AKBANK T.A.Ş.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2021

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 2021 and the related 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 the note 14 of the accompanying interim condensed consolidated financial statements; includes a free provision amounting to TL 1,150,000 thousand provided in the prior years by the Bank Management which does not meet the recognition criteria of IAS 37 "Provisions, contingent liabilities and contingent assets"

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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.

Zeynep Uras, SMMM
Partner

Istanbul, 25 August 2021

AKBANK T.A.Ş.

INTERIM CONDENSED CONSOLIDATED
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

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

	Notes	Reviewed 30 June 2021	Audited 31 December 2020
ASSETS			
Cash and due from banks and balances with the Central Bank of Turkey		84,318,692	65,527,455
Derivative financial instruments		23,242,335	22,858,366
Loans and advances to customers	6	302,569,364	275,189,478
-Measured at amortised cost		295,226,454	267,846,568
-Fair value through profit or loss		7,342,910	7,342,910
Investment Securities		115,057,002	101,928,119
-Financial assets at fair value through profit or loss ("FVPL")	7	2,017,468	1,836,502
-Financial assets at fair value through OCI ("FVOCI")	7	72,520,719	58,218,940
-Financial assets at amortised cost ("AC")	7	40,518,815	41,872,677
Assets held for sale	8	277,930	250,778
Deferred tax assets		52,379	147,990
Property, plant and equipment	9	5,847,952	6,003,406
Intangible assets	10	1,204,381	1,190,909
Other assets and pre-payments		5,268,540	5,220,074
Total assets		**537,838,575**	**478,316,575**
LIABILITIES			
Deposits and obligations under repurchase agreements	11	358,302,204	312,997,257
Interbank money market deposits	12	714,022	429,094
Derivative financial instruments		11,592,029	14,840,973
Funds borrowed	12	25,243,739	22,377,917
Debt Securities Issued	13	51,244,345	43,909,328
Income taxes payable		1,069,337	1,126,257
Provisions	14	1,977,357	1,943,434
Other liabilities and accrued expenses		19,329,604	17,086,179
Employment benefit obligations		636,865	557,621
Deferred tax liabilities		418,509	124,458
Total liabilities		**470,528,011**	**415,392,518**
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		5,737,862	4,732,835
Other reserves		494,662	650,773
Retained earnings		50,833,853	47,296,276
Total shareholders' equity		**67,310,368**	**62,923,875**
Non-controlling interest		196	182
Total equity		**67,310,564**	**62,924,057**
Total liabilities and equity		**537,838,575**	**478,316,575**

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE PERIOD ENDED 30 JUNE 2021

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

	Notes	Reviewed 1 January 2021- 30 June 2021	Reviewed 1 January 2020- 30 June 2020
Interest income		21,427,825	16,709,074
Interest expense		(11,897,826)	(6,475,245)
Net interest income		**9,529,999**	**10,233,829**
Fee and commission income		3,495,115	2,743,611
Fee and commission expense		(680,868)	(477,756)
Net fee and commission income		**2,814,247**	**2,265,855**
Impairment losses on loans and credit related commitments		(2,708,001)	(4,281,295)
Foreign exchange gains and losses, net		2,442,909	628,800
Trading gains and losses, net		(2,297,121)	(811,570)
Dividend income		9,582	3,813
Other operating income		142,303	126,028
Operating income		**9,933,918**	**8,165,460**
Operating expenses		**(4,333,834)**	**(4,304,652)**
Profit before income taxes		**5,600,084**	**3,860,808**
Income taxes		**(1,465,661)**	**(920,496)**
Income tax expense		(1,068,156)	(1,227,829)
Deferred tax (expense) / income		(397,505)	307,333
Profit for the period		**4,134,423**	**2,940,312**
Attributable to:			
Equity holders of the Group		4,134,409	2,940,303
Non-controlling interest		14	9
		4,134,423	**2,940,312**
Basic and diluted earnings per share (expressed in TL, full amount, per share)	4	0.00795	0.00565

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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

	Reviewed 1 January 2021 - 30 June 2021	Reviewed 1 January 2020 - 30 June 2020
Net profit for the period	**4,134,423**	**2,940,312**
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	(662,439)	(436,096)
Foreign exchange differences on translation of foreign operations	1,005,027	816,505
Gain/(Loss) from cash flow hedges (effective part of fair value changes)	1,498,401	(100,683)
Gain/(Loss) from net foreign investment hedges (effective part of exchange difference on borrowings)	(951,076)	(330,336)
Tax related to gain and loss recognized directly in equity	13,131	190,765
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**903,044**	**140,155**
Other comprehensive income not being reclassified to profit or loss in subsequent periods		
Remeasurement gain/(loss) on defined benefit plans, net of taxes	(33,819)	(18,932)
Property and plant revaluation differences	2,719	157,929
Other comprehensive income items not reclassified through profit or loss	-	5,687
Tax related to gain and loss recognized directly in equity	6,220	(14,771)
Net other comprehensive income net of tax not reclassified to profit or loss in subsequent periods	**(24,880)**	**129,913**
Other comprehensive income net of tax	**878,164**	**270,068**
Total comprehensive income, net of tax	**5,012,587**	**3,210,380**
Attributable to:		
Equity holders of the Group	5,012,573	3,210,371
Non-controlling interest	14	9

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.)

	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 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 CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

(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 1 January 2021	**5,200,000**	**1,529,151**	**6,729,151**	**3,514,840**	**4,732,835**	**650,773**	**47,296,276**	**182**	**62,924,057**
Transfer to retained earnings	-	-	-	-	-	(29,248)	29,248	-	-
Property and Plant Revaluation Differences, net of tax	-	-	-	-	-	2,175	-	-	2,175
Paid-in Capital	-	-	-	-	-	-	-	-	-
Actuarial Gains and Losses	-	-	-	-	-	(27,055)	-	-	(27,055)
Net unrealized market value gains (losses) from FVOCI portfolio	-	-	-	-	-	(531,389)	-	-	(531,389)
Cash flow hedges, net of tax	-	-	-	-	-	429,406	-	-	429,406
Translation reserve	-	-	-	-	1,005,027	-	-	-	1,005,027
Other comprehensive income (expense)	-	-	-	-	**1,005,027**	**(126,863)**	-	-	**878,164**
Profit for the period	-	-	-	-	-	-	**4,134,409**	**14**	**4,134,423**
Total comprehensive income for the period	-	-	-	-	**1,005,027**	**(126,863)**	**4,134,409**	**14**	**5,012,587**
Dividends paid	-	-	-	-	-	-	**(626,080)**	-	**(626,080)**
Balance at 30 June 2021	**5,200,000**	**1,529,151**	**6,729,151**	**3,514,840**	**5,737,862**	**494,662**	**50,833,853**	**196**	**67,310,564**

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 2021

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

	Notes	Reviewed 1 January 2021- 30 June 2021	Reviewed 1 January 2020- 30 June 2020
Cash flows from operating activities:			
Profit before income tax		5,600,084	3,860,808
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment		210,111	177,209
Amortization of intangible assets		133,596	100,458
Provision for loan losses, write off and net of recoveries	6	5,331,128	6,114,205
Employment termination benefits and other short-term employee benefits		45,425	52,427
(Gain)/loss on foreign exchange and derivative financial instruments		(2,102,213)	(204,157)
Interest accrual		(1,044,622)	(1,826,564)
Other non-cash items		37,928	46,782
Taxes paid		(1,118,412)	(166,508)
Operating profit before changes in operating assets and liabilities		**7,093,024**	**8,154,660**
Net (increase) in reserve requirements with the Central Bank of Turkey and restricted cash		(5,816,742)	(1,844,445)
Net (increase) in loans and advances to customers		(27,860,018)	(26,782,275)
Net (increase)/decrease in trading securities		(1,708,304)	(1,469,296)
Net decrease/(increase) in other assets and prepayments		(1,348,259)	(20,143,127)
Net increase in other liabilities and accrued expenses		10,169,976	22,937,815
Net increase in customer deposits and interbank money market deposits		37,689,168	17,632,351
Net cash from operating activities		**18,218,845**	**(1,514,317)**
Cash flows from/(used in) investing activities:			
Purchase of property, plant and equipment	9	(96,368)	(409,809)
Proceeds from property, plant and equipment	9	63,531	2,255
Purchase of other intangible assets	10	(146,500)	(202,079)
Proceeds from other intangible assets	10	-	4
Proceeds from investment securities		22,992,682	54,243,021
Purchase of investment securities		(34,438,588)	(65,543,946)
Dividends received		9,582	3,813
Net cash used in investing activities		**(11,615,661)**	**(11,906,741)**
Cash flows from financing activities:			
Proceeds from borrowed funds and debt securities in issue	12, 13	18,679,743	26,952,093
Payments of borrowed funds and debt securities in issue	12, 13	(12,047,642)	(20,554,922)
Dividends paid to equity holders		(626,080)	-
Payments of financial leases		(152,528)	(149,594)
Net cash (used in)/from financing activities		**5,853,493**	**6,247,577**
Effect of exchange rates on cash and cash equivalents		**2,022,025**	**2,178,962**
Net increase/(decrease) in cash and cash equivalents		**14,478,702**	**(4,994,519)**
Cash and cash equivalents at the beginning of the period		**13,495,306**	**18,691,977**
Cash and cash equivalents at the end of the period		**27,974,008**	**13,697,458**

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 2021, the Bank has 713 branches dispersed throughout the country and 1 branch operating outside the country (31 December 2020: 715 branches dispersed throughout the country and 1 branch operating outside the country). As at 30 June 2021, the Group employed 12,718 people (31 December 2020: 12,862 people). In addition to regular banking operations, the Group also provides insurance intermediary services as an agency of Aksigorta A.Ş. and AgeSA Emeklilik ve Hayat A.Ş. via its branch network. As of 5 July 2021, the title of AvivaSA Emeklilik ve Hayat A.Ş. was changed to AgeSA 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, leasing, brokerage and portfolio management).

The Parent Bank's shares have been quoted on the Istanbul Stock Exchange since 1990. In April 1998, 4.03% of the outstanding share capital of the Parent Bank, was offered and sold in an international offering outside of Turkey in the form of Ordinary Shares and American Depository Receipt ("ADR"). As at 30 June 2021, approximately 51% of the shares are publicly traded, including the ADRs (31 December 2020: 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 2021 have been approved for issue on 25 August 2021 by S. Hakan Binbaşgil, the Chief Executive Officer and by Türker Tunalı, the Chief Financial Officer of Akbank T.A.Ş.. General Assembly of the Parent Bank and other regulatory bodies have the power to amend the statutory financial statements after issue.

NOTE 2 - BASIS OF PREPARATION

These consolidated financial statements for the period ended 30 June 2021 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 measures to keep citizens' healthy and safety, as well as to ensure that both companies and the households to support in these challenging circumstances, fiscal and monetary actions have been implemented. Additional measures are being announced to tackle adverse impacts on companies and certain sectors. Intensive vaccination campaign has been continuing in Turkey as in many parts of the world. The possible effects of the outbreak on the Parent Bank's financial statements are regularly monitored by the relevant Units and the Parent Bank Management. On the other hand, estimations and assumptions used to reflect COVID-19 impacts on 30 June 2021 financial statements of the Bank are explained in the related notes to the financial statements.

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

NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

(3.1) Accounting Policies

(3.1.1) Consolidation

Consolidation principles for subsidiaries:

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

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

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

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

(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, this company is "Structured Entity", has been included in the scope of consolidation. The Parent Bank together with its consolidated subsidiaries are referred to as the "Group" in these consolidated financial statements.

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

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

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

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

Aköde Elektronik Para ve Ödeme Hizmetleri A.Ş., 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 2021**	**31 December 2020**
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 2021, 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.

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

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

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

The average remaining maturity of the floating-rate USD Libor-Indexed borrowings directly affected by the interest rate reform is 3,8 years and the remaining amount is USD 974,643. Foreign currency interest swap transactions were made to hedge the cash flow risk of the aforementioned borrowing and subject to hedge accounting. There is no hedge accounting transaction terminated under the published reliefs.

(ii) Net Investment Hedge

The Group hedges the net investment risk on Akbank AG with the foreign currency denominated financial liabilities. The effective part of the foreign exchange differences on the foreign currency denominated financial liabilities is accounted in the "Hedge reserves" account under shareholders' equity. As at 30 June 2021, the amount of net investment hedge applied to hedge the foreign currency risk arising from share premium and paid-in capital of Akbank AG is EUR 787 million. As at 30 June 2021, the net-off tax amount of TL 3,045,858 loss (31 December 2020: TL 2,284,998 loss) is accounted under hedge reserves as an investment hedge reserve.

(iii) Embedded derivatives

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

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid contract is measured at fair value with changes in fair value recognised in profit or loss (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 2021, the Group has no embedded derivative instruments.

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

(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.

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.

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

(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 reviewed the valuation of financial assets and liabilities at fair value through profit / loss and as of the reporting date, there are no changes that would require any adjustments in fair value measurement as of 30 June 2021, due to the negative effects of the COVID-19 pandemic.

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assess whether 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.

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

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

During initial recognition the Bank can choose in an irrevocable 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. The Group reviewed the valuation of financial assets and liabilities at fair value through other comprehensive income and as of the reporting date, there are no changes that would require any adjustments in fair value measurement as of 30 June 2021, due to the negative effects of the COVID-19 pandemic.

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

(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. In this context, the valuation of these securities was made according to an annual inflation forecast of 14.00% as of 30 June 2021.At the end of the year, the real inflation rate is used. As of 30 June 2021, in case of the CPI estimate increases or decreases by 1%, the profit before tax will increase by approximately TL 160 million (full amount) or decrease by the same amount.

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.

1. Loans measured at amortised cost:

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

Stage 1:

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

Stage 2:

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

Stage 3:

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

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

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

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

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

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

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

Significant increase in credit risk

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

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

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

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

Definition of Default:

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

1. Objective Default Definition: It means that the debt is overdue by more than 90 days. The definition of default, which is applicable to the Bank and its consolidated financial institutions, is based on the criteria that the debt is overdue by more than 90 days.

Due to COVID-19 outbreak impact, the 90 past due days criteria applied for the definition of default started to be applied as 180 days as of 17 March 2020 in accordance with the local legislation. Despite of the classification changes due to local regulation, the Bank calculates provisions for loans with 90-180 past due days in accordance with the requirements of IFRS 9 and its own risk policies by taking the borrower's conditions into account. In addition, the days past due limit applied to determine significant increase in credit risk has been changed from 30 to 90 days as of 17 March 2020 according to the legislation. Although the Bank applies the aforementioned regulation for the classification of loans, lifetime expected loss provision is provided for loans with a delay of 30-90 days. This regulation has been extended to 30 September 2021.

2. Subjective Default Definition: It means the determination that the debt will not be paid. If it is determined that the borrower cannot fulfill its debts related to the loan, regardless of whether there is a balance in delay or the number of days of delay, the debtor is considered in default.

Write-off Policy:

Within the framework of the provisions of the "Regulation Amending the Regulation on the Procedures and Principles Regarding the Classification of Loans and Provisions for These" published in the Official Gazette dated 27 November 2019 and numbered 30961 the portion of the loans that are classified under "Fifth Group-Loans with a Loss Qualification" and for which a lifetime expected loan loss provision or special provision is made due to the default of the borrower, for which there are no reasonable expectations for the recovery of the loans, It can be deducted from the records within the scope of IFRS 9.

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

In determining the cluster within this scope, the following indicators are used;

- In the corporate, commercial and retail segment follow-up portfolio, with very low or no collection expectation
- Monitored in the 5th group as of the last reporting period,
- Having a provision rate of 90% or more,
- No active payment plans
- No Credit Guarantee Fund (CGF) secured loan

Loans and provision ratio of 100% all abusive and fraudulent tracking accounts are included in the deletion of the active account.

The process of write-off the loans is an accounting practice and does not result in waiving the right to receivable regarding the related loans. Existing administrative and legal follow-up processes regarding the loans deducted from the record are continued. Partial write-off transactions mean that the financial asset will be repaid at a certain rate by the debtor, and the remaining amount after the payment or the part within the Bank that is classified under group 5 and has no reasonable expectations for its recovery will be removed from the financial statements. Regarding the write-off (asset disposal) process; the effect of the amount written off during the period and the amount written off on the NPL ratio is disclosed in the footnotes of the financial statements.

Expected Credit Loss Provision (ECL):

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

As of 1 January 2018, the Group recognize provisions for impairment in accordance with IFRS 9 "Financial Instruments", issued by the IASB in July 2014, replaced IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

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

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

- Probability of Default (PD): PD indicates the probability of default due to inability of the borrower to meet its debt obligations. It has been calculated for 12 months or lifetime depends on increase on borrower's credit risk.

- Loss Given Default (LGD): In case of default of the borrower, Loss Given Default has been calculated as dividing historical realized credit loss to Exposure at Default (EAD). LGD models includes data such as product type, customer segment, collateral structure, customer repayment performance Calculated LGD remains constant until its overdue.

- Exposure at Default: Specifies the amount of risk that the borrower should pay in case of default. It is kept in the system by constantly calculated until the maturity of the borrower. The amount of extra risk that can be incurred in the event of default is included in the calculations by using the credit conversion rate (CCR) calculated for the irrevocable commitment products.

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

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

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

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

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

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

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

- There has been no change in the assumptions in estimation techniques and the macroeconomic model used in the process has been re-developed. The parameter estimates used in the macroeconomic model were updated.
- Model risk parameters and macroeconomic estimation models have been updated with recent data at the end of 2020.

Within the scope of the effects of COVID-19's Expected Credit Loss (ECL) calculations, the macroeconomic model data and scenario weights used in the process are also reviewed at the end of the interim period and updates are made if deemed necessary.

- The expected credit loss calculation is made by considering 3 different scenarios the best, the worst, and the base.

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

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

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

In prospective expectations, 3 scenarios are being used as the base, the worst and the best. Final provisions are calculated by weighting on the possibilities given to the scenarios.

(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 marketplace. 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.

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

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 terms are not substantially different, the renegotiation or modification does not result in derecognition.

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

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

(3.1.8) Fee and commission income and expenses

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

(3.1.9) Interest income and expense

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

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

(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.

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.

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

(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.

(3.1.13) Intangible assets

Intangible assets are measured at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical costs after the deduction of accumulated depreciation and the provision for value decreases.
Intangibles are amortised over three to fifteen years (their estimated useful lives) using the straight-line method. The useful life of the asset is determined by assessing the expected useful time of the asset, technical, technological and other kinds of wear and tear and all required maintenance expenses necessary to utilize the economic benefit from the asset.

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

(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.

As of 30 June 2021, the current corporate tax rate is 25%. In accordance with the Law No. 7316 published in the Official Gazette dated 22 April 2021, starting from the declarations that must be submitted as of 1/7/2021 and to be valid for the taxation period starting from 1/1/2021, the corporate tax rate is 25% for the taxation period of 2021, this rate will be applied as 23% for the taxation period of 2022 and 20% for the taxation period of 2023 and beyond.

Taxes other than on income are recorded within operating expenses.

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

(ii) Deferred income taxes

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

As of 30 June 2021, for assets and liabilities subject to deferred tax calculation, enacted tax rates in accordance with the current tax legislation are used in accordance with their lifetime. In accordance with the Law No. 7316 published in the Official Gazette dated 22 April 2021, starting from the declarations that must be submitted as of 1/7/2021 and to be valid for the taxation period starting from 1/1/2021, the corporate tax rate is 25% for the taxation period of 2021 and this rate will be applied as 23% for the taxation period of 2022. The Group calculated its deferred tax over 20% as of 31 December 2020.

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 Labor Law and is calculated using the projected unit credit method. In accordance

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

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.

(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.

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

(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).

(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

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:

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

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

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

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

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

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

The Lease Obligations:

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

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

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

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

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

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

	30 June 2021	**31 December 2020**
Real estate	803,528	756,191
Total right of use assets	**803,528**	**756,191**

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

	30 June 2021	**31 December 2020**
Real estate	354,337	328,392
Total right of use assets depreciation	**354,337**	**328,392**

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

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 65,578 has been paid in the relevant period.

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

(3.1.27) Comparatives

The Group made some reclassifications on balance sheet statement on dated 31 December 2020 and cash flow statement on dated 30 June 2020 to be in compliance with the presentation of financial statements dated 30 June 2021.

(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 2021:

Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions Extension of the Practical expedient; as of March 2021, this amendment extended till June 2022 and effective from 1 April 2021.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.

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

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

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

(3.3.2) Standards, amendments and interpretations that are issued but not effective as at 30 June 2021:

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 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16; effective from Annual periods beginning on or after 1 January 2022.

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

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

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

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

Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8; effective from annual periods beginning on or after 1 January 2023. The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction; from annual periods beginning on or after 1 January 2023. These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

(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 2021: None (31 December 2020: None).

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

	30 June 2021	**30 June 2020**
Profit attributable to equity holders of the Group	4,134,409	2,940,303
Weighted average number of ordinary shares in issue (thousand Kr each)	520,000,000	520,000,000
Basic and diluted earnings per share (expressed in TL, full amount, per share)	**0.00795**	**0.00565**

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.

Commercial Banking and Corporate-Investment 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.

(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 2021 and 31 December 2020 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 2021 and 31 December 2020 is as follows:

	30 June 2021				
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	112,861,050	215,580,261	182,281,101	10,151,390	520,873,802
Equity securities	-	-	-	34,015	34,015
Unallocated assets	-	-	-	16,930,758	16,930,758
Total assets					**537,838,575**
Segment liabilities	215,311,799	106,232,918	119,312,378	9,825,528	450,682,623
Unallocated liabilities	-	-	-	19,845,388	19,845,388
Equity	-	-	-	67,310,564	67,310,564
Total liabilities and equity					**537,838,575**
Segment information regarding the income statement:					
Operating Income	5,543,009	3,798,251	(1,054,728)	1,637,804	9,924,336
Segment result	2,188,971	3,129,991	(1,297,739)	1,569,279	5,590,502
Dividend income	-	-	-	9,582	9,582
Income taxes	-	-	-	(1,465,661)	(1,465,661)
Profit for the year	**2,188,971**	**3,129,991**	**(1,297,739)**	**113,200**	**4,134,423**

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

NOTE 5 - SEGMENT REPORTING (Continued)

	31 December 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	101,012,305	198,994,220	148,545,090	8,974,388	457,526,003
Equity securities	-	-	-	31,179	31,179
Unallocated assets	-	-	-	20,759,393	20,759,393
Total assets					**478,316,575**
Segment liabilities	190,212,425	96,610,017	103,254,640	8,770,417	398,847,499
Unallocated liabilities	-	-	-	16,545,019	16,545,019
Equity	-	-	-	62,924,057	62,924,057
Total liabilities and equity					**478,316,575**
Segment information regarding the income statement:					
Operating Income	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**

(*) 30 June 2020 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 2021	31 December 2020
Consumer loans	**49,947,711**	**41,914,006**
- Mortgage	11,110,919	9,585,929
- General purpose	38,461,083	32,098,935
- Automobile	375,709	229,142
Credit cards	**25,069,781**	**21,660,421**
- Retail	21,153,928	18,418,751
- Corporate	3,915,853	3,241,670
Corporate, commercial and small business loans	**220,824,899**	**203,361,362**
- Export financing loans	24,395,149	21,448,393
- Loans to financial institutions	16,797,114	14,337,460
- Leasing receivables	5,601,770	5,015,140
- Project finance loans	63,687,328	60,087,990
- Commercial installment loans	16,652,614	17,003,445
- Other	93,690,924	85,468,934
Performing loans(*)	**295,842,391**	**266,935,789**
Impaired loans	17,485,921	17,880,294
Total loans and advances to customers	**313,328,312**	**284,816,083**
Provision for impairment	(18,101,858)	(16,969,515)
Net loans and advances to customers	**295,226,454**	**267,846,568**

(*) Excluding loans measured at fair value through profit and loss amounting to TL 7,342,910 (31 December 2020: TL 7,342,910).

(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 2021	31 December 2020
Gross investment in finance leases	6,797,687	6,214,449
Less: Unearned finance income	(725,800)	(631,599)
Total investment in finance leases	6,071,887	5,582,850
Provision for impairment	(325,961)	(394,453)
Net investment in finance leases	**5,745,926**	**5,188,397**

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

	30 June 2021		31 December 2020	
	Gross investment in finance leases	Total investment in finance leases	Gross investment in finance leases	Total investment in finance leases
Period ending				
2021	1,375,599	1,225,788	2,122,120	1,871,231
2022	1,943,386	1,666,565	1,463,086	1,278,772
2023(*)	3,478,702	3,179,534	2,629,243	2,432,847
Total	**6,797,687**	**6,071,887**	**6,214,449**	**5,582,850**

(*) Balances include the year 2022 and thereafter.

As of 30 June 2021 and 31 December 2020, 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 6,791,768 (31 December 2020: TL 5,876,277). As of 30 June 2021, total amount of provision for impairment provided by the Group, which amounts to TL 18,101,858 (31 December 2020: 16,969,515) 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 2021			
	Commercial loans	Consumer loans and credit cards	Leasing receivables	Total
1 January 2021	**13,773,709**	**2,801,353**	**394,453**	**16,969,515**
Additions	1,509,457	652,189	65,902	2,227,548
Collections	(682,160)	(213,054)	(60,471)	(955,685)
Write-offs	(44,920)	(20,677)	(73,923)	(139,520)
30 June 2021	**14,556,086**	**3,219,811**	**325,961**	**18,101,858**

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

NOTE 6 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

(*) The amount of write-off made according to the "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside" published in the Official Gazette dated 27 November 2019 and numbered 30961 is TL 774,976 thousand and its effect on the NPL ratio is 23 basis point.

Loans and advances to related parties are as follows:

	30 June 2021	**31 December 2020**
Loans and advances measured at amortized cost (Net)	8,426,526	7,923,015
Loans and advances measured at FVPL	7,342,910	7,342,910
Net loans and advances to related parties	**15,769,436**	**15,265,925**

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 2021	**31 December 2020**
Government bonds	18,188	22,607
Eurobonds	146,072	167,331
Share certificates	376,329	305,711
Other	1,476,879	1,340,853
Total	**2,017,468**	**1,836,502**

As of 30 June 2021, the group has no financial assets pledged under repurchase agreements with financial institutions (31 December 2020: None).

As of 30 June 2021, financial assets at fair value through profit or loss given as collateral/blocked amount to TL 10,117 (31 December 2020: TL 9,995); and there are no financial assets subject to repo transactions (31 December 2020: None).

(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 2021	**31 December 2020**
Debt securities		
- Government bonds	27,030,313	23,067,781
- Eurobonds	28,720,484	21,352,442
- Treasury bills	-	-
- Other bonds	16,205,396	13,277,209
Equity securities		
- Listed	-	-
- Unlisted	34,015	31,179
- Mutual Funds	530,511	490,329
Total	**72,520,719**	**58,218,940**

As at 30 June 2021, financial securities measured fair value through other comprehensive income subject to repurchase agreements amount to TL 16,688,120 (31 December 2020: TL 16,984,050); and those given as collateral/blocked amount to TL 9,422,290 (31 December 2020: TL 18,374,196).

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

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

(7.3) Financial assets measured at amortised cost

Gross Amount	**30 June 2021**	**31 December 2020**
Debt securities		
- Government bonds	38,915,483	40,236,839
- Other government debt securities	838,512	976,369
- Other marketable securities	764,820	659,469
Total	**40,518,815**	**41,872,677**

As at 30 June 2021, investment securities subject to repurchase agreements amount to TL 16,216,608 (31 December 2020: TL 6,241,092); and those given as collateral/blocked amount to TL 11,395,859 (31 December 2020: TL 8,687,723).

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 2021	**31 December 2020**
Opening Balance	**41,872,677**	**15,565,525**
Additions	10,055,158	25,884,971
Redemptions	(12,925,076)	(4,774,521)
Exchange differences	996,565	4,715,654
Impairment Provision (-) (*)	(21,355)	(14,050)
Change in Amortized Cost	540,846	495,098
Balance at 30 June 2021	**40,518,815**	**41,872,677**

(*) At 30 June 2021 and 31 December 2020, expected loss provisions are included.

NOTE 8 - ASSETS HELD FOR SALE

	Current Period 30 June 2021	**Prior Period 31 December 2020**
Cost	277,930	250,782
Accumulated Depreciation (-)	-	4
Net Book Value	**277,930**	**250,778**

	Current Period 30 June 2021	**Prior Period 31 December 2020**
Opening Balance Net Book Value	**250,778**	**666,067**
Additions	107,500	265,721
Disposals (-), net	79,871	184,122
Impairment (-)	477	496,888
Closing Net Book Value	**277,930**	**250,778**

(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 2021 amounts to TL 163,964 (31 December 2020: TL 794,112).

The net amount of tangible assets sold during the six months period ended 30 June 2021 amounts to TL 67,785 (31 December 2020: TL 155,551).

NOTE 10 - INTANGIBLE ASSETS

The amount of intangible assets purchased during the six months period ended 30 June 2021 amounts to TL 146,500 (31 December 2020: TL 451,476).

The group has no sold intangible assets during the six months period ended 30 June 2021 (31 December 2020: TL 234).

NOTE 11 - DEPOSITS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

	30 June 2021			31 December 2020		
	Demand	**Time**	**Total**	**Demand**	**Time**	**Total**
Saving deposits	59,416,522	150,426,743	209,843,265	53,209,482	129,399,700	182,609,182
Commercial deposits	41,612,017	59,242,877	100,854,894	36,424,264	56,466,245	92,890,509
Funds deposited under repurchase agreements	-	31,397,235	31,397,235	-	20,478,250	20,478,250
Bank deposits	1,085,572	10,321,912	11,407,484	280,804	12,293,003	12,573,807
Other	1,741,652	3,057,674	4,799,326	1,394,099	3,051,410	4,445,509
Total	**103,855,763**	**254,446,441**	**358,302,204**	**91,308,649**	**221,688,608**	**312,997,257**

At 30 June 2021, deposits of TL 20,298,264 (31 December 2020: TL 18,308,406) were from Sabancı Holding Group companies and other related parties. The total interest expense paid to related party deposits is TL 857,431 (30 June 2020: TL 438,449) for the year ended 30 June 2021.

NOTE 12 - INTERBANK MONEY MARKET DEPOSITS, FUNDS BORROWED

	30 June 2021	31 December 2020
Interbank money market deposits	**714,022**	**429,094**
Domestic banks		
- TL	491,864	367,411
- Foreign currency	3,607,974	4,939,707
Foreign institutions	21,143,901	17,070,799
Funds borrowed	**25,243,739**	**22,377,917**

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 2021, Akbank has two outstanding syndicated loan facilities.

First outstanding facility with one-year tenor tranches was signed on 9 April 2021 and raised a total of EUR 279 million and USD 334.5 million with +225 bps and Libor + 250.

Second outstanding facility with one-year tenor was signed on 13 October 2020 and raised a total of EUR 348.5 million and USD 388 million with Euribor+225 bps and Libor+250 bps.

NOTE 13 - DEBT SECURITIES ISSUED

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

The balances amounting to USD 5,090,824 thousands and EUR 10,113 thousand 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 2021				
	USD (000)	TL	EUR (000)	TL	Other TL
2021	331,741	2,879,611	198	2,044	-
2022	1,115,050	9,678,966	385	3,975	-
2023	601,860	5,224,325	370	3,820	-
2024	628,147	5,452,504	355	3,665	-
2025	947,028	8,220,487	342	3,531	-
2026	472,544	4,101,824	328	3,387	-
2027	405,516	3,520,001	316	3,263	-
2028	287,116	2,492,253	303	3,128	-
2029	19,273	167,295	7,516	77,603	-
2030	18,003	156,271	-	-	-
2031	264,546	2,296,339	-	-	-
Total	**5,090,824**	**44,189,876**	**10,113**	**104,416**	**-**

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

NOTE 13 - DEBT SECURITIES ISSUED (Continued)

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

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

As of 30 June 2021, the outstanding TL denominated bonds with the maturity of 1-3 months are TL 2,290,810 with the maturity of 3-6 months are TL 2,048,454, with the maturity of 1-5 years are TL 877,108 and with the maturity of over 5 years are TL 1,353,647.

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

<u>Net Debt Reconciliation</u>

	Funds Borrowed	Debt Securities in Issue	Interbank Money Market Deposits	Total
Opening Balance (As of 31 December 2020)	**22,377,917**	**43,909,328**	**429,094**	**66,716,339**
Additional Liabilities	2,846,102	8,085,728	277,894	11,209,723
Principal Payments	-	(774,819)	-	(774,819)
Interest Accrual Changes	19,720	24,109	7,034	50,864
Closing Balance (As of 30 June 2021)	**25,243,739**	**51,244,346**	**714,022**	**77,202,107**

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

NOTE 14 - PROVISIONS

As of 30 June 2021, the Group has allocated reserve for employment termination benefit and vacation liability amounting to TL 475,647 and TL 161,218 respectively (31 December 2020: TL 428,234 and TL 129,387).

Provision for non-cash loans that are non-funded and non-transformed into cash as of 30 June 2021 is amounting to TL 517,088 (31 December 2020: TL 492,436).

In addition to above the accompanying consolidated financial statement include a free provision amounting to TL 1,150,000 thousand provided in prior years 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 75,924 (31 December 2020: TL 64,932).

The Group have recognised a provision amounting to TL 62,479 (31 December 2020: TL 75,471) 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 2021, the corporate tax liability after the deduction of temporary taxes paid is TL 1,069,337 (31 December 2020: TL 1,126,257).

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 2021 and 31 December 2020:

	30 June 2021			31 December 2020		
	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	11,598,661	12,044,030	23,642,691	9,950,514	11,306,369	21,256,883
- Foreign currency	9,817,101	10,370,644	20,187,745	7,060,576	9,207,159	16,267,735
Acceptance credits						
- Turkish lira	-	-	-	-	-	-
- Foreign currency	88,114	-	88,114	47,814	-	47,814
Letter of credit						
- Turkish lira	3,864	372	4,236	7,931	-	7,931
- Foreign currency	7,901,197	1,566,172	9,467,369	3,506,555	1,146,504	4,653,059
Other guarantees						
- Turkish lira	46,585	4,591,256	4,637,841	150,591	3,485,569	3,636,160
- Foreign currency	6,192,720	1,175,752	7,368,472	3,193,204	2,372,866	5,566,070
Total	**35,648,242**	**29,748,226**	**65,396,468**	**23,917,185**	**27,518,467**	**51,435,652**

Letters of guarantee and acceptance credits for related parties amount to TL 2,682,696 at 30 June 2021 (31 December 2020: TL 2,176,927).

(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 2021	31 December 2020
Loans and advances measured at amortized cost (Net) (*)	8,426,526	7,919,690
Loans and advances measured at FVPL (**)	7,342,910	7,342,910
Finance lease receivables	-	3,325
Total Assets	**15,769,436**	**15,265,925**
Deposits and obligations under repurchase agreements (Note 11)	20,298,264	18,308,406
Total Liabilities	**20,298,264**	**18,308,406**
Credit related commitments	2,682,696	2,176,927
Commitment under derivative instruments (***)	8,973,099	10,166,262
Total Commitments and contingent liabilities	**11,655,795**	**12,343,189**

(*) Loans measured at amortised cost amounting to TL 233,616 thousand arising from its investments in Türk Telekomünikasyon A.Ş. considered as associate are disclosed as a related party balance. Amounting to 8,192,910 thousand arising from the Group's other related parties.
(**) Includes loans measured at FVPL amounting to TL 7,342,910 thousand and arising from Levent Yeniden Yapılandırma A.Ş. owned by the Group considered as related party. (Note 17)
(***) Figures presented in the table above show the total of "sale" and "purchase" amounts of the related transactions.

As at 30 June 2021, the Group has repurchase commitments amounting to TL 11,349 (31 December 2020: TL 11,185) with Sabancı Group companies and other related parties.

(16.2) Transactions with related parties:

	30 June 2021	30 June 2020
Interest income on loans	180,599	353,090
Interest income	**180,599**	**353,090**
Interest expense on deposits	857,431	438,449
Interest expense	**857,431**	**438,449**

(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 2021	31 December 2020
Deposits	2,030,040	1,855,160
Total due to customers	**2,030,040**	**1,855,160**

For the period ended 30 June 2021, benefits provided to the senior management and Board of Directors of the Group amounted to TL 71,467 (30 June 2020: TL 62,201).

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. . In the event of unexpected negative economic conditions, stress tests are carried out regularly considering the exchange rate and interest rate shocks and the deterioration of the loan portfolio at different stress rates. Also, for stresses caused by the COVID-19 pandemic, the intensities are increased and the effects on equity and capital adequacy ratios are measured.

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 Default (EAD) models have been developed and used in similar processes.

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

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

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 2021			
	Commercial Loans	**Consumer loans and credit cards**	**Lease Receivables**	**Total**
Loans measured at amortised cost				
Stage 1	185,814,390	70,332,624	5,290,820	261,437,834
Stage 2	29,408,737	4,684,869	310,951	34,404,557
Stage 3	14,570,477	2,445,328	470,116	17,485,921
Gross	**229,793,604**	**77,462,821**	**6,071,887**	**313,328,312**
Provisions	**14,556,086**	**3,219,811**	**325,961**	**18,101,858**
Loans measured at FVPL	**7,342,910**	**-**	**-**	**7,342,910**
Net	**222,580,428**	**74,243,010**	**5,745,926**	**302,569,364**

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

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

(i). Loans at amortised cost:

	30 June 2021			
	Commercial Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Neither past due nor impaired	213,863,330	74,024,270	5,516,262	293,403,862
Past due and not individually impaired	1,359,797	993,224	85,509	2,438,530
Individually impaired	14,570,477	2,445,328	470,116	17,485,921
Total gross	**229,793,604**	**77,462,822**	**6,071,887**	**313,328,313**
Less: allowance for individually impaired loans	(5,550,272)	(1,132,355)	(109,141)	(6,791,768)
Less: allowance for collectively impaired loans	(9,005,814)	(2,087,456)	(216,820)	(11,310,090)
Total Allowance for impairment	**(14,556,086)**	**(3,219,811)**	**(325,961)**	**(18,101,858)**
Total net	**215,237,518**	**74,243,011**	**5,745,926**	**295,226,455**

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

As of 30 June 2021, and 31 December 2020, the Group's collateral types are mainly composed of mortgages, cash blockages, shares, vehicle and machine pledges.

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

(ii) Aging analysis for overdue receivables (*):

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

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

	30 June 2021			
	Commercial Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Past Due 30-60 days	287,374	346,661	56,920	690,955
Past Due 60-90 days	264,992	159,212	2,262	426,466
Past Due over 90 days (*)	807,431	487,351	26,327	1,321,109
Total	**1,359,797**	**993,224**	**85,509**	**2,438,530**

(*) Due to COVID-19 outbreak impact, the 90 past due days criteria applied for the definition of default started to be applied as 180 days as of 17 March 2020 in accordance with the local legislation. Despite of the classification changes due to local regulation, the Bank calculates provisions for loans with 90-180 past due days in accordance with the requirements of IFRS 9 and its own risk policies by taking the borrower's conditions into account. In addition, the days past due limit applied to determine significant increase in credit risk has been changed from 30 to 90 days as of 17 March 2020 according to the legislation. The portfolio with past due over 90 days consist risk amount of TL 1,321,109 (31 December 2020: TL 1,165,481) of risk amount. Although the Bank applies the aforementioned regulation for the classification of loans, lifetime expected loss provision is provided for loans with a delay of 30-90 days. The amount of loans which have past due days between 30-90 days and classified to stage 1 is TL 709,926 (31 December 2020: TL 585,422). This regulation has been extended to 30 September 2021.

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

(iii). 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 2021, the value of the part pursued as loan is TL 10,719,641 (31 December 2020: TL 8,968,855), and it is classified under "Other Financial Assets" under "Financial Assets at Fair Value through Profit Loss". The total fair value decrease accounted for the total amount turned into credit and capital is TL 4,792,821(31 December 2020: TL 3,042,035), and the amount of TL 1,416,090 (31 December 2020: TL 1,416,090) of this amount is accounted under the "Assets Held for Sale and Discontinued Operations" and TL 3,376,731 (31 December 2020: TL 1,625,945) is accounted under "Other Financial Assets" which is the sub-item of "Financial Assets at Fair Value through Profit Loss".

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

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

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

TL 1,122,068 (31 December 2020: TL 1,094,617) of other financial assets consist Fourth Real Estate Investment Fund of Ak Portföy Yönetimi A.Ş. established by Ak Portföy Yönetimi A.Ş. and the fund is followed at its fair value and the related valuation differences are recognized in profit or loss.

(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 2021 and 31 December 2020:

	30 June 2021		31 December 2020	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets				
Loans and advances to customers	302,569,364	311,643,704	275,189,478	290,086,611
Investment securities measured at amortised cost (Net)	40,518,815	40,668,872	41,872,677	41,951,293
Financial liabilities				
Deposits and obligations under repurchase agreements	358,302,204	359,130,734	312,997,257	313,133,140
Interbank money market deposits, funds borrowed and debt securities in issue	77,202,106	80,069,745	66,716,339	71,339,278

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 2021			
Assets carried at fair value:	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	**834,315**	**1,183,153**	-	**2,017,468**
- Government debt securities	18,188	-	-	18,188
- Eurobonds	146,072	-	-	146,072
- Government debt securities denominated in foreign currency	-	-	-	-
- Treasury bills	-	-	-	-
- Share certificates	376,329	-	-	376,329
- Other financial assets	293,726	1,183,153	-	1,476,879
Derivative Financial Assets at Fair Value Through Profit or Loss	-	**16,771,816**	-	**16,771,816**
Derivative Financial Assets at Fair Value Through Other Comprehensive Income	-	**6,470,519**	-	**6,470,519**
Financial Assets at Fair Value Through Other Comprehensive Income	**69,921,204**	**2,565,500**	-	**72,486,704**
- Government debt securities	27,030,313	-	-	27,030,313
- Eurobonds	28,720,484	-	-	28,720,484
- Treasury bills	-	-	-	-
- Government debt securities denominated in foreign currency	-	-	-	-
- Mutual funds	530,511	-	-	530,511
- Equity Securities	-	-	-	-
- Other financial assets	13,639,896	2,565,500	-	16,205,396
Loans and advances to customers (*)	-	**304,300,794**	**7,342,910**	**311,643,704**
- Financial assets measured at amortised cost	-	304,300,794	-	**304,300,794**
- Financial assets measured at fair value through profit or loss	-	-	7,342,910	**7,342,910**
Assets for which fair values are disclosed	**40,668,872**	-	-	**40,668,872**
- Financial assets measured at amortised cost	40,668,872	-	-	40,668,872
- Government debt securities	40,074,953	-	-	40,074,953
- Other financial assets	593,919	-	-	593,919
Total assets	**111,424,391**	**331,291,782**	**7,342,910**	**450,059,083**
Liabilities carried at fair value:				
Trading derivative financial instruments	-	**11,044,806**	-	**11,044,806**
Hedging derivative financial instruments	-	**547,223**	-	**547,223**
Liabilities for which fair values are disclosed (**)	-	**439,200,480**	-	**439,200,480**
- Customer Deposits	-	359,130,734	-	359,130,734
- Interbank money market deposits, funds borrowed and debt securities in issue	-	80,069,745	-	80,069,745
Total liabilities	-	**450,792,509**	-	**450,792,509**

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

(*) Loans and advances measured at fair value present the loan granted to LYY as explained in Note 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 2021, the movement of Level 3 financial instruments is as follows:

	30 June 2021		31 December 2020	
	Asset	**Liability**	**Asset**	**Liability**
Balance at the beginning of period	7,342,910	-	6,723,419	-
Additions	-	-	-	-
Disposals	-	-	-	-
Transfers, net	-	-	-	-
Effects of valuation differences	-	-	619,491	-
Balance at the end of the period	**7,342,910**	**-**	**7,342,910**	**-**

(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 2021, the Group has custody accounts amounting to TL 128,859,490 in nominal value (31 December 2020: TL 113,226,217).

NOTE 18 - SUBSEQUENT EVENTS

Service interruption has occurred on 6-7th of July 2021 due to a technical problem with the Bank's main computer. After carrying out required actions following this interruption, all systems have been available step by step and services have started in all channels. No cyber-attacks have been encountered throughout this process. Also, no security problems have occurred regarding the information and records of the Bank and its customers. It has been evaluated that the impact of the service interruption on the financial statements will be insignificant.

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