AKBANK T.A.Ş.

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

pwc

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To the Board of Directors of Akbank T.A.Ş.

Introduction

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

Scope of Review

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

Basis for Qualified Conclusion

3. As explained in Note 14, the accompanying interim condensed consolidated financial statements as at 30 June 2020 include a free provision amounting to TL 900.000 thousand which consists of TL 650.000 thousand provided in prior years and TL 250.000 thousand recognized in the current period gross of related deferred taxes amounting to TL 198,000 thousand. 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.

Qualified Conclusion

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

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

Talar Gül, SMMM
Partner

Istanbul, 3 September 2020

AKBANK T.A.Ş.

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

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

	Notes	Reviewed 30 June 2020	Audited 31 December 2019
ASSETS			
Cash and due from banks and balances with the Central Bank of Turkey		57,106,132	47,900,076
Derivative financial instruments		19,601,495	16,517,762
Loans and advances to customers	6	250,450,904	225,932,960
-Measured at amortised cost		243,250,235	219,209,541
-Fair value through profit or loss		7,200,669	6,723,419
Investment Securities		100,108,440	83,630,906
-Financial assets at fair value through profit or loss ("FVPL")	7	960,882	541,420
-Financial assets at fair value through OCI ("FVOCI")	7	56,802,502	67,523,961
-Financial assets at amortised cost ("AC")	7	42,345,056	15,565,525
Assets held for sale	8	317,536	666,067
Current tax asset		645	9,971
Deferred tax assets		258,778	278,972
Property, plant and equipment	9	5,305,400	4,919,697
Intangible assets	10	1,055,559	953,188
Other assets and pre-payments		9,677,114	6,505,838
Total assets		**443,882,003**	**387,315,437**
LIABILITIES			
Deposits and obligations under repurchase agreements	11	293,108,007	254,668,100
Interbank money market deposits	12	463,113	150,783
Derivative financial instruments		11,089,219	8,945,702
Funds borrowed	12	19,162,363	17,453,217
Debt Securities Issued	13	43,572,036	36,301,743
Income taxes payable		981,591	326,797
Provisions	14	1,506,373	1,141,758
Other liabilities and accrued expenses		15,597,477	12,533,788
Employment benefit obligations		503,312	450,884
Deferred tax liabilities		182,508	837,212
Total liabilities		**386,165,999**	**332,809,984**
EQUITY			
Capital and reserves attributable to the equity holders of the parent:			
- Share capital		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		3,591,890	2,775,385
Other reserves		(239,999)	319,146
Retained earnings		44,119,954	41,166,772
Total shareholders' equity		**57,715,836**	**54,505,294**
Non-controlling interest		168	159
Total equity		**57,716,004**	**54,505,453**
Total liabilities and equity		**443,882,003**	**387,315,437**

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

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

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

	Notes	Reviewed 1 January 2020- 30 June 2020	Reviewed 1 January 2019- 30 June 2019
Interest income		16,709,074	18,639,239
Interest expense		(6,475,245)	(10,929,199)
Net interest income		**10,233,829**	**7,710,040**
Fee and commission income		2,743,611	3,050,365
Fee and commission expense		(477,756)	(641,646)
Net fee and commission income		**2,265,855**	**2,408,719**
Impairment losses on loans and credit related commitments		(4,281,295)	(3,054,907)
Foreign exchange gains and losses, net		628,800	213,811
Trading gains and losses, net		(811,570)	(411,782)
Dividend income		3,813	5,526
Other operating income		126,028	75,266
Operating income		**8,165,460**	**6,946,673**
Operating expenses		**(4,304,652)**	**(3,491,152)**
Profit before income taxes		**3,860,808**	**3,455,521**
Income taxes		**(920,496)**	**(766,509)**
Income tax expense		(1,227,829)	(470,329)
Deferred tax (expense) / income		307,333	(296,180)
Profit for the period		**2,940,312**	**2,689,012**
Attributable to:			
Equity holders of the Group		2,940,303	2,689,003
Non-controlling interest		9	9
		2,940,312	**2,689,012**
Basic and diluted earnings per share (expressed in TL, full amount, per share)	5	0.00565	0.00559

AKBANK T.A.Ş.

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

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

	Reviewed 1 January 2020 - 30 June 2020	**Reviewed 1 January 2019 - 30 June 2019**
Net profit for the period	**2,940,312**	**2,689,012**
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	(436,096)	(92,752)
Foreign exchange differences on translation of foreign operations	816,505	362,483
Gain/(Loss) from cash flow hedges		-
(effective part of fair value changes)	(100,683)	(224,927)
Gain/(Loss) from net foreign investment hedges (effective part of exchange difference on borrowings)	(330,336)	(161,248)
Tax related to gain and loss recognized directly in equity	190,765	105,364
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**140,155**	**(11,080)**
Other comprehensive income not being reclassified to profit or loss in subsequent periods		
Remeasurement gain/(loss) on defined benefit plans, net of taxes	(18,932)	(20,338)
Property and plant revaluation differences	157,929	1,276
Other comprehensive income items not reclassified through profit or loss	5,687	-
Tax related to gain and loss recognized directly in equity	(14,771)	4,194
Net other comprehensive income net of tax not reclassified to profit or loss in subsequent periods	**129,913**	**(14,868)**
Other comprehensive income net of tax	**270,068**	**(25,948)**
Total comprehensive income, net of tax	**3,210,380**	**2,663,064**
Attributable to:		
Equity holders of the Group	3,210,371	2,663,055
Non-controlling interest	9	9

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

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

	Attributable to equity holders of the Group								
	Share capital								
	Share Capital	**Adjustment to share capital**	**Total paid-in share capital**	**Share premium**	**Translation reserve**	**Other Reserve**	**Retained Earnings**	**Non-controlling interest**	**Total**
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 9, net	-	-	-	-	-	-	(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	-	-	-	-	-	-	-	-	-
Property and Plant Revaluation Differences, net of tax	-	-	-	-	-	995	-	-	995
Paid-in Capital	1,200,000	-	1,200,000	1,805,742	-	-	-	18	3,005,760
Actuarial Gains and Losses	-	-	-	-	-	(15,864)	-	-	(15,864)
Net unrealized market value gains (losses) from FVOCI portfolio	-	-	-	-	-	(72,346)	-	-	(72,346)
Cash flow hedges, net of tax	-	-	-	-	-	(301,216)	-	-	(301,216)
Translation reserve	-	-	-	-	362,483	-	-	-	362,483
Other comprehensive income (expense)	**1,200,000**	**-**	**1,200,000**	**1,805,742**	**362,483**	**(388,432)**	**-**	**18**	**2,979,811**
Profit for the period						**2,689,003**	**-**	**9**	**2,689,012**
Total comprehensive income for the period	**1,200,000**	**-**	**1,200,000**	**1,805,742**	**362,483**	**2,300,571**	**-**	**27**	**5,668,823**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 30 June 2019	**5,200,000**	**1,529,151**	**6,729,151**	**3,514,840**	**2,683,962**	**764,562**	**35,791,516**	**153**	**49,484,184**

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

AKBANK T.A.Ş.

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

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

	Share capital		Attributable to equity holders of the Group						
	Share Capital	Adjustment to share capital	Total paid-in share capital	Share premium	Translation reserve	Other Reserve	Retained Earnings	Non-controlling interest	Total
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	-	-	-	-	-	(12,708)	12,879	-	171
Property and Plant Revaluation Differences, net of tax	-	-	-	-	-	138,993	-	-	138,993
Paid-in Capital	-	-	-	-	-	-	-	-	-
Actuarial Gains and Losses	-	-	-	-	-	(14,767)	-	-	(14,767)
Net unrealized market value gains (losses) from FVOCI portfolio	-	-	-	-	-	(334,468)	-	-	(334,468)
Cash flow hedges, net of tax	-	-	-	-	-	(336,195)	-	-	(336,195)
Translation reserve	-	-	-	-	816,505	-	-	-	816,505
Other comprehensive income (expense)	**-**	**-**	**-**	**-**	**816,505**	**(546,437)**	**-**	**-**	**270,068**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**2,940,303**	**9**	**2,940,312**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**816,505**	**(546,437)**	**2,940,303**	**9**	**3,210,380**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 30 June 2020	**5,200,000**	**1,529,151**	**6,729,151**	**3,514,840**	**3,591,890**	**(239,999)**	**44,119,954**	**168**	**57,716,004**

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

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

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

	Notes	Reviewed 1 January 2020- 30 June 2020	Reviewed 1 January 2019- 30 June 2019
Cash flows from operating activities:			
Profit before income tax		3,860,808	3,455,521
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment		177,209	108,162
Amortization of intangible assets		100,458	105,277
Provision for loan losses, write off and net of recoveries	6	6,114,205	4,165,272
Employment termination benefits and other short-term employee benefits		52,427	53,005
(Gain)/loss on foreign exchange and derivative financial instruments		(204,157)	1,597,085
Interest accrual		(1,826,564)	(1,642,522)
Other non-cash items		46,782	(103,264)
Taxes paid		(166,508)	(109,867)
Operating profit before changes in operating assets and liabilities		**8,154,660**	**7,628,669**
Net (increase) in reserve requirements with the Central Bank of Turkey and restricted cash		(1,844,445)	(160,330)
Net (increase) in loans and advances to customers		(26,782,275)	(11,585,542)
Net (increase)/decrease in trading securities		(1,469,296)	(592,067)
Net decrease/(increase) in other assets and prepayments		(20,143,127)	(4,012,667)
Net increase in other liabilities and accrued expenses		22,937,815	(8,667,974)
Net increase in customer deposits and interbank money market deposits		17,632,351	14,065,409
Net cash from operating activities		**(1,514,317)**	**(3,324,502)**
Cash flows from/(used in) investing activities:			
Purchase of property, plant and equipment	9	(409,809)	(98,356)
Proceeds from property, plant and equipment	9	2,255	10,158
Purchase of other intangible assets	10	(202,079)	(94,440)
Proceeds from other intangible assets	10	4	-
Proceeds from investment securities		54,243,021	4,759,460
Purchase of investment securities		(65,543,946)	(11,559,234)
Dividends received		3,813	2,764
Net cash used in investing activities		**(11,906,741)**	**(6,979,648)**
Cash flows from financing activities:			
Proceeds from borrowed funds and debt securities in issue	12, 13	26,952,093	20,383,620
Payments of borrowed funds and debt securities in issue	12, 13	(20,554,922)	(15,294,286)
Dividends paid to equity holders		-	-
Issued equity instruments		-	3,005,742
Payments of financial leases		(149,594)	(134,750)
Net cash (used in)/from financing activities		**6,247,577**	**7,960,326**
Effect of exchange rates on cash and cash equivalents		**2,178,962**	**2,265,729**
Net increase/(decrease) in cash and cash equivalents		**(4,994,519)**	**(78,095)**
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		**13,697,458**	**18,354,359**

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

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 30 June 2020, the Bank has 746 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 30 June 2020, the Group employed 13,019 people (31 December 2019: 13,136 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 banking and wealth management, and treasury and other activities through its subsidiaries (i.e, easing, 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 30 June 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 30 June 2020 have been approved for issue on 3 September 2020 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 period ended 30 June 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”).

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 many health and safety measures for citizens, as well as implemented fiscal and monetary actions for companies and households to support them in the challenging circumstances. Additional measures continue to be announced to tackle adverse impacts on companies and certain sectors. Estimations and assumptions used to reflect COVID-19 impacts on the financial statements of the Bank as of 30 June 2020 are explained in the relevant notes.

Due to COVID-19, The Bank has provided opportunity to postpone the principal, interest and installment payments of its individual and corporate customers.

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.

(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. was established on 28 June 2000 and manages its own investment (mutual) funds and AvivaSA Emeklilik ve Hayat A.Ş. and some of the pension funds established by Axa Hayat Emeklilik A.Ş., Allianz Hayat Emeklilik A.Ş. and Allianz Yaşam Emeklilik A.Ş., The company also is managing both individual and institutional customers' portfolios, it continues investing in the Fund SICAV 2 Turkey on the international market and founder of 1 Sompo Japan in money market funds management activities.

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:

		Shareholding %	
Name of subsidiary	**Country of incorporation**	**30 June 2020**	**31 December 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

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 period-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 30 June 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.

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 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 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.

(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 in the "Hedge reserves" account under shareholders' equity. As at 30 June 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 320 million. As at 30 June 2020, the net-off tax amount of TL (1,357,188) (31 December 2019: TL (1,099,526)) is accounted under hedge reserves as an investment hedge reserve.

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

(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 (i.e. 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 30 June 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).

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.

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

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 management is changed, all financial assets affected by this change are reclassified and the reclassification is applied in the future. In this case, no adjustment is made for the gain, loss or interest rates previously recognized 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 though profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. Financial assets measured at fair value though 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 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 17).

(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.

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

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

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

(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.

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.

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

(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.

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.

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;

- Number of over 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.

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

Definition of Default:

The Bank considers the default for a borrower taking into account all the facts and circumstances available, in order to assess whether the borrower is experiencing significant financial difficulty and is unable to fulfill the debt obligations. As required by IFRS9, if reasonable and supportable information that is more relevant than information on the past due status, the Bank use that information to determine whether the loan defaulted or not.

Write-off Policy:

The 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 (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.

- 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.
- 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 Expected 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.

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

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.

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

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 forecasting techniques.
- Model risk parameters and macroeconomic estimation models have been updated with recent data.
- The 2-scenario structure consisting of base-case scenario and negative scenario has been increased to 3 with the updated model. The expected credit loss calculation is made through these 3 scenarios.

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 "Growth Rate" and "Policy Interest". Therefore, the calculated provisions can change when the macroeconomic expectations are taken into consideration.

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

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

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

In forward-looking expectations, 3 scenarios are being used: the base scenario, the bad scenario and the good scenario. Final provisions are calculated by applying different weights for each scenario. In order to reflect the impact of COVID-19 on the ECL, the macroeconomic data (growth rate and policy interest rate) used in the scenarios as of 30 June 2020 have been updated in line with the estimates of the Economic Research Department of the Bank. In addition the weight of the bad scenario has been increased by reducing the weight of the base scenario. As of 30 June 2020, the effects of COVID-19 on the loans evaluated individually were taken into account by updating the expected cash flows. This approach will be revisited in the coming reporting periods, considering the future expectations.

(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 i.e. 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.

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 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.

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

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.
- (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.

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

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 Akbank 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 16).

(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

Tangible assets other than properties are 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, these assets are 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.

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.

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

(3.1.13) Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (not exceeding a period of five years).

(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 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.

(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.

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

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.

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 are shown separately in assets and liabilities.

(3.1.17) Retirement benefit obligations

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.

(i) 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 and is calculated using the projected unit credit method. In accordance with IAS 19, actuarial gain and loss are recognized in equity.

(ii) 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”.

(iii) 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.

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

(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.

(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 15).

(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 15).

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

(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.

(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)

(3.1.26) Disclosures of IFRS 16 leases

The group has implemented accounting policy changes resulting from the initial implementation of the "IFRS 16 Leases" standard from the new standard, amendments and interpretations effective from 1 January 2019 in accordance with the transitional provisions of the relevant standard.

IFRS 16 "Leases" Standard

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

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

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

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 TMS 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.

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

	30 June 2020	**31 December 2019**
Real estate	863,438	852,500
Total right of use assets	**863,438**	**852,500**

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

	30 June 2020	**31 December 2019**
Real estate	359,303	345,737
Total right of use assets depreciation	**359,303**	**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 60.176 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.

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

(3.1.27) Comparatives

In order to be consistent with the presentation of financial statements dated 30 June 2020, there are certain reclassifications made on income statement of 30 June 2019.

The Group made some reclassifications on income statements and cash flow statement on dated 30 June 2019 to be in compliance with the presentation of financial statements dated 30 June 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.

(3.3) The new standards, amendments and interpretations

(3.3.1) Standards, amendments and interpretations applicable as at 30 June 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.

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

- **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 30 June 2020:

- **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.

- **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 17 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'.

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

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

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 (2019: 120,000,000,000).

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

	30 June 2020	**30 June 2019**
Profit attributable to equity holders of the Group	2,940,303	2,689,003
Weighted average number of ordinary shares in issue (thousand Kr each)	520,000,000	480,883,978
Basic and diluted earnings per share (expressed in TL, full amount, per share)	**0.00565**	**0.00559**

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, medium and small 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.

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

NOTE 5 - SEGMENT REPORTING (Continued)

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.

Other Business segments consist of the operations 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 30 June 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 30 June 2020 and 31 December 2019 is as follows:

	30 June 2020				
Banking	**Retail Banking**	**Commercial Banking, Corporate-Investment, Private Banking and Wealth Management**	**Treasury**	**Other and Unallocated**	**Group's Total Activities**
Segment information regarding the balance sheet:					
Segment assets	90,184,415	183,972,445	142,766,405	8,410,648	425,333,913
Equity securities				30,491	30,491
Unallocated assets				18,517,599	18,517,599
Total assets					**443,882,003**
Segment liabilities	173,785,177	77,950,181	111,232,209	8,014,509	370,982,076
Unallocated liabilities				15,183,923	15,183,923
Equity				57,716,004	57,716,004
Total liabilities and equity					**443,882,003**
Segment information regarding the income statement:					
Operating Income	3,603,427	(5,707)	5,281,255	(717,328)	8,161,647
Segment result	549,930	(632,560)	4,924,854	(985,229)	3,856,995
Dividend income				3,813	3,813
Income taxes				(920,496)	(920,496)
Profit for the year	**549,930**	**(632,560)**	**4,924,854**	**(1,901,912)**	**2,940,312**

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

NOTE 5 - SEGMENT REPORTING (Continued)

	31 December 2019(*)				
Banking	**Retail Banking**	**Commercial Banking, Corporate-Investment, Private Banking and Wealth Management**	**Treasury**	**Other and Unallocated**	**Group'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	3,882,229	2,368,904	(76,774)	766,788	6,941,147
Segment result	1,331,399	1,805,858	(248,742)	561,480	3,449,995
Dividend income				5,526	5,526
Income taxes				(766,509)	(766,509)
Profit for the year	**1,331,399**	**1,805,858**	**(248,742)**	**(199,503)**	**2,689,012**

(*) 30 June 2019 amounts are used for income statement accounts.

NOTE 6 - LOANS AND ADVANCES TO CUSTOMERS

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

	30 June 2020	**31 December 2019**
Consumer loans	**37,015,978**	**32,114,332**
- Mortgage	9,186,134	9,309,219
- General purpose	27,695,197	22,667,642
- Automobile	134,647	137,471
Credit cards	**16,417,489**	**16,119,888**
- Retail	13,981,303	13,544,237
- Corporate	2,436,186	2,575,651
Corporate, commercial and small business loans	**188,884,035**	**168,251,852**
- Export financing loans	20,906,452	13,743,021
- Loans to financial institutions	10,348,017	11,501,727
- Leasing receivables	4,500,153	4,566,853
- Project finance loans	55,922,980	50,398,684
- Commercial installment loans	17,469,865	14,917,543
- Other	79,736,568	73,124,024
Performing loans	**242,317,502**	**216,486,072**
Impaired loans	16,298,289	15,430,545
Total loans and advances to customers	**258,615,791**	**231,916,617**
Provision for impairment	(15,365,556)	(12,707,076)
Net loans and advances to customers	**243,250,235**	**219,209,541**

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

NOTE 6 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	30 June 2020	31 December 2019
Gross investment in finance leases	5,651,634	5,768,590
Less: Unearned finance income	(559,244)	(628,271)
Total investment in finance leases	5,092,390	5,140,319
Provision for impairment	(382,573)	(401,711)
Net investment in finance leases	**4,709,817**	**4,738,608**

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

	30 June 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	1,747,483	1,638,466	2,586,417	2,335,390
2021(*)	3,904,151	3,453,924	3,182,173	2,804,929
Total	**5,651,634**	**5,092,390**	**5,768,590**	**5,140,319**

(*) Balances include the year 2021 and thereafter.

As of 30 June 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 9,955,274 (31 December 2019: TL 8,639,310). As of 30 June 2020 total amount of provision for impairment provided by the Group, which amounts to TL 15,365,557 (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:

	30 June 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	2,721,867	532,681	107,085	3,361,633
Collections	(367,585)	(205,243)	(31,905)	(604,733)
Write-offs	(275)	(3,827)	(94,318)	(98,420)
30 June 2020	**12,334,880**	**2,648,103**	**382,573**	**15,365,556**

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

NOTE 6 - 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:

	30 June 2020	**31 December 2019**
Loans and advances measured at amortized cost (Net)	16,006,309	6,918,419
Loans and advances measured at FVPL	7,200,669	6,723,419
Less: Cash collateral obtained	-	-
Net loans and advances to related parties	**23,206,978**	**13,641,838**

Further disclosures with respect to loans and advances to customers and expected credit loss are made in Note 17.

NOTE 7 - INVESTMENT SECURITIES

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

	30 June 2020	**31 December 2019**
Government bonds	32,804	182,344
Eurobonds	86,702	92,378
Share certificates	732,684	232,764
Other	108,692	33,934
Total	**960,882**	**541,420**

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

NOTE 7 - INVESTMENT SECURITIES (Continued)

(7.2) Measured Fair Value Through Other Comprehensive Income:

	30 June 2020	31 December 2019
Debt securities		
- Government bonds	29,610,833	35,534,282
- Eurobonds	14,913,091	14,721,907
- Treasury bills	1,105,233	1,446,889
- Other bonds	10,702,253	15,374,313
Equity securities		
- Listed	-	-
- Unlisted	30,491	21,905
- Mutual Funds	440,601	424,665
Total	**56,802,502**	**67,523,961**

As at 30 June 2020, financial securities measured fair value through other comprehensive income subject to repurchase agreements amount to TL 18,441,869 (31 December 2019: TL 8,422,563); and those given as collateral/blocked amount to TL 13,198,477 (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 and "available-for-sale" in prior periods 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.

(7.3) Financial assets measured at amortised cost

Gross Amount	30 June 2020	31 December 2019
Debt securities		
- Government bonds	40,754,846	13,078,386
- Other government debt securities	900,894	774,490
- Other marketable securities	689,316	1,712,649
Total	**42,345,056**	**15,565,525**

As at 30 June 2020, investment securities subject to repurchase agreements amount to TL 18,345,028 (31 December 2019: TL 1,374,596); and those given as collateral/blocked amount to TL 7,928,175 (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.

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

NOTE 7 - INVESTMENT SECURITIES (Continued)

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

	30 June 2020	31 December 2019
Opening Balance	**15,574,858**	**12,215,096**
Additions	23,934,207	5,397,163
Redemptions	(1,985,038)	(3,214,759)
Exchange differences	4,035,303	414,622
Impairment Provision (-) (*)	(9,747)	76,115
Change in Amortized Cost	795,473	677,288
Balance at 30 June 2020	**42,345,056**	**15,565,525**

(*) As of 30 June 2020, expected loss provisions are included.

NOTE 8 - ASSETS HELD FOR SALE

	Current Period 30 June 2020	Prior Period 31 December 2019
Cost	317,607	666,140
Accumulated Depreciation (-)	71	73
Net Book Value	**317,536**	**666,067**

	Current Period 30 June 2020	Prior Period 31 December 2019
Opening Balance Net Book Value	**666,067**	**264,384**
Additions (*)	165,439	1,575,616
Disposals (-), net	36,549	235,066
Impairment (-)	477,421	938,867
Closing Net Book Value	**317,536**	**666,067**

(*) As stated in Note 17, 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. The fair value decrease amount of TL 477,268 (30 June 2019: None) that the Bank has calculated for LYY Telekomünikasyon A.Ş. is shown in the "impairment" row of the table above.

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

NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

The Bank 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. Revaluations are performed, in line with IFRS 13 "Fair Value Measurement Financial Reporting Standard". While revaluating the property, the expert firm considers the following matters:

1. Condition and location of the asset.
2. Whether there are any restrictions in using and selling the asset.

Three commonly used valuation methods used by expert firms are; market approach, cost approach and revenue approach. If more than one valuation method is used to measure fair value, the results (indicators related to the fair value) are evaluated by taking into account the acceptability of the range of values they provide. The fair value measurement is the point that best reflects the fair value in the current circumstances.

The amount of tangible assets purchased during the six months period ended 30 June 2020 amounts to TL 448,639 (31 December 2019: TL 833,285).

The net amount of tangible assets sold during the six months period ended 30 June 2020 amounts to TL 4,594(31 December 2019: TL 36,930).

NOTE 10 - INTANGIBLE ASSETS

The amount of intangible assets purchased during the six months period ended 30 June 2020 amounts to TL 202,079 (31 December 2019: TL 496,271).

The amount of intangible assets sold during the six months period ended 30 June 2020 amounts to TL 4 (31 December 2019: TL 118).

NOTE 11 - DEPOSITS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

	30 June 2020			31 December 2019		
	Demand	**Time**	**Total**	**Demand**	**Time**	**Total**
Saving deposits	43,519,768	118,445,016	161,964,784	29,769,129	118,618,772	148,387,901
Commercial deposits	34,092,998	48,322,992	82,415,990	20,534,054	64,498,460	85,032,514
Funds deposited under repurchase agreements	-	33,862,892	33,862,892	-	9,955,767	9,955,767
Bank deposits	1,153,765	10,371,390	11,525,155	1,555,546	5,220,007	6,775,553
Other	967,442	2,371,744	3,339,186	1,410,045	3,106,320	4,516,365
Total	**79,733,973**	**213,374,034**	**293,108,007**	**53,268,774**	**201,399,326**	**254,668,100**

At 30 June 2020, deposits of TL 44,915,976 (31 December 2019: TL 16,810,631) were from Sabancı Holding Group companies and other related parties. The total interest expense paid to related party deposits is TL 438,449 (30 June 2019: TL 888,444) for the year ended 30 June 2020.

NOTE 12 - INTERBANK MONEY MARKET DEPOSITS, FUNDS BORROWED

	30 June 2020	31 December 2019
Interbank money market deposits	**463,113**	**150,783**
Domestic banks		
- TL	353,594	548,615
- Foreign currency	4,587,513	1,187,028
Foreign institutions	14,221,256	15,717,574
Funds borrowed	**19,162,363**	**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 30 June 2020, Akbank has three outstanding syndicated loan facilities.

First outstanding facility with one year tenor tranches was signed on 7 October 2019 and raised a total of EUR 373.5 million and USD 402 million. Balance outstanding under this facility is Euroibor +210 bps and Libor + 225.for one year.

Second outstanding facility with one year tenor was signed on 1 April 2020 and raised a total of EUR 331.5 million and USD 256 million with Euribor+200 bps and Libor+225 bps. for one year.

NOTE 13 - DEBT SECURITIES ISSUED

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

The balances amounting to USD 4,514,593 thousands and EUR 55,590 thousands consist of securitization deals issued by the Group. The repayment schedule of the total USD, EUR, JPY, HUF and RON denominated notes in issue is as follows:

	30 June 2020				
	USD (000)	TL	EUR (000)	TL	Other TL
2020	296,341	2,027,921	22,950	176,072	-
2021	585,626	4,007,556	23,112	177,315	-
2022	1,018,717	6,971,284	370	2,839	-
2023	535,065	3,661,557	355	2,724	-
2024	518,430	3,547,720	341	2,616	-
2025	871,794	5,965,861	328	2,516	-
2026	80,013	547,545	315	2,417	-
2027	358,952	2,456,380	303	2,325	-
2028	249,655	1,708,442	291	2,233	-
2029	-	-	7,225	55,431	-
Total	**4,514,593**	**30,894,266**	**55,590**	**426,488**	**-**

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

NOTE 13 - DEBT SECURITIES ISSUED (Continued)

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

As of 30 June 2020 the outstanding TL denominated bonds with the maturity of 1-3 months are TL 1,184,966 with the maturity of 3-6 months are TL 1,251, with the maturity of 1-5 years are TL 8,873,985 and with the maturity of over 5 years are TL 758,985.

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	1,909,642	8,148,289	311,888	10,369,819
Principal Payments	(199,330)	(830,233)	-	(1,029,563)
Interest Accrual Changes	(1,166)	(47,763)	442	(48,487)
Closing Balance (As of 30 June 2020)	**19,162,363**	**43,572,036**	**463,113**	**63,197,512**

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

NOTE 14 - PROVISIONS

As of 30 June 2020, the Group has allocated reserve for employment termination benefit and vacation liability amounting to TL 358,582 and TL 144,730, respectively (31 December 2019: 324,821 and 126,215).

Provision for non-cash loans that are non-funded and non-transformed into cash as of 30 June 2020 is amounting to TL 298,463 (31 December 2018: TL 297,102).

In addition to above the accompanying consolidated financial statement include a free provision amounting to TL 900,000 thousand which consists of TL 650,000 thousand provided in prior periods and TL 250,000 thousand recognised in current period with its related tax amounting to TL 198,000 thousand by the Bank management considering the possible effects of the circumstances that may arise from the changes in the economy and market conditions.

The Group has provision for credit cards and banking services promotion activities amounting to TL 46,429 (31 December 2019: TL 52,721).

The Group have recognised a provision amounting to TL 65,790 (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 30 June 2020, the corporate tax liability after the deduction of temporary taxes paid is TL 981,592 (31 December 2019: TL 326,797).

NOTE 15 - COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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:

(15.1) Credit Related Commitments:

The following table shows the outstanding credit related commitments of the Group at 30 June 2020 and 31 December 2019:

	30 June 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	7,045,747	9,604,291	16,650,038	6,849,662	10,100,300	16,949,962
- Foreign currency	6,408,636	8,580,503	14,989,139	7,023,337	7,163,818	14,187,155
Acceptance credits						
- Turkish lira	-	-	-	-	-	-
- Foreign currency	59,950	-	59,950	50,678	-	50,678
Letter of credit						
- Turkish lira	8,085	8,169	16,254	240	8,169	8,409
- Foreign currency	3,032,275	772,391	3,804,666	3,127,645	1,268,456	4,396,101
Other guarantees						
- Turkish lira	106,610	2,743,048	2,849,658	15,527	2,931,875	2,947,402
- Foreign currency	2,068,149	2,161,895	4,230,044	2,603,850	1,555,468	4,159,318
Total	**18,729,452**	**23,870,297**	**42,599,749**	**19,670,939**	**23,028,086**	**42,699,025**

Letters of guarantee and acceptance credits for related parties amount to TL 1,439,756 at 30 June 2020 (31 December 2019: TL 1,049,457).

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

NOTE 16 - RELATED PARTY TRANSACTIONS

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

(16.1) Balances with related parties:

	30 June 2020	31 December 2019
Loans and advances measured at amortized cost (Net) (**)	15,987,348	6,888,998
Loans and advances measured at FVPL (*)	7,200,669	6,723,419
Finance lease receivables	18,961	29,421
Total Assets	**23,206,978**	**13,641,838**
Deposits and obligations under repurchase agreements	44,915,976	16,810,631
Total Liabilities	**44,915,976**	**16,810,631**
Credit related commitments	1,439,756	1,049,457
Commitment under derivative instruments (***)	10,175,912	11,408,705
Total Commitments and contingent liabilities	**11,615,668**	**12,458,162**

(*) Includes loans measured at FVPL amounting to TL 7,200,669 thousands and arising from Levent Yeniden Yapılandırma A.Ş. owned by the Group considered as related party.

(**) Loans measured at amortised cost amounting to TL 8,325,074 thousands arising from its invesments in Türk Telekomünikasyon A.Ş. considered as associate are disclosed as a related party balances. Amounting to TL 7,662,274 thousands arising from the Group's other related parties.

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

As at 30 June 2020, the Group has repurchase commitments amounting to TL 27,618,148 (31 December 2019: TL 7,644) with Sabancı Group companies and other related parties.

(16.2) Transactions with related parties:

	30 June 2020	30 June 2019
Interest income on loans	353,090	785,303
Interest income	**353,090**	**785,303**
Interest expense on deposits	438,449	888,444
Interest expense	**438,449**	**888,444**

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

NOTE 16 - RELATED PARTY TRANSACTIONS (Continued)

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

	30 June 2020	31 December 2019
Deposits	1,793,312	1,625,947
Total due to customers	**1,793,312**	**1,625,947**

For the period ended 30 June 2020, benefits provided to the senior management and Board of Directors of the Group amounted to TL 62,201 (30 June 2019: TL 45,722).

NOTE 17 - FINANCIAL RISK MANAGEMENT

(17.1) 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.

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.

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

(17.2) 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.

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.

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

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 Deafult (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.

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:

	30 June 2020			
	Commercial Loans	**Consumer loans and credit cards**	**Lease Receivables**	**Total**
Loans measured at amortised cost				
Stage 1	158,363,238	49,328,226	4,092,550	211,784,014
Stage 2	26,020,645	4,105,241	407,602	30,533,488
Stage 3	13,023,678	2,682,373	592,238	16,298,289
Gross	**197,407,561**	**56,115,840**	**5,092,390**	**258,615,791**
Provisions	**12,334,880**	**2,648,103**	**382,573**	**15,365,556**
Loans measured at FVPL	**7,200,669**	**-**	**-**	**7,200,669**
Net	**192,273,350**	**53,467,737**	**4,709,817**	**250,450,904**

	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**

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

(i). Loans at amortised cost:

	30 June 2020			
	Commercial Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Neither past due nor impaired	182,696,570	52,524,466	4,380,999	239,602,035
Past due and not individually impaired	1,687,313	909,001	119,153	2,715,467
Individually impaired	13,023,678	2,682,373	592,238	16,298,289
Total gross	**197,407,561**	**56,115,840**	**5,092,390**	**258,615,791**
Less: allowance for individually impaired loans	(4,859,956)	(458,078)	(92,249)	(5,410,283)
Less: allowance for collectively impaired loans	(7,474,924)	(2,190,025)	(290,324)	(9,955,273)
Total Allowance for impairment	**(12,334,880)**	**(2,648,103)**	**(382,573)**	**(15,365,556)**
Total net	**185,072,681**	**53,467,737**	**4,709,817**	**243,250,235**

	31 December 2019			
	Commercial Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
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 30 June 2020 and 31 December 2019, the Group’s collateral types are mainly composed of mortgages, cash blockages, shares, vehicle and machine pledges.

(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.

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

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 30 June 2020, the value of the part pursued as loan is TL 8,006,715, and it is classified under "Other Financial Assets" under "Financial Assets at Fair Value through Profit Loss". The total fair value impairment accounted for the total amount turned into credit and capital is TL 2,222,136 and the amount of TL 1,416,090 of this amount is accounted under the "Assets Held for Sale and Discontinued Operations" and TL 806,046 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 7,200,669 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. 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 invesment 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 will be initiated.

As of the reporting date, the Group has reevaluated the fair value of LYY Telekomünikasyon A.Ş. by considering current market conditions and macroeconomic indicators and accordingly, there has been no change in the fair value of the financial asset as of the year-end.

(17.3) 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.

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

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 30 June 2020 and 31 December 2019:

	30 June 2020		31 December 2019	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets				
Loans and advances to customers	250,450,904	256,603,833	225,932,960	237,372,857
Investment securites measured at amortised cost (Net)	42,345,056	43,375,257	15,565,525	15,776,721
Financial liabilities				
Deposits and obligations under repurchase agreements	293,108,007	292,189,508	254,668,100	254,445,891
Interbank money market deposits, funds borrowed and debt securities in issue	63,197,512	63,060,495	53,905,743	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.

(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).

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

NOTE 17 - 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 17 (3), according to the foregoing principles is given in the table below:

	30 June 2020			
Assets carried at fair value:	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	**960,882**	**-**	**-**	**960,882**
- Government debt securities	32,804	-	-	32,804
- Eurobonds	86,702	-	-	86,702
- Government debt securities denominated	-	-	-	-
in foreign currency	-	-	-	-
- Treasury bills	6,134	-	-	6,134
- Share certificates	732,684	-	-	732,684
- Other financial assets	102,558	-	-	102,558
Derivative Financial Assets at Fair Value Through Profit or Loss	**487**	**16,280,479**	**-**	**16,280,966**
Derivative Financial Assets at Fair Value Through Other Comprehensive Income	**-**	**3,320,529**	**-**	**3,320,529**
Financial Assets at Fair Value Through Other Comprehensive Income	**56,167,895**	**604,117**	**-**	**56,772,012**
- Government debt securities	29,610,833	-	-	29,610,833
- Eurobonds	16,018,324	-	-	16,018,324
- Treasury bills	-	-	-	-
- Government debt securities denominated in foreign currency	-	-	-	-
- Mutual funds	323,179	117,422	-	440,601
- Equity Securities	-	-	-	-
- Other financial assets	10,215,559	486,695	-	10,702,254
Loans and advances to customers (**)	**-**	**249,403,164**	**7,200,669**	**256,603,833**
- Financial assets measured at amortised cost		249,403,164	-	249,403,164
- Financial assets measured at fair value through profit or loss	-	-	7,200,669	7,200,669
Assets for which fair values are disclosed	**43,375,257**			**43,375,257**
- Financial assets measured at amortised cost	43,375,257			43,375,257
- Government debt securities	42,702,783		-	42,702,783
- Other financial assets	672,474	-	-	672,474
Total assets	**100,504,034**	**250,007,281**	**7,200,669**	**357,711,984**
Liabilities carried at fair value:				
Trading derivative financial instruments	**-**	**-**	**-**	**-**
Hedging derivative financial instruments	**-**	**-**	**-**	**-**
Liabilities for which fair values are disclosed (*)	**-**	**355,250,003**	**-**	**355,250,003**
- Customer Deposits	-	292,189,508	-	292,189,508
- Interbank money market deposits, funds borrowed and debt securities in issue	-	63,060,495	-	63,060,495
Total liabilities	**-**	**355,250,003**	**-**	**355,250,003**

(*) Loans and advances measured at fair value present the loan granted to LYY as explained in Note 17. 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 17.

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.

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2019			
Assets carried at fair value:	**Level 1**	**Level 2**	**Level 3**	**Total**
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 17. 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 17.

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.

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

As of 30 June 2020, the movement of Level 3 financial instruments is as follows:

	30 June 2020		31 December 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	477,250	-	759,654	-
Balance at the end of the period	**7,200,669**	**-**	**6,723,419**	**-**

(17.4) 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 30 June 2020, the Group has custody accounts amounting to TL 103,771,088 in nominal value (31 December 2019: TL 86,271,317).

NOTE 18 - SUBSEQUENT EVENTS

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