2020	5,200,000	1,529,151	6,729,151	3,514,840	4,732,835	650,773	47,296,276	182	62,924,057

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

AKBANK T.A.Ş.

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

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

	Notes	1 January 2020- 31 December 2020	1 January 2019- 31 December 2019
Cash flows from operating activities:			
Profit before income tax		8,284,159	6,926,826
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment	11	375,354	252,158
Amortization of intangible assets	12	214,978	189,654
Provision for loan losses, write off and net of recoveries		11,740,144	9,661,747
Employment termination benefits and other short-term employee benefits		38,526	36,646
(Gain)/loss on foreign exchange and derivative financial instruments		(1,614,885)	3,377,745
Interest accrual		(2,208,670)	(5,358,346)
Other non-cash items		171,367	167,697
Taxes paid		(2,147,238)	(1,599,936)
Operating profit before changes in operating assets and liabilities		14,853,735	13,654,191
Net (increase)/decrease in reserve requirements with the Central Bank of Turkey and restricted cash		(1,674,106)	2,042,262
Net (increase)/decrease in loans and advances to customers		(54,984,593)	(19,880,506)
Net (increase)/decrease in trading securities		(3,539,108)	(392,258)
Net (increase)/decrease in other assets and prepayments		(24,273,459)	2,124,420
Net increase/(decrease) in other liabilities and accrued expenses		13,153,510	(8,190,333)
Net increase/(decrease) in customer deposits and interbank money market deposits		53,491,814	28,030,476
Net cash from/(used in) operating activities		(2,972,207)	17,388,252
Cash flows from/(used in) investing activities:			
Purchase of property, plant and equipment	11	(685,704)	(728,869)
Proceeds from property, plant and equipment	11	48,433	22,954
Purchase of other intangible assets	12	(451,476)	(496,271)
Proceeds from other intangible assets	12	234	118
Proceeds from investment securities		35,994,793	13,465,764
Purchase of investment securities		(47,425,750)	(36,462,306)
Dividends Received		4,866	3,981
Net cash from/(used in) investing activities		(12,514,604)	(24,194,629)
Cash flows from financing activities:			
Proceeds from borrowed funds and debt securities in issue		34,834,318	31,772,465
Payments of borrowed funds and debt securities in issue		(27,755,375)	(30,681,560)
Issued equity instruments		-	1,805,742
Capital increase		-	1,200,000
Payments of financial leases		(304,925)	(276,205)
Net cash from/(used in) financing activities		6,774,018	3,820,442
Effect of exchange rates on cash and cash equivalents		3,516,122	3,245,458
Net increase in cash and cash equivalents		(5,196,671)	259,523
Cash and cash equivalents at the beginning of the period		18,691,977	18,432,454
Cash and cash equivalents at the end of the period	6	13,495,306	18,691,977

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

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

(Amounts expressed in thousands of Turkish lira (“TL”) unless otherwise stated.)

NOTE 1 - CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

Akbank T.A.Ş. (“the Parent Bank” or “Akbank” or together with its subsidiaries referred to as “the Group” in these consolidated financial statements) was formed in 1948 and is a member of the Sabancı Group of companies which is incorporated and domiciled in Turkey. The Parent Bank’s head offices are located at Sabancı Center 4. Levent Istanbul/Turkey. As at 31 December 2020, the Bank has 715 branches dispersed throughout the country and 1 branch operating outside the country (31 December 2019: 770 branches and 1 branch operating outside the country). As at 31 December 2020, the Group employed 12,459 people (31 December 2019: 12,750 people). In addition to regular banking operations, the Group also provides insurance intermediary services as an agency of Aksigorta A.Ş. and AvivaSA Emeklilik ve Hayat A.Ş.. The Group’s operations are carried out substantially in one geographical segment (Turkey) and in business activities including retail banking, commercial banking, corporate and investment banking, private and wealth management, direct banking and treasury and other activities through its subsidiaries (i.e, leasing, brokerage and portfolio management).

The Parent Bank’s shares have been quoted on the Istanbul Stock Exchange since 1990. In April 1998, 4.03% of the outstanding share capital of the Parent Bank, was offered and sold in an international offering outside of Turkey in the form of Ordinary Shares and American Depository Receipt (“ADR”). As at 31 December 2020, approximately 51% of the shares are publicly traded, including the ADRs (31 December 2019: 51%).

The major shareholder of the Parent Bank, directly or indirectly, is Sabancı Group.

The consolidated financial statements as at and for the period ended 31 December 2020 have been approved for issue on 4 March 2021 by S. Hakan Binbaşgil, the Chief Executive Officer and by Türker Tunalı, the Chief Financial Officer of Akbank T.A.Ş.. General Assembly of the Parent Bank and other regulatory bodies have the power to amend the statutory financial statements after issue.

NOTE 2 - BASIS OF PREPARATION.

These consolidated financial statements for the year ended 31 December 2020 are prepared in accordance with International Financial Reporting Standards (“IFRS”) including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”). These financial statements have been derived from statutory financials prepared according Accounting Practice Regulations as promulgated by the BRSA; Turkish Financial Reporting Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority; the Turkish Commercial Code; and the Turkish Tax Legislation (“Turkish GAAP”) with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared in “Turkish Lira” (“TL”), under the historical cost convention, except for those assets and liabilities measured at fair value. The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The Bank maintains its books in Turkish Lira in accordance with the Banking Law, Turkish Commercial Code and Turkish Tax Legislation. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdictions.

The consolidated financial statements are presented in the national currency of the Republic of Turkey, the Turkish lira (“TL”).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 2 - BASIS OF PREPARATION (Continued)

The COVID-19 pandemic caused serious effects on health systems and the global economy as the virus spread to the world in the first quarter of 2020, widespread closure of businesses and unprecedented constraints in social interactions have significantly affected economic activity. Countries have taken measures to slow the spread of the pandemic, such as testing and treating patients, applying travel restrictions, quarantining citizens and canceling large meetings. Along with these social measures, comprehensive financial measures were taken simultaneously to reduce the negative effects on the economic outlook. Similarly, Turkey has taken measures to keep citizens' healthy and safety, as well as to ensure that both companies and the households to support in these challenging circumstances, fiscal and monetary actions have been implemented. Additional measures are being announced to tackle adverse impacts on companies and certain sectors. On the other hand, estimations and assumptions used to reflect COVID-19 impacts on 31 December 2020 financial statements of the Bank are explained in the related notes to the financial statements .

Due to COVID-19, the Parent Bank has been given the opportunity to postpone the principal, interest and installment payments of its individual and corporate customers as they request, and the deferral of payments within this scope has been applied and and this opportunity was extended until 30 June 2021. The Parent Bank has evaluated the risks of postponed loans on an individual and portfolio basis and those risks have been taken into account in the provision calculations.

NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

(3.1) Accounting Policies

(3.1.1) Consolidation

Consolidation principles for subsidiaries:

Subsidiaries are the entities controlled directly or indirectly by the Parent Bank. Control is defined as the power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Parent Bank's returns.

Financial statements of related subsidiaries are consolidated from the date when the control is transferred to the Parent Bank.

In the full consolidation method, 100% of subsidiaries' assets, liabilities, income, expense and off-balance sheet items are combined with the Parent Bank's assets, liabilities, income, expense and off-balance sheet items. The carrying amount of the Group's investment in each subsidiary and the Group's portion of the cost value of the capital of each subsidiary are eliminated. Intragroup balances and intragroup transactions and resulting unrealized profits and losses are eliminated. Non-controlling interests in the net income of consolidated subsidiaries are identified and adjusted against the income of the Group in order to arrive at the net income attributable to the shareholders of the parent of the Group and presented separately in the Group's income statement. Non-controlling interests are presented separately under equity in the consolidated balance sheet.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

The Parent Bank and its subsidiaries, Ak Yatırım Menkul Değerler A.Ş., Ak Portföy Yönetimi A.Ş., Akbank AG, Ak Finansal Kiralama A.Ş., AkÖde Elektronik Para ve Ödeme Hizmetleri A.Ş. and together with A.R.T.S. Ltd., which is not subsidiary of the Bank, but the Bank has 100% control power due to the reason that this company is "Structured Entity", has been included in the scope of consolidation. The Parent Bank together with its consolidated subsidiaries are referred to as the "Group" in these consolidated financial statements.

Ak Yatırım Menkul Değerler A.Ş. was established on 11 December 1996 to trade in capital markets in accordance with Capital Market Law. This company is providing intermediary services in capital markets, discretionary portfolio management, derivative transactions, repurchase and reverse repurchase agreements with authorizations given by the Capital Markets Board for each transaction.

Ak Finansal Kiralama A.Ş. was established in 1988 for leasing operations and all kinds of agreements and transactions related to these operations.

Ak Portföy Yönetimi A.Ş., established on 28 June 2000, manages its own investment (mutual) funds. The company also manages all pension funds of AvivaSA Emeklilik ve Hayat A.Ş. and some of the pension funds of Axa Hayat Emeklilik A.Ş., Allianz Hayat Emeklilik A.Ş. and Allianz Yaşam Emeklilik A.Ş. The company also gives Discretionary Portfolio Management service to individuals and corporates. Besides these, the company also manages two SICAV funds and one Sompo Japan fund in the international market..

Akbank AG operates in Germany, providing corporate, consumer and private banking services.

Aköde Elektronik Para ve Ödeme Hizmetleri A.Ş., 100% owned by the Bank, has been established on 19 February 2018 to provide payment services and electronic money issuance under the Law No. 6493 on Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions registered in the trade registry.

A.R.T.S. Ltd. is a "Structured Entity" which was established in November 1999 for the purpose of supplying long term financing.

The list of consolidated subsidiary undertakings is set out below:

Name of subsidiary	Country of incorporation	Shareholding %	
		2020	2019
Ak Finansal Kiralama A.Ş.	Turkey	99.99	99.99
Ak Yatırım Menkul Değerler A.Ş.	Turkey	100.00	100.00
Ak Portföy Yönetimi A.Ş.	Turkey	100.00	100.00
Akbank AG	Germany	100.00	100.00
Aköde Elektronik Para ve Ödeme Hizmetleri A.Ş.	Turkey	100.00	100.00

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

NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(3.1.2) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Turkish lira, which is the Parent Bank's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(iii) Group companies

The results and financial position of all the group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each financial position presented are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity under translation reserve.

(3.1.3) Derivative financial instruments and hedge accounting

The Bank classifies its derivative instruments as "Held-for-hedging" or "Held-for-trading" in accordance with "International Accounting Standard for Financial Instruments: Recognition and Measurement" ("IAS 39"). Although certain derivative transactions provide effective economic hedges under the Bank's risk management position, in accordance with IAS 39 they are treated as derivatives "Held-for-trading".

Although IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and hedge accounting, the Group continue to apply IAS 39 for hedge accounting in according to permission set out in IFRS 9 standard.

Embedded derivatives have not been separated from its host contract and accounted under host contracts' accounting standards. As of 31 December 2020, the Group has no embedded derivative instruments.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative financial instruments are classified as held for trading, unless they are designated as hedging instruments.

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FOR THE YEAR ENDED 31 DECEMBER 2020**

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

NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(i) Cash flow and Fair value hedges

The Group hedges its TL and foreign currency denominated fixed rate financial assets with cross currency swaps and interest rate swaps. Within the scope of fair value hedge, fair value changes of hedging instrument and hedged item are accounted in the income statement. As long as the hedge relationship is effective, fair value change of the hedged item is disclosed together with its related asset or liability in the balance sheet for TL denominated fixed rate financial assets. Fair value changes which have already been booked in equity, have been reclassified from equity to income statement for TL and FC denominated fixed rate financial assets.

The Group hedges against its cash flow risk stemming from foreign currency denominated floating rate financial assets and liabilities with interest rate and cross currency swaps. Within the scope of cash flow hedge accounting, effective part of the fair value changes of the hedging instrument are accounted in equity under "Hedging reserves" whereas ineffective part is accounted in the income statement. At instances when cash flows relating to hedged item (interest income/expense) affect the income statement, profit/loss of the related hedging item is taken out of the equity and reflected on the income statement.

Prospective tests are performed at the inception of the hedge relationships and both prospective and retrospective tests are performed at each reporting period-end regularly by using "Dollar off-set method". In this method, changes in the fair value of the hedged item and changes in the fair value of the hedging instruments between the designation date and each reporting period-end are compared and effectiveness ratio is calculated. Hedge accounting principles are applied by assessing the calculated effectiveness ratio within the scope of IAS 39.

When the hedging instrument expires, is executed, sold or the hedge relationship has become ineffective as a result of the effectiveness test or is discontinued as a result of the hedge relationship being revoked;

- The hedging gains and losses that were previously recognized under equity are transferred to profit or loss when the cash flows of the hedged item are realized for cash flow hedges,
- Adjustments made to the carrying amount of the hedged item are transferred to profit and loss over the life of the hedged item with straight line method for portfolio hedges or with effective interest rate method for fair value hedges.

In case the hedged item is derecognized, hedge accounting is discontinued and within context of fair value hedge accounting, adjustments made to the value of the hedged item are accounted in income statement.

In accordance with IAS 39, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy.

Within the scope of the IBOR interbank offered rates , reference interest rates will be converted as of the beginning of 2021, and new alternative interest rates will be used instead of the current benchmark interest rates, especially Libor. In addition to floating rate assets such as securities indexed to benchmark interest rates and loans, Banks' financial statements include liabilities such as securities issued, borrowed loans and derivative transactions, and off-balance sheet instruments. With the regulations published in September 2019 and December 2020 regarding the implementation of the aforementioned reform, early implementation of the amendments was permitted, while temporary exemption was given to the applications related to the determination of cash flows of hedge accounting and the termination of transactions. A working group was established to evaluate the impact of the interest rate reform on the financial statements and to adapt to reform. Reform changes have not been implemented early and developments are followed by the working group.

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(i) Cash flow and Fair value hedges (Continued)

The average remaining maturity of the floating-rate USD Libor-Indexed borrowings directly affected by the interest rate reform is 4,3 years and the remaining amount is USD 988,393. Foreign currency interest swap transactions were made to hedge the cash flow risk of the aforementioned borrowing and subject to hedge accounting. There is no hedge accounting transaction terminated under the published reliefs.

(ii) Net Investment Hedge

The Group hedges the net investment risk on Akbank AG with the foreign currency denominated financial liabilities. The effective part of the foreign exchange differences on the foreign currency denominated financial liabilities is accounted under shareholders' equity. As at 31 December 2020, the amount of net investment hedge applied to hedge the foreign currency risk arising from share premium and paid-in capital of Akbank AG is EUR 787 million. As at 31 December 2020, the net-off tax amount of TL 2,284,998 loss (31 December 2019: TL 1,099,526 loss) is accounted under hedge reserves as an investment hedge reserve.

(iii) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for as a derivative in accordance with IFRS 9, if and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid contract is measured at fair value with changes in fair value recognised in profit or loss (ie a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for in accordance with the appropriate IFRSs. This IFRS does not address whether an embedded derivative shall be presented separately in the statement of financial position. If an entity is required by this IFRS to separate an embedded derivative from its host, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid contract as at fair value through profit or loss.

Embedded derivatives have not been separated from its host contract and accounted under host contracts' accounting standards. As of 31 December 2020, the Group has no embedded derivative instruments.

(3.1.4) Classification and measurement of financial assets

According to IFRS 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").

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

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 Group 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 Group consider:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets
- Features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

The Group fulfills the on-balance sheet classification and measurement criteria by applying the procedures described above for all financial assets.

Upon initial recognition each financial asset will be classified as either fair value through profit or loss ("FVPL"), amortized cost or fair value through other comprehensive income ("FVOCI").

The Group 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 Group'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.

(i) Financial assets at the fair value through profit or loss

"Financial assets at fair value through profit/loss" are financial assets that are managed by business model and do not lead to cash flows representing solely payments of principal and interest at certain date; Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. Financial assets measured at fair value through profit or loss are acquired for the purpose of generating profit from short-term fluctuations in price, or regardless of this purpose, the financial assets that are part of a portfolio with evidence of short-term profit making. All gains and losses arising from these valuations are reflected in the income statement. The Group reviewed the valuation of financial assets and liabilities at fair value through profit / loss and as of the reporting date, there are no changes that would require any adjustments in fair value measurement as of 31 December 2020, due to the negative effects of the COVID-19 pandemic.

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens the Group assess whether or not the new terms are substantially different to the original terms. If the terms are substantially different the Group derecognizes the original financial asset and recognizes a new asset. If the cash flows generated by the new asset do not constitute solely payment of principal and interest than the new financial asset is measured at fair value through profit or loss (Note 30).

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(ii) Financial assets at fair value through other comprehensive income

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

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement.

"Unrealized gains and losses" arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity.

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

During initial recognition the Bank can choose in an irrevocable way to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss. The Group reviewed the valuation of financial assets and liabilities at fair value through other comprehensive income and as of the reporting date, there are no changes that would require any adjustments in fair value measurement as of 31 December 2020, due to the negative effects of the COVID-19 pandemic.

(iii) Financial assets measured at amortized cost

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

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

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

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

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".

(3.1.5) Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are retained in the consolidated accompanying financial statements as investment securities and the counterparty liability is included in customer deposits. Securities purchased under agreements to resell ("reverse repos") are recorded as due from banks. The difference between sale and repurchase price is treated as interest and accrued evenly over the life of repo agreements using the effective interest rate method.

(3.1.6) Impairment of financial assets

The Group allocates impairment for expected loss on financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income, all financial assets with are not measured at fair value through profit or loss, loan commitments and financial guarantee contracts in accordance with IFRS 9 principals.

1. Loans measured at amortised cost:

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

Stage 1:

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

Stage 2:

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

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized.

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

2. Loans measured at fair value through profit or loss:

Loans at fair value through profit and loss, terms of the contract for loans, if at certain dates it does not result in cash flows involving principal balances and interest payments arising from the principal, it is recorded at fair value and is subject to fair value assessment following the recognition. Gains and losses resulting from the valuation are included in profit/loss accounts.

In certain circumstances, restructuring or modification of the contractual cash flows of a financial instrument may result in the derecognition of the existing financial asset in accordance with IFRS 9. A modified financial asset is considered as a new financial asset when the change in the financial asset is once excluded from the financial statement and the revised financial asset is recognized in accordance with IFRS 9.

The Bank determines that there are significant changes in the terms of the new contract compared to the terms of the initial contract, evaluates whether the new financial asset cash flow represent solely payments of principal and interest.

In the event that the contractual conditions for the financial asset do not result in cash flows that include solely payments of principal and interest on certain dates, the related financial asset is measured at its fair value and is subject to valuation.

Significant increase in credit risk

If the credit risk of financial assets determined to be significantly increasing, afore-mentioned assets are transferred to the stage 2. For stage 1 loans expected loss (provision) amounts are calculated for 1-year and for stage 2 loans expected loss (provision) is calculated for the remaining life of the loan.

In addition, the key considerations in determining whether a significant increase in the credit risk of financial asset and transferring it to stage 2, but are not limited with these, the following;

- Past due date is 30 or more
- Restructuring of loans
- If the loan classified as under follow-up
- Assessment of significant increase in the probability of impairment based on rating notes.

Definition of increase in the probability of default is the comparison between the probability of default on loan's opening date, benefitted by bank's internal rating-based credit rating models and probability of default on reporting date. If the loan's estimated probability of default on reporting date exceeds the threshold values determined, it is considered to be worsening of the probability of default.

Definition of Default:

The Bank considers that there is a default on the relevant debt in the following two cases:

1. **Objective Default Definition:** It means that the debt is overdue by more than 90 days. The definition of default, which is applicable to the Bank and its consolidated financial institutions, is based on the criteria that the debt is overdue by more than 90 days.
2. **Subjective Default Definition:** It means the determination that the debt will not be paid. If it is determined that the borrower cannot fulfill its debts related to the loan, regardless of whether there is a balance in delay or the number of days of delay, the debtor is considered in default.

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

Write-off Policy:

The Parent Bank writes off financial assets when the asset is determined to be insolvent and there are no collection expectations based on the evidence that the insolvency has been issued by the court.

In circumstances where there is a mutual agreement with the borrower that will enable the Bank to recover a certain amount of a financial asset, the Bank writes off the remaining amount of a financial asset once the partial recovery has been completed.

Expected Credit Loss Provision (ECL):

The Group allocates impairment for expected loss on financial assets measured at amortised cost and measured at fair value through other comprehensive income.

As of 1 January 2018, the Group recognize provisions for impairment in accordance with IFRS 9 "Financial Instruments", issued by the IASB in July 2014, replaced IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. 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.

Expected Credit Loss (ECL) Calculation - Input and Forecasting Methodologies:

Expected Credit Loss (ECL) is calculated as 12 months or lifetime, depending on whether there is a significant increase in credit risk after initial recognition or whether an asset is considered as a credit loss. Expected Credit Loss is calculated by using the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) components.

- Probability of Default (PD): PD indicates the probability of default due to inability of the borrower to meet its debt obligations. It has been calculated for 12 months or lifetime depends on increase on borrower's credit risk.
- Loss Given Default (LGD): In case of default of the borrower, Loss Given Default has been calculated as dividing historical realized credit loss to Exposure at Default (EAD). LGD models includes data such as product type, customer segment, collateral structure, customer repayment performance Calculated LGD remains constant until its overdue.
- Exposure at Default: Specifies the amount of risk that the borrower should pay in case of default. It is kept in the system by constantly calculated until the maturity of the borrower. The amount of extra risk that can be incurred in the event of default is included in the calculations by using the credit conversion rate (CCR) calculated for the irrevocable commitment products.

Expected Credit Loss is calculated over the remaining maturity using the PD, LGD and EAD components. Calculated values are discounted on a monthly basis using the original effective interest rate or an approximate value of the discount rate. The expected credit loss value is calculated for all customers over the maturity period. However, for those who do not have a significant increase in credit risk, the 12-month ECL is taken into account, and for those with a significant increase in credit risk, the ECL value calculated over the remaining period is taken into account.

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

Within the scope of IFRS 9, models of Probability of default (PD), Loss given default and Exposure at default have been developed. The model used for the IRB ("Internal Rating Based Approach") are taken into account when developing these models. The models for IFRS 9 have a detailed segment structure. Loans that have similar characteristics are segmented in order to reflect the expected credit losses collectively in financial reports. When creating the segmentation structure, the following information of the loans is taken into consideration.

1. Customer type (retail or corporate / commercial)
2. Product type
3. IRB ratings/scores
4. Customer credit performance
5. Collateral type
6. Collection Period
7. Exposure at default

In addition, in the calculation of Expected Credit Loss in accordance with IFRS 9, certain part of commercial and corporate loans are subject to individual assessment on a customer basis based on the Bank's internal policies due to internal policies. This calculation is made by discounting the expected cash flows from the customer or the collateral sales to their present value with the effective interest rate.

The Parent Bank reflected the possible effects of COVID-19 on its cash flow estimates in the calculation of the Expected Credit Loss provision for the loans it is subject to individual assessment, taking into account the reasonable and relevant information available. Sectoral risks are also considered within the scope of individual assessment.

Macro-economic indicators are taken into account in determining the PD component in the expected credit loss calculation. Macro-economic indicators vary on a product-by-product basis for individual products and on a segment basis for commercial products. Future macroeconomic forecasts are reflected in the ECLs using more than one scenario.

The risk parameters used in the IFRS 9 calculations include prospective macroeconomic information. While macroeconomic information is included, models and estimates reflecting the relationships between model risk parameters and macroeconomic variables are taken into consideration. The main macroeconomic indicators of these estimation models are the Gross Domestic Product (GDP) and the policy interest rate. Macroeconomic estimation models include more than one scenario and the related scenarios are taken into account in the expected credit loss calculations.

The ECL calculations are reviewed once a year. After the last review during the reporting period;

- There has been no change in the assumptions in estimation techniques. The macroeconomic model used in the process has been re-developed. The parameter estimates used in the macroeconomic model were updated.
- Model risk parameters and macroeconomic estimation models have been updated with recent data.
- The expected credit loss calculation is made by considering 3 different scenarios the best, the worst, and the base.

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

Within the scope IFRS 9, macroeconomic expectations directly affect provisions (Expected Credit Loss-ECL). Related impact is realized when the default ratio of the Bank moves the default rate calculated for each maturity up or down. The main parameters of default ratio model are macroeconomic variables and the provision figures change when prospective estimations are revised.

The PD values subject to the ECL calculation have been obtained for the following portfolios.

Retail/Commercial	Portfolio
Retail	Consumer
Retail	Automotive
Retail	Mortgage
Retail	Credit Card
Retail	Overdraft Account
Commercial	Micro
Commercial	Company
Commercial	Commercial
Commercial	Corporate

In prospective expectations, 3 scenarios are being used as the base, the worst and the best. Final provisions are calculated by weighting on the possibilities given to the scenarios. Within the scope of the effects of COVID-19's Expected Credit Loss (ECL) calculations, the macro-economic model used in the process as of 31 December 2020 has been re-developed and the macroeconomic data used in the model has been updated in line with the most up-to-date estimates of the Economic Research Unit. The weight of the bad scenario was increased by decreasing the weight of the base scenario from 3 scenarios. As of 31 December 2020, cash flows expected to affect the effects of COVID-19 in loans evaluated individually have been updated and taken into account.

(3.1.7) Derecognition of financial instruments:

The Group recognizes a financial asset or financial liability in the balance sheet only when it becomes a party to the contractual provisions of instrument.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date for example when the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in the fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets ie. for assets carried at cost or amortised cost; change in value is not recognized.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial asset) when the rights to receive cash flows from the assets have expired; or while retaining the right to receive cash flows from the assets. The Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the assets and either has transferred substantially all the risk and rewards of the asset, or has transferred the control of the assets.

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

The Group sometimes renegotiates or otherwise modifies the contractual cash flows or loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Group derecognizes the original financial assets and recognizes a new asset. In accordance with IFRS 9, if the terms are not substantially different, the renegotiation or modification does not result in derecognition.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expired.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

(3.1.8) Fee and commission income and expenses

Fees and commission income/expenses are primarily recognized on an accrual basis or "Effective interest rate method" and IFRS 15 "Revenue from Contracts with Customers" according to the nature of the fee and commission, except for certain commission income and fees for various banking services which are recorded as income at the time of collection. Contract based fees or fees received for services such as the purchase and sale of assets on behalf of a third party or legal person are recognized as income at the time of collection.

(3.1.9) Interest income and expense

Interest income and expenses are recognized in the income statement by using the "Effective interest rate method". Starting from 1 January 2018, Group has started to calculate interest accrual on non-performing loans. Net book value of the non-performing loans (Gross Book Value – Expected Credit Loss) are rediscounted with effective interest rate and recognized with the gross book value of the non-performing loan.

(3.1.10) Related parties

Parties are considered related to the Group if below conditions are met;

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a)
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) Pension funds

For the purpose of these consolidated financial statements, shareholders, key management personnel and board members, in each case together with their families and companies controlled by/affiliated with them, associated companies and other companies within the Sabancı Holding Group and the Parent Bank

T.A.Ş. Personnel Pension Fund Foundation are considered and referred to as related parties. A number of banking transactions were entered into with related parties in the normal course of business. These include loans, deposits, trade finance and foreign currency transactions (Note 30).

(3.1.11) Financial liabilities

Financial liabilities including customer deposits, debt securities in issue and funds borrowed are recognized initially at cost net of transaction costs. Subsequently, financial liabilities are stated at amortized cost including transaction costs and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the financial liability using the effective interest rate method.

(3.1.12) Property and equipment

Property and equipment is measured 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 decrease.

The Group has started to account properties under the tangible assets with their revalued amount instead of cost values in accordance with "IAS 16 Plant and Equipment". The revaluation difference arising from the valuations made by the appraisal firms authorized by Capital Markets Board ("CMB") and BRSA is accounted in Investment Properties Revaluation Differences line under the Shareholders' Equity.

As of each reporting date, the Bank evaluates whether there is any indication that its assets may be impaired; If such indication exists, it estimates the recoverable amount of the related asset in accordance with IAS 36 - Impairment in Assets and if the recoverable amount is below the book value of the related asset, it reserves provision for impairment.

Depreciation is calculated over the cost of property and equipment using the straight-line method over estimated useful lives. The estimated useful lives are stated below:

Buildings	50 years
Vault	5-50 years
Transportation Vehicles	5 years
Other Property and equipments	3-15 years

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 sales revenue.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

Expenditures for the repair and renewal of property and equipment are recognized as expense. The capital expenditures incurred in order to increase the capacity of the tangible asset or to increase the future benefit of the asset are capitalized on the cost of the tangible asset. Capital expenditures include the cost components that increase the useful life, or the capacity of the asset, increase the quality of the product or decrease its costs.

(3.1.13) Intangible assets

Intangible assets are measured 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 costs after the deduction of accumulated depreciation and the provision for value decreases.

Intangibles are amortised over three to fifteen years (their estimated useful lives) using the straight-line method. The useful life of the asset is determined by assessing the expected useful time of the asset, technical, technological and other kinds of wear and tear and all required maintenance expenses necessary to utilize the economic benefit from the asset.

(3.1.14) Fund management

The Group manages and administers open-ended mutual funds. Determining whether the Group controls such a fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the fund manager. As a result, after evaluating the aggregate economic interests in funds and the rights to remove the fund manager, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

(3.1.15) Accounting for leases

(i) A group company is the lessee

Assets acquired under lease agreements are capitalized at the inception of the lease at the fair value of the leased asset. Lease payments are treated as comprising capital and interest elements; the capital element is treated as reducing the capitalized obligation under the lease and the interest element is charged to income. Depreciation on the leased asset is also charged to income on a straight-line basis over the useful life of the asset.

(ii) A group company is the lessor

When assets are sold under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(3.1.16) Taxation on income

(i) Income taxes currently payable

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognized as an expense in the period in which profits arise.

Taxes other than on income are recorded within operating expenses (Note 26).

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

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

NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(ii) *Deferred income taxes*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The rates enacted, or substantively enacted, at the balance sheet date are used to determine deferred income tax.

The principal temporary differences arise from the difference between the carrying value and tax base of property, plant and equipment, valuation difference on trading and investment securities, remeasurement of financial assets and liabilities at fair value, provision for loan losses and provision for employment termination benefits. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (Note 17).

Current tax and deferred tax related to items recognized directly in equity are also credited or charged directly to equity.

Calculated deferred tax receivables and deferred tax liabilities have shown in net balances in the financial statements separately for domestic and international branches and for different subsidiaries subject to consolidation. Net balances of deferred tax assets and liabilities from companies are shown separately in assets and liabilities.

(3.1.17) Retirement benefit obligations

(i) *Pension and other post-employment obligations*

Akbank T.A.Ş. Tekaüt Sandığı Vakfı ("the Fund") is a separate legal entity and a foundation recognized by an official decree, providing all qualified Bank employees with pension and post-retirement medical benefits. This scheme is funded through payments of both the employees and the employer as required by Social Security Law Numbered 506 and are as follows:

	31 December 2020 (%)	31 December 2019 (%)
Pension benefit contributions-employer	14	13
Pension benefit contributions-employee	10	9
Medical benefit contributions-employer	9.5	8.5
Medical benefit contributions-employee	5	5

Pension benefit contributions-employer includes 2% additional contribution provided by the Bank above the requirement of the related law.

The Group's obligation in respect of the Fund has been determined as the total of the following:

Obligation for post-employment benefits transferrable to Social Security Institution ("SSI")

The Group's obligation regarding post-employment benefits transferrable to SSI has been determined as the value of the payment that would need to be made to SSI to settle the obligation at the balance sheet date in accordance with the related article of the "Law regarding the changes in Social Insurance and General Health Insurance Law ("New Law") and other related laws and regulations" (Note 20). The disclosures set out in Note 20 for post-employment benefits transferrable to SSI therefore reflect the actuarial parameters and results in accordance with the New Law provisions.

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

Obligation for other benefits

The present value of the Group's obligation regarding pension benefits which are not transferrable to SSI in accordance with the New Law is calculated in accordance with IAS 19 employee benefits using the projected unit credit method.

The obligation for pension benefits transferrable to SSI and other benefits are calculated annually by an independent actuary who is registered with the Turkish Undersecretariat of the Treasury.

The liability to be recognized in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The Group does not have a legal right to access to the present value of any economic benefits available in the form of refunds from the Fund or reductions in future contributions to the plan, and therefore no assets are recognized in the balance sheet.

(ii) Employment termination benefits - defined benefit plan

Employment termination benefits represent the present value of the estimated total reserve for the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law (Note 20) and is calculated using the projected unit credit method. In accordance with IAS 19, actuarial gain and loss are recognized in equity.

(iii) Short-term employee benefits

The Bank provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19, "Employee benefits".

(iv) Defined contribution plans

The Group has to pay contributions to the Social Security Institution on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. These contributions are recognized as an employee benefit expense when they are accrued.

(3.1.18) Provisions, contingent assets and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are treated as contingent assets or liabilities.

(3.1.19) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, therefore the related assets and liabilities are presented gross in the statements of financial position.

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(3.1.20) Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Share premium

When shares are issued, the excess of contributions received over the nominal value of the shares issued is recorded as share premium in equity.

(iii) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

(3.1.21) Acceptances

Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as commitments and contingent liabilities (Note 28).

(3.1.22) Other credit-related commitments

In the normal course of business, the Group enters into other credit-related commitments including loan commitments, letters of credit and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as loans and receivables (Note 28).

(3.1.23) Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents include cash, cash due from banks and balances with central bank excluding reserve requirements and restricted balances, trading securities and investment securities with original maturity periods of less than three months (Note 6).

(3.1.24) Earnings per share

Earnings per share disclosed in the consolidated income statement are determined by dividing net income by the weighted average number of shares outstanding during the year concerned in (Note 4).

(3.1.25) Segment reporting

An operating segment is a component of an entity:

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

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues. (Note 5)

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(3.1.26) Disclosures of IFRS 16 leases

Group - lessee:

The Group assesses whether the contract has the quality of a lease or whether the lease includes the transaction at the beginning of a contract. In case the contract is transferred for a certain period of time to control the use of the asset defined for a price, it is either leased or includes a lease. The Group reflects the existence of a right of use and a lease liability to the financial statements at the effective date of the lease.

Right of use assets:

The right to use asset is first recognized by cost method and includes:

- a) The initial measurement amount of the lease obligation,
- b) the amount obtained by deducting all the rental incentives received from all lease payments made at or before the beginning of the lease;
- c) all initial direct costs incurred by the Group

When Group applying the cost method, the existence of the right to use:

- a) accumulated depreciation and accumulated impairment losses are deducted and
- b) measures the restatement of the lease obligation at the restated cost.

The group applies the provisions of depreciation regulated under the IAS 16 Tangible Assets Standards, while depreciating the rights of use assets.

The Lease Obligations:

At the effective date of the lease, the Group measures its leasing liability at the present value of the lease payments not paid at that time. Lease payments are discounted using the Group's average borrowing interest rates.

The lease payments included in the measurement of the lease liability consist of the payments to be made for the right of use during the lease term of the underlying asset and the unpaid payments at the effective date of the lease.

After the effective date of the lease, the Group measures the leasing liability as follows:

- a) Increase the book value to reflect the interest on the lease obligation
- b) Reduces the book value to reflect the lease payments made and
- c) The book value is measured to reflect reassessments and restructuring, or reflect to fixed lease payments as of revised nature.

The interest on the lease liability for each period in the lease period is the amount calculated by applying a fixed periodic interest rate to the remaining balance of the lease liability.

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

Details based on the asset with regard to the recognised right of use is as follows:

	31 December 2020	31 December 2019
Real estate	756,191	852,500
Total right of use assets	756,191	852,500

Details of depreciation expense based on the asset with regard to the recognised right of use is as follows:

	31 December 2020	31 December 2019
Real estate	328,392	345,737
Total right of use assets depreciation expense	328,392	345,737

Lease agreements for vehicles and ATMs, which are determined as low value by the Bank with short-term lease agreements with a duration of 12 months or less, have been evaluated within the scope of the exemption granted by the standard. Within this scope, TL 119,993 has been paid in the relevant period.

The right and obligation of the lessee to use assets classified as finance leases has been measured at the carrying amount of such assets before the transition period.

(3.1.27) Comparatives

The Group made some classifications on cash flow statement dated 31 December 2019 to be in compliance with the presentation of financial statements dated 31 December 2020.

(3.2) Judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS and in line with International Accounting Standards ("IAS") requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. These critical estimations and judgements are applied in areas such as; expected credit loss model of IFRS 9 and measurement of fair values. The judgements and estimates that may have significant effect on amounts recognized in the consolidated financial statements are discussed in relevant sections.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(3.3) The new standards, amendments and interpretations

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

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

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

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

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

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

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

A number of standards, interpretations and amendments to existing standards that are effective for annual periods beginning and after 1 January 2021 up to the date of issuance of the consolidated financial statements are as follows. The Group has not applied new or amended standards in preparing these consolidated financial statements.

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

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NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

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

A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16; effective from Annual periods beginning on or after 1 January 2022.

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

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

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

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2; effective from annual periods beginning on or after 1 January 2021. The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

Amendments to IFRS 17 and IFRS 4, 'Insurance contracts', deferral of IFRS 9; effective from annual periods beginning on or after 1 January 2021. These amendments defer the date of application of IFRS 17 by two years to 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9, Financial Instrument until 1 January 2023.

NOTE 4 - EARNINGS PER SHARE

Earnings per share disclosed in the consolidated statements of income is determined by dividing the net income attributable to the equity holders of the Group by the weighted average number of ordinary shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the year in which they were issued and for each earlier period.

The number of rights issued in 2020: None (31 December 2019: 120,000,000,000).

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

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

NOTE 4 - EARNINGS PER SHARE(Continued)

The earnings attributable to basic shares for each period are as follows:

	31 December 2020	31 December 2019
Profit attributable to equity holders of the Group	6,116,625	5,374,325
Weighted average number of ordinary shares in issue (Thousand)	520,000,000	500,602,740
Basic and diluted earnings per share (expressed in TL, full amount, per share)	0.01176	0.01074

Basic earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of shares in issue.

There are no diluted shares and accordingly there are no diluted earnings per share for any class of shares.

NOTE 5 - SEGMENT REPORTING

The Group operates in business segments including retail banking, commercial banking, corporate and investment banking, private banking and wealth management and treasury. These segments have been determined considering customer segments and branch network providing services to customers in accordance with the Bank's organizational structure.

Retail banking offers a variety of retail services such as deposit accounts, consumer loans, commercial installment loans, credit cards, insurance products and asset management services. The retail banking products and services also include bank cards, investment funds trading, automatic payment services, foreign currency trading, safe deposit box rentals, cheques, money transfers, investment banking, telephone and internet banking. In addition, retail banking provide financial solutions and banking services to SME customers.

Corporate Banking and Commercial Banking and SME Banking provide financial solutions and banking services to large and medium size corporate and commercial customers. The products and services offered to corporate and commercial customers include TL and foreign currency denominated working capital loans financing for investments, foreign trade financing, derivative instruments for hedging purposes of foreign currency and interest risk, letters of credit, foreign currency trading, corporate finance services and deposit and cash management services. In addition, the Bank provides timely and permanent solutions for corporate customers' working capital management, delivers cash management services tailored based on customers' requests that include collection and payment services and liquidity and information management. Project finance loans are provided within the context of investment banking activities.

In the scope of private banking, The Bank serves the members of the high-income customers who have expectations for upper-class service quality both in banking and investment transactions. Within the scope of international banking activities, activities are also being carried out in order to provide long-term funding, to provide funding under a price reflecting the country's risk, to diversify funding resources and to form an international investor base on this area.

The Treasury Unit conducts TL and FC spot and forward transactions, treasury bonds, government bonds, Eurobond and private sector bond transactions and also derivative trading activities within determined limits. Furthermore, Treasury Unit also carries out marketing and pricing activities of treasury products for customers and branch network.

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

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

NOTE 5 - SEGMENT REPORTING(Continued)

Other operations includes activities of Ak Finansal Kiralama A.Ş., Ak Yatırım Menkul Değerler A.Ş., Ak Portföy Yönetim A.Ş. and AkÖde Elektronik Para ve Ödeme Hizmetleri A.Ş. which are consolidated as subsidiary of Bank.

Information on business segments as of 31 December 2020 and 31 December 2019 presented in the following tables. Explanations on business segments are prepared on the basis of data obtained from Bank Management Reporting System:

Segment information at 31 December 2020 and 31 December 2019 is as follows:

31 December 2020					
Banking	Retail Banking	Commercial Banking, Corporate and Investment Banking, Private Banking and Wealth Management	Treasury	Other and Unallocated	Bank's Total Activities
Segment information regarding the balance sheet:					
Segment assets	101,012,305	198,994,220	148,545,090	8,974,388	457,526,003
Equity securities				31,179	31,179
Unallocated assets				20,759,393	20,759,393
Total assets					478,316,575
Segment liabilities	190,212,425	96,610,017	103,254,640	8,770,417	398,847,499
Unallocated liabilities				16,545,019	16,545,019
Equity				62,924,057	62,924,057
Total liabilities and equity					478,316,575
Segment information regarding the income statement:					
Operating Income	8,623,606	1,888,554	6,717,731	(319,195)	16,910,696
Segment result	2,459,746	635,219	6,295,997	(1,111,669)	8,279,293
Dividend income	-	-	-	4,866	4,866
Income taxes	-	-	-	(2,167,511)	(2,167,511)
Profit for the year	2,459,746	635,219	6,295,997	(3,274,314)	6,116,648
31 December 2019					
Banking	Retail Banking	Commercial Banking, Corporate and Investment Banking, Private Banking and Wealth Management	Treasury	Other and Unallocated	Bank's Total Activities
Segment information regarding the balance sheet:					
Segment assets	78,687,822	162,204,989	123,749,563	6,539,052	371,181,426
Equity securities				5,521	5,521
Unallocated assets				15,985,490	15,985,490
Total assets					387,172,437
Segment liabilities	156,685,999	82,201,250	74,576,328	6,564,326	320,027,903
Unallocated liabilities				12,782,081	12,782,081
Equity				54,362,453	54,362,453
Total liabilities and equity					387,172,437
Segment information regarding the income statement:					
Operating Income	8,502,418	2,745,898	2,606,077	110,918	13,965,311
Segment result	3,212,508	1,641,173	2,243,069	(176,667)	6,920,083
Dividend income	-	-	-	6,743	6,743
Income taxes	-	-	-	(1,552,487)	(1,552,487)
Profit for the year	3,212,508	1,641,173	2,243,069	(1,722,411)	5,374,339

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

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

NOTE 6 - CASH AND DUE FROM BANKS AND BALANCES WITH THE CENTRAL BANK OF TURKEY

Cash and due from banks comprises as follows:

	31 December 2020	31 December 2019
Cash funds:		
Cash on hand (*)	5,071,922	3,352,169
Purchased cheques	29	15
	5,071,951	3,352,184
Current accounts and demand deposits:		
Central Bank of Turkey	19,769,297	14,006,946
Foreign banks	11,254,339	13,935,927
Domestic banks	8,868	5,396
	31,032,504	27,948,269
Time deposits:		
Central Bank of Turkey	22,835,073	12,534,799
Foreign banks	1,118,250	3,031,496
Domestic banks	29,478	967,209
	23,982,801	16,533,504
Interbank money market placements	488,547	66,120
Total cash and due from banks and the balances with the Central Bank of Turkey	60,575,803	47,900,076

(*) Includes precious metal accounts amounting to TL 2,173,647 (31 December 2019: 1,224,161).

At 31 December 2020, assets pledged as off-shore reserve requirements, payment accounts in connection with the issue of floating-rate notes and restricted demand and time deposits in foreign banks amount to TL 4,342,775 (31 December 2019: 3,916,739 TL) (Note 27).

Cash and cash equivalents included in the statements of cash flows for the year ended 31 December 2020 and 2019 are as follows:

	31 December 2020	31 December 2019
Cash and due from banks excluding accrued interest and blocked accounts (*)	13,492,759	18,575,839
Trading and investment securities with original maturities of less than three months excluding accrued interest	2,547	116,138
Total	13,495,306	18,691,977

(*) Mainly include collateral amounts kept at banks for borrowings.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

**NOTE 6 - CASH AND DUE FROM BANKS AND BALANCES WITH THE CENTRAL BANK
OF TURKEY (Continued)**

The balances with the Central Bank of Turkey ("the Central Bank"):

	31 December 2020	31 December 2019
The balances with the Central Bank of Turkey:		
- TL	2,628,104	733,159
- Foreign currency	39,976,266	25,808,586
Total	42,604,370	26,541,745

The reserve requirements are promulgated by communiqués issued by the Central Bank and TL 2,627,671 in Turkish Lira and TL 39,976,266 in foreign currency promulgated as of 31 December 2020 (31 December 2019: TL 726,406 Turkish Lira and TL 25,808,586 in foreign currency).

The amounts of the reserve requirements are computed on the basis of the liabilities identified and at the rates prescribed in the related regulations.

In accordance with the Communiqué Regarding the Reserve Requirements no. 2013/15, the Bank is required to maintain reserves in CBRT for TL and foreign currency liabilities. The reserve requirements can be maintained as TL, USD, EUR and standard gold.

The required reserve rates for TL liabilities vary between 1% and 6% for TL deposits and other liabilities according to their maturities as of 31 December 2020 (31 December 2019: 1% and 7% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 5% and 22% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2020 (31 December 2019: 5% and 21% for all foreign currency liabilities).

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters mainly into the following derivative financial instruments:

"Currency forwards" represent commitments to purchase or to sell foreign or domestic currency, including spot transactions. "Foreign currency futures" are contractual obligations to receive or pay a net amount based on changes in currency rates or to buy or sell foreign currency at a future date at a specified price established in an organized financial market. Since future contracts are collateralized by cash or marketable securities and changes in the future contract value are settled daily with the exchange rate, the credit risk is negligible.

"Currency and interest rate options" are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer ("OTC").

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

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. The Group's "credit risks" represent the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the consolidated statements of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held at 31 December 2020 and 31 December 2019 are set out in the following table.

	31 December 2020		31 December 2019	
	Fair values		Fair values	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for trading:				
Currency and interest rate swap purchases and sales	14,322,524	13,005,806	10,612,066	7,537,464
Options purchases and sales	152,494	163,564	71,901	100,196
Currency and interest rate futures purchases and sales	-	-	-	-
Forward currency purchases and sales	414,145	231,764	482,978	143,902
Other purchases and sales	-	-	-	-
Derivatives held for hedging:				
Currency and interest rate swap purchases and sales	7,969,203	1,439,839	5,350,817	1,164,140
Total derivative assets/(liabilities)	22,858,366	14,840,973	16,517,762	8,945,702

The notional amounts of derivative transactions are explained in detail in Note 28.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading.

As at 31 December 2020, contractual amounts of derivative financial instruments designated as hedging instruments and the net fair values carried in the balance sheet are summarized in the following table:

	Current Period			Prior Period		
	31 December 2020			31 December 2019		
	Notional Amount	Assets	Liabilities	Notional Amount	Assets	Liabilities
Interest Rate and Cross Currency Swaps						
-TL	20,923,980	7,956,205	424,660	13,674,935	5,166,090	919,269
-FC	63,594,359	12,998	1,015,179	50,984,080	184,727	244,871
Total	84,518,339	7,969,203	1,439,839	64,659,015	5,350,817	1,164,140

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

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Explanations on Net Investment Hedge:

The Group has been using net investment hedging strategy to hedge foreign currency risk of EURO 787 million (31 December 2019: EURO 320 million) which represents share premiums and paid-in-capital of Akbank AG, one of its subsidiaries, with EURO 787 million of syndication loans used by the Group have been classified as "hedge instruments".

1. Explanations on Fair Value Hedges:

Current Period - 31 December 2020

Hedging Instrument	Hedged Item	Risk Exposure	Fair Value Difference of Hedging Instrument	Fair Value Difference of Hedged Items (*)	Ineffective Portion (**)
Interest Rate Swap	Fixed interest rate FC financial assets at fair value through other comprehensive income	Interest rate risk	(534,522)	487,716	(46,806)
Cross-currency swap	Fixed interest rate FC financial assets at fair value through other comprehensive income, FC borrowings	Interest rate and currency risk	16,031	(16,419)	(388)
Cross-currency swap	Fixed interest rate TL financial assets at fair value through other comprehensive income, borrowings	Interest rate and currency risk	(67,317)	63,459	(3,858)
Cross-currency swap	Fixed interest rate TL Mortgage Loans, FC borrowings	Interest rate and currency risk	1,896,556	(1,890,232)	6,324
Interest Rate Swap	Fixed interest rate TL Commercial Loans	Interest rate risk	(4,070)	4,181	111
Cross-currency swap	Fixed interest rate TL Commercial Loans, FC borrowings	Interest rate and currency risk	(28,992)	28,662	(330)
Interest Rate Swap	Fixed interest rate TL Securities Issued	Interest rate risk	(64,929)	69,179	4,250
Interest Rate Swap	Fixed interest rate Lease Receivables	Interest rate risk	(26)	23	(3)

(*) Includes fair value differences arising from changes in foreign exchange rates for hedges against interest rate and foreign currency from the interest rate and foreign exchange risks.

(**) Represents the cumulative amounts booked under "Gain / (Loss) on Derivative Financial Transactions" and "Gain/ (Loss) on Foreign Exchange Transactions" since the beginning of hedge accounting.

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

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Prior Period - 31 December 2019

Hedging Instrument	Hedged Item	Risk Exposure	Fair Value Difference of Hedging Instrument	Fair Value Difference of Hedged Items (*)	Ineffective Portion (**)
Interest Rate Swap	Fixed interest rate FC financial assets at fair value through OCI	Interest rate risk	(265,774)	230,915	(34,859)
Cross-currency swap	Fixed interest rate TL Mortgage Loans, FC borrowings	Interest rate and currency risk	(76,688)	73,920	(2,768)
Cross-currency swap	Fixed interest rate TL Commercial Loans, FC borrowings	Interest rate and currency risk	2,101,157	(2,092,746)	8,411
Interest Rate Swap	Fixed interest rate Lease Receivables	Interest rate risk	(23,858)	23,858	-
Cross-currency swap	Fixed interest rate FC Issued Eurobond, FC Lease Receivables	Interest rate and currency risk	(9)	6	(3)

- (*) Includes fair value differences arising from changes in foreign exchange rates for hedges against interest rate and foreign currency from the interest rate and foreign exchange risks.
- (**) Represents the cumulative amounts booked under "Gain / (Loss) on Derivative Financial Transactions" and "Gain/ (Loss) on Foreign Exchange Transactions" since the beginning of hedge accounting.

As at 31 December 2020 fair value hedge transactions have been proven to be effective.

In addition, when the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked are given below:

- As at 31 December 2020, related to fair value hedge transactions, the remaining net amount after amortization of the fair value change of the hedged items since the beginning of hedge accounting is TL 695 (31 December 2019: TL 1,566).

2. Explanations on Cash Flow Hedge

Current Period - 31 December 2020

Hedging instrument	Hedged item	Nature of risk hedged	Hedging instrument FV		Net gain/(loss) recognized in OCI during the period	Net gain/(loss) reclassified to income statement during the year	Ineffective portion recognized in income statement (Net)
			Assets	Liabilities			
Interest Rate Swap	Floating-rate long Term FC funds borrowed	Cash Flow risk due to changes in interest rate of funds	-	332,270	(448,539)	(111,650)	(8,356)
Cross Currency Swap	Short term FC commercial deposits	Cash Flow risk due to changes in interest rate of funds	4,679,051	1,453	(513,439)	(1,145,621)	(616,994)
Cross Currency Swap	Floating-rate FC given loans	Cash Flow risk due to changes in interest rate of funds	-	-	20,577	29,569	(259)
Interest Rate Swap	Short term TL deposits	Cash Flow risk due to changes in interest rate of funds	59,428	316,367	133,622	(98,875)	(10,634)
Interest Rate Swap	Short term FC deposits	Cash Flow risk due to changes in interest rate of funds	-	2,995	435	(219)	(1,898)
Interest Rate Swap	Floating-rate TL financial assets at fair value through other comprehensive income	Cash Flow risk due to changes in interest rate of funds	-	25,784	(18,757)	(4,175)	(9,225)

As of 31 December 2020 cash flow hedge transactions have been determined as effective.

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

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Prior Period - 31 December 2019

Hedging instrument	Hedged item	Nature of risk hedged	Hedging instrument FV		Net gain/(loss) recognized in OCI during the period	Net gain/(loss) reclassified to income statement during the year	Ineffective portion recognized in income statement (Net)
			Assets	Liabilities			
Interest Rate Swap	Floating-rate long Term FC funds borrowed	Cash Flow risk due to changes in interest rate of funds	(33,217)	53,065	(189,937)	69,300	(5,134)
Cross Currency Swap	Short term FC commercial deposits	Cash Flow risk due to changes in interest rate of funds	2,093,795	268,156	(1,591,231)	(592,705)	(131,285)
Cross Currency Swap	Floating-rate FC given loans	Cash Flow risk due to changes in interest rate of funds	-	88,830	391,002	268,384	(7,037)
Interest Rate Swap	Short term TL deposits	Cash Flow risk due to changes in interest rate of funds	-	491,053	(207,806)	(8,627)	(10,056)

As of 31 December 2019 cash flow hedge transactions have been determined as effective.

In addition, when the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked with the information related discontinuous transactions are given below:

As of 31 December 2020, related to cash flow hedge transactions, the remaining before tax amount in equity after amortization of the fair value change of the hedging instruments, since the beginning of hedge accounting is TL 28,746 (31 December 2019: TL 10,105).

NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS

Distribution of the loan portfolio of the Group by nature is as the following:

	31 December 2020	31 December 2019
Consumer loans	41,914,006	32,114,332
- Mortgage	9,585,929	9,309,219
- General purpose	32,098,935	22,667,642
- Automobile	229,142	137,471
Credit cards	21,660,421	16,119,888
- Retail	18,418,751	13,544,237
- Corporate	3,241,670	2,575,651
Corporate, commercial and small business loans	203,361,362	168,251,852
- Export financing loans	21,448,393	13,743,021
- Loans to financial institutions	14,337,460	11,501,727
- Leasing receivables	5,015,140	4,566,853
- Project finance loans	60,087,990	50,398,684
- Commercial installment loans	17,003,445	14,917,543
- Other	85,468,934	73,124,024
Performing loans(*)	266,935,789	216,486,072
Impaired loans	17,880,294	15,430,545
Total loans and advances to customers	284,816,083	231,916,617
Provision for impairment	(16,969,515)	(12,707,076)
Net loans and advances to customers	267,846,568	219,209,541

(*) Excluding loans measured at fair value through profit and loss amounting to TL 7,342,910 (31 December 2019: TL 6,723,419).

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NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loans and advances to customers include finance lease receivables, as shown below:

	31 December 2020	31 December 2019
Gross investment in finance leases	6,214,449	5,768,590
Less: Unearned finance income	(631,599)	(628,271)
Total investment in finance leases	5,582,850	5,140,319
Provision for impairment	(394,453)	(401,711)
Net investment in finance leases	5,188,397	4,738,608

Gross lease rentals receivable and the net investment in direct financing leases have the following collection schedules:

	31 December 2020		31 December 2019	
	Gross investment in finance leases	Total investment in finance leases	Gross investment in finance leases	Total investment in finance leases
Period ending				
2019	-	-	-	-
2020	2,689,830	2,438,941	2,586,417	2,335,390
2021(*)	3,524,619	3,143,909	3,182,173	2,804,929
Total	6,214,449	5,582,850	5,768,590	5,140,319

(*) Balances include the year 2021 and thereafter.

As of 31 December 2020 and 31 December 2019, the Group's collateral types are mainly composed of mortgages, cash blockages, vehicle and machine pledges.

The Group has provided an individual impairment for impaired loans amounting to TL 11,093,238 (31 December 2019: TL 8,639,310). As of 31 December 2020 total amount of provision for impairment provided by the Group, which amounts to TL 16,969,515 (31 December 2019: 12,707,076) represents the total amount of individual and collective provision on loans and advances.

Movements in the provision for loan losses are as follows:

	31 December 2020			
	Commercial loans	Consumer loans and credit cards	Leasing receivables	Total
1 January 2020	9,980,873	2,324,492	401,711	12,707,076
Additions	4,995,029	1,316,920	176,214	6,488,163
Collections	(916,709)	(414,812)	(89,154)	(1,420,675)
Write-offs (*)	(285,484)	(425,247)	(94,318)	(805,049)
31 December 2020	13,773,709	2,801,353	394,453	16,969,515

(*) The amount of write-off made according to the "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside" published in the Official Gazette dated 27 November 2019 and numbered 30961 is TL 692,841 thousand and its effect on the NPL ratio is 23 basis point.

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NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

	31 December 2019			
	Commercial loans	Consumer loans and credit cards	Leasing receivables	Total
1 January 2019	5,576,750	2,404,514	501,182	8,482,446
Additions	6,203,862	844,338	89,479	7,137,679
Collections	(561,958)	(464,870)	(45,998)	(1,072,826)
Write-offs (*)(**)	(1,237,781)	(459,490)	(142,952)	(1,840,223)
31 December 2019	9,980,873	2,324,492	401,711	12,707,076

(*) TL 714 million (in full TL amount) portion of the Bank's non-performing loan portfolio has been sold at a price of TL 32.9 million (in full TL amount) to Istanbul Varlık Yönetimi A.Ş. and Gelecek Varlık Yönetim A.Ş. TL 113.8 million portion of TL 714 million has been written off as of 2017 and before. Ak Finansal Kiralama A.Ş. sold TL 50.8 million of non-performing finance lease receivables to Met-Ay Varlık Yönetim A.Ş. for a consideration of TL 425 thousand.

(**) The amount of write-off made according to the "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside" published in the Official Gazette dated 27 November 2019 and numbered 30961 is TL 1,119,998 thousand and its effect on the NPL ratio is 49 basis point.

Loans and advances to related parties are as follows:

	31 December 2020	31 December 2019
Loans and advances measured at amortized cost(Net)	7,923,015	6,918,419
Loans and advances measured at FVPL	7,342,910	6,723,419
Net loans and advances to related parties	15,265,925	13,641,838

Loans and advances to the public sector and private sector are as follows:

	31 December 2020	31 December 2019
Private sector	280,615,601	228,836,799
Public sector	4,200,482	3,079,818
Total loans and advances to customers	284,816,083	231,916,617

Further disclosures with respect to loans and advances to customers and expected credit loss are made in Note 30.

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

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

NOTE 9 - INVESTMENT SECURITIES

(9.1) Financial Assets At Fair Value Through Profit Or Loss:

	31 December 2020	31 December 2019
Government bonds	22,607	182,344
Eurobonds	167,331	92,378
Share certificates	305,711	232,764
Other	1,340,853	33,934
Total	1,836,502	541,420

As of 31 December 2020, the group has no financial assets pledged under repurchase agreements with financial institutions (31 December 2019: None).

As of 31 December 2020, financial assets at fair value through profit or loss given as collateral/blocked amount to TL 9,995 (31 December 2019: TL 10,049); and there are no financial assets subject to repo transactions (31 December 2019: None).

(9.2) Financial Assets Measured Fair Value Through Other Comprehensive Income:

	31 December 2020	31 December 2019
Debt securities		
- Government bonds	23,067,781	35,534,282
- Eurobonds	21,352,442	14,721,907
- Treasury bills	-	1,446,889
- Other bonds	13,277,209	15,374,313
Equity securities		
- Listed	-	-
- Unlisted	31,179	21,905
- Mutual Funds	490,329	424,665
Total	58,218,940	67,523,961

As of 31 December 2020, financial assets fair value through other comprehensive income subject to repurchase agreements amounting to TL 16,984,050 (31 December 2019: TL 8,422,563); and those given as collateral/blocked amounting to TL 18,374,196 (31 December 2019: TL 17,108,499).

Unrealized gain and losses arising from changes in the fair value of securities classified as "financial assets measured at fair value OCI" in current period are recognized as "other reserves" in other comprehensive income unless there is an objective evidence that the asset is impaired in which case the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss.

Government bonds, Eurobonds and treasury bills under trading and investment securities are issued by the Government of the Republic of Turkey. Other bonds mainly represent bonds issued by corporate and other financial institutions.

(9.3) Financial Assets Measured At Amortised Cost (Net)

	31 December 2020	31 December 2019
Debt securities		
- Government bonds	40,236,839	13,078,386
- Other government debt securities	976,369	774,470
- Other Marketable Securities	659,469	1,712,649
Total	41,872,677	15,565,525

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

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

NOTE 9 - INVESTMENT SECURITIES (Continued)

As at 31 December 2020, financial assets measured at amortised cost subject to repurchase agreements amount to TL 6,241,092 (31 December 2019: TL 1,374,596); and those given as collateral/blocked amount to TL TL 8,687,723 (31 December 2019: TL 352,296).

Government bonds, Eurobonds and treasury bills under trading and investment securities are issued by the Government of the Republic of Turkey. Other bonds mainly represent bonds issued by corporate and other financial institutions.

The movement of financial assets measured at amortised costs is as follows:

	31 December 2020	31 December 2019
Opening Balance	15,565,525	12,215,096
Additions	25,884,971	5,397,163
Redemptions	(4,774,521)	(3,214,759)
Exchange differences	4,715,654	414,623
Impairment Provision (-) (*)	(14,050)	76,115
Change in Amortized Cost	495,098	677,288
Balance at 31 December 2020	41,872,677	15,565,525

(*) At 31 December 2020 and 31 December 2019, expected loss provisions are included.

NOTE 10 – ASSETS HELD FOR SALE

	Current Period 31 December 2020	Prior Period 31 December 2019
Cost	250,782	666,140
Accumulated Depreciation (-)	4	73
Net Book Value	250,778	666,067

	Current Period 31 December 2020	Prior Period 31 December 2019
Opening Balance Net Book Value	666,067	264,384
Additions (*)	265,721	1,575,616
Disposals (-), net	184,122	235,066
Impairment (-)	496,888	938,867
Closing Net Book Value	250,778	666,067

(*) As stated in Note 30, the Bank has 35.56% participation in the newly established LYY Telekomünikasyon A.Ş., and has reclassified its TL 18 shares under fair value through other comprehensive income in the prior period. Within this scope, the Bank's share in the capital of LYY Telekomünikasyon A.Ş. has increased from TL 18 to TL 1,416,090 in the previous period. This amount is shown in the line "Additions" in the table above. The Group's total provision for impairment of assets held for sale is TL 1,416,090 and TL 477,268 of the current period is shown in the "Impairment (-)" line. As the fair value increase of TL 619,491 of LYY Telekomünikasyon A.Ş. classified under financial assets at fair value through profit or loss, is considered together, there is a net increase of TL 142,241 in the fair value of the asset in the current period.

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

The Group revalued its immovables classified as property and equipment within the scope of "IAS 16 Property, Plant and Equipment" in the current period. The revaluation difference in the amount of TL 912,544, which as a result of the evaluations made by the expertise firms authorized by the CMB and the BRSA, is presented in the "investment properties revaluation differences" item in the table below.

	Immovables(*)	Other Tangible Fixed Assets	Construction in Progress	Total
Prior Period End: 31 December 2019				
Cost	4,405,887	2,159,285	7,069	6,572,241
Accumulated Depreciation(-)	516,290	1,136,254	-	1,652,544
Net Book Value	3,889,597	1,023,031	7,069	4,919,697
Current Period End: 31 December 2020				
Net Book Value at the Beginning of the Period	3,889,597	1,023,031	7,069	4,919,697
Additions	168,616	600,174	25,322	794,112
Investment Properties Revaluation differences	912,544	-	-	912,544
Transferred	22,167	-	(22,167)	-
Disposals (-), net	153,771	1,780	-	155,551
Depreciation (-)	141,695	329,808	-	471,503
Impairment	(11,922)	-	-	(11,922)
Currency Translation Differences on Foreign Operations, Net	15,896	133	-	16,029
Cost at Period End	5,160,043	2,719,643	10,224	7,889,910
Accumulated Depreciation at Period End (-)	458,611	1,427,893	-	1,886,504
Closing Net Book Value	4,701,432	1,291,750	10,224	6,003,406

(*) Immovables includes the asset usage rights of the real estates rented under the "IFRS 16 Leases" Standard. As of 31 December 2020, asset usage rights are TL 756,191, and accumulated depreciation amount is TL 328,392.

	Immovables(*)	Other Tangible Fixed Assets	Construction in Progress	Total
Prior Period End: 31 December 2018				
Cost	3,095,734	1,623,834	347,795	5,067,363
Accumulated Depreciation(-)	140,829	967,479	-	1,108,308
Net Book Value	2,954,905	656,355	347,795	3,959,055
Current Period End: 31 December 2019				
Net Book Value at the Beginning of the Period	2,954,905	656,355	347,795	3,959,055
IFRS 16 Transition Effect				
Cost	784,613	-	-	784,613
Accumulated Depreciation(-)	310,941	-	-	310,941
Additions	165,596	586,113	81,576	833,285
Investment Properties Revaluation differences	-	-	-	-
Transferred	422,302	-	(422,302)	-
Disposals (-), net	35,934	996	-	36,930
Depreciation (-)	120,369	218,516	-	338,885
Impairment	-	-	-	-
Currency Translation Differences or Foreign Operations, Net	29,425	75	-	29,500
Cost at Period End	4,405,887	2,159,285	7,069	6,572,241
Accumulated Depreciation at Period End (-)	516,290	1,136,254	-	1,652,544
Closing Net Book Value	3,889,597	1,023,031	7,069	4,919,697

(*) Immovables includes the asset usage rights of the real estates rented under the "IFRS 16 Leases" Standard. As of 31 December 2019 asset usage rights are TL 852,500, and accumulated depreciation amount is TL 345,737.

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

NOTE 12 - INTANGIBLE ASSETS

	31 December 2020	31 December 2019
Cost	1,918,033	1,461,990
Accumulated depreciation	727,124	508,802
Net book amount	1,190,909	953,188
Opening balance at 1 January	953,188	646,192
Disposals (-)	234	118
Additions	451,476	496,271
Depreciation (-)	(214,978)	(189,157)
Currency Translation Differences on Foreign Operations, Net	1,457	-
Net book amount	1,190,909	953,188

NOTE 13 - OTHER ASSETS AND PRE-PAYMENTS

The principal components of other assets and pre-payments are as follows:

	31 December 2020	31 December 2019
Derivative collaterals	5,947,601	3,582,727
Miscellaneous receivables	1,504,927	839,375
Prepaid expenses	998,856	779,096
Receivables from cheques in clearance	852,507	702,265
Receivables from credit card payments	51,695	47,441
Fund management fee accruals	3,298	2,035
Other	812,842	552,900
Total	10,171,726	6,505,838

NOTE 14 - DEPOSITS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The breakdown of deposits according to type and maturity is as follows:

	31 December 2020			31 December 2019		
	Demand	Time	Total	Demand	Time	Total
Saving deposits	53,209,482	129,399,700	182,609,182	29,769,129	118,618,772	148,387,901
Commercial deposits	36,424,264	56,466,245	92,890,509	20,534,054	64,498,460	85,032,514
Funds deposited under repurchase agreements	-	20,478,250	20,478,250	-	9,955,767	9,955,767
Bank deposits	280,804	12,293,003	12,573,807	1,555,546	5,220,007	6,775,553
Other	1,394,099	3,051,410	4,445,509	1,410,045	3,106,320	4,516,365
Total	91,308,649	221,688,608	312,997,257	53,268,774	201,399,326	254,668,100

At 31 December 2020, deposits of TL 18,308,406 (31 December 2019: 16,810,631 TL) were from Sabancı Holding Group companies and other related parties. The total interest expense paid to related party deposits is TL 976,517 (31 December 2019: TL 1,603,051) for the year ended 31 December 2020.

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NOTE 15 - INTERBANK MONEY MARKET DEPOSITS, FUNDS BORROWED

	31 December 2020	31 December 2019
Interbank money market deposits	429,094	150,782
Domestic banks		
- TL	367,411	548,615
- Foreign currency	4,939,707	1,187,028
Foreign institutions	17,070,799	15,717,574
Funds borrowed	22,377,917	17,453,217

Interbank money market deposits represent borrowings from Istanbul Settlement and Custody Bank and the interbank money market which is regulated by the Central Bank of Turkey.

Funds borrowed from domestic banks mainly represent funds obtained from Turkish Eximbank to finance certain export loans given to customers, under prevailing regulations.

As of 31 December 2020, Akbank has two outstanding syndicated loan facilities.

First outstanding facility with 1 year tenor tranches was signed on 1 April 2020 and raised a total of EUR 315,5 million and USD 256 million with Euroibor + 200 and Libor + 225 bps.

Second outstanding facility with 1 year tenor was signed on 13 October 2020 and raised a total of EUR 348,5 million and USD 388 million with Euribor + 225 bps and Libor + 250 bps.

NOTE 16 - DEBT SECURITIES ISSUED

Debt securities consist of USD, EUR and TL denominated securities.

The balances amounting to USD 4,838,251 thousands and EUR 32,851 thousands consist of securitization deals issued by the Group. The repayment schedule of the total USD, EUR, RON, JPY and HUF denominated notes in issue is as follows:

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NOTE 16 - DEBT SECURITIES ISSUED (Continued)

	31 December 2020				
	USD (000)	TL	EUR (000)	TL	Other TL
2020 (*)					
2021	630,546	4,678,273	23,131	210,872	-
2022	1,068,575	7,928,186	377	3,438	-
2023	571,133	4,237,464	362	3,301	-
2024	599,240	4,446,001	348	3,173	-
2025	911,404	6,762,071	335	3,055	-
2026	428,422	3,178,634	322	2,936	-
2027	370,994	2,752,553	309	2,818	-
2028	257,937	1,913,738	297	2,708	-
2029	-	-	7,370	67,179	-
2030	-	-	-	-	-
2031	-	-	-	-	-
Total	4,838,251	35,896,920	32,851	299,480	-

	31 December 2019				
	USD (000)	TL	EUR (000)	TL	Other TL
2019 (*)					
2020	1,044,191	6,181,611	45,883	304,649	-
2021	583,035	3,451,567	23,104	153,404	-
2022	1,005,694	5,953,708	362	2,404	-
2023	533,257	3,156,881	348	2,311	-
2024	516,762	3,059,231	335	2,224	-
2025	861,331	5,099,080	322	2,138	-
2026	79,035	467,887	309	2,052	-
2027	347,457	2,056,945	297	1,972	-
2028	241,635	1,430,479	286	1,899	-
2029	-	-	7,082	47,025	-
2030	-	-	-	-	-
2031	-	-	-	-	-
Total	5,212,397	30,857,389	78,328	520,078	-

(*) Repayments include accrued interest payables in the amount.

As of 31 December 2020 the outstanding TL denominated bonds with the maturity of 1-3 months are TL 933,926 , with the maturity of 3-6 months are TL 123,854 , with the maturity of 6-12 months are TL 4,229,049 , with the maturity of 1-5 years are TL 1,062,073 and with the maturity of over 5 years are TL 1,364,024.

As of 31 December 2019 the outstanding TL denominated bonds with the maturity of 1-3 months are TL 1,840,532 with the maturity of 3-6 months are TL 723,846 with the maturity of 1-5 years are TL 678,966 and with the maturity of over 5 years are TL 1,853,449.

Net Debt Reconciliation

	Funds Borrowed	Debt Securities in Issue	Interbank Money Market Deposits	Total
Opening Balance (As of 31 December 2019)	17,453,217	36,301,743	150,783	53,905,743
Additional Liabilities	5,102,457	7,590,454	278,127	12,971,038
Principal Payments	(197,147)	-	-	(197,147)
Interest Accrual Changes	19,390	17,131	184	36,705
Closing Balance (As of 31 December 2020)	22,377,917	43,909,328	429,094	66,716,339

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NOTE 17 - TAXATION

	31 December 2020	31 December 2019
Current income tax expense	2,387,901	1,830,603
Deferred tax expense/(income)	(220,390)	(278,116)
Income tax expense	2,167,511	1,552,487
Income taxes currently payable	2,773,962	1,665,336
Prepaid taxes	(1,647,705)	(1,338,539)
Income taxes payable	1,126,257	326,797

(a) Income taxes currently payable

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

Dividends paid to 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%. An increase in capital via issuing bonus shares is not considered as profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporate tax quarterly on their corporate income with current rate. Advance tax is declared and paid by the 17th day of the second month following each calendar quarter end. 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. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

A 75% portion of the capital gains derived from the sale of equity investments and a 50% portion of the capital gains derived from the sale of immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or held in a special fund account under liability for five years.

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.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns until the 30th day of the following fourth month after the closing of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year following the date of filing during this time period the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Current tax, related to items recognized directly in equity is also credited or charged directly to equity:

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

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

NOTE 17 - TAXATION (Continued)

Akbank AG (Germany)

German-resident corporations (i.e. corporations with legal or business centers located in Germany) are subject to corporate taxation in Germany over their total income. Regardless of any profit distribution corporate tax is levied at 15% over total income. Effective corporate tax rate is 15.825% since an additional solidarity tax of 5.5% is applied over the calculated corporate tax. In addition to that, trade income tax is applied on the basis of local governments. Akbank AG moved its headquarters from Frankfurt am Main to Eschborn as of June 2020, and the commercial income tax rate, which was applied at the level of 16% until 1 July 2020, decreased to 11.5% as of 1 July 2020. Accordingly, as of 1 July 2020, when all tax types (corporate tax, solidarity tax and commercial income tax) of Akbank AG are considered, the tax burden is at the level of 27.4%.

The movement of current income taxes at 31 December 2020 and 2019 is as follows;

	31 December 2020	31 December 2019
Balance at 1 January	326,797	8,037
Current taxes charged to income statement	2,387,901	1,830,603
Current taxes charged to equity	386,061	(165,267)
Less: Taxes paid	(1,974,502)	(1,346,576)
Total	1,126,257	326,797

The reconciliation between the expected and the actual taxation charge is stated below:

	31 December 2020	31 December 2019
Profit before income taxes and minority interest	8,284,159	6,926,826
Theoretical tax charge at the applicable tax rate 22%	1,822,515	1,523,902
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income exempt from taxation	(87,652)	(22,596)
Non-deductible expenses	432,648	51,181
	2,167,511	1,552,487

(b) Deferred income taxes

The Group 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 "Turkish Accounting Standard for Income Taxes" ("IAS 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. The Law regarding amendments on Certain Tax Laws was approved in The Grand National Assembly of Turkey on 28 November 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. The Group calculated its deferred tax assets or liabilities over 20%, which is the tax rate that will be valid as of 2021, according to the tax law in force and within the scope of IAS 12.

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NOTE 17 - TAXATION (Continued)

Calculated deferred tax receivables and deferred tax liabilities have shown in net balances in the financial statements separately for domestic and international branches and for different subsidiaries subject to consolidation. Net balances of deferred tax assets and liabilities from companies are shown separately in assets and liabilities.

Deferred tax, related to items recognized directly in equity is also credited or charged directly to equity and calculated on temporary differences that are expected to be realized or settled based on the taxable income under the liability method using enacted tax rates in related jurisdictions.

The movement of deferred income taxes at 31 December 2020 and 2019 as follows;

	31 December 2020	31 December 2019
Deferred tax asset, net at 1 January	(558,240)	(147,857)
Deferred income tax recognized in income statement	220,390	278,116
Deferred income tax recognized in equity	361,382	(688,499)
Deferred tax asset/(liability), net at 31 December	23,532	(558,240)

The deferred tax asset and liability represents the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return, in accordance with the applicable tax law. The temporary differences giving rise to deferred income tax assets and deferred tax liabilities are as follows:

	Accumulated temporary differences	Deferred tax assets/liabilities
Current Period - 31 December 2020		
Employment benefit obligations	557,621	111,631
Expected Credit Losses (Stage 1 and Stage 2)	6,353,998	1,278,422
Other temporary differences	4,078,548	821,268
Differences between book value and tax base of property, plant and equipment	(1,512,325)	(302,465)
Temporary differences on financial instruments	(6,717,646)	(1,338,309)
Property Revaluation Differences	(3,359,193)	(389,766)
Reversal of country risk provision	(574,424)	(157,249)
Deferred Tax Asset/(Liabilities) Net		23,532
	Accumulated temporary differences	Deferred tax assets/liabilities
Prior Period - 31 December 2019		
Employment benefit obligations	450,884	99,053
Expected Credit Losses (Stage 1 and Stage 2)	4,538,537	1,003,664
Other temporary differences	1,573,354	351,402
Differences between book value and tax base of property, plant and equipment	(1,068,576)	(234,893)
Temporary differences on financial instruments	(6,848,803)	(1,483,813)
Property Revaluation Differences	(2,460,656)	(300,168)
Reversal of country risk provision	(426,515)	(136,485)
Deferred Tax Asset/(Liabilities) Net		(558,240)

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NOTE 18 - OTHER LIABILITIES AND ACCRUED EXPENSES

As at 31 December 2020, principal components of the other liabilities, are payables to point of sale acquiring merchants, payables on derivative instruments and other transitory accounts.

Payables to point of sale acquiring merchants include amounts owed to merchants related with credit card transactions in which the transacted amount will be paid to the merchants on a term basis.

At 31 December 2020, payables to point of sale acquiring merchants of TL 620,376 (31 December 2019: TL 487,537) were from related parties.

NOTE 19 - PROVISIONS

As of 31 December 2020, the Group has allocated reserve for employment termination benefit and vacation liability amounting to TL 428,234 and TL 129,387 respectively (31 December 2019: TL 324,669 and TL 126,215).

Provision for non-cash loans that are non-funded and non-transformed into cash as of 31 December 2020 is amounting to TL 492,436 (31 December 2019: TL 297,102).

In addition to above the accompanying consolidated financial statement include a free provision amounting to TL 1,150,000 thousand which consists of TL 650,000 thousand provided in prior periods and TL 500,000 thousand recognised in current period by the Bank management considering the possible effects of the circumstances that may arise from the changes in the economy and market conditions. As of 31 December 2020, the Bank has not recognised deferred tax asset over the free provision and the deferred tax asset amounting to TL 143,000 thousand recorded in prior years has been reversed and the loss has been accounted for under the statement of income in 2020.

The Group has provision for credit cards and banking services promotion activities amounting to TL 64,932 (31 December 2019: TL 52,721).

The Group have recognised a provision amounting to TL75,471 (31 December 2019: TL 68,948) for the contingent liabilities with a high probability of realization regarding continuing opposing trials. There are also some other opposing trials. In addition the probability of realization of these trials is low so no cash outflow expected regarding these trials.

As of 31 December 2020, the corporate tax liability after the deduction of temporary taxes paid is TL 1,126,257 (31 December 2019: TL 326,797).

NOTE 20 - EMPLOYMENT BENEFIT OBLIGATIONS

	31 December 2020	31 December 2019
Balance sheet obligations for:		
- Reserve for employment termination benefits	428,234	324,669
- Reserve for unused vacation	129,387	126,215
Total	557,621	450,884

The charge for the post-employment benefits representing the cash contributions to the Fund by the Group. Reserve for employment termination benefits and unused vacation have been included in employee costs under operating expenses (Note 26).

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NOTE 20 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

(a) Post-employment benefits (pension and medical)

The surplus unrecognized in the balance sheet is determined as follows:

	31 December 2020	31 December 2019
Total Obligations	(7,690,175)	(6,729,229)
Cash Value of Future Contributions	5,601,360	4,895,180
Total Transfer Obligations to SSI (*)	(2,088,815)	(1,834,049)
Past Service Obligation	(366,677)	(269,546)
Total Transfer to SSI and Other Obligations	(2,455,492)	(2,103,595)
Fair Value of Assets	2,329,229	2,065,470
Surplus/(Deficit)	(126,263)	(38,125)

(*) The amount of the post-employment medical benefits transferrable to SSI is calculated over the net present value of medical liabilities and health premiums.

The Bank's personnel are members of the "Akbank T.A.Ş. Personnel Pension Fund Foundation" ("Pension Fund") established in accordance with the Social Security Law numbered 506, article No.20. The financial statements of the Pension Fund have been audited as of year ends by an independent actuary in accordance with the 38th article of the Insurance Supervisory Law and the "Actuarial Regulation" based on the same article.

Temporary 23rd article paragraph ("the paragraph") 1 of the Banking Law No 5411 published in the Official Gazette no 25983 dated 1 November 2005 envisaged that Banks would transfer their pension funds to the Social Security Institution ("SSI") within three years following the publication date of the Banking Law, and regulated the principles of this transfer. The first paragraph of the related article was rescinded as from the 31 March 2007, the publication date of the decision of the Constitutional Court dated 22 March 2007. The reasoned decree regarding the rescission of the mentioned paragraph was published in the Official Gazette numbered 26731, dated 15 December 2007.

Following the publication of the reasoned decree of the Constitutional Court, Turkish Grand National Assembly commenced to work on a new law regarding the transfer of the members of funds to the Social Security Institution; the related articles of the Social Security Law ("New Law") numbered 5754 regarding the transfer of the funds, were ratified by the TGNA General Meeting on 17 April 2008 and came into effect following the publication in the Official Gazette numbered 26870, dated 8 May 2008.

The main opposition party had appealed to the Constitutional Court for the cancellation of some of the articles of the New Law including transfer of the Funds to the SSI on 19 June 2008. The Constitution Court has dismissed the appeal with the decision taken in the meeting dated 30 March 2011. The reasoned decision has been published in the Official Gazette numbered 28156 dated 28 December 2011.

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NOTE 20 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

The New Law was requiring that present value of post-employment benefits at the transfer date shall be calculated by a commission consisting of the representatives of SSI, Ministry of Finance, Undersecretariat of Treasury, Undersecretariat of State Planning Organization, BRSA, SDIF and banks and funds, by using a technical discount rate of 9.8 percent taking into consideration the transferrable contributions and payments of the funds including any monthly payment differences paid by the funds above the limits within the framework of SSI regulations. Accordingly the transfer required by the New Law was to be completed until 8 May 2011. According to the decision of the Council of Ministers published on the Official Gazette dated 9 April 2011 no. 27900, the time frame for related transfer has been extended for two years.

Within the postponement right granted to the Council of Ministers through the change in the first clause of the 20th provisional article of the "Social Insurance and General Health Insurance Law no. 5510" published on the Official Gazette no. 28227 dated 8 March 2012, the transfer process has been postponed for one more year with the decision of the Council of Ministers published on the Official Gazette no. 28987 dated 30 April 2014. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 and numbered 29335. According to paragraph (I) of Article 203 of Law no. 703 which published in the Official Gazette no. 30473 dated 9 July 2018, the phrase, placed in 20th provisional article of Social Insurance and General Health Insurance Law no.5510, "Council of Ministers" is authorized to determine the date of transfer to the Social Security Institution has been replaced with "President".

According to the New Law, following the transfer of the members of the fund to the SSI, the funds and institutions will continue to provide the non-transferrable social benefits and payments which are included in the articles of association of the fund.

The Group has made a provision in the financial statements for the technical deficit amounted TL 126,263 (31 December 2019: TL 38,125) determined by the report prepared by an actuary registered in the actuaries register.

The consolidated affiliates do not have the above mentioned retirement benefit plans for their employees. The retirement related benefits of the employees of the consolidated affiliates are subject to the Social Security Institution and other defined contribution plans.

The Group's obligation in respect of the post-employment benefits transferrable to SSI, has been calculated by a registered actuary. In this context, the value of the obligation regarding these benefits to be transferred to SSI as of the balance sheet date would equal the approximate payment amount that would need to be made to SSI as part of the transfer. The actuarial parameters and results used for the calculation of this amount reflect the provisions of the New Law for the post-employment pension and medical benefits transferrable to SSI (e.g. a technical interest rate of 9.80%). Based on the actuary report, as of 31 December 2020, the deficit of the Fund amounts to TL 126,263 (31 December 2019: TL 38,125 deficit).

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

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

NOTE 20 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

The principal actuarial assumptions used were as follows:

	31 December 2020	31 December 2019
Discount rate	(%)	(%)
- Pension benefits transferrable to SSI	9.80	9.80
- Post-employment medical benefits transferrable to SSI	9.80	9.80
- Other non-transferrable benefits	3.64	3.97

Mortality rate:

The average life expectancy in years of a pensioner retiring at age 60 for men, 58 for women determined using mortality table depending on statistical data is 19,7 years for men and 25,3 years for women.

The movement in the fair value of plan assets of the year is as follows:

	31 December 2020	31 December 2019
Prior period end	2,065,470	1,795,491
Actual return on plan assets	227,741	333,700
Employer contributions	432,814	343,326
Employee contributions	284,885	232,839
Benefits paid	(681,681)	(639,886)
Period end	2,329,229	2,065,470

Plan assets are comprised as follows:

	31 December 2020		31 December 2019	
Bank placements	275,016	12%	1,181,437	57%
Property and equipment	16,421	1%	17,495	1%
Marketable securities and share certificates	1,551,810	67%	571,189	28%
Other	485,982	20%	295,349	14%
Period end	2,329,229	100%	2,065,470	100%

(b) Employment termination benefits

Under the Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires.

The compensation amount equals to one month's salary of an employee for each year of service, but this amount is limited up to severance limit decided by law. This liability is not subject to any funding legally and there is no funding requirement.

The amount payable consists of one month's salary limited to a maximum of TL 7,638.96 (in full TL amount) (1 January 2020: TL 6,730.15 (in full TL amount)) for each year of service.

The reserve has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of its employees.

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

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

NOTE 20 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

IAS 19 "Employment Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	31 December 2020	31 December 2019
Discount rate (%)	3.64	3.97
Turnover rate to estimate the probability of retirement (%)	95.52	95.13

The principal actuarial assumption is that the current maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. The amount of TL 7,638.96 (1 January 2020: TL 6,730.15) effective from 1 January 2021 has been taken into consideration in calculating the reserve for employee termination benefits.

Movements in the reserve for employment termination benefits during the year are as follows:

	31 December 2020	31 December 2019
1 January	324,669	215,202
Increase during the year	77,788	86,885
Actuarial loss/(gain)	68,211	89,142
Paid during the year	(42,434)	(66,408)
End of year	428,234	324,821

NOTE 21 - SHARE CAPITAL

The historic amount of share capital of the Group is TL 5,200,000 (31 December 2019: TL 5,200,000) and consists of TL 5,200,000 (31 December 2019: TL 5,200,000) authorized shares with a nominal value of Kr 1 each.

At 31 December 2020 and 2019, the issued and fully paid-in share capital held is as follows:

	Audited 31 December 2020		Audited 31 December 2019	
	Share (%)	TL	Share (%)	TL
Total Sabancı Group, affiliated companies and family	48.78	2,536,363	48.75	2,534,969
Other	51.22	2,663,637	51.25	2,665,031
Historical share capital	100.00	5,200,000	100.00	5,200,000
Adjustment to share capital		1,529,151		1,529,151
Total paid-in share capital		6,729,151		6,729,151

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

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

NOTE 22 - RETAINED EARNINGS AND LEGAL RESERVES

The Ordinary General Assembly Meeting of the Parent Bank was held on 23 March 2020. In the General Assembly Meeting, it was decided to transfer the remaining amount of TL 5,177,468 to extraordinary reserves after allocating TL 240,000 as legal reserve of the unconsolidated net profit amounting to TL 5,417,468 from 2019 activities.

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, the Group is required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or losses:

- First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid-in share capital.
- Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.
- 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.

After deducting taxes and setting aside the legal reserves as discussed above, the remaining balance of net profit is available for distribution to shareholders.

NOTE 23 - NET INTEREST INCOME

	31 December 2020	31 December 2019
Interest income on:		
Loans and advances to customers	24,660,131	28,596,571
Investment and trading securities	9,471,535	6,411,341
Deposits with banks	932,916	1,345,759
Other interest income	63,436	144,821
Total interest income	35,128,018	36,498,492
	31 December 2020	31 December 2019
Interest expense on:		
Deposits	9,224,039	14,599,127
Funds borrowed	1,179,023	1,650,489
Interbank money market deposits	1,668,235	1,071,788
Interest on debt securities in issue	1,928,619	2,135,409
Other interest expenses	429,334	103,252
Total interest expense	14,429,250	19,560,065

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

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

NOTE 24 - NET FEE AND COMMISSION INCOME

	31 December 2020	31 December 2019
Fee and commission income on:		
Credit Cards	2,223,415	3,141,748
Retail and commercial banking operations	1,177,709	1,006,781
Mutual fund management fee	285,983	179,557
Insurance intermediary	414,684	394,248
Non-cash loans	442,374	569,326
Money transfers	221,663	425,115
Brokerage commission	592,132	172,143
Other	253,411	413,413
Total income	5,611,371	6,302,331
Fee and commission expense on:		
Credit cards	(773,520)	(1,082,215)
Other	(280,986)	(251,594)
Total expense	(1,054,506)	(1,333,809)
Net fee and commission income	4,556,865	4,968,522

NOTE 25 - NET TRADING INCOME/(LOSS)

	31 December 2020	31 December 2019
Derivative financial instruments	(3,209,716)	(1,819,411)
Trading and ecurities measured at fair value through OCI	445,908	296,385
	(2,763,808)	(1,523,026)

NOTE 26 - OPERATING EXPENSES

	31 December 2020	31 December 2019
Employee costs	3,075,575	2,778,055
Credit card and banking services	949,364	835,319
Computer maintenance and support expenses	607,974	551,520
Free provision for general possible risks (Note 19)	500,000	100,000
Depreciation charges of property, plant and equipment (Note 11)	471,503	338,866
Saving deposits insurance fund	464,074	308,896
Sundry taxes and duties	289,747	230,634
Communication expenses	235,260	188,102
Amortization of other intangible assets (Note 12)	214,978	189,654
Marketing and advertisement expenses	150,218	143,359
Legal expenses	149,181	199,506
Operating lease expenses	119,993	111,643
Heating, lighting and water expenses	96,629	87,222
Stationery expenses	62,675	46,994
Repair and maintenance expenses	51,152	55,221
Other	1,193,080	880,237
	8,631,403	7,045,228

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

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

NOTE 27 - TRANSFERRED FINANCIAL ASSETS HELD OR PLEDGED AS COLLATERAL**(a) Assets Pledged:**

	31 December 2020		31 December 2019	
	Assets	Related liability	Assets	Related liability
Balances with other banks (Note 6)	4,342,775	37,460,801	3,916,739	31,264,429
Financial assets at fair value through profit or loss (Note 9) (*)	9,995	-	10,049	-
Financial assets at fair value through OCI (Note 9) (*)	18,374,196	-	17,108,499	-
Financial assets at amortised cost (Note 9) (*)	8,687,723	-	352,296	-
Total	31,414,689	37,460,801	21,387,583	31,264,429

(*) Related with legal requirements

(b) Transferred Assets that are not Derecognized:

	31 December 2020		31 December 2019	
	Assets	Related liability	Assets	Related liability
Financial assets at fair value through profit or loss (Note 9) (*)	-	-	-	-
Financial assets at fair value through OCI (Note 9) (*)	16,984,050	15,599,576	8,422,563	8,887,022
Financial assets at amortised cost (Note 9) (*)	6,241,092	4,878,674	1,374,596	1,068,745
Total	23,225,142	20,478,250	9,797,159	9,955,767

(*) Includes repurchase agreement balances.

NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the normal course of banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these consolidated balance sheets, including letters of guarantee, acceptance credits, letters of credit and off-balance sheet derivative instruments. The management does not expect any material losses as a result of these transactions, The following is a summary of significant commitments and contingent liabilities:

(a) Legal proceedings

The bank has accounted a provision amounting to TL 75,471 (31 December 2019: TL 68,948) for the contingent liabilities with a high probability of realization regarding continuing opposing trials. There are also some other opposing trials. In addition the probability of realization of these trials is low so no cash outflow expected regarding these trials.

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

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

NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

(b) Commitments under derivative instruments:

The breakdown of notional amounts of derivative transactions at 31 December 2020 and 2019 is as follows:

	31 December 2020					Total
	USD	EUR	GBP	Other	TL	
Derivatives held for trading:						
Currency forward transactions	2,582,893	1,006,162	155,624	22,362	6,721,463	10,488,504
Swap transactions	132,219,474	39,218,293	4,745,013	1,739,280	31,341,286	209,263,346
- Currency rate swaps	77,247,562	25,302,474	4,745,013	1,739,280	13,751,901	122,786,230
- Interest rate swaps	54,971,912	13,915,819	-	-	17,589,385	86,477,116
Spot transactions	3,021,037	438,016	24,348	66,374	264,591	3,814,366
Option transactions	6,802,628	5,051,438	3,135	261,964	1,152,214	13,271,379
Future transactions	2,344,916	-	-	-	312,150	2,657,066
Other Derivative Instru	11,882,262	207,191	-	14,193,375	-	26,282,828
Derivatives held for hedging:						
Swap transactions	41,199,656	-	-	-	5,151,500	46,351,156
- Interest rate swaps	22,678,757	-	-	-	-	22,678,757
- Currency rate swaps	18,520,899	-	-	-	5,151,500	23,672,399
Total purchases	200,052,866	45,921,100	4,928,120	16,283,355	44,943,204	312,128,645
Derivatives held for trading:						
Currency forward transactions	5,313,329	3,779,929	119,303	26,071	718,644	9,957,276
Swap transactions	98,502,829	48,894,313	-	212,028	78,769,672	226,378,842
- Currency rate swaps	43,530,917	34,978,494	-	212,028	61,180,287	139,901,726
- Interest rate swaps	54,971,912	13,915,819	-	-	17,589,385	86,477,116
Spot transactions	828,764	359,433	46,020	30,157	2,616,952	3,881,326
Option transactions	6,239,960	4,756,400	79,498	282,821	1,793,697	13,152,376
Future transactions	294,194	-	-	-	2,533,804	2,827,998
Other Derivative Instruments	7,698,852	165,753	-	301,770	111,624	8,277,999
Derivatives held for hedging:						
Swap transactions	18,520,899	2,552,592	-	1,321,212	15,772,480	38,167,183
- Interest rate swaps	-	2,552,592	-	1,321,212	10,620,980	14,494,784
- Currency rate swaps	18,520,899	-	-	-	5,151,500	23,672,399
Total sales	137,398,827	60,508,420	244,821	2,174,059	102,316,873	302,643,000
Off-balance sheet net notional position	62,654,039	(14,587,320)	4,683,299	14,109,296	(57,373,669)	9,485,645

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

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

NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

(b) Commitments under derivative instruments: (Continued)

	31 December 2019					
	USD	EUR	GBP	Other	TL	Total
Derivatives held for trading:						
Currency forward transactions	2,919,896	1,706,070	310,145	1,775	5,802,042	10,739,928
Swap transactions	123,585,048	45,206,873	2,130,057	1,687,635	24,113,085	196,722,698
- Currency rate swaps	60,598,720	32,673,205	2,130,057	1,687,635	22,948,085	120,037,702
- Interest rate swaps	62,986,328	12,533,668	-	-	1,165,000	76,684,996
Spot transactions	1,650,127	2,607,895	739	48,883	2,787,759	7,095,403
Option transactions	9,832,142	4,183,254	65,364	-	1,934,397	16,015,157
Future transactions	-	-	-	-	85,946	85,946
Other Derivative Instruments	10,986,943	452,707	-	2,977,487	-	14,417,137
Derivatives held for hedging:						
Swap transactions	32,754,125	-	-	-	2,495,000	35,249,125
- Interest rate swaps	18,374,261	-	-	-	450,000	18,824,261
- Currency rate swaps	14,379,864	-	-	-	2,045,000	16,424,864
Total purchases	181,728,281	54,156,799	2,506,305	4,715,780	37,218,229	280,325,394
Derivatives held for trading:						
Currency forward transactions	5,437,391	3,769,745	326,701	34,289	542,678	10,110,804
Swap transactions	104,829,418	44,311,572	80,997	706,164	49,755,528	199,683,679
- Currency rate swaps	41,843,090	31,777,904	80,997	706,164	48,590,528	122,998,683
- Interest rate swaps	62,986,328	12,533,668	-	-	1,165,000	76,684,996
Spot transactions	5,431,467	975,767	13,933	40,079	674,123	7,135,369
Option transactions	9,304,237	4,066,158	71,757	-	2,734,120	16,176,272
Future transactions	85,005	-	-	-	-	85,005
Other Derivative Instruments	7,301,361	362,165	-	8,938	90,945	7,763,409
Derivatives held for hedging:						
Swap transactions	14,971,902	2,257,498	-	1,000,555	11,179,935	29,409,890
- Interest rate swaps	592,037	2,257,498	-	1,000,555	9,134,935	12,985,025
- Currency rate swaps	14,379,865	-	-	-	2,045,000	16,424,865
Total sales	147,360,781	55,742,905	493,388	1,790,025	64,977,329	270,364,428
Off-balance sheet net notional position	34,367,500	(1,586,106)	2,012,917	2,925,755	(27,759,100)	9,960,966

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

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

NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

The above table summarizes the Group's derivative transactions. Each derivative transaction represents a simultaneous receivable and payable to be received and paid, on a future date, in respective currencies. Accordingly, the difference between the "sale" and "purchase" transactions represents the net exposure of the Group with respect to commitments arising from these transactions.

The related party balances in forward currency purchase/sale and swap transactions are as follows:

	31 December 2020			31 December 2019		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Currency forward purchases	-	36,466	36,466	-	-	-
Currency forward sales	-	(34,809)	(34,809)	-	-	-
Currency swap purchases	770,200	832,950	1,603,150	800,810	576,498	1,377,308
Currency swap sales	(23,520)	(1,874,855)	(1,898,375)	(169,895)	(1,187,742)	(1,357,637)
Interest rate swap purchases	-	-	-	-	-	-
Interest rate swap sales	-	-	-	-	-	-
Option purchases	-	20,567	20,567	348	-	348
Option sales	-	(21,362)	(21,362)	(348)	-	(348)
Spot purchases	-	100,611	100,611	-	80,207	80,207
Spot sales	(100,700)	-	(100,700)	(100,700)	-	(100,700)
Other purchases	-	-	-	-	-	-
Other sales	-	-	-	-	-	-
Net position	645,980	(940,432)	(294,452)	530,215	(531,037)	(822)

The following table shows the outstanding credit related commitments of the Group at 31 December 2020 and 2019:

	31 December 2020			31 December 2019		
	Up to 1 year	Over 1 year	Total	Up to 1 year	Over 1 year	Total
Letters of guarantee issued by the Group						
- Turkish lira	9,950,514	11,306,369	21,256,883	6,849,662	10,100,300	16,949,962
- Foreign currency	7,060,576	9,207,159	16,267,735	7,023,337	7,163,818	14,187,155
Acceptance credits						
- Turkish lira	-	-	-	-	-	-
- Foreign currency	47,814	-	47,814	50,678	-	50,678
Letter of credit						
- Turkish lira	7,931	-	7,931	240	8,169	8,409
- Foreign currency	3,506,555	1,146,504	4,653,059	3,127,645	1,268,456	4,396,101
Other guarantees						
- Turkish lira	150,591	3,485,569	3,636,160	15,527	2,931,875	2,947,402
- Foreign currency	3,193,204	2,372,866	5,566,070	2,603,850	1,555,468	4,159,318
Total	23,917,185	27,518,467	51,435,652	19,670,939	23,028,086	42,699,025

Letters of guarantee and acceptance credits for related parties amount to TL 2,176,927 at 31 December 2020 (31 December 2019: TL 1,049,457).

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

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

NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

The economic sector risk concentrations for outstanding credit related commitments of the Group are as follows:

	31 December 2020	31 December 2019
Wholesaling	9,446,209	7,654,022
Construction	8,783,113	8,213,397
Financial institutions	5,279,470	4,212,222
Other manufacturing	4,434,126	3,566,474
Small-scale retailers	3,871,885	3,284,513
Steel and mining	3,549,328	2,301,980
Electricity, gas, water	3,245,810	2,669,879
Automotive	2,083,924	1,648,630
Chemicals	1,855,060	1,114,426
Transportation	1,744,525	1,019,990
Textile	1,679,855	1,533,427
Food and beverage	944,397	1,207,821
Agriculture and forestry	385,570	274,728
Tourism	361,201	322,129
Telecommunications	349,336	255,455
Electronics	250,609	326,898
Other	3,171,234	3,093,034
Total	51,435,652	42,699,025

NOTE 29 - RELATED PARTY TRANSACTIONS

A number of transactions were entered into with related parties in the normal course of business.

(a) Balances with related parties:

	31 December 2020	31 December 2019
Loans and advances measured at amortized cost (Net) (*)	7,919,690	6,888,998
Loans and advances measured at FVPL (**)	7,342,910	6,723,419
Finance lease receivables	3,325	29,421
Total Assets	15,265,925	13,641,838
Deposits and obligations under repurchase agreements (Note 14)	18,308,406	16,810,631
Total Liabilities	18,308,406	16,810,631
Credit related commitments	2,176,927	1,049,457
Commitment under derivative instruments (***)	10,166,262	11,408,705
Total Commitments and contingent liabilities	12,343,189	12,458,162

(*) Loans measured at amortised cost amounting to TL 256,061 thousands arising from its investments in Türk Telekomünikasyon A.Ş. considered as associate are disclosed as a related party balances. Amounting to 7,663,629 thousands arising from the Group's other related parties.

(**) Includes loans measured at FVPL amounting to TL 7,342,910 thousands and arising from Levent Yeniden Yapılandırma A.Ş. owned by the Group considered as related party. (Note 30)

(***) Figures presented in the table above show the total of "sale" and "purchase" amounts of the related transactions.

As at 31 December 2020, the Group has repurchase commitments amounting to 11,185 TL (31 December 2019: TL 7,644).

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

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

NOTE 29 - RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties:

	31 December 2020	31 December 2019
Interest income on loans	1,274,726	1,563,170
Interest income	1,274,726	1,563,170
Interest expense on deposits (Note 15)	976,517	1,603,051
Interest expense	976,517	1,603,051

(c) Balances with senior management and Board of Directors and their related parties:

	31 December 2020	31 December 2019
Deposits	1,855,160	1,625,947
Total due to customers	1,855,160	1,625,947

For the period ended 31 December 2020, benefits provided to the senior management and Board of Directors of the Group amounted to TL 91,258 (31 December 2019: TL 69,207).

NOTE 30 - FINANCIAL RISK MANAGEMENT

(30.1) Strategy in using financial instruments

The Group's core business activities include retail banking, commercial banking, corporate and investment banking, private banking and wealth management, treasury transactions and international banking services. The Group performs financial leasing transactions through Ak Finansal Kiralama A.Ş. By nature the Group's activities are principally related to the use of financial instruments. As the main funding source, the Group accepts deposits from customers for various periods and invests these funds in high quality assets with high interest margins. Other than deposits, the Group's most important funding sources are equity, marketable securities issued, money market borrowings and mostly borrowings from foreign financial institutions. The Group follows an asset-liability management strategy that mitigates risk and increases earnings by balancing the funds borrowed and the investments in various financial assets. The main objective of asset-liability management is to limit the Group's exposure to liquidity risk, interest rate risk, currency risk and credit risk while increasing profitability and strengthening the Group's equity. The Asset-Liability Committee ("ALCO") manages the assets and liabilities within the trading limits on the level of exposure placed by the Executive Risk Committee ("ERC").

The Group's risk management is under the responsibility of the "Executive Risk Committee ("the ERC")" which reports to the Board of Directors. The ERC is comprised of the Vice Chairman, 1 Executive Board Member and the Chief Executive Officer. The ERC establishes principles, policies, procedures with regards to risk management of the Group and develops risk management strategies. The ERC also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are updated as necessary. These limits and implementation of policies are broken down to various levels of authorities in order to enhance control effectiveness. The Group's risk positions are reported to the ERC members on a regular basis. Additionally, the ERC reviews the latest figures and projections for the Group's profit and loss accounts and consolidated statement of financial position, liquidity position, interest and foreign exchange exposures, as well as yield analysis and the macroeconomic environment.

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NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The Asset-Liability Committee ("ALCO") manages the assets and liabilities within the risk limits placed by the ERC. ALCO consists of the Chief Executive Officer, each of the Executive Vice Presidents in charge of the Parent Bank's marketing, lending, treasury and financial coordination business units and Chief Risk Officer of the Parent Bank's risk management unit. ALCO meets twice a week to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy, risk limits and the macroeconomic environment in order to develop investment, pricing and funding strategies. In the event of unexpected negative economic conditions, stress tests are carried out regularly considering the exchange rate and interest rate shocks and the deterioration of the loan portfolio at different stress rates. Also, for stresses caused by the COVID-19 pandemic, the intensities are increased and the effects on equity and capital adequacy ratios are measured.

(30.2) Credit risk

Risk limits are defined by Board of Directors in a such manner that covers all possible important risk components, in accordance with the Bank's operations and the size and complexity of products and services. Care is taken to ensure that the risk limits are in line with market expectations and reflect the Bank's risk appetite and Bank's strategies. The credit policies are established in consistence with risk limits.

Credit rating models are used in loan allocation processes in accordance with the risk appetite, credit policies and targets of the Bank. Rating all credit customers is essential for the Bank. Credit ratings are used as the main factor in determining target segments, authority levels, prices, limits and collateralization levels in loan portfolios. Application models are used during initial loan underwriting and behavioral models are used for customers whose previous credit performance could be monitored.

Behavioral models are mainly used in the credit monitoring process and in the evaluation process of portfolio risk.

In order to ensure timely and complete fulfillment of all obligations arising from the loan, it is essential to obtain adequate collateral from the customers. The main purpose of collateralization of any loan is to minimize the credit, foreign exchange and maturity risk. In this context, the minimum margin is determined by considering the quality of the collateral and collection expectancy in case of default and it is ensured that appropriate collateral is obtained for the loan type.

Credit risk is encountered when the counterparty is unable to fulfill its obligations defined with the agreement. All credit risk bearing banking products are managed with prudent credit policies and procedures in the Bank. The credit quality of the counterparty is evaluated with an internal rating score in all credit transactions. In order to monitor the credit risk, internal limits are determined on the basis of sector, customer, credit type and customer segment.

Credit risk management is a process in which credit risks are assessed and monitored in a consistent manner, besides all credit portfolios are included on a consolidated basis. During the process of credit risk management, the Risk Management Department conducts measurement, monitoring and reporting activities of the credit risk using statistical models. In addition to the credit risk related risk limits, various concentrations in the loan portfolio are also analyzed. It is assured to act within the policy of allocation, monitoring, Limit Follow-up and management, by establishing policy regarding to Country risk and concentration risk management. Cost of loan and collections of non-performing loans are monitored periodically. In addition, stress testing and scenario analysis studies are carried out on the loan portfolio.

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NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The Parent Bank's credit risk measurement techniques and information on the rating of securities and loan portfolio are as follows:

Bank's rating system:

The Bank has rating models/scorecards internally developed for each segment to evaluate & monitor the credit quality of borrowers. Probability of Default (PD) models are being categorized into two main streams as Application and Behavioral models.

Both types of models have been used collaboratively for credit underwriting, monitoring, collection, early warning, IFRS 9 provisioning, ICAAP and credit pricing etc. processes. In addition to PD models, Loss Given Default (LGD) and Exposure at Default (EAD) models have been developed and used in similar processes.

All rating models have been validated (initial validation) before being implemented and monitored (ongoing validation) regularly afterwards. Models with deteriorating performance have been revised or redeveloped.

Risk limits are set both at customer and group level and monitored by the ERC in terms of sectors, tenor and concentration. On yearly basis, the ERC review the risk limits and make limit updates when required.

The table which shows the Bank's rating concentration by risk classes as of 31 December 2020 and 2019 is as follows:

	31 December 2020	31 December 2019
Above average	41.66%	43.72%
Average	38.21%	41.21%
Below average	15.92%	11.11%
Unrated	4.22%	3.96%

- Loans which demonstrate a strong capacity to meet financial commitments, with low probability of default are defined "Above average".
- Loans that require close monitoring and demonstrate average to adequate capacity to meet financial commitments with moderate default risk are defined "Average".
- Loans which require varying degrees of specific consideration and have diverse default risks are defined "Below average".

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group's exposure and credit ratings of its counterparties are continuously monitored. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

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NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)*Exposure to credit risk:*

	31 December 2020	31 December 2019
Credit risk exposures relating to on-balance sheet assets:	460,602,528	374,576,229
Due from banks and balances with the CBRT	55,626,018	44,547,892
Loans and advances to customers	275,189,478	225,932,960
-Commercial loans	199,608,972	165,929,029
-Consumer loans and credit cards	63,049,200	48,541,904
-Financial lease receivables	5,188,397	4,738,608
-Fair value through profit or loss	7,342,910	6,723,419
Investment securities measured at Fair Value Through Profit or Loss (*)	434,817	308,153
-Government debt securities	189,938	274,722
-Other marketable securities	244,879	33,431
Trading Derivative Financial Instruments	14,889,163	11,166,945
Hedging Derivative Instruments	7,969,203	5,350,817
Investment securities measured at Fair Value Through Other Comprehensive Income (*)	57,697,432	67,192,783
-Government debt securities	44,420,223	51,703,078
-Other marketable securities	13,277,209	15,489,705
Investment securities measured at Amortised Cost	41,872,677	15,565,525
-Government debt securities	41,452,760	13,852,876
-Other marketable securities	419,917	1,712,649
Other assets	6,923,739	4,511,154
Credit risk exposures relating to off-balance sheet items:	93,439,186	78,176,579
Letter of guarantees	37,524,618	31,137,117
Other guarantees and warranties	13,911,034	11,561,908
Credit granting commitments	10,154,360	9,652,170
Check payment commitments	2,730,978	2,632,311
Credit card limit commitments	29,118,196	23,193,073
	554,041,714	452,752,808

(*) Excluding equity securities and mutual funds.

The above table represents the credit risk exposure of the Group as at 31 December 2020 and 2019, without taking into account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Industry analysis:

	Financial Institutions	Public sector	Wholesale and retail trade	Manufacturing	Other industries	Individuals	Total
Due from banks and balances with the CBT	55,626,018	-	-	-	-	-	55,626,018
Loans and advances to customers	16,310,380	4,200,482	31,929,420	87,850,982	71,849,015	63,049,200	275,189,478
Measured at amortised cost	16,310,380	4,200,482	31,929,420	87,850,982	64,506,105	63,049,200	267,846,568
-Commercial loans	16,235,571	4,200,278	31,615,548	85,509,952	62,047,623	-	199,608,972
-Consumer loans and credit cards	-	-	-	-	-	63,049,200	63,049,200
-Financial lease receivables	74,809	204	313,872	2,341,030	2,458,482	-	5,188,397
Fair value through profit or loss	-	-	-	-	7,342,910	-	7,342,910
Financial Assets at Fair Value Through Profit or Loss (*)	243,561	189,938	-	-	1,318	-	434,817
-Government debt securities	-	189,938	-	-	-	-	189,938
-Other marketable securities	243,561	-	-	-	1,318	-	244,879
Trading derivative financial instruments	7,607,792	-	-	-	7,261,550	19,821	14,889,163
Hedging derivative instruments	7,969,203	-	-	-	-	-	7,969,203
Investment securities (*)	10,061,731	86,782,757	-	2,460,508	265,113	-	99,570,109
Financial Assets at Fair Value Through Other Comprehensive Income (*)	10,042,204	45,329,997	-	2,060,118	265,113	-	57,697,432
-Government debt securities	-	44,420,223	-	-	-	-	44,420,223
-Other marketable securities	10,042,204	909,774	-	2,060,118	265,113	-	13,277,209
Financial Assets Measured at Amortised Cost	19,527	41,452,760	-	400,390	-	-	41,872,677
-Government debt securities	-	41,452,760	-	-	-	-	41,452,760
-Other marketable securities	19,527	-	-	400,390	-	-	419,917
Other assets	6,923,739	-	-	-	-	-	6,923,739
As at 31 December 2020	104,742,424	91,173,177	31,929,420	90,311,490	79,376,996	63,069,021	460,602,528

(*) Excluding equity securities and mutual funds.

	Financial Institutions	Public sector	Wholesale and retail trade	Manufacturing	Other industries	Individuals	Total
Due from banks and balances with the CBT	44,547,892	-	-	-	-	-	44,547,892
Loans and advances to customers	16,122,386	3,079,818	28,052,964	67,674,348	62,461,540	48,541,904	225,932,960
Measured at amortised cost	16,122,386	3,079,818	28,052,964	67,674,348	55,738,121	48,541,904	219,209,541
-Commercial loans	16,025,627	3,079,516	27,692,698	65,927,314	53,203,874	-	165,929,029
-Consumer loans and credit cards	-	-	-	-	-	48,541,904	48,541,904
-Financial lease receivables	96,759	302	360,266	1,747,034	2,534,247	-	4,738,608
Fair value through profit or loss	-	-	-	-	6,723,419	-	6,723,419
Financial Assets at Fair Value Through Profit or Loss (*)	33,030	274,722	-	-	401	-	308,153
-Government debt securities	-	274,722	-	-	-	-	274,722
-Other marketable securities	33,030	-	-	-	401	-	33,431
Trading derivative financial instruments	5,534,108	-	-	-	5,593,211	39,626	11,166,945
Hedging derivative instruments	5,350,602	-	-	-	215	-	5,350,817
Investment securities (*)	15,031,554	66,302,961	-	1,362,555	61,238	-	82,758,308
Financial Assets at Fair Value Through Other Comprehensive Income (*)	13,653,164	52,115,826	-	1,362,555	61,238	-	67,192,783
-Government debt securities	-	51,703,078	-	-	-	-	51,703,078
-Other marketable securities	13,653,164	412,748	-	1,362,555	61,238	-	15,489,705
Financial Assets Measured at Amortised Cost	1,378,390	14,187,135	-	-	-	-	15,565,525
-Government debt securities	-	13,852,876	-	-	-	-	13,852,876
-Other marketable securities	1,378,390	334,259	-	-	-	-	1,712,649
Other assets	4,511,154	-	-	-	-	-	4,511,154
As at 31 December 2019	91,130,726	69,657,501	28,052,964	69,036,903	68,116,605	48,581,530	374,576,229

(*) Excluding equity securities and mutual funds.

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Geographical Distribution:

	Turkey	USA	EU Countries	Non- EU Countries	Total
Due from banks and balances with the CBT	43,253,151	2,519,706	9,445,313	407,848	55,626,018
Loans and advances to customer	263,328,823	106,034	11,158,825	595,797	275,189,478
Measured at amortised cost	255,985,913	106,034	11,158,825	595,797	267,846,568
-Commercial loans	187,748,316	106,034	11,158,825	595,797	199,608,972
-Consumer loans and credit cards	63,049,200	-	-	-	63,049,200
-Financial lease receivables	5,188,397	-	-	-	5,188,397
Fair value through profit or loss	7,342,910	-	-	-	7,342,910
Investment securities measured at Fair Value Through Profit or Loss (*)	434,817	-	-	-	434,817
-Government debt securities	189,938	-	-	-	189,938
-Other financial assets	244,879	-	-	-	244,879
Trading derivative financial instruments	7,293,386	-	7,548,958	46,819	14,889,163
Hedging derivative instruments	33,881	-	7,935,322	-	7,969,203
Investment securities (*)	96,627,106	2,164,729	778,274	-	99,570,109
-Measured at Fair Value Through Other Comprehensive Income (*)	54,754,429	2,164,729	778,274	-	57,697,432
-Government debt securities	44,420,223	-	-	-	44,420,223
-Other financial assets	10,334,206	2,164,729	778,274	-	13,277,209
-Measured at Amortised Cost	41,872,677	-	-	-	41,872,677
-Government debt securities	41,452,760	-	-	-	41,452,760
-Other financial assets	419,917	-	-	-	419,917
Other assets	6,923,739	-	-	-	6,923,739
As at 31 December 2020	417,894,903	4,790,469	36,866,692	1,050,464	460,602,528

(*) Excluding equity securities and mutual funds.

	Turkey	USA	EU Countries	Non- EU Countries	Total
Due from banks and balances with the CBT	27,579,823	4,634,554	11,893,974	439,541	44,547,892
Loans and advances to customer	217,049,514	2,428	8,327,859	553,159	225,932,960
Measured at amortised cost	210,326,095	2,428	8,327,859	553,159	219,209,541
-Commercial loans	157,045,583	2,428	8,327,859	553,159	165,929,029
-Consumer loans and credit cards	48,541,904	-	-	-	48,541,904
-Financial lease receivables	4,738,608	-	-	-	4,738,608
Fair value through profit or loss	6,723,419	-	-	-	6,723,419
Investment securities measured at Fair Value Through Profit or Loss (*)	308,153	-	-	-	308,153
-Government debt securities	274,722	-	-	-	274,722
-Other financial assets	33,431	-	-	-	33,431
Trading derivative financial instruments	5,378,666	1,118	5,734,846	52,315	11,166,945
Hedging derivative instruments	-	-	5,350,817	-	5,350,817
Investment securities (*)	79,418,604	2,319,297	816,138	204,269	82,758,308
-Measured at Fair Value Through Other Comprehensive Income (*)	64,193,757	2,319,297	679,729	-	67,192,783
-Government debt securities	51,703,078	-	-	-	51,703,078
-Other financial assets	12,490,679	2,319,297	679,729	-	15,489,705
-Measured at Amortised Cost	15,224,847	-	136,409	204,269	15,565,525
-Government debt securities	13,852,876	-	-	-	13,852,876
-Other financial assets	1,371,971	-	136,409	204,269	1,712,649
Other assets	4,511,154	-	-	-	4,511,154
As at 31 December 2019	334,245,914	6,957,397	32,123,634	1,249,284	374,576,229

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NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Risk management related to class of loans and advances:

The internal rating systems of the Bank focus more on credit-quality mapping from the inception of the lending and investment activities. The credit risk classification of the Group with the outstanding balances of each asset class is as the following:

	31 December 2020			
	Commercial Loans	Consumer loans and credit cards	Lease Receivables	Total
Loans measured at amortised cost				
Stage 1	175,750,128	59,857,510	4,584,794	240,192,432
Stage 2	22,596,095	3,716,917	430,345	26,743,357
Stage 3	15,036,457	2,276,126	567,711	17,880,294
Gross	213,382,680	65,850,553	5,582,850	284,816,083
Provisions	13,773,709	2,801,353	394,453	16,969,515
Loans measured at FVPL	7,342,910	-	-	7,342,910
Net	206,951,881	63,049,200	5,188,397	275,189,478

	31 December 2019			
	Commercial Loans	Consumer loans and credit cards	Lease Receivables	Total
Loans measured at amortised cost				
Stage 1	138,538,764	43,266,258	4,082,394	185,887,416
Stage 2	25,146,235	4,967,962	484,459	30,598,656
Stage 3	12,224,903	2,632,176	573,466	15,430,545
Gross	175,909,902	50,866,396	5,140,319	231,916,617
Provisions	9,980,873	2,324,492	401,711	12,707,076
Loans measured at FVPL	6,723,419	-	-	6,723,419
Net	172,652,448	48,541,904	4,738,608	225,932,960

Information on the expected credit loss provision is as the following:

Current Period- 31.12.2020	Commercial Loans		Consumer Loans		Credit Cards		Financial Lease		Total	
	Balance	Expected Credit Loss	Balance	Expected Credit Loss	Balance	Expected Credit Loss	Balance	Expected Credit Loss	Balance	Expected Credit Loss
Loans measured at amortised cost	213,382,680	13,773,709	43,313,101	1,571,173	22,537,452	1,230,180	5,582,850	394,453	284,816,083	16,969,515
Stage 1	175,750,128	978,222	39,431,268	211,707	20,426,242	282,995	4,584,794	49,022	240,192,432	1,521,946
Stage 2	22,596,095	3,891,095	2,482,738	232,741	1,234,179	179,518	430,345	50,977	26,743,357	4,354,331
Stage 3	15,036,457	8,904,392	1,399,095	1,126,725	877,031	767,667	567,711	294,454	17,880,294	11,093,238
Loans measured at FVPL	7,342,910	-	-	-	-	-	-	-	7,342,910	-
Financial Assets	114,316,005	283,486	-	-	-	-	-	-	114,316,005	283,486
Other	14,935,139	69,540	-	-	-	-	-	-	14,935,139	69,540
Non-Cash										
Loans	51,435,652	492,436	-	-	-	-	-	-	51,435,652	492,436
Stage 1 and 2	50,496,556	124,855	-	-	-	-	-	-	50,496,556	124,855
Stage 3	939,096	367,581	-	-	-	-	-	-	939,096	367,581
Total	401,412,386	14,619,171	43,313,101	1,571,173	22,537,452	1,230,180	5,582,850	394,453	472,845,789	17,814,977

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NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Information on the expected credit loss of loans is as the following(***):

	Stage 1	Stage 2	Stage 3
Opening (1 January 2020)	649,212	3,418,554	8,639,310
Additions (*)	812,953	2,006,294	650,022
Disposal (**)	(242,522)	(994,097)	(470,437)
Effect of change in foreign exchange	61,203	404,039	-
Stage 1 and 2 movement			
Loans classified under Stage 1 in two periods (Model effect)	233,705	-	-
Loans classified under Stage 1 in two periods (Change in balance effect)	26,073	-	-
Transfers from Stage 1 to Stage 2 (Stating and balance change effect)	(39,217)	256,418	-
Loans classified under Stage 2 in two periods (Model effect)	-	405,454	-
Loans classified under Stage 2 in two periods (Change in balance effect)	-	(62,298)	-
Transfers from Stage 2 to Stage 1 (Stating and balance change effect)	38,046	(104,929)	-
Stage 3 movement			
Transfers from Stage 1 to Stage 3	(17,507)	-	696,080
Transfers from Stage 2 to Stage 3	-	(437,260)	2,024,894
Loans classified under Stage 2 in two periods (Change in balance effect)	-	-	358,418
Write-offs	-	(537,844)	(805,049)
Sold Portfolio effect	-	-	-
Closing (31 December 2020)	1,521,946	4,354,331	11,093,238

(*) Loans which are not included in the loan portfolio as of 31 December 2019 and included in the credit portfolio and calculated provisions as of 31 December 2020.

(**) Loans which are included in the credit portfolio and calculated provisions as of 31 December 2019 but which are not included in the loan portfolio as of 31 December 2020.

(***) In the calculations the transitions between the records in both periods have been considered by making additions and disposals.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Information on the loans and advances is as the following:(*)

	Stage 1	Stage 2	Stage 3	Total
Opening (1 January 2020)	185,887,416	30,598,656	15,430,545	231,916,617
Additions	80,849,275	3,884,216	1,886,697	86,620,188
Disposals	(45,063,797)	(5,436,102)	(1,901,534)	(52,401,433)
Sold portfolio	-	-	-	-
Write-offs	-	(537,844)	(805,049)	(1,342,893)
Transfers to Stage 1	2,853,905	(2,853,905)	-	-
Transfers to Stage 2	(2,076,410)	2,076,410	-	-
Transfers to Stage 3	(724,068)	(2,545,567)	3,269,635	-
Foreign exchange effect	18,466,111	1,557,493	-	20,023,604
Closing (31 December 2020)	240,192,432	26,743,357	17,880,294	284,816,083

(*) Loans classified at fair value through profit or loss are not included.

The details of the past due not impaired loans are as follows (*):

The details of the loans and advances past due but not impaired (the Group defines this group as loans with a past due over 30 days) which are classified under performing loans (including past due close monitoring loans) are as follows;

31 December 2020				
	Commercial Loans	Consumer Loans & Credit Cards	Leasing receivables	Total
Past Due 30-60 days	243,716	346,661	8,153	598,530
Past Due 60-90 days	177,799	159,212	84,448	421,459
Past Due over 90 days (*)	584,099	487,351	94,031	1,165,481
Total	1,005,614	993,224	186,632	2,185,470

(*) Due to COVID-19 outbreak impact, the 90 past due days criteria applied for the definition of default started to be applied as 180 days as of 17 March 2020 in accordance with the local legislation. Despite of the classification changes due to local regulation, the Bank calculates provisions for loans with 90-180 past due days in accordance with the requirements of IFRS 9 and its own risk policies by taking the borrower's conditions into account. In addition, the days passed due limit applied to determine significant increase in credit risk has been changed from 30 to 90 days as of 17 March 2020 according to the legislation. The portfolio with past due over 90 days consist of TL 1,165,481 of risk amount. Although the Bank applies the aforementioned regulation for the classification of loans, lifetime expected loss provision is provided for loans with a delay of 30-90 days. The amount of loans which have past due days between 30-90 days and classified to stage 1 is TL 585,422. This regulation was extended to 30 June 2021.

31 December 2019				
	Commercial Loans	Consumer Loans & Credit Cards	Leasing receivables	Total
Past Due 30-60 days	625,528	576,521	51,308	1,253,357
Past Due 60-90 days	1,061,785	332,480	160,604	1,554,869
Total	1,687,313	909,001	211,912	2,808,226

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The details of the loans are as follows:

(i) Loans at amortised cost:

	31 December 2020			Total
	Commercial Loans	Consumer Loans & Credit Cards	Leasing receivables	
Neither past due nor impaired	197,340,609	62,581,203	4,828,507	264,750,319
Past due and not individually impaired	1,005,614	993,224	186,632	2,185,470
Individually impaired	15,036,457	2,276,126	567,711	17,880,294
Total gross	213,382,680	65,850,553	5,582,850	284,816,083
Less: allowance for individually impaired loans	(4,869,317)	(906,961)	(99,999)	(5,876,277)
Less: allowance for collectively impaired loans	(8,904,392)	(1,894,392)	(294,454)	(11,093,238)
Total Allowance for impairment	(13,773,709)	(2,801,353)	(394,453)	(16,969,515)
Total net	199,608,971	63,049,200	5,188,397	267,846,568

	31 December 2019			Total
	Commercial Loans	Consumer Loans & Credit Cards	Leasing receivables	
Neither past due nor impaired	161,997,686	47,325,219	4,354,941	213,677,846
Past due and not individually impaired	1,687,313	909,001	211,912	2,808,226
Individually impaired	12,224,903	2,632,176	573,466	15,430,545
Total gross	175,909,902	50,866,396	5,140,319	231,916,617
Less: allowance for individually impaired loans	(6,306,433)	(2,040,403)	(292,474)	(8,639,310)
Less: allowance for collectively impaired loans	(3,674,440)	(284,089)	(109,237)	(4,067,766)
Total Allowance for impairment	(9,980,873)	(2,324,492)	(401,711)	(12,707,076)
Total net	165,929,029	48,541,904	4,738,608	219,209,541

As of 31 December 2020 and 2019, the Group's collateral types are mainly composed of mortgages, cash blockages, share, vehicle and machine pledges.

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

(ii) Loans at fair value through profit or loss:

In the previous period, syndication loans extended to Ojer Telekomünikasyon A.Ş. were restructured. Within this scope, a pledge was established in favor of lenders in order to establish collateral for these loans. LYY Telekomünikasyon A.Ş., which was established as a special-purpose company in which 192,500,000,000 Group A shares, which constitute 55% of Türk Telekom's issued capital, are all direct or indirect partners. The acquisition of the company (formerly Levent Yapılandırma Yönetimi A.Ş.) was completed on 21 December 2018. The Bank has participated in LYY Telekomünikasyon A.Ş. with a 35.56% share in the receivables from OTAŞ.

Later on, at the Ordinary General Assembly Meeting of LYY Telekomünikasyon A.Ş. which was held on 23 September 2019, it was decided to convert some of the loan into capital and add it to the capital of LYY Telekomünikasyon A.Ş. The nominal value of their shares in TL increased from 18 TL to 1,416,090 TL. This amount is classified in the financial statements under the line "Assets for Sale and Discontinued Operations". As of 31 December 2020, the value of the part pursued as loan is TL 8,968,855 (31 December 2019: TL 6,723,419), and it is classified under "Other Financial Assets" under "Financial Assets at Fair Value through Profit Loss". The total fair value decrease accounted for the total amount turned into credit and capital is TL 3,042,035 (31 December 2019: TL 938,822), and the amount of TL 1,416,090 (31 December 2019: TL 938,822) of this amount is accounted under the "Assets Held for Sale and Discontinued Operations" and TL 1,625,945 (31 December 2019: None) is accounted under "Other Financial Assets" which is the sub-item of "Financial Assets at Fair Value through Profit Loss".

Financial assets, whose fair value difference is reflected in profit and loss and the part that is transformed into capital, amount to TL 7,342,910 in total, these are measured at fair value within the scope of IFRS 9 Financial Instruments Standard and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations Standard. This value is determined based on the valuation study of an independent valuation company. In this valuation study, the fair value was determined by taking into account the average of different methods (discounted cash flows, similar market multipliers, similar transaction multipliers in the same sector, market value and analyst reports). Within the scope of IFRS 13, loans are followed under Level 3. Possible changes in the basic assumptions in the valuation study will affect the carrying value of the loan and the amount converted into capital.

If the growth rate and risk-free return rate on investment used in the discounted cash flow method in the valuation report are increased or decreased by 0.25%, provided that all other variables are constant, the total value of assets recognized in the financial statements and profit before tax will increase by about TL 170 million or will decrease by TL 150 million.

The main purpose of the creditor banks is to transfer the mentioned Türk Telekom shares to an expert investor by providing the necessary conditions as quickly as possible. An international investment bank has been assigned as consultant for the sale of LYY Telekomünikasyon A.Ş.'s 55% shares in Türk Telekomünikasyon A.Ş. on 19 September 2019. Within this context, necessary work and discussions with potential investors have been initiated.

TL 1,094,566 of other financial assets consist Fourth Real Estate Investment Fund of Ak Portföy Yönetimi A.Ş. established by Ak Portföy Yönetimi A.Ş. and the fund is followed at its fair value and the related valuation differences are recognized in profit or loss.

Debt securities, treasury bills and other securities:

For debt securities and other bills, external ratings such as Moody's rating or their equivalents are used by the Treasury Unit for management of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Current Period - 31 December 2020	Financial Assets at Fair Value Through P&L (Net)(**)	Financial Assets at Fair Value Through Other Comprehensive Income (Net)(*)	Financial Assets Measured at Amortised Cost (Net)	Total
Moody's Rating				
Aaa	-	2,164,729	-	2,164,729
Aa1, Aa2, Aa3	-	368,419	-	368,419
A1, A2, A3	-	132,687	-	132,687
Baa1, Baa2, Baa3	-	182,920	-	182,920
Ba1	-	94,248	-	94,248
Ba2	-	56,374	-	56,374
Ba3	19,470	1,323	-	20,793
B1, B2, B3	252,771	54,627,077	41,885,059	96,764,907
C and lower than C	3,941	-	-	3,941
NR	-	69,655	-	69,655
Total	276,182	57,697,432	41,885,059	99,858,673

(*) Excluding equity securities and mutual funds.

(**) Excluding share certificates and mutual funds.

Prior Period - 31 December 2019	Financial Assets at Fair Value Through P&L (Net)(**)	Financial Assets at Fair Value Through Other Comprehensive Income (Net)(*)	Financial Assets Measured at Amortised Cost (Net)	Total
Moody's Rating				
Aaa	170,485	2,319,297	334,259	2,824,041
Aa1, Aa2, Aa3	-	275,375	-	275,375
A1, A2, A3	-	272,190	-	272,190
Baa1, Baa2, Baa3	-	132,165	-	132,165
Ba1	-	-	-	-
Ba2	-	-	-	-
Ba3	-	-	-	-
B1, B2, B3	137,668	64,078,364	15,231,266	79,447,298
Total	308,153	67,077,391	15,565,525	82,951,069

(*) Excluding equity securities and mutual funds.

(**) Excluding share certificates and mutual funds.

(30.3) Market risk

The risk principles, policies and risk limits related to the management of market risk are approved by the Board of Directors and reviewed on a regular basis. The Bank's Senior Management performs day to day management of the market risk in accordance with the limits assigned by the Board of Directors. The Bank is exposed to market risk as a result of fluctuations in foreign exchange rates, interest rates, and market prices of stocks. Exchange rate risk and interest rate risk are evaluated as the two most important components of market risk. The Bank engages in derivative transactions for hedge purposes when found necessary.

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Market risk is calculated by two different methods, namely the "inherent model" and the "standard method". According to inherent model market risk is measured by Value at Risk ("VaR") approach which takes into account different risk factors. VaR calculations use variance-covariance, historical simulation and Monte Carlo simulation methods. The software used can perform calculations with an advanced yield curve and volatility models. The VaR model is based on the assumptions of 99% confidence interval and a 10-day holding period. VaR analyses are performed on a daily basis and reported to the Senior Management. VaR analyses are also used as risk and limit management instrument for trading transactions. The limits are reviewed periodically according to market conditions and the application of specified limits is subject to authority restrictions and therefore the control effectiveness is increased. VaR analyses are supported with scenario analyses and stress tests, and take into consideration the effects of low probability events which have significant impact and the effects of market fluctuations. Retrospective tests of the model outputs are performed regularly. The standard method is used for the legal reporting.

The following table indicates the details of the market risk calculation as of 31 December 2020, in accordance with the Market Risk Calculation principles pursuant to the Third Section of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" published in the Official Gazette no. 29511 on 23 October 2015.

Standardised approach:

	RWA(Risk Weighted Amount)
Outright products	
1 Interest rate risk (general and specific)	2,116,008
2 Equity risk (general and specific)	438,762
3 Foreign exchange risk	13,494,266
4 Commodity risk	-
Options	
5 Simplified approach	-
6 Delta-plus method	42,700
7 Scenario approach	-
8 Securitisation	-
9 Total	16,091,736

Outright products refer to positions in products that are not optional.

(30.4) Currency risk

The difference between the Group's foreign currency denominated and foreign currency indexed assets and liabilities is defined as the "Net Foreign Currency Position" and is the basis of currency risk. Foreign currency denominated assets and liabilities, together with purchase and sale commitments, give rise to foreign exchange exposure. The Bank keeps the foreign exchange exposure amount within the limits set by the ERC. The Board, taking into account the recommendations by the ERC, sets a limit for the size of a foreign exchange exposure, which is closely monitored by ALCO. Those limits are individually determined and followed for both the net overall foreign currency position and for the foreign exchange exposure. Derivative financial instruments like forward foreign exchange contracts and currency swaps are used as tools for foreign exchange exposure management.

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The table below summarizes the Group's net foreign currency position, categorized by currency.

	31 December 2020					
	EUR	USD	GBP	Other	TL	Total
Cash and due from banks and balances with the Central Bank of Turkey	21,095,746	30,748,548	193,410	3,643,565	4,894,534	60,575,803
Investment securities	5,918,568	34,880,295	-	1,586,516	59,542,740	101,928,119
Derivative financial instruments	1,234,681	5,380,297	33	17,182	16,226,173	22,858,366
Loans and advances to customers	58,963,658	44,595,566	175	61,930	171,568,149	275,189,478
Property, plant and equipment	36,733	17,799	-	-	5,948,874	6,003,406
Intangible assets	5,247	9	-	-	1,185,653	1,190,909
Current tax	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	147,990	147,990
Other assets and pre-payments(*)	3,186,517	2,024,193	68	314	5,211,412	10,422,504
Total assets	90,441,150	117,646,707	193,686	5,309,507	264,725,525	478,316,575
Deposits and obligations under repurchase agreements	62,295,265	114,548,046	4,828,016	19,363,445	111,962,485	312,997,257
Interbank money market deposits, funds borrowed and debt securities in issue	10,394,376	47,812,531	-	-	8,509,432	66,716,339
Derivative financial instruments	1,475,477	2,088,019	-	127	11,277,350	14,840,973
Income taxes payable	27,787	-	-	-	1,098,470	1,126,257
Other liabilities and accrued expenses	3,402,358	3,176,118	120,589	31,080	12,299,468	19,029,613
Employment benefit obligations	1,453	-	-	-	556,168	557,621
Deferred tax liability	107,927	16,161	-	-	370	124,458
Equity and non-controlling interest	-	-	-	-	62,924,057	62,924,057
Total liabilities and equity	77,704,643	167,640,875	4,948,605	19,394,652	208,627,800	478,316,575
Net balance sheet position	12,736,507	(49,994,168)	(4,754,919)	(14,085,145)	56,097,725	-
Off-balance sheet derivative instruments net notional position	(14,675,745)	57,816,372	4,683,301	14,157,468	(61,981,396)	-

(*) The balances of assets held for sale has been included.

At 31 December 2020, assets and liabilities denominated in foreign currency were translated into Turkish lira using a foreign exchange rate of TL 7.4194=USD 1 and TL 9.1164 =EUR 1.

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2019					
	EUR	USD	GBP	Other	TL	Total
Cash and due from banks and balances with the Central Bank of Turkey	16,184,231	25,525,254	2,039,006	1,749,878	2,401,707	47,900,076
Investment securities	5,451,657	29,006,266	-	955,812	48,217,171	83,630,906
Derivative financial instruments	1,158,079	3,739,764	335	67,124	11,552,460	16,517,762
Loans and advances to customers	48,413,882	42,909,364	22	99,321	134,510,371	225,932,960
Property, plant and equipment	46,194	6,976	-	-	4,866,527	4,919,697
Intangible assets	4,867	16	-	-	948,305	953,188
Current tax	-	-	-	-	9,971	9,971
Deferred tax assets	52,970	2,438	-	-	223,564	278,972
Other assets and pre-payments(*)	1,686,428	2,106,698	62	920	3,377,797	7,171,905
Total assets	72,998,308	103,296,776	2,039,425	2,873,055	206,107,873	387,315,437
Deposits and obligations under repurchase agreements	57,711,718	90,653,462	4,061,118	5,775,108	96,466,694	254,668,100
Interbank money market deposits, funds borrowed and debt securities in issue	7,662,391	40,619,678	-	-	5,623,674	53,905,743
Derivative financial instruments	540,414	1,143,836	2,516	13,525	7,245,411	8,945,702
Income taxes payable	32,306	-	-	-	294,491	326,797
Other liabilities and accrued expenses	2,905,637	1,257,359	4,611	26,971	9,480,968	13,675,546
Employment benefit obligations	645	-	-	-	450,239	450,884
Deferred tax liability	132,903	-	-	-	704,309	837,212
Equity and non-controlling interest	-	-	-	-	54,505,453	54,505,453
Total liabilities and equity	68,986,014	133,674,335	4,068,245	5,815,604	174,771,239	387,315,437
Net balance sheet position	4,012,294	(30,377,559)	(2,028,820)	(2,942,549)	31,336,634	-
Off-balance sheet derivative instruments net notional position	(1,675,480)	30,698,654	2,012,918	2,927,836	(33,963,928)	-

(*) The balances of assets held for sale has been included.

At 31 December 2019, assets and liabilities denominated in foreign currency were translated into Turkish lira using a foreign exchange rate of TL 5.9200=USD 1 and TL 6.6397=EUR 1.

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

(30.5) Interest rate risk

"Interest Rate Risk" can be defined as the impact of interest rate changes on interest-sensitive asset and liability items of both on and off-balance sheets of the Group. The ERC sets limits for the interest rate sensitivity of on and off-balance sheet items and the sensitivity is closely monitored and reported weekly. In the case of high market fluctuations, daily transaction based reporting and analyses are made.

The Group manages the interest rate risk on a portfolio basis and tries to minimize the risk effect on the profitability, financial exposure and cash flows by applying different strategies. Basic methods such as using fixed or floating interest rates for different portfolios and maturities, setting the fixed margin in floating rates, or varying the rates for the short or long-term positions are applied actively.

The tables below summarize the Group's exposure to interest rate risks at 31 December 2020 and 31 December 2019. Included in the tables are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

	31 December 2020					
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Cash and due from banks and balances with the Central Bank of Turkey	4,263,042	-	-	-	56,312,761	60,575,803
Investment securities	25,983,704	29,556,541	34,797,474	9,520,955	2,069,445	101,928,119
Derivative financial instruments	14,034,722	5,860,004	2,882,318	81,322	-	22,858,366
Loans and advances to customers	109,935,784	79,048,867	78,477,567	6,688,433	1,038,827	275,189,478
Property, plant and equipment	-	-	-	-	6,003,406	6,003,406
Intangible assets	-	-	-	-	1,190,909	1,190,909
Deferred income tax assets	-	-	-	-	147,990	147,990
Current tax	-	-	-	-	-	-
Other assets and pre-payments (*)	5,216,879	1,514,559	789,529	25,217	2,876,320	10,422,504
Total assets	159,434,131	115,979,971	116,946,888	16,315,927	69,639,658	478,316,575
Deposits and obligations under repurchase agreements	195,586,672	15,404,683	9,612,044	1,085,209	91,308,649	312,997,257
Interbank money market deposits, funds borrowed and debt securities in issue	40,496,421	5,527,681	10,286,787	10,390,107	15,343	66,716,339
Derivative financial instruments	10,824,176	3,530,712	486,085	-	-	14,840,973
Income taxes payable	-	-	-	-	1,126,257	1,126,257
Other liabilities and accrued expenses	4,434,429	2,009,097	447,616	386,026	11,752,445	19,029,613
Employment benefit obligations	-	-	-	-	557,621	557,621
Deferred tax liability	-	-	-	-	124,458	124,458
Total liabilities	251,341,698	26,472,173	20,832,532	11,861,342	104,884,773	415,392,518
Net repricing period gap	(91,907,567)	89,507,798	96,114,356	4,454,585	(35,245,115)	62,924,057
Off-balance sheet derivative instruments net notional position	15,181,092	(8,494,498)	2,865,360	64,337	-	9,616,291

(*) The balances of assets held for sale has been included.

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2019					Total
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	
Cash and due from banks and balances with the Central Bank of Turkey	4,784,918	-	-	-	43,115,158	47,900,076
Investment securities	15,266,102	27,082,632	30,244,032	10,367,635	670,505	83,630,906
Derivative financial instruments	9,347,842	3,972,932	2,321,788	875,200	-	16,517,762
Loans and advances to customers	89,180,442	58,089,130	69,302,500	6,506,434	2,854,454	225,932,960
Property, plant and equipment	-	-	-	-	4,919,697	4,919,697
Intangible assets	-	-	-	-	953,188	953,188
Deferred income tax assets	-	-	-	-	278,972	278,972
Current tax	-	-	-	-	9,971	9,971
Other assets and pre-payments (*)	2,950,301	868,153	510,540	191,075	2,651,836	7,171,904
Total assets	121,529,605	90,012,847	102,378,860	17,940,344	55,453,781	387,315,437
Deposits and obligations under repurchase agreements	178,662,326	13,797,295	7,469,389	980,691	53,758,399	254,668,100
Interbank money market deposits, funds borrowed and debt securities in issue	37,601,033	2,130,324	5,906,293	8,268,093	-	53,905,743
Derivative financial instruments	5,521,104	3,038,630	380,198	5,770	-	8,945,702
Income taxes payable	-	-	-	-	326,797	326,797
Other liabilities and accrued expenses	2,417,683	1,538,387	352,264	488,670	8,878,542	13,675,546
Employment benefit obligations	-	-	-	-	450,884	450,884
Deferred tax liability	-	-	-	-	837,212	837,212
Total liabilities	224,202,146	20,504,636	14,108,144	9,743,224	64,251,834	332,809,984
Net repricing period gap	(102,672,541)	69,508,211	88,270,716	8,197,120	(8,798,053)	54,505,452
Off-balance sheet derivative instruments net notional position	15,017,804	(7,849,822)	1,876,541	921,275	-	9,965,798

(*) The balances of assets held for sale has been included.

The tables below summarize effective average interest rates by major currencies for monetary financial instruments at 31 December 2020 and 2019:

Assets	31 December 2020		
	USD (%)	EUR (%)	TL (%)
Cash and due from banks	-	-	-
Time deposits in foreign banks	0.36	0.00	0.00
Time deposits in domestic banks	1.10	0.77	17.45
Interbank money market placements	0.00	0.00	17.92
Reserve requirements with the Central Bank of Turkey	0.00	0.00	12.00
Financial assets at fair value through profit or loss	5.80	3.36	14.92
Loans and advances to customers	5.15	3.78	13.21
Financial asset at fair value through OCI	5.20	2.92	12.75
Financial asset at amortised cost	5.86	1.70	12.18
Liabilities			
Deposits and obligations under repurchase agreements	1.30	0.31	12.44
Interbank and money market deposits	0.00	0.00	17.98
Funds borrowed	2.42	1.12	11.22
Debt securities in issue	6.18	1.06	10.38

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Assets	31 December 2019		
	USD (%)	EUR (%)	TL (%)
Cash and due from banks:			
- Time deposits in foreign banks	1.38	0.00	10.50
- Time deposits in domestic banks	5.11	0.04	14.29
- Interbank money market placements	0.00	0.00	11.78
- Reserve requirements with the Central Bank of Turkey	0.00	0.00	10.00
Financial assets at fair value through profit or loss	5.62	0.90	11.17
Loans and advances to customers	6.88	4.45	15.47
Financial asset at fair value through OCI	5.20	2.70	14.14
Financial asset at amortised cost	5.22	3.46	14.74
Liabilities			
Deposits and obligations under repurchase agreements	1.73	0.34	8.45
Interbank and money market deposits	0.00	0.00	10.91
Funds borrowed	4.09	2.06	13.12
Debt securities in issue	4.81	1.56	12.14

Interest rate risk for all banking transactions outside the trading portfolio are followed under interest rate risk related to the banking book. Interest rate risk related to the trading portfolio is followed under market risk.

ALCO performs daily management of interest rate risk in accordance with the risk limits set by the ERC in relation to interest rate sensitivities of the banking book. ALCO meetings are held on a weekly basis.

In addition to interest rate sensitivities measured and reported weekly, daily and transaction-based analyses are also performed when significant fluctuations occur in markets.

Repricing term mismatch and duration mismatch analyses, net economic value change analyses under different interest rate stress scenarios and income simulations are used for interest rate risk management. Repricing risk, yield curve risk, basis risk and optionality are considered under interest rate risk scope.

The interest rate risk arising from banking book is calculated and reported on a monthly basis according to "Regulation on Measurement and Evaluation of Interest Rate Risk in Banking Accounts with Standard Shock Method" published in the Official Gazette no 28034 on 23 August 2011 through applying interest rate shock method to on and off balance sheet positions.

As of 31 December 2020 and 31 December 2019, 500 bp shock, 400 bp shock and 200 bp shock are applied for Turkish Lira and foreign currency for the assessment of the changes in the fair value of balance sheet items which are subject to calculation.

Currency	31.12.2020		31.12.2019	
	Applied Shock (+/- x basis points)	Gains/Losses	Gains/Shareholder's Equity - Losses/Shareholder's Equity	Gains/Shareholder's Equity - Losses/Shareholder's Equity
TL	(400)	3,613,453	4.97%	3,588,028
TL	500	(4,110,166)	(5.65)%	(4,027,453)
USD	(200)	231,365	0.32%	922,614
USD	200	(359,087)	(0.49)%	(882,350)
EUR	(200)	1	0.00%	(35,477)
EUR	200	45,437	0.06%	(828,729)
Total (for negative shocks)		3,844,819	5.29%	4,475,165
Total (for positive shocks)		(4,423,816)	(6.08)%	(5,738,532)

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

(30.6) Liquidity risk

The liquidity risk of the Bank is the risk of being unable to fulfill its payment obligations on time due to not having enough cash sources or cash inflows to finance its cash outflows fully and on time due to cash flow instabilities. Liquidity risk arises from situations in which the Bank is unable to meet the cash outflows with its cash sources and borrowing opportunities over collateralizing marketable securities, in case of sudden fund withdrawals by the individual/institutional funders of the Bank.

The Bank's liquidity and funding policy is to own sufficient liquidity reserve and funding opportunities to meet Bank's liabilities even in cases of stress, resulting from the market conditions or other conditions specific to the Bank.

The Bank has capacity to meet a high risk with broad and stable deposit, strong base capital structure and diversified foreign borrowing sources and is capable of providing additional liquidity with high quality liquid securities in its portfolio and available limits at both the Central Bank of Republic of Turkey and other money markets.

Management of liquidity risk is shared by the ERC, ALCO, Treasury Department and Risk Management Department. The ERC determines the liquidity management policies and the appropriate liquidity risk level in line with the Bank's risk appetite and monitors whether the liquidity risk is managed under the framework of determined policies and within the defined limits.

The different categories of defined limits are;

- Limits related to wholesale funding sources,
- Limits related to liquid asset buffer,
- Limits related to loan/deposit ratio,
- Limits related to the cash inflows coverage capacity to cash outflows,
- Limits related to cash outflow coverage capacity in the stress environment

ALCO takes decision to use alternative funding sources, pricing of obtained funds and granted loans, and other decisions of Daily liquidity management. Treasury Department ensures that the Bank meets its short, middle and long term liabilities, with the transactions made in accordance with ALCO decisions order to utilize excess funding or close the funding gap, occurring on foreign currencies or maturity terms. Risk Management Department measures and monitors the liquidity risk, with the reports prepared and analyses made, and informs the top management. Liquidity risk reporting consists of periodic and special purpose reports prepared to be discussed in the ERC and ALCO meetings, stress tests, scenario analyses, risk limit compliance reports and legal liquidity reports. Considering the negative economic general impact caused by the COVID-19 pandemic, it is aimed to measure the liquidity vulnerabilities that may arise by performing different scenario analyzes with using stress tests which are already part of the risk management process. The effects of cash inflows and outflows under different stress scenarios have been studied and evaluated.

	Current Period - 31 December 2020		Prior Period - 31 December 2019	
	TL+FC	FC	TL+FC	FC
October	209.16	229.25	195.97	222.89
November	239.61	281.26	194.26	205.87
December	223.66	257.43	204.07	183.38

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

(30.6) Liquidity risk (Continued)

The table below analyses carrying amount of assets and liabilities of the Group into relevant maturity groupings based on the remaining period to contractual maturity at the balance sheet date.

	31 December 2020						Total
	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No maturity	
Cash and due from banks and balances with the Central Bank of Turkey	36,105,674	24,470,407	-	-	-	(278)	60,575,803
Investment securities	2,081,827	5,844,861	20,364,254	57,691,278	15,958,281	(12,382)	101,928,119
Derivative financial instruments	-	3,833,872	4,571,067	8,895,941	5,557,486	-	22,858,366
Loans and advances to customers(*)	128,049	82,690,482	74,350,500	93,682,182	23,427,486	910,779	275,189,478
Property, plant and equipment	-	-	-	-	-	6,003,406	6,003,406
Intangible assets	-	-	-	-	-	1,190,909	1,190,909
Deferred income tax assets	-	-	-	147,990	-	-	147,990
Current Tax	-	-	-	-	-	-	-
Other assets and pre-payments (**)	-	2,579,477	1,188,199	2,316,927	1,461,581	2,876,320	10,422,504
Total assets	38,315,550	119,419,099	100,474,020	162,734,318	46,404,834	10,968,754	478,316,575
Deposits and obligations under repurchase agreements	91,308,649	188,604,042	15,018,520	14,789,265	3,276,781	-	312,997,257
Interbank money market deposits, funds borrowed and debt securities in issue	-	8,183,611	21,496,601	25,496,465	11,539,662	-	66,716,339
Derivative financial instruments	-	4,613,429	1,132,118	6,308,345	2,787,081	-	14,840,973
Income taxes payable	-	-	1,126,257	-	-	-	1,126,257
Other liabilities and accrued expenses	1,277,192	4,995,926	503,861	2,392,413	1,414,361	8,445,860	19,029,613
Employment benefit obligations	-	-	-	557,621	-	-	557,621
Deferred tax liability	-	-	-	124,458	-	-	124,458
Total liabilities	92,585,841	206,397,008	39,277,357	49,668,567	19,017,885	8,445,860	415,392,518
Net gap as at 31 December 2020	(54,270,291)	(86,977,909)	61,196,663	113,065,751	27,386,949	2,522,894	62,924,057

(*) The non-performing loans and netted amounts of the third stage expected loss provisions for these loans are stated in the "No maturity" column with the first and second stage expected loss provisions for performing loans.

(**) The balances of assets held for sale has been included.

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

(30.6) Liquidity risk (Continued)

	31 December 2019						Total
	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No maturity	
Cash and due from banks and balances with the Central Bank of Turkey	31,307,424	16,593,299	-	-	-	-647	47,900,076
Investment securities	679,838	3,008,622	17,656,429	49,711,350	12,583,999	-9,333	83,630,905
Derivative financial instruments	-	1,996,422	1,086,895	9,590,115	3,844,331	-	16,517,762
Loans and advances to customers(*)	130,986	74,519,945	48,861,025	78,158,594	21,538,941	2,723,469	225,932,960
Property, plant and equipment	-	-	-	-	-	4,919,697	4,919,697
Intangible assets	-	-	-	-	-	953,188	953,188
Deferred income tax assets	-	-	-	278,972	-	-	278,972
Current Tax	-	-	-	-	-	9,971	9,971
Other assets and pre-payments (**)	-	1,364,306	225,603	2,090,859	839,302	2,651,836	7,171,905
Total assets	32,118,248	97,482,594	67,829,952	139,829,890	38,806,573	11,248,181	387,315,438
Deposits and obligations under repurchase agreements	53,268,786	173,102,588	13,833,706	11,729,620	2,733,400	-	254,668,100
Interbank money market deposits, funds borrowed and debt securities in issue	-	8,832,511	14,167,786	19,065,756	11,839,690	-	53,905,743
Derivative financial instruments	-	917,509	774,827	5,323,476	1,929,890	-	8,945,702
Income taxes payable	-	0	326,797	-	-	-	326,797
Other liabilities and accrued expenses	614,032	2,603,733	377,825	2,134,277	1,188,067	6,757,612	13,675,546
Employment benefit obligations	-	-	-	450,884	-	-	450,884
Deferred tax liability	-	-	-	837,212	-	-	837,212
Total liabilities	53,882,818	185,456,341	29,480,941	39,541,225	17,691,047	6,757,612	332,809,984
Net gap as at 31 December 2019	(21,764,570)	(87,973,748)	38,349,011	100,288,665	21,115,526	4,490,569	54,505,454

(*) The non-performing loans and netted amounts of the third stage expected loss provisions for these loans are stated in the "No maturity" column with the first and second stage expected loss provisions for performing loans.

(**) The balances of assets held for sale has been included.

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The most important funding resources of the Parent Bank are the shareholders' equity, the diversified and steady deposit base and the long-term funds borrowed from international institutions which are mainly placed in interest earning assets. In spite of a substantial portion of deposits from individuals being short-term, deposits are diversified by number and type, and maturities of a large portion of deposits are renewed, which indicates that these deposits will provide a long-term and stable source of funding for the Parent Bank.

Undiscounted cash flows of the financial liabilities of the Group are as follows:

Liabilities	31 December 2020					Total
	Up to 1 month and demand	1-3 months	3-12 months	1-5 years	5 years and over	
Deposits and obligations under repurchase agreements	241,678,438	39,246,102	15,362,755	15,181,381	3,364,525	314,833,203
Funds borrowed and debt securities in issue	3,337,823	4,759,521	22,995,826	30,732,416	12,736,849	74,562,434
Interbank money market deposits	429,862	-	-	-	-	429,862
Total	245,446,123	44,005,623	38,358,581	45,913,797	16,101,374	389,825,499
Letter of guarantees (*)	1,704,272	1,110,275	11,024,630	13,213,186	24,383,289	51,435,652

(*) Undiscounted maturities of letter of guarantees represent the contractual maturities whereas such balances have demand nature due to their callable status until maturity.

Liabilities	31 December 2019					Total
	Up to 1 month and demand	1-3 months	3-12 months	1-5 years	5 years and over	
Deposits and obligations under repurchase agreements	201,565,732	25,385,879	14,182,312	12,294,248	2,920,117	256,348,288
Funds borrowed and debt securities in issue	4,913,399	4,262,874	15,586,740	22,513,357	12,960,040	60,236,410
Interbank money market deposits	150,754	-	-	-	-	150,754
Total	206,629,885	29,648,753	29,769,052	34,807,605	15,880,157	316,735,452
Letter of guarantees (*)	2,447,214	203,957	6,506,926	12,239,893	21,301,035	42,699,025

(*) Undiscounted maturities of letter of guarantees represent the contractual maturities whereas such balances have demand nature due to their callable status until maturity.

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Undiscounted cash flows of derivative financial instruments of the Group are as follows:

Current Period - 31 December 2020	Up to 1 month	1-3 months	3-12 months	1-5 years	5 Years and Over
Derivatives held for trading					
Foreign exchange derivatives:					
- Inflow	62,640,216	50,476,489	27,675,738	28,388,285	4,961,750
- Outflow	(68,099,978)	(60,590,019)	(28,843,219)	(27,877,974)	(4,659,973)
Interest rate derivatives:					
- Inflow	152,797	553,036	1,069,659	1,895,247	907,310
- Outflow	(136,947)	(577,404)	(979,965)	(1,689,159)	(814,875)
Derivatives held for hedging:					
Foreign exchange derivatives:					
- Inflow	2,306,351	3,907,725	4,524,790	4,922,960	8,231,710
- Outflow	(2,221,126)	(2,676,210)	(3,107,033)	(5,641,826)	(6,923,534)
Interest rate derivatives:					
- Inflow	104,751	253,873	650,767	1,678,808	745,341
- Outflow	(119,225)	(347,027)	(962,957)	(2,417,487)	(1,009,045)
Total Inflow	65,204,115	55,191,123	33,920,954	36,885,300	14,846,111
Total Outflow	(70,577,276)	(64,190,660)	(33,893,174)	(37,626,446)	(13,407,427)
Prior Period - 31 December 2019	Up to 1 month	1-3 months	3-12 months	1-5 years	5 Years and Over
Derivatives held for trading					
Foreign exchange derivatives:					
- Inflow	55,018,176	43,705,762	34,753,796	39,514,897	4,701,585
- Outflow	(54,997,273)	(41,973,311)	(39,769,422)	(39,770,648)	(4,522,721)
Interest rate derivatives:					
- Inflow	13,350	184,023	744,424	1,590,564	674,261
- Outflow	(16,355)	(200,297)	(675,078)	(1,472,805)	(619,052)
Derivatives held for hedging					
Foreign exchange derivatives:					
- Inflow	1,060,768	1,652,945	1,219,583	10,321,428	6,065,938
- Outflow	(470,411)	(1,506,372)	(1,626,145)	(8,640,972)	(6,010,963)
Interest rate derivatives:					
- Inflow	21,047	133,207	350,615	956,601	330,112
- Outflow	(10,645)	(155,872)	(543,770)	(1,460,712)	(606,412)
Total Inflow	56,113,341	45,675,937	37,068,418	52,383,490	11,771,896
Total Outflow	(55,494,684)	(43,835,852)	(42,614,415)	(51,345,137)	(11,759,148)

(30.7) Operational risk

The "Basic Indicator Method" that is mentioned in "Regulation on Measurement and Assessment of Capital Adequacy of Banks" Communiqué published in the Official Gazette No. 29511 on November 23, 2015 is used in the annual operational risk calculation of the Parent Bank. The amount subject to the operational risk is calculated by using the statutory gross income of the Parent Bank in 2015, 2016, and 2017.

In accordance with above Communiqué, deduction of profit/loss derived from the sale of financial assets at fair value through other comprehensive income and financial assets measured at amortised cost, extraordinary income and indemnity insurance gains from the total of net interest income and non-interest income.

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

	31.12.2017	31.12.2018	31.12.2019	Total/ Positive GI year number	Ratio (%)	Total
Gross income	14,107,718	20,172,377	20,708,463	3	15	2,749,428
Amount subject to Operational Risk (Amount*12,5)						34,367,848

(30.8) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair values at 31 December 2020 and 2019:

	31 December 2020		31 December 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Loans and advances to customers	275,189,478	290,086,611	225,932,960	237,372,857
Financial assets at amortised cost (Net)	41,872,677	41,951,293	15,565,525	15,776,721
Financial liabilities				
Customer deposits	312,997,257	313,133,140	254,668,102	254,445,891
Interbank money market deposits, funds borrowed and debt securities in issue	66,716,339	71,339,278	53,905,742	54,084,626

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments that are carried at amortized cost:

(i) Financial assets

The fair values of certain financial assets carried at cost, including cash and balances with the Central Bank of Turkey, due from other banks and other financial assets are considered to approximate their respective carrying values due to their short-term nature.

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine the fair value. The credit risk is not considered when calculating the fair value of loans and advances to customers as in line with the pricing of such loans except loans and advances to customers with short maturity.

The fair value of listed held-to-maturity investments has been estimated based on quoted market prices at balance sheet dates.

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FOR THE YEAR ENDED 31 DECEMBER 2020**

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NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

(ii) Financial liabilities

The estimated fair value of deposits with no maturity is the repayable amount at demand.

The estimated fair value of interest-bearing deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

A discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads to calculate the estimated fair value of funds borrowed and debt securities in issue.

(i) Fair value hierarchy:

IFRS 7 sets a hierarchy of valuation techniques according to the observability of data used in valuation techniques which establish basis for fair value calculations.

Aforesaid fair value hierarchy is determined as follows.

- a) Quoted market prices (non-adjusted) (1st level).
- b) Directly (by way of prices) or indirectly (derived from prices) data for the assets or liabilities, other than quoted prices in the 1st level (2nd level).
- c) Data not based on observable data regarding assets or liabilities (3rd level).

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Fair value hierarchy of the financial assets and liabilities of the Group carried at fair value and assets and liabilities carried at amortized cost for which fair value is disclosed in Note 30 (h), according to the foregoing principles is given in the table below:

	31 December 2020			
Assets carried at fair value:	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	740,567	1,095,935	-	1,836,502
- Government debt securities	22,607	-	-	22,607
- Eurobonds	167,331	-	-	167,331
- Government debt securities denominated in foreign currency	-	-	-	-
- Treasury bills	-	-	-	-
- Share certificates	305,711	-	-	305,711
- Other financial assets	244,918	1,095,935	-	1,340,853
Derivative Financial Assets at Fair Value Through Profit or Loss	1,897	18,117,990	-	18,119,887
Derivative Financial Assets at Fair Value Through Other Comprehensive Income(Net)	-	4,738,479	-	4,738,479
Financial Assets at Fair Value Through Other Comprehensive Income	56,146,670	2,041,091	-	58,187,761
- Government debt securities	23,067,781	-	-	23,067,781
- Eurobonds	21,352,442	-	-	21,352,442
- Treasury bills	-	-	-	-
- Government debt securities denominated in foreign currency	-	-	-	-
- Mutual funds	400,652	89,677	-	490,329
- Equity Securities	-	-	-	-
- Other financial assets	11,325,795	1,951,414	-	13,277,209
Loans and advances to customers (*)	-	282,743,534	7,342,910	290,086,444
- Financial assets measured at amortised cost	-	282,743,534	-	282,743,534
- Financial assets measured at fair value through profit or loss	-	-	7,342,910	7,342,910
Assets for which fair values are disclosed	41,951,293	-	-	41,951,293
- Financial assets measured at amortised cost	41,951,293	-	-	41,951,293
- Government debt securities	41,444,027	-	-	41,444,027
- Other financial assets	507,266	-	-	507,266
Total assets	98,840,427	308,737,029	7,342,910	414,920,366
Liabilities carried at fair value:				
Trading derivative financial instruments	54	14,162,050	-	14,162,104
Hedging derivative financial instruments	-	678,869	-	678,869
Liabilities for which fair values are disclosed (**)	-	384,472,417	-	384,472,417
- Customer Deposits	-	313,133,139	-	313,133,139
- Interbank money market deposits, funds borrowed and debt securities in issue	-	71,339,278	-	71,339,278
Total liabilities	54	399,313,336	-	399,313,390

(*) Loans and advances measured at fair value present the loan granted to LYY as explained in Note 30 Fair value of this loan classified under level 3, has been determined based on the weighted average of the results of valuation work that include various valuation technics such as yearly average of market price, comparable trading multiples, comparable transactions and discounted cash flows ("DCF"). The potential changes in the fundamental estimations and assumptions included in the valuation work can affect the carrying fair value of the loan.

(**) Assets and liabilities carried at amortized cost for which fair value is disclosed in Note 30 (h).

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Share certificates classified as financial assets measured at fair value through OCI are carried at cost less impairment since they are not traded in active markets and their fair values cannot be measured reliably.

Assets carried at fair value:	31 December 2019			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss	541,019	401	-	541,420
- Government debt securities	182,344	-	-	182,344
- Eurobonds	92,378	-	-	92,378
- Government debt securities denominated in foreign currency	-	-	-	-
- Treasury bills	503	-	-	503
- Share certificates	232,764	-	-	232,764
- Other financial assets	33,030	401	-	33,431
Derivative Financial Assets at Fair Value Through Profit or Loss	774	14,389,976	-	14,390,750
Derivative Financial Assets at Fair Value Through Other Comprehensive Income	-	2,127,012	-	2,127,012
Financial Assets at Fair Value Through Other Comprehensive Income	65,484,503	2,017,553	-	67,502,056
- Government debt securities	35,534,282	-	-	35,534,282
- Eurobonds	16,168,796	-	-	16,168,796
- Treasury bills	-	-	-	-
- Government debt securities denominated in foreign currency	-	-	-	-
- Mutual funds	305,610	119,055	-	424,665
- Equity Securities	-	-	-	-
- Other financial assets	13,475,815	1,898,498	-	15,374,313
Loans and advances to customers (*)	-	236,633,095	6,723,419	243,356,514
- Financial assets measured at amortised cost	-	236,633,095	-	236,633,095
- Financial assets measured at fair value through profit or loss	-	-	6,723,419	6,723,419
Assets for which fair values are disclosed	15,776,720	-	-	15,776,720
- Financial assets measured at amortised cost	15,776,720	-	-	15,776,720
- Government debt securities	14,021,407	-	-	14,021,407
- Other financial assets	1,755,313	-	-	1,755,313
Total assets	81,803,016	255,168,037	6,723,419	343,694,472
Liabilities carried at fair value:	-	-	-	-
Trading derivative financial instruments	311	8,044,287	-	8,044,598
Hedging derivative financial instruments	-	901,104	-	901,104
Liabilities for which fair values are disclosed (**)	-	308,530,515	-	308,530,515
- Customer Deposits	-	254,445,889	-	254,445,889
- Interbank money market deposits, funds borrowed and debt securities in issue	-	54,084,626	-	54,084,626
Total liabilities	311	317,475,906	-	317,476,217

(*) Loans and advances measured at fair value present the loan granted to LYY as explained in Note 30. Fair value of this loan classified under level 3, has been determined based on the weighted average of the results of valuation work that include various valuation technics such as yearly average of market price, comparable trading multiples, comparable transactions and discounted cash flows ("DCF"). The potential changes in the fundamental estimations and assumptions included in the valuation work can affect the carrying fair value of the loan.

(*) Assets and liabilities carried at amortized cost for which fair value is disclosed in Note 30 (h).

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

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

As explained in the Note 3.1.4, share certificates, that are classified as fair value through other comprehensive income and are carried at cost less impairment since they are not traded in active markets and their fair values cannot be measured reliably, are not shown in the table above.

There are no transfers between the 1st and the 2nd levels in the current year.

As of 31 December 2020, the movement of Level 3 financial instruments is as follows:

	2020		2019	
	Asset	Liability	Asset	Liability
Balance at the beginning of period	6,723,419	-	6,690,208	-
Additions	-	-	-	-
Disposals	-	-	-	-
Transfers, net	-	-	(726,443)	-
Effects of valuation differences	619,491	-	759,654	-
Balance at the end of the period	7,342,910	-	6,723,419	-

(30.9) Capital management

Total capital amount and Capital adequacy ratio have been calculated in accordance with the "Regulation on Equity of Banks" and "Regulation on Measurement and Assessment of Capital Adequacy of Banks".

As of 31 December 2020, Group's total capital has been calculated as TL 73,356,889 (31 December 2019: TL 63,110,300), the capital adequacy ratio is 20.70% (31 December 2019: 19.66%). This ratio is well above the minimum ratio required by the legislation.

	31 December 2020	31 December 2019
Tier I capital	62,954,577	54,243,890
Tier II capital	10,402,770	8,868,059
Deductions	(458)	(1,649)
Total regulatory capital	73,356,889	63,110,300
Risk-weighted assets (including market and operational risk)	354,300,757	320,975,502
Capital adequacy ratio	20.70%	19.66%

(30.10) Fiduciary activities

The Group provides custody services to third parties which involve the Group in the making of allocation, purchase and sale decisions. Assets held in a fiduciary capacity are not included in these financial statements. At 31 December 2020, the Group has custody accounts amounting to TL 113,226,217 in nominal value (31 December 2019: TL 86,271,317).

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

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

NOTE 31 - SUBSEQUENT EVENTS

The Parent Bank's board of directors has approved the General Directorate to be entitled to make all necessary applications to Capital Markets Board, Banking Regulation and Supervision Agency and other regulatory authorities in order to obtain the annual approvals and completion of all legal procedures to issue, up to a total of USD 2 billion (full amount) or its equivalent in any currency including Turkish Lira, bond, and/or subordinated debt and other form of debts, that can be included in the equity calculation, aligned with the Equity Regulation in more than one offering outside of Turkey. In case of contradiction between the Turkish and English versions of this public disclosure, the Turkish version shall prevail.

With the decision of the Parent Bank's board of directors dated 29 January 2021, maintain the current ceiling for registered capital amounted to TL 10,000,000,000 (full amount), extend the effectiveness period of the registered capital ceiling for another five years between 2021-2025, provided that permission and approvals are obtained from the competent authorities in this context presented and approved for the approval of our shareholders at the first General Assembly to be amended.

The Board of Directors of the Bank have decided to hold The Shareholders' Ordinary General Assembly on 24 March 2021. In the Shareholders' Ordinary General Assembly Meeting of the Bank, The Board of Directors of the Bank has resolved to propose the following for the appropriation of 2020 annual profit. The dividend to be distributed from 2020 net profit of TL 6,267,167 will be as follows; gross TL 260,000 equal to %5 of Bank's paid-in capital of TL 5,200,000 as of 31 December 2020 will be allocated as primary cash gross dividend; and gross TL 366,080 will be allocated as secondary cash gross dividend. Total gross dividend of TL 626,080 equal to %12.04 of the paid in capital, will be distributed to shareholders. Cash dividend payment to start from 26th of March, 2021. In accordance with the first paragraph clause (e) of article 5 of the Corporate Tax Law, TL 702 which is exempt from corporate tax to be allocated to a "Special Fund Account" and after allocating TL 36,608 to Legal Reserves, the remaining profit will be retained under Extraordinary Reserves

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