Türkiye Garanti Bankası Anonim Şirketi
And Its Subsidiaries

Interim Condensed Consolidated Financial Statements

For the six month period ended

30 June 2021

With Independent Auditors' Report on
Review of Interim Condensed Consolidated
Financial Information

Türkiye Garanti Bankası Anonim Şirketi
And Its Subsidiaries

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Independent Auditor's Report on Review of Interim Condensed Consolidated Financial Statements

To the Board of Directors of Türkiye Garanti Bankası Anonim Şirketi,

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Türkiye Garanti Bankası Anonim Şirketi ("the Bank") and its subsidiaries (together "the Group") as at 30 June 2021, the interim condensed consolidated statement of profit or loss and other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six month period then ended, and notes to interim financial information ("the interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these interim consolidated condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements 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

As stated in Note 22, the accompanying interim condensed consolidated financial statements as at 30 June 2021 include a general reserve of total TL 5,600,000 thousands, of which TL 950,000 thousands was recognized as expense in the current period and TL 4,650,000 thousands had been recognized as expense in prior periods, which does not meet the recognition criteria of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". This general reserve is provided by the Bank management for the possible effects of the negative circumstances which may arise in economy or market conditions.

Qualified Conclusion

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements as at and for the six month period ended 30 June 2021 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi

Murat Alsan
Partner

19 August 2021
İstanbul, Turkey

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Interim Condensed Consolidated Statement of Financial Position
At 30 June 2021

(Currency: Thousands of Turkish Lira (TL))

	Notes	30 June 2021	31 December 2020
Assets			
Cash and balances with central banks	3	79,011,457	62,412,116
Financial assets at fair value through profit or loss	4	7,666,911	8,262,547
Derivative financial assets	5	4,919,559	4,614,552
Loans and advances to banks	6	38,725,152	38,445,808
Loans and advances to customers	7,25	374,719,576	333,833,956
Investment securities	8,24	73,811,536	69,544,397
Equity investments	9	440,565	364,859
Assets held for sale	10	689,189	931,753
Investment properties		356,466	319,638
Tangible and intangible assets		9,354,170	9,194,654
Goodwill, net	11	32,948	32,948
Deferred tax asset	21	3,984,036	3,647,725
Other assets	12	15,785,720	10,369,375
Total Assets		**609,497,285**	**541,974,328**
Liabilities			
Deposits from banks	13	1,945,471	1,353,755
Deposits from customers	14	409,920,979	356,398,618
Loans and advances from banks and other institutions	15	31,953,572	27,566,919
Obligations under repurchase agreements and money market fundings	16	5,304,777	3,163,978
Debt securities issued	17	19,357,135	22,817,081
Financial liabilities at fair value through profit or loss	18	17,858,580	16,137,939
Derivative financial liabilities	19	5,855,806	8,535,993
Subordinated liabilities	20	7,551,814	6,598,969
Current tax liability	21	1,301,599	1,848,100
Deferred tax liability	21	339,074	174,213
Provisions	22	11,217,938	10,079,519
Other liabilities and accrued expenses	23	28,498,167	24,477,723
Total Liabilities		**541,104,912**	**479,152,807**
Equity attributable to owners of the bank			
Share capital	24	5,146,371	5,146,371
Share premium	24	11,880	11,880
Legal reserves	24	1,749,608	1,638,443
Other reserves	8,24	5,769,884	5,259,311
Retained earnings	24	55,455,758	50,517,826
		68,133,501	**62,573,831**
Non-controlling interests	24	**258,872**	**247,690**
Total Equity		**68,392,373**	**62,821,521**
Total Liabilities and Equity		**609,497,285**	**541,974,328**
Commitments and Contingencies	25	**95,355,262**	**80,795,394**

The notes on pages 5 to 79 are an integral part of these interim condensed consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For The Six-Month Period Ended 30 June 2021

(Currency: Thousands of Turkish Lira (TL))

	Notes	1 January 2021- 30 June 2021	1 January 2020- 30 June 2020
Statement of Profit or Loss:			
Interest income:			
Interest on loans		19,651,415	14,946,081
Interest on securities		3,970,120	2,646,522
Interest on deposits at banks		716,436	217,849
Interest on reserve deposits		343,887	511
Interest on lease business		321,314	242,571
Interest on factoring business		280,206	127,470
Others		133,883	128,816
		25,417,261	18,309,820
Interest expense:			
Interest on saving, commercial and public deposits		(8,823,164)	(4,112,061)
Interest on borrowings, obligations under repurchase agreements,money market and swap fundings		(5,865,010)	(2,254,821)
Interest on debt securities issued		(1,016,197)	(678,504)
Interest on subordinated liabilities		(254,128)	(439,806)
Interest on bank deposits		(62,195)	(41,604)
Interest on lease business		(56,213)	(82,865)
Others		(19,641)	(252,414)
		(16,096,548)	(7,862,075)
Net interest income before provisions for loans and other credit risks		**9,320,713**	**10,447,745**
Provisions for loans and other credit risks, net	3,6,7,8,12,22	**(1,642,100)**	**(3,761,637)**
Net interest income after provisions for loans and other credit risks		**7,678,613**	**6,686,108**
Fees and commissions income		5,432,313	3,907,443
Fees and commissions expense		(1,213,559)	(745,614)
Net fees and commissions income		**4,218,754**	**3,161,829**
Net trading income/(expense)	27	**3,596,964**	**(649,235)**
Foreign exchange gains/(losses), net		**(2,285,551)**	**1,137,186**
Insurance business income		756,712	716,253
Insurance business expense		(290,112)	(289,437)
Net insurance business income		**466,600**	**426,816**
Gain on sale of assets		402,563	157,669
Other operating income	28	421,306	274,737
Other operating income		**823,869**	**432,406**
Total operating Income		**14,499,249**	**11,195,110**
Salaries and wages		(1,839,030)	(1,564,858)
Credit card reward and promotion expenses		(1,099,928)	(903,137)
Impairment losses, net	10,22	(978,579)	(1,121,867)
Employee benefits	22	(876,967)	(712,580)
Depreciation and amortisation		(465,706)	(451,557)
Taxes and duties other than income		(303,626)	(230,715)
Communication expenses		(152,426)	(136,587)
Other operating expenses	29	(1,570,347)	(1,287,035)
Total operating expenses		**(7,286,609)**	**(6,408,336)**
Profit/(loss) before tax		**7,212,640**	**4,786,774**
Taxation charge	21	(1,489,762)	(1,302,901)
Net profit/(loss) for the period		**5,722,878**	**3,483,873**
Other Comprehensive Income:			
(items to be recycled subsequently to profit or loss)			
Foreign currency translation, net of tax	24	1,096,492	769,281
Fair value change on debt instruments measured at fair value through other comprehensive income, net of tax:			
Net change in fair values	24	(386,266)	396,944
Net amount reclassified to profit/loss	24	(185,278)	(40,447)
Cash flow hedges, net of tax:			
Effective portion of changes in hedge reserve	24	279,498	(104,790)
Net amount reclassified to profit/loss	24	56,286	141,783
Net investment hedge for foreign operations, net of tax	24	(403,471)	(323,448)
		457,261	**839,323**
(items not to be recycled subsequently to profit or loss)			
Fair value change on equity investments measured at fair value through other comprehensive income, net of tax:			
Net change in fair values	24	56,893	49,282
Net amount recycled to profit/loss	24	-	-
Change on revaluation surplus on tangible and intangible assets, net of tax		(4,623)	93,725
		52,270	**143,007**
Other comprehensive income for the period, net of tax		**509,531**	**982,330**
Total Comprehensive Income for the Period		**6,232,409**	**4,466,203**
Net profit/(loss) attributable to:			
Equity holders of the Bank		5,663,524	3,448,119
Non-controlling interests		59,354	35,754
		5,722,878	**3,483,873**
Total comprehensive income attributable to:			
Equity holders of the Bank		6,174,097	4,428,607
Non-controlling interests		58,312	37,596
		6,232,409	**4,466,203**
Weighted average number of shares with a face value of Kr 1 each	24	**420 billions**	**420 billions**
Basic and diluted earnings per share (full TL amount per TL 1 face value each)		**1.348**	**0.821**

The notes on pages 5 to 79 are an integral part of these interim condensed consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Interim Condensed Consolidated Statement of Changes in Equity
For The Six-Month Period Ended 30 June 2021

(Currency: Thousands of Turkish Lira (TL))

					Other Reserves								
					to be recycled to profit or loss			not to be recycled to profit or loss					
	Notes	Share Capital	Share Premium	Legal Reserves	Fair Value Change on Debt Instruments	Hedge Reserve	Foreign Currency Translation Reserve	Fair Value Change on Equity Investments	Actuarial Gain/(Loss)	Revaluation Surplus on Tangible Assets	Retained Earnings	Non-Controlling Interests	Total Equity
Balances at 31 December 2019		**5,146,371**	**11,880**	**1,603,555**	**(105,338)**	**(1,840,473)**	**3,531,944**	**218,950**	**(171,269)**	**1,748,756**	**43,667,933**	**273,921**	**54,086,230**
Net unrealized gains from debt instruments measured at fair value through other comprehensive income		-	-	-	395,102	-	-	-	-	-	-	1,842	396,944
Net unrealized gains from equity investments measured at fair value through other comprehensive income		-	-	-	-	-	-	49,282	-	-	-	-	49,282
Net realized losses on debt instruments measured at fair value through other comprehensive income recycled to statement of profit or loss at disposal		-	-	-	(40,447)	-	-	-	-	-	-	-	(40,447)
Foreign currency translation		-	-	-	10,976	(1,623)	759,928	-	-	-	-	-	769,281
Net change on revaluation surplus on tangible and intangible assets		-	-	-	-	-	-	-	-	93,725	-	-	93,725
Net gains on cash flow hedges		-	-	-	-	36,993	-	-	-	-	-	-	36,993
Net change on net investment hedge for foreign operations		-	-	-	-	(323,448)	-	-	-	-	-	-	(323,448)
Net profit/loss for six-month period		-	-	-	-	-	-	-	-	-	3,448,119	35,754	3,483,873
Total comprehensive income for the period		**-**	**-**	**-**	**365,631**	**(288,078)**	**759,928**	**49,282**	**-**	**93,725**	**3,448,119**	**37,596**	**4,466,203**
Transfer to legal reserves		-	-	215	-	-	-	-	-	-	(215)	-	-
Foreign currency translation for legal reserves		-	-	7,534	-	-	-	-	-	-	-	-	7,534
Balances at 30 June 2020		**5,146,371**	**11,880**	**1,611,304**	**260,293**	**(2,128,551)**	**4,291,872**	**268,232**	**(171,269)**	**1,842,481**	**47,115,837**	**311,517**	**58,559,967**
Balances at 31 December 2020		**5,146,371**	**11,880**	**1,638,443**	**238,064**	**(2,449,998)**	**5,599,887**	**66,878**	**(302,456)**	**2,106,936**	**50,517,826**	**247,690**	**62,821,521**
Net unrealized losses from debt instruments measured at fair value through other comprehensive income		-	-	-	(385,224)	-	-	-	-	-	-	(1,042)	(386,266)
Net unrealized gains from equity investments measured at fair value through other comprehensive income		-	-	-	-	-	-	56,893	-	-	-	-	56,893
Net realized losses on debt instruments measured at fair value through other comprehensive income recycled to statement of profit or loss at disposal		-	-	-	(185,278)	-	-	-	-	-	-	-	(185,278)
Foreign currency translation		-	-	-	18,212	(609)	1,078,889	-	-	-	-	-	1,096,492
Net change on revaluation surplus on tangible and intangible assets		-	-	-	-	-	-	-	-	(4,623)	-	-	(4,623)
Net change on actuarial gain/(loss) related to employee benefits		-	-	-	-	-	-	-	-	-	-	-	-
Net gains on cash flow hedges		-	-	-	-	335,784	-	-	-	-	-	-	335,784
Net change on net investment hedge for foreign operations		-	-	-	-	(403,471)	-	-	-	-	-	-	(403,471)
Net profit/loss for the period		-	-	-	-	-	-	-	-	-	5,663,524	59,354	5,722,878
Total comprehensive income for the period		**-**	**-**	**-**	**(552,290)**	**(68,296)**	**1,078,889**	**56,893**	**-**	**(4,623)**	**5,663,524**	**58,312**	**6,232,409**
Transfer to legal reserves		-	-	101,792	-	-	-	-	-	-	(101,792)	-	-
Foreign currency translation for legal reserves		-	-	9,373	-	-	-	-	-	-	-	-	9,373
Dividends distributed		-	-	-	-	-	-	-	-	-	(623,800)	(47,130)	(670,930)
Balances at 30 June 2021	24	**5,146,371**	**11,880**	**1,749,608**	**(314,226)**	**(2,518,294)**	**6,678,776**	**123,771**	**(302,456)**	**2,102,313**	**55,455,758**	**258,872**	**68,392,373**

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Interim Condensed Consolidated Statement of Cash Flows
For The Six-Month Period Ended 30 June 2021

(Currency: Thousands of Turkish Lira (TL))

	Notes	1 January 2021- 30 June 2021	1 January 2020- 30 June 2020
Cash flows from operating activities:-			
Interests and commissions received		25,093,757	19,019,111
Interests and commissions paid		(16,254,410)	(8,786,671)
Other operating activities, net		3,910,462	4,145,854
Cash payments to employees and suppliers		(6,029,078)	(5,111,390)
		6,720,731	9,266,904
(Increase)/decrease in operating assets:-			
Loans and advances to banks		(496,970)	1,136,364
Balances with central banks		(3,018,251)	(3,813,871)
Financial assets at fair value through profit or loss		649,496	(2,871,551)
Loans and advances to customers		(47,602,096)	(50,446,953)
Other assets		(512,573)	(9,901,172)
Increase/(decrease) in operating liabilities:-			
Deposits from banks		590,192	(419,752)
Deposits from customers		52,515,075	30,003,222
Obligations under repurchase agreements and money market fundings		2,132,353	14,903,451
Other liabilities		1,480,614	(258,551)
Net cash inflows from operating activities before taxes and duties paid		**12,458,571**	**(12,401,909)**
Income taxes and other duties paid		**(2,095,369)**	**(1,752,549)**
Net cash inflows/(outflows) from operating activities		**10,363,202**	**(14,154,458)**
Cash flows from investing activities:-			
Net decrease/(increase) in investment securities		(1,675,370)	(8,810,091)
Interest received for investment securities		3,087,164	5,094,919
Increase in equity investments		(1)	(3,588)
Dividends received		21,276	18,661
Proceeds from sale of tangible and intangible assets		694,496	255,363
Purchase of tangible and intangible assets		(850,083)	(239,462)
Net cash inflows from investing activities		**1,277,482**	**(3,684,198)**
Cash flows from financing activities:-			
Increase in loans and advances from banks and other institutions, net		4,658,435	2,181,866
Cash obtained from debt securities issued		8,304,945	13,811,784
Cash used for repayment of debt securities issued		(8,711,207)	(11,513,092)
Payments for leases		(133,196)	(206,409)
Dividends paid		(623,800)	-
Net cash (outflows)/inflows from financing activities		**3,495,177**	**4,274,149**
Effect of exchange rate changes		**3,132,502**	**1,611,240**
Net increase in cash and cash equivalents		**18,268,363**	**(11,953,267)**
Cash and cash equivalents at the beginning of the period		52,780,473	47,246,020
Cash and cash equivalents at the end of the period	2	**71,048,836**	**35,292,753**

The notes on pages 5 to 79 are an integral part of these interim condensed consolidated financial statements.

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The interim condensed consolidated financial statements of the Bank as of and for the six-month period ended 30 June 2021 comprise the Bank and its subsidiaries (the Subsidiaries) (collectively referred as "the Group").

(a) Brief History

The foundation of the Bank was approved by the decree of the Council of Ministers numbered 3/4010 dated 11 April 1946 and its "Articles of Association" was published in the official gazette dated 25 April 1946. The Bank provides retail, commercial, corporate and small and medium size enterprises (SME) banking, leasing, insurance, asset management and factoring services through a network of 871 domestic branches, 8 foreign branches, 1 representative offices abroad (31 December 2020: 884 domestic branches, 8 foreign branches, 2 representative offices abroad). In addition to its branches, the Bank has 100% ownership in two banks each of which is located in Amsterdam and Bucharest. The Bank and its subsidiaries in total have 21,871 employees (31 December 2020: 21,910). The Bank's head office is located at Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 Istanbul, Turkey.

(b) Ownership

As of 30 June 2021, group of companies under Banco Bilbao Vizcaya Argentaria SA ("BBVA") that currently owns 49.85% shares of the Bank, is named the BBVA Group (the Group) and it is the main shareholder.

Summary of significant accounting policies

(a) Basis of preparation

These interim condensed consolidated financial statements for the period ended 30 June 2021 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2020. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

The accompanying interim condensed consolidated financial statements are presented in thousands of TL, which is the Bank's functional currency.

(b) Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements as at 30 June 2021 are consistent with those followed in the preparation of the consolidated financial statements of the prior year, except for the adoption of new standards effective as of 1 January 2021. Several amendments and interpretations apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Group.

(c) Standards issued but not yet effective and not early adopted

A number of new standards, interpretations of and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Group has not early adopted are as follows.

Summary of significant accounting policies (continued)

IFRS 17 Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly international standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2023 but companies can apply it earlier.

The Group is assessing the potential impact on its interim condensed consolidated financial statements resulting from the application of IFRS 17.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 4 has been amended by IASB to reduce the impact of the differing effective dates of the new insurance contracts standard and IFRS 9. These amendments to IFRS 4 provide two optional solutions for insurers to reduce concerns about implementations: i) when applying IFRS 9 by insurers to its financial assets, an insurer will be permitted to reclassify the difference between profit or loss and other comprehensive income and the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39; or ii) an optional temporary exemption from applying IFRS 9 for companies whose activities are predominantly connected with insurance before 1 January 2023. These companies will be permitted to continue to apply existing requirements for financial instruments in IAS 39.

The Group is assessing the potential impact on its interim condensed consolidated financial statements resulting from the application of the amendments to IFRS 4.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On 23 January 2020, IASB issued Classification of Liabilities as Current or Non-Current which amends IAS 1 Presentation of Financial Statements to clarify its requirements for the presentation of liabilities in the statement of financial position.

The amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current—that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

The amendments include:

a) Specifying that an entity's right to defer settlement must exist at the end of the reporting period;
b) Clarifying that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;
c) Clarifying how lending conditions affect classification; and
d) Clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

Summary of significant accounting policies (continued)

The Group does not expect that application of these amendments to IAS 1 will have significant impact on its interim condensed consolidated financial statements.

COVID-19 related rent concession (Amendments to IFRS 16)

In May 2020, IASB issued COVID-19 related rent concession which amends IFRS 16 Leases.

The amendments allow lessees not to account for rent concessions as lease modifications if they arise as a direct consequence of COVID-19.

The practical expedient will only apply if:

a) the revised consideration is substantially the same or less than the original consideration;
b) the reduction in lease payments relates to payments due on or before 30 June 2022
c) no other substantive changes have been made to the terms of the lease.

No practical expedient is provided for lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.

The Group does not apply these amendments for periods beginning on or after 1 April 2021 with earlier application permitted.

Reference to the Conceptual Framework (Amendments to IFRS 3)

In May 2020, IASB issued Reference to the Conceptual Framework, which made amendments to IFRS 3 Business Combinations.

The amendments updated IFRS 3 by replacing a reference to an old version of the Board's Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

The Group does not expect that application of these amendments to IFRS 3 will have significant impact on its interim condensed consolidated financial statements.

Property, Plant and Equipment—Proceeds before Intended Use (Amendments to IAS 16)

In May 2020, IASB issued Property, Plant and Equipment—Proceeds before Intended Use, which made amendments to IAS 16 Property, Plant and Equipment. The amendments 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.

The amendments improve transparency and consistency by clarifying the accounting requirements—specifically, the amendments 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.

Summary of significant accounting policies (continued)

The Group does not expect that application of these amendments to IAS 16 will have significant impact on its interim condensed consolidated financial statements.

Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

In May 2020, IASB issued Onerous Contracts—Cost of Fulfilling a Contract, which made amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

IASB developed amendments to IAS 37 to clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

The Group does not expect that application of these amendments to IAS 37 will have significant impact on its interim condensed consolidated financial statements.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

In February 2021, IASB issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Practice Statement Making Materiality Judgements.

The key amendments include:

a) requiring entities to disclose their material accounting policies rather than their significant accounting policies;
b) clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
c) clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to an entity's financial statements.

IASB also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2023 with earlier application permitted.

The Group does not expect that application of these amendments to IAS 1 and IFRS Practice Statement 2 will have significant impact on its interim condensed consolidated financial statements.

Definition of Accounting Estimates (Amendments to IAS 8)

In February 2021, IASB issued amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors introducing a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement of uncertainty.

Summary of significant accounting policies (continued)

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy.

The Group shall apply these amendments prospectively for annual periods beginning on or after 1 January 2023 with earlier application permitted.

The Group does not expect that application of these amendments to IAS 8 will have significant impact on its interim condensed consolidated financial statements.

Annual Improvements to IFRS Standards 2018–2020

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2018–2020 Cycle for applicable standards in May 2020. The amendments are effective as of 1 January 2022. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its interim condensed consolidated financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards

This amendment simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent – i.e. if a subsidiary adopts IFRS Standards later than its parent and applies IFRS 1.D16 (a), then a subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to IFRS Standards. This amendment will ease transition to IFRS Standards for subsidiaries applying this optional exemption by i)reducing undue costs; and ii) avoiding the need to maintain parallel sets of accounting records.

IFRS 9 Financial Instruments

This amendment clarifies that – for the purpose of performing the ''10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

IFRS 16 Leases, Illustrative Example 13

The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive. It will help to remove the potential for confusion in identifying lease incentives in a common real estate fact pattern.

IBOR Reform and its Effects on Financial Reporting—Phase 2

In August 2020, IASB issued amendments that complement those issued in 2019 and focus on the effects of the interest rate benchmark reform on a company's financial statements that arise when, for example, an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark rate.

The Phase 2 amendments, Interest Rate Benchmark Reform—Phase 2, address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to

Summary of significant accounting policies (continued)

contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues). In 2019, the Board issued its initial amendments in Phase 1 of the project.

The objectives of the Phase 2 amendments are to assist companies in:

- applying IFRS Standards when changes are made to contractual cash flows or hedging relationships because of the interest rate benchmark reform; and
- providing useful information to users of financial statements.

In Phase 2 of its project, the Board amended requirements in IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities;
- hedge accounting; and
- disclosures.

The Phase 2 amendments apply only to changes required by the interest rate benchmark reform to financial instruments and hedging relationships.

The effects of the changes on the Group's interim condensed consolidated financial statements have been evaluated and it has been concluded that there is no need for early application. On the other hand, the process for IBOR is expected to be completed as of 31 December 2021, and the Group's studies continue within the scope of compliance with the changes.

(d) Critical accounting estimates and judgements in applying accounting policies

The preparation of interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised, prospectively.

The significant judgements made by the management are applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the interim condensed consolidated financial statements are in Notes 2, 5, 6, 7, 8, 11, 12, 17, 18, 19, 21, 22, 25 and 26.

Summary of significant accounting policies (continued)

(e) Potential impacts of COVID-19 on the interim condensed consolidated financial statements

A new type of coronavirus (COVID-19), first emerging in China, has been classified by the World Health Organization as an epidemic affecting countries globally. The COVID-19 outbreak not only affects economic conditions both regionally and globally, as it causes disruptions in operations, especially in countries that are exposed to the epidemic. The effects of COVID-19 on the Group's financial statements are regularly monitored by the risk units and the Group's Management.

While preparing the interim condensed financial statements dated 30 June 2021, the Group reflected the possible effects of the COVID-19 outbreak on the estimates and judgments used in the preparation of the interim condensed consolidated financial statements and disclosed in the related accounting policies.

The Bank has reviewed the expected credit losses including the estimations and judgements used in the calculations together with the fair value measurements within the scope of IFRS 13 Fair Value Measurement standard. The estimates and judgements used in the calculating expected credit losses explained in footnote (g).

As of 30 June 2021, the Bank has no assets or liabilities that would require any adjustment in the fair value hierarchy.

(f) Financial instruments

Measurement categories of financial assets and liabilities

All financial assets are classified based on the business model for managing the financial assets. Accordingly, financial assets are classified in four main categories as listed below:

-Financial instruments measured at amortised cost,
-Financial instruments measured at FVOCI, with gains or losses recycled to profit or loss on derecognition,
-Equity instruments measured at FVOCI, with no recycling of gains or losses to profit or loss on derecognition, and
-Financial instruments measured at FVPL.

Financial instruments measured at amortised cost

Financial assets are classified as measured at amortised cost if both of the following conditions are met.
-the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
-the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt securities measured at amortised cost: subsequent to the initial recognition, debt securities are measured at amortised cost by using the effective interest rate method.

Loans and advances measured at amortised cost: financial assets other than those held for trading in short term or generated through providing money, commodity and services to debtors. Loans are financial assets with fixed or determinable payments and not quoted in an active market.

These financial assets are recognised at cost and also measured at amortised cost by using the effective interest method.

Summary of significant accounting policies (continued)

All financial liabilities are classified as subsequently measured at amortised cost except for financial liabilities at FVPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, and contingent consideration recognised by an acquirer in a business combination.

Financial instruments measured at FVOCI

Financial investments are classified as measured at FVOCI if both of the following conditions are met.

-the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
-the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at FVOCI shall be recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. If the financial asset is reclassified, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Financial assets measured at FVOCI are measured at their fair values subsequently. Unrecognised gain/losses derived from the difference between their fair value and the discounted values are recorded in accumulated other comprehensive income or expense to be reclassified to profit or loss under the shareholders' equity. In case of sales, the gain/losses arising from fair value measurement accumulated under shareholders' equity are recognised in statement of profit or loss and other comprehensive income.

Interests calculated and/or earned by using the effective interest method during holding of financial assets measured at FVOCI are recorded primarily in interest income. On derecognition of such financial assets, the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Bank owns consumer price indexed government bonds (CPI) portfolio. CPI's are valued and accounted according to the effective interest rate method which is calculated according to the real coupon rate and the reference inflation index on the issue date. As it is mentioned in the Undersecretariat of Treasury's Investor Guide of CPI, the reference index used during the calculation of the actual coupon payment amount is the previous two months CPI's. The Bank determines its expected inflation rates in compliance with this guide. The estimated inflation rate according to the Central Bank of Turkey and the Bank's expectations is updated during the year when it is considered necessary.

As of 30 June 2021, due to adverse effects of the COVID-19 outbreak, the Bank has reviewed the valuation of its financial assets whose fair value difference is reflected in other comprehensive income, and deemed that no change is required in the fair value measurement as of the reporting date.

Equity instruments measured at FVOCI

At initial recognition, it can be made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such election is made on an instrument by instrument basis.

Summary of significant accounting policies (continued)

Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the cumulative gain or loss shall be recycled to prior period's profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. IFRS 9 impairment requirements are not applicable for equity instruments.

As of 30 June 2021, due to adverse effects of the COVID-19 outbreak, the Bank has reviewed the valuation of its financial assets whose fair value difference is reflected in other comprehensive income, and deemed that no change is required in the fair value measurement as of the reporting date.

Financial assets and liabilities measured at FVPL

Financial assets at FVPL are valued at their fair values and gain/loss arising on those assets is recorded in the statement of profit or loss and other comprehensive income. Interest income earned on these assets and the difference between their acquisition costs and amortised costs are recorded as interest income in the statement of profit or loss and other comprehensive income excluding loans and receivables. The differences between the amortised costs and the fair values of such assets are recorded under net trading income/(expense) in the statement of profit or loss and other comprehensive income. In cases where such assets are sold before their maturities, the gains/losses on such sales are recorded under net trading income/(expense).

It is designated irrevocably certain loans and securities issued at initial recognition, as financial assets/liabilities at FVPL as permitted by IFRS 9.

Besides, as detailed in the relevant accounting policy sections, the original contractual terms or a counterparty of a loan might change in certain circumstances and the existing financial asset is derecognised. The characteristics of new contractual terms of a loan are assessed and when they are exposed to the risks which are not consistent with the basic lending agreement leading to variability of cash flows, the relevant financial asset is measured at FVPL.

The interest income/expense earned and the difference between the acquisition costs and the amortised costs of financial liabilities are recorded under interest income/(expense) in statement of profit or loss and other comprehensive income, the difference between the amortised costs and the fair values of financial liabilities are recorded under net trading income/(expense) in statement of profit or loss and other comprehensive income. The amount of change in the fair value of the financial liability at FVPL that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income unless it creates accounting mismatch or increase the accounting mismatch. Excluding the change in credit risk of the liability, the remaining amount of change in the fair value of the liability shall be presented in profit or loss.

As of 30 June 2021, due to the adverse effects of the COVID-19 outbreak, the Bank has reviewed the valuation of its financial assets and liabilities which are measured at fair value through profit or loss, and deemed that no change is required in the fair value measurement as of the reporting date.

On the other hand, the Bank has assessed the effects of the COVID-19 outbreak with respect to its financial instruments which are classified in Level 3 as inputs for these instruments are highly dependent on estimates and judgments and deemed that no change is required as of the reporting date.

Summary of significant accounting policies (continued)

(g) Impairment

Financial and non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

Impairment of financial assets

It is recognised a loss allowance for expected credit losses on financial assets and loans measured at amortised cost, financial assets measured at FVOCI, loan commitments and financial guarantee contracts not measured at FVPL based on IFRS 9 which came into force starting from 1 January 2018. IFRS 9 impairment requirements are not applicable for equity instruments.

At each reporting date, it shall be assessed whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, it shall be used the change in the risk of a default occurring for the financial instrument.

As of the reporting date, if the credit risk on a financial instrument has not increased significantly since initial recognition, it shall be measured the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. However, if there is a significant increase in credit risk of a financial instrument since initial recognition, loss allowance regarding such instrument is measured at an amount equal to lifetime expected credit losses.

The expected credit loss is calculated on a collective basis by means of grouping the financial assets having common credit risk features or on an individual basis.

It is constituted a policy in order to make an assessment whether the credit risk on a financial instrument has increased significantly since initial recognition by taking into consideration change in the risk of a default occurring over the expected life of the financial instrument. The aforementioned policy is presented in this note.

The impairment model having three stages based on the change in credit quality since initial recognition based on IFRS 9 is explained below:

Calculation of expected credit losses

It is calculated expected credit losses based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Probability of Default (PD): PD refers to the likelihood that a loan will default, which is usually set at 12 months, given certain characteristics. Based on IFRS 9, it is used two different PDs in order to calculate expected credit losses:

- 12-month PD: as the estimated probability of default occurring within the next 12 months.
- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

Summary of significant accounting policies (continued)

It is used internal rating systems for both retail and commercial portfolios. The internal rating models used for the commercial portfolio include customer financial information and qualitative survey responses. Whereas behavioral and application scorecards used in the retail portfolio include; (i) the behavioral data of the customer and the product in the Bank, (ii) the demographic information of the customer, and (iii) the behavioral data of the customer in the sector. Probability of default calculation has been carried out based on past information, current conditions and forward looking macroeconomic parameters.

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

LGD calculations are performed using historical data which best reflects current conditions, by formation of segments based on certain risk factors that are deemed important for each portfolio and inclusion of forward-looking information and macroeconomic expectations. LGD summarizes all cash flows from customers subsequent to default. It covers all costs and collections that occur during the collection cycle, including collections from collaterals. It also includes the "time value of money" calculated by means of deducting costs and additional losses from the present value of collections.

Exposure at Default (EAD): For cash loans, it corresponds to the amount of loan granted as of the reporting date. For non-cash loans and commitments, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor which adjusts the potential increase of the exposure between the current date and the default date.

When expected credit losses are estimated, it is considered three scenarios (base scenario, bad scenario, good scenario). Each of these three scenarios is associated with different probability of default, loss given default and exposure at default. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless there is the legal right to call it earlier.

Stage 1: 12-month expected credit loss represents the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date and calculated as the portion of lifetime expected credit losses. It is calculated 12-month expected credit loss based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate. Such calculation is performed for each of three scenarios explained above.

Stage 2: When a loan has shown a significant increase in credit risk since origination, it is calculated an allowance for the lifetime expected credit losses. Including multiple scenario usage, it is similar to descriptions above, but probability of default and loss given default rates are estimated through the life of the instrument. Estimated cash shortfalls are discounted by using the original effective interest rate.

Stage 3: For the loans considered as impaired, it is accounted lifetime expected credit losses. The methodology is similar to stage 2 and the probability of default is taken into account as 100%.

Summary of significant accounting policies (continued)

For the purpose of determining significant increases in credit risk and recognising a loss allowance on a collective basis, financial instruments are grouped on the basis of shared credit risk characteristics. In this context, the methodology developed for the estimation of expected credit losses should include the risk features which meet the criteria for carrying the same credit risk characteristics. Examples of the common credit risk characteristics include, but are not limited to, the following:

- Customer type (retail or corporate / commercial)
- Product type
- Credit risk rating notes /scores
- Sector / market segmentation
- Collateral type
- Loan to value ratio
- Duration since origination of a loan
- Remaining time to maturity
- Exposure at default

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

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

As of 30 June 2021, the Bank has revised the cash flow expectations and scenario weights for its commercial and corporate loans, due to the negative effects of the COVID-19 outbreak and reflected the related effects in its expected credit losses with the best estimation approach.

In accordance with the Bank’s internal policies, IFRS 9 models are updated once a year. The related model update was made in the 4th quarter of 2020 and the Bank continues to calculate expected credit losses provision based on the mentioned updated model during 2021.

Forward-looking macroeconomic information

Forward-looking macroeconomic information is incorporated into credit risk parameters during assessment of significant increase in credit risk and expected credit loss calculation. The incorporation of forward-looking information into the credit risk parameters consists of the following steps:

Step 1: It is made specifications and estimates of econometric models that reveal past relationships between credit risk parameters and macroeconomic variables in order to be able to generate estimates based on macroeconomic information. Macroeconomic variable prevailing during these estimates is mainly the Gross Domestic Product (GDP).

Step 2: Where macroeconomic scenarios do not include longer maturity, a process called “convergence to the mean” is applied.

Summary of significant accounting policies (continued)

Step 3: In order to estimate the ultimate parameters to be used in the calculation of the expected credit losses, it is applied the methods of credit risk parameters reflection and forward-looking impact inclusion into the parameters.

The Bank updates its macroeconomic parameters incorporated into significant increase in credit risk and expected credit loss assessments quarterly. The Bank has assessed the relevant updates for the second quarter in its models.

Loan commitments and non-cash loans

The expected credit losses on a loan commitment shall be discounted using the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment. This is because for the purpose of applying the impairment requirements, a financial asset that is recognised following a draw down on a loan commitment shall be treated as a continuation of that commitment instead of as a new financial instrument. The expected credit losses on the financial asset shall therefore be measured considering the initial credit risk of the loan commitment from the date when becoming a party to the irrevocable commitment.

Expected credit losses on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined shall be discounted by applying a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Debt instruments measured at FVOCI

It shall be applied the impairment requirements for the recognition and measurement of an expected credit loss for financial assets that are measured at FVOCI. However, the expected credit loss shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position. The expected credit loss is reflected in other comprehensive income and accounted in profit or loss. The expected credit loss is reflected in other comprehensive income and the accumulated amount is recycled to statement of profit/loss following the derecognition of related financial asset.

Financial risk management disclosures

This section provides a summary of the Bank and its subsidiaries' exposure to risk and describes the methods used by management to control risk and should be read in conjunction with the Group's annual consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 2020. The most important types of financial risk to which the Bank and its subsidiaries are exposed, are credit risk, liquidity risk, market risk and operational risk.

(a) Risk management framework

Risk Management Department ensures that; risk management policies and principles are applied and adopted throughout the Bank and its consolidated subsidiaries and that risk management system is maintained and improved which pursues risk-return relationship, and measures all risks together and which is in compliance with applicable regulation, bank strategies and policies and where limits determined in connection with the risk appetite approved by the Board of Directors are not breached. Risk Management Department also ensures that activities to define, measure, report, monitor and control risks are conducted thoroughly and timely; to monitor the results.

Policies and procedures regarding risk management are established for consolidated subsidiaries. Policies and procedures are prepared in compliance with applicable legislations that the subsidiaries are subject to and the Bank's risk management strategy. They are reviewed regularly and revised if necessary. The Bank ensures that risk management system is applied in subsidiaries where risks are defined, measured, monitored and controlled.

Risk management activities are structured under the responsibility of the Board of Directors. Management of various risks that the Bank may be exposed to, including oversight of corporate risk management policies and practices, capital adequacy, planning and liquidity adequacy, is the responsibility of the Risk Committee, which consists of members of the Board of Directors. Accordingly, the Risk Management, which performs risk management functions, reports to the Board of Directors via the Risk Committee, whereas the Internal Audit Department, performing internal audit functions, the Internal Control Unit, performing internal control functions, and the Compliance Department, which implements compliance controls and performs activities to prevent laundering proceeds of crime, and financing of terrorism, report directly to the Board of Directors.

Senior management's responsibility is to report to Board of Directors about the significant risk the Bank encounters, ensure the compliance with the risk management about own duties, eliminate the risks, deficiencies and errors occurring in the units responsible or take the necessary measures, participate in design and implementation of internal capital adequacy assessment process (ICAAP); participate in process of assessing the adequacy and appropriateness of the underlying assumptions, data sources and principles used to measure the assumptions and risks associated with the models.

The Bank's main approach for the implementation of risk management model is establishing risk culture throughout the Bank, and aims that the importance of risk management for maintaining business operations is understood and risk awareness and sensitivity is ensured for decision making and implementation mechanisms process by all employees.

Compliant with legislation, the Bank measures and monitors risks that are exposed to, considering methods suitable with international standards. Risk measuring and reporting are performed via advanced methods and risk management softwares. Risk based detailed reports are prepared for management of significant risks, in order to determine strategies and take decisions, in this scope, reports are prepared for Board of Directors, relevant committees and senior management.

Financial risk management disclosures (continued)

The Bank's risk appetite framework determines the risk level that the Board of Directors is prepared to accept in order to accomplish the goals and strategies with the consideration of the capacity of the institution to safely absorb those risks and the Bank monitors regularly risk appetite metrics regarding capital, liquidity, income recurrence and risk based limits. Risks that the Bank is exposed to are managed by providing effective control environment and following closely within limits.

Unmitigated risks are either accepted with current risk levels or decreasing/ terminating the activity that causes the risk.

The Risk Management Department conducts the ICAAP report, to be sent to the Banking Regulation and Supervision Authority (BRSA) by coordinating relevant parties. Stress test report is also reported to the BRSA, which evaluates how adverse effects on macroeconomic parameters, in the scope of determined scenarios, affect the Bank's three year budget plan and results, and certain ratios, including capital adequacy.

Training programs for employees, risk reports to the Board of Directors, senior management and committees, risk appetite framework established by the Bank and ICAAP generate significant inputs to ensure that risk management culture is widely embraced.

The effects of developments in COVID-19 on Bank's risk profile and risk appetite framework are closely monitored within risk measurement, reporting and management processes.

(b) Market risk

Market Risk is defined as the losses that the trading portfolio of the Bank may incur due to the risks caused by market price changes (interest rate, equities, foreign exchange and commodity prices), the correlations between market prices and the uncertainty in the volatility levels.

All trading instruments are subject to market risk. The instruments are recognised at fair value, and all changes in market conditions directly affect net trading income/(expense).

The Bank and its subsidiaries manage its use of trading instruments in response to changing market conditions.

The Board of Directors monitors the effectiveness of risk management systems through audit committee, related other committees and top management, and in the light of various risk reports and the assessments made by the audit committee.

The risk policies and application procedures have been approved by the Board of Directors and regularly revisited. The market risk is also managed by risk mitigations through hedging transactions beside measuring the risks in compliance with the international standards, limiting such risk and allocating capital accordingly.

Market risks arising from trading portfolios are measured by the Bank as per "standard" and "value at risk (VaR)" methods. The measurements as per the standard method are performed on a monthly basis, and taken into consideration in the calculation of capital adequacy. Whereas, the measurements as per VaR method are performed on a daily basis. The Bank takes the historical VaR results as the basis for the internal management of market risk and limit setting.

In the VaR calculation, two years historical market data set is used, and 99% confidence interval and one-day holding period (10 days for regulatory capital calculation) are taken into account. In order to test the reliability of the VaR model, back tests are performed. Stress tests and scenario analysis are

Financial risk management disclosures (continued)

also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations. VaR model has been validated yearly in the periodic validation framework.

Beside the VaR limit, sensitivity limits on risk factors, economic capital and stop-loss limits approved by the Board of Directors for trading portfolio are also applied in order to limit the market risks.

The capital requirement for general market risk and specific risks is calculated using the standard method defined by the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" as set out by the BRSA and reported monthly.

Interest rate risk

Interest rate risk in the banking book is evaluated considering the repricing risk, yield curve risk, basis risk and optionality, measured in compliance with the international standards and managed by risk mitigation techniques through limits and hedging.

The interest rate risk resulted from balance sheet maturity mismatch presents the possible losses that may arise due to the changes in interest rates of interest sensitive assets and liabilities in the on and off-balance sheet. Interest rate sensitivity of assets, liabilities and off-balance sheet items is evaluated during the Weekly Assessment Committee and Asset and Liability Committee meetings taking into consideration the developments in market conditions.

The Bank's interest rate risk is measured by using economic value, economic capital, net interest income, earnings at risk, economic value sensitivity of securities portfolio, duration-gap and credit spread risk sensitivity analysis.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of interest rate sensivity of monetary assets and liabilities of the consolidated entities into relevant maturity groupings:

	30 June 2021						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing(*)*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	32,967,690	-	-	-	-	46,043,767	79,011,457
Financial assets at fair value through profit or loss	1,558,189	125,362	4,839,866	290,112	188,798	664,584	7,666,911
Loans and advances to banks	14,184,994	3,821,363	3,560,461	367,325	411,075	16,379,934	38,725,152
Loans and advances to customers	109,217,652	38,703,185	122,024,556	95,902,984	20,681,783	(11,810,584)	374,719,576
Other assets	10,701,239	1,145	-	-	-	13,986,931	24,689,315
Investment securities	7,445,965	7,794,876	17,202,824	18,530,048	10,848,202	11,989,621	73,811,536
Total Monetary Assets	176,075,729	50,445,931	147,627,707	115,090,469	32,129,858	77,254,253	598,623,947
MONETARY LIABILITIES							
Deposits	165,908,481	40,320,140	25,432,778	4,131,165	8,895	176,064,991	411,866,450
Obligations under repurchase agreements and money market fundings	446,788	197,856	1,452,183	3,178,666	-	29,284	5,304,777
Loans and advances from banks and other institutions	5,019,451	9,309,380	14,616,056	2,399,510	19,305	589,870	31,953,572
Debt securities issued	3,628,906	2,943,482	1,983,790	10,351,816	204,619	244,522	19,357,135
Subordinated liabilities	252,880	750,000	-	-	6,476,250	72,684	7,551,814
Financial liabilities at fair value through profit or loss	4,811,415	-	-	1,613,584	11,357,905	75,676	17,858,580
Other liabilities	-	-	-	-	-	47,212,584	47,212,584
Total Monetary Liabilities	180,067,921	53,520,858	43,484,807	21,674,741	18,066,974	224,289,611	541,104,912

	31 December 2020						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	16,526,589	-	-	-	-	45,885,527	62,412,116
Financial assets at fair value through profit or loss	82,336	196,180	6,621,314	567,060	34,836	760,821	8,262,547
Loans and advances to banks	10,571,746	1,971,610	3,296,714	102,798	412,661	22,090,279	38,445,808
Loans and advances to customers	84,531,501	42,773,290	112,832,315	86,551,891	16,667,242	(9,522,283)	333,833,956
Other assets	11,225,059	-	-	-	-	7,406,593	18,631,652
Investment securities	6,040,946	8,216,095	15,717,590	17,585,684	10,925,992	11,058,090	69,544,397
Total Monetary Assets	128,978,177	53,157,175	138,467,933	104,807,433	28,040,731	77,679,027	531,130,476
MONETARY LIABILITIES							
Deposits	148,418,921	36,110,804	15,990,312	4,353,490	163,083	152,715,763	357,752,373
Obligations under repurchase agreements and money market fundings	750,442	945,271	181,195	1,266,256	-	20,814	3,163,978
Loans and advances from banks and other institutions	4,398,612	7,329,228	12,965,379	2,522,368	74,643	276,689	27,566,919
Debt securities issued	6,583,937	2,104,920	4,205,539	9,447,694	180,883	294,108	22,817,081
Subordinated liabilities	252,880	750,000	-	-	5,535,000	61,089	6,598,969
Financial liabilities at fair value through profit or loss	3,518,695	-	-	2,631,048	9,831,122	157,074	16,137,939
Other liabilities	-	-	-	-	-	45,115,548	45,115,548
Total Monetary Liabilities	163,923,487	47,240,223	33,342,425	20,220,856	15,784,731	198,641,085	479,152,807

(*) Includes expected credit losses.

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for the first six-months of 2021 and the year 2020:

	30 June 2021			
	US$ %	**EUR %**	**TL %**	**Other Currencies%**
Assets				
Loans and advances to banks	1-4	(0.72)-5	12-19	1
Debt and other fixed or floating income instruments	3-12	1-4	1-20	3-5
Loans and advances to customers	1-10	1-10	1-26	1-31
Liabilities				
Deposits:				
- Foreign currency deposits	1-4	(0.75)-2	-	1-5
- Bank deposits	1-2	-	7-19	-
- Saving deposits	1-3	(0.50)-2	14-19	1-2
- Commercial deposits	1-4	(0.75)-1	6-21	1-2
- Public and other deposits	-	-	19	-
Obligations under repurchase agreements and money market fundings	1-3	(0.50)	5-20	-
Loans and advances from banks and other institutions	1-5	1-5	9-24	2-6
Debt securities issued (*)	6	5	18-19	-

	31 December 2020			
	US$ %	**EUR %**	**TL %**	**Other Currencies%**
Assets				
Loans and advances to banks	1-4	(0.63)-4	12-19	1-19
Debt and other fixed or floating income instruments	3-12	1-4	11-15	3-6
Loans and advances to customers	1-10	1-11	1-21	1-31
Liabilities				
Deposits:				
- Foreign currency deposits-	1-4	(0.75)-7	-	(0.16)-5
- Bank deposits-	1	(0.30)	7-16	-
- Saving deposits	1-4	(0.60)-7	10-15	1-2
- Commercial deposits	1-3	(0.75)-2	6-23	(0.16)-1
- Public and other deposits	-	-	15	-
Obligations under repurchase agreements and money market fundings	1-3	(0.50)-1	1-19	-
Loans and advances from banks and other institutions	1-5	1-6	5-21	1-6
Debt securities issued (*)	2-6	5	9-17	-

(*) Includes subordinated liabilities.

Financial risk management disclosures (continued)

Currency risk

Currency risk arises from the potential impact of adverse exchange rate fluctuations on the capital ratio and net profit, when the Bank has a significant activity in currencies other than the local currency of the balance sheet or when it holds exposure to protect its equity.

The Bank and its subsidiaries are exposed to currency risk through transactions in foreign currencies and through investments in foreign operations. The Bank and its subsidiaries' main foreign operations are in the Netherlands and Romania. The measurement currencies of its operations are Euro and Romanian Leu. As the currency in which the Bank presents its consolidated financial statements is TL, the consolidated financial statements are affected by currency exchange rate fluctuations against TL. The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. FX swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved. The Bank and its subsidiaries' transactional exposures give rise to foreign currency gains and losses that are recognised in the consolidated statement of profit or loss and other comprehensive income. These exposures comprise of monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved.

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

These exposures are as follows:

	30 June 2021			
	US$	**EUR**	**Other Currencies**	**Total**
Assets				
Cash and balances with central banks	27,788,763	24,000,971	10,762,049	62,551,783
Financial assets at fair value through profit or loss	5,114,957	315,072	447,085	5,877,114
Loans and advances to banks	18,432,319	6,733,964	2,750,142	27,916,425
Loans and advances to customers	59,923,140	69,425,636	11,772,529	141,121,305
Investment securities	17,304,168	5,056,023	2,394,019	24,754,210
Equity investments	308,465	17,185	-	325,650
Tangible and intangible assets	272	383,699	333,125	717,096
Deferred tax asset	-	19,369	4,034	23,403
Other assets	4,205,394	1,504,502	2,036,095	7,745,991
Total Assets	133,077,478	107,456,421	30,499,078	271,032,977
Liabilities				
Deposits	122,861,224	84,294,779	39,179,900	246,335,903
Obligations under repurchase agreements and money market fundings	1,420,539	3,063,327	224	4,484,090
Loans and advances from banks and other institutions	14,354,958	13,905,260	397,266	28,657,484
Debt securities issued	13,205,421	1,081,004	-	14,286,425
Financial liabilities at fair value through profit or loss	17,858,580	-	-	17,858,580
Subordinated liabilities	6,516,543	-	-	6,516,543
Current and deferred tax liability	-	61,117	43,081	104,198
Other liabilities, accrued expenses and provisions	8,190,678	3,392,351	690,522	12,273,551
Total Liabilities	*184,407,943*	*105,797,838*	*40,310,993*	*330,516,774*
Net Statement of Financial Position	*(51,330,465)*	*1,658,583*	*(9,811,915)*	*(59,483,797)*
Net Off Balance Sheet Position	*50,040,908*	*81,913*	*12,787,026*	*62,909,847*
Net Long/(Short) Position	*(1,289,557)*	*1,740,496*	*2,975,111*	*3,426,050*

	31 December 2020			
	US$	**EUR**	**Other Currencies**	**Total**
Total Assets	*113,918,563*	*101,430,938*	*36,468,373*	*251,817,874*
Total Liabilities	*163,716,692*	*90,491,298*	*37,788,207*	*291,996,197*
Net Statement of Financial Position	*(49,798,129)*	*10,939,640*	*(1,319,834)*	*(40,178,323)*
Net Off Balance Sheet Position	*50,734,557*	*(11,979,196)*	*9,689,867*	*48,445,228*
Net Long/(Short) Position	*936,428*	*(1,039,556)*	*8,370,033*	*8,266,905*

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies. The effective exchange rates at the balance sheet date announced by the Bank in TL are 8.6350 for US$ and 10.2420 for Euro.

Financial risk management disclosures (continued)

The short positions in the consolidated statement of financial position shown in the table above are hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its subsidiaries ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The potential impact of adverse exchange rate fluctuations on the capital adequacy ratio and foreign currency risk weighted assets are regularly monitored according to internal limits and reported.

(c) Liquidity risk

Liquidity risk is defined as the risk that the Bank may not be able to fulfill its payment obligations in a timely manner due to the lack of available cash or cash inflows in quality and in quantity to cover the cash outflows in a complete and timely manner due to imbalances in the cash flows of the Bank and its subsidiaries.

Liquidity risk is managed by Asset and Liability Management department (ALMD), Weekly Review Committee and Asset and Liability Committee (ALCO) in line with liquidity and funding policies and risk appetite approved by the Board of Directors in order to take the necessary measures in a timely and correct manner against possible liquidity shortages that may result from market conditions and balance sheet structure. Under stressed conditions, liquidity risk is managed within the contingency funding plan framework.

The Board of Directors reviews the liquidity risk management policy and approves the liquidity and funding policies, ensures the effective of practice of policies and integrations with the Bank's risk management system. The Board of Directors determines the basic metrics in liquidity risk measurement and monitoring. The Board of Directors establishes risk appetite of the Bank in liquidity risk management and identifies the risk limits in accordance with the risk appetite and reviews it regularly.

ALCO takes necessary decisions which will be executed by related departments by assessing the liquidity risk that the Bank is exposed to and considering the Bank's strategy and conditions of competition and pursues the implementations.

ALMD, performs daily liquidity management by ensuring compliance with regulatory and internal liquidity limits and monitoring related early warning indicators in case of probable liquidity squeezes. The medium and long term liquidity and funding management is performed by ALMD in accordance with ALCO decisions.

Head of Risk Management defines the Bank's liquidity risk, measures and monitors the risks with liquidity risk measurement methods that are in compliance with international standards, presents measurement results periodically to related departments, committees and senior management. Head of Risk Management coordinates related parties in order to ensure compliance of risk management process in accordance with the Bank's risk profile, operation environment and strategic plan with regulations. Head of Risk Management analyses, develops and revises relevant liquidity risk measurement in accordance with changing market conditions and the Bank's structure. Risk Management Department reviews assumptions and parameters used in liquidity risk analysis.

Financial risk management disclosures (continued)

The liquidity risk analysis and the important liquidity indicators are reported monthly to related senior management. Additionally, analysis and monitored internal ratios related to liquidity risk are presented in ALCO report. Internal liquidity metrics are monitored with limit and alert levels approved by the Board of Directors and reported regularly to related parties.

Decentralized management approach is adopted in liquidity management. Each subsidiary controlled by the Bank performs daily, medium and long term liquidity management independently from the Bank by the authorities in each subsidiary responsible for managing liquidity risk.

In addition, within the scope of consolidated risk management, liquidity and funding risk of each subsidiary in control are monitored via the liquidity risk management methods identified by the Bank by considering the operations, risk profile and regulations of the related subsidiary.

The Bank keeps liquidity buffer in high level by taking liquidity risk increased periods into consideration. With this approach, the effect of volatility in the markets due to the adverse effects of COVID-19 outbreak on the Bank's liquidity need is in minimum level.

Also there is an increase in loan demands within the effects of COVID-19 outbreak and customers prefer to extend their existing loans maturities. On the other hand, the Bank is well-prepared for similar scenarios that matured loans are not presented as cash inflow in the Bank's internal liquidity metrics and therefore this does not create a significant effect from the point of the Bank. On the contrary, the Bank takes actions to improve the deposit volume and this liquidity is used for the increase in loan demands.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	30 June 2021							
	Demand Accounts	*Up to 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Undistributed(*)*	*Total*
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	16,486,960	-	-	-	-	-	(27,286)	16,459,674
Financial assets at fair value through profit or loss	54,172	978,322	43,000	204,931	420,414	88,958	-	1,789,797
Derivative financial assets	-	852,088	1,022,409	375,090	884,515	-	-	3,134,102
Loans and advances to banks	31,965	10,431,514	187,812	236,497	1	-	(79,062)	10,808,727
Loans and advances to customers	519,363	45,672,339	29,102,471	77,307,624	71,562,108	8,971,162	463,204	233,598,271
Investment securities	-	1,349,444	384,685	5,593,821	33,027,635	8,734,351	(32,610)	49,057,326
Other assets	5,665,971	1,553,311	24,851	27,546	120,544	-	6,416,999	13,809,222
Total Turkish Lira monetary assets	22,758,431	60,837,018	30,765,228	83,745,509	106,015,217	17,794,471	6,741,245	328,657,119
Foreign Currency								
Cash and balances with central banks	30,220,963	32,369,277	-	-	-	-	(38,457)	62,551,783
Financial assets at fair value through profit or loss	432,572	455,743	6,373	4,544,029	260,222	163,469	14,706	5,877,114
Derivative financial assets	-	66,063	79,988	134,338	235,868	1,269,200	-	1,785,457
Loans and advances to banks	16,403,894	4,205,200	3,612,403	3,229,805	441,598	18,987	4,538	27,916,425
Loans and advances to customers	568,272	15,629,295	9,936,496	36,916,820	55,397,833	25,538,304	(2,865,715)	141,121,305
Investment securities	-	133,435	217,111	2,897,329	12,299,685	9,233,106	(26,456)	24,754,210
Other assets	4,406,183	1,367,815	109,379	61,457	48,891	-	(33,191)	5,960,534
Total foreign currency monetary assets	52,031,884	54,226,828	13,961,750	47,783,778	68,684,097	36,223,066	(2,944,575)	269,966,828
Total Monetary Assets	74,790,315	115,063,846	44,726,978	131,529,287	174,699,314	54,017,537	3,796,670	598,623,947
MONETARY LIABILITIES								
Turkish Lira								
Deposits	44,331,636	90,966,893	16,844,034	13,120,144	267,840	-	-	165,530,547
Loans and advances from banks and other institutions	-	233,237	555,135	1,590,498	917,218	-	-	3,296,088
Obligations under repurchase agreements and money market fundings	-	459,220	199,208	162,258	1	-	-	820,687
Debt securities issued	-	102,534	3,360,769	1,172,709	434,698	-	-	5,070,710
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	224,081	444,521	241,353	292,575	985,123	-	2,187,653
Subordinated liabilities	-	-	-	-	-	1,035,271	-	1,035,271
Other liabilities	6,138,727	17,489,135	1,480,778	125,675	435,775	126,812	6,850,280	32,647,182
Total Turkish Lira monetary liabilities	50,470,363	109,475,100	22,884,445	16,412,637	2,348,107	2,147,206	6,850,280	210,588,138
Foreign Currency								
Deposits	135,004,156	73,027,846	23,837,456	11,145,816	3,304,819	15,810	-	246,335,903
Loans and advances from banks and other institutions	-	2,292,455	808,306	12,490,126	8,913,346	4,153,251	-	28,657,484
Obligations under repurchase agreements and money market fundings	224	-	1,739,983	1,302,799	1,441,084	-	-	4,484,090
Debt securities issued	-	-	-	732,836	10,960,931	2,592,658	-	14,286,425
Financial liabilities at fair value through profit or loss	-	-	-	-	6,424,998	11,433,582	-	17,858,580
Derivative financial liabilities	-	155,919	-	317,594	632,676	2,561,964	-	3,668,153
Subordinated liabilities	-	-	-	-	-	6,516,543	-	6,516,543
Other liabilities	1,469,684	1,119,762	1,016,949	146,092	97,203	2,365	4,857,541	8,709,596
Total foreign currency monetary liabilities	136,474,064	76,595,982	27,402,694	26,135,263	31,775,057	27,276,173	4,857,541	330,516,774
Total Monetary Liabilities	186,944,427	186,071,082	50,287,139	42,547,900	34,123,164	29,423,379	11,707,821	541,104,912

(*) Includes expected credit losses.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	31 December 2020							
	Demand Accounts	***Up to 1 month***	***1 to 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 year***	***Undistributed(*)***	***Total***
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	6,948,969	-	-	-	-	-	(22,406)	6,926,563
Financial assets at fair value through profit or loss	420,161	25,552	63,305	195,307	523,264	8,449	-	1,236,038
Derivative financial assets	-	970,995	638,145	352,359	622,616	-	-	2,584,115
Loans and advances to banks	29,406	8,416,530	166,509	225,585	-	-	(164,207)	8,673,823
Loans and advances to customers	382,031	39,374,151	25,755,177	64,199,274	65,523,398	8,162,659	552,196	203,948,886
Investment securities	-	780,106	254,942	5,480,612	29,481,223	9,189,343	(101,376)	45,084,850
Other assets	4,513,970	1,310,329	33,705	6,870	83,192	-	5,852,528	11,800,594
Total Turkish Lira monetary assets	12,294,537	50,877,663	26,911,783	70,460,007	96,233,693	17,360,451	6,116,735	280,254,869
Foreign Currency								
Cash and balances with central banks	26,006,941	29,554,420	-	-	-	-	(75,808)	55,485,553
Financial assets at fair value through profit or loss	288,708	18,049	28,392	6,221,959	429,249	28,321	11,831	7,026,509
Derivative financial assets	-	113,099	155,272	97,972	107,834	1,556,260	-	2,030,437
Loans and advances to banks	22,221,450	2,572,857	1,806,021	3,004,708	128,986	33,728	4,235	29,771,985
Loans and advances to customers	424,164	11,341,097	8,673,563	36,354,284	52,711,580	21,019,115	(638,733)	129,885,070
Investment securities	-	648,583	905,450	1,606,362	12,185,834	9,179,205	(65,887)	24,459,547
Other assets	675,358	1,522,758	96,392	38,783	39,667	-	(156,452)	2,216,506
Total foreign currency monetary assets	49,616,621	45,770,863	11,665,090	47,324,068	65,603,150	31,816,629	(920,814)	250,875,607
Total Monetary Assets	61,911,158	96,648,526	38,576,873	117,784,075	161,836,843	49,177,080	5,195,921	531,130,476
MONETARY LIABILITIES								
Turkish Lira								
Deposits	36,388,050	82,170,732	18,303,146	3,023,327	2,010,333	-	-	141,895,588
Loans and advances from banks and other institutions	-	303,175	82,014	1,753,397	960,679	-	-	3,099,265
Obligations under repurchase agreements and money market fundings	-	700,838	297,144	100,134	-	-	-	1,098,116
Debt securities issued	-	1,562,878	3,320,965	202,580	1,008,009	-	-	6,094,432
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	1,322,174	2,176,324	165,548	251,035	867,225	-	4,782,306
Subordinated liabilities	-	-	-	-	-	1,029,532	-	1,029,532
Other liabilities	4,272,563	14,690,310	2,379,529	181,957	500,696	181,598	6,950,718	29,157,371
Total Turkish Lira monetary liabilities	40,660,613	100,750,107	26,559,122	5,426,943	4,730,752	2,078,355	6,950,718	187,156,610
Foreign Currency								
Deposits	119,724,989	65,563,023	17,904,453	10,725,861	1,769,567	168,892	-	215,856,785
Loans and advances from banks and other institutions	-	3,021,692	1,212,534	11,428,820	6,737,681	2,066,927	-	24,467,654
Obligations under repurchase agreements and money market fundings	199	-	702,942	88,052	1,274,669	-	-	2,065,862
Debt securities issued	-	-	-	4,895,250	9,448,138	2,379,261	-	16,722,649
Financial liabilities at fair value through profit or loss	-	-	-	-	6,149,743	9,988,196	-	16,137,939
Derivative financial liabilities	-	171,916	-	255,581	720,997	2,605,193	-	3,753,687
Subordinated liabilities	-	-	-	-	-	5,569,437	-	5,569,437
Other liabilities	690,575	962,993	2,163,715	109,273	101,875	2,287	3,391,466	7,422,184
Total foreign currency monetary liabilities	120,415,763	69,719,624	21,983,644	27,502,837	26,202,670	22,780,193	3,391,466	291,996,197
Total Monetary Liabilities	161,076,376	170,469,731	48,542,766	32,929,780	30,933,422	24,858,548	10,342,184	479,152,807

(*) Includes expected credit losses.

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

Contractual maturity analysis of liabilities according to remaining maturities

The remaining maturities table of the contractual liabilities includes the undiscounted future cash outflows for the principal amounts of the Bank and its subsidiaries' financial liabilities as per their earliest likely contractual maturities.

	30 June 2021							
	Carrying Value	***Nominal Principal Outflows***	***Demand***	***Up to 1 Month***	***1 to 3 Months***	***3 to 12 Months***	***1 to 5 Years***	***Over 5 Years***
Deposits	411,866,450	410,158,153	179,332,748	163,195,302	40,500,063	23,558,517	3,555,724	15,799
Obligations under repurchase agreements and money market fundings	5,304,777	5,286,151	224	446,787	1,945,875	1,452,183	1,441,082	-
Loans and advances from banks and other institutions	31,953,572	31,775,135	-	2,525,692	1,363,441	13,990,946	9,816,377	4,078,679
Debt securities issued	19,357,135	19,112,611	-	95,736	3,335,147	1,898,892	11,239,538	2,543,298
Subordinated liabilities	7,551,814	7,479,130	-	-	-	-	-	7,479,130
Financial liabilities at fair value through profit or loss	17,858,580	19,288,701	-	-	-	-	6,336,201	12,952,500
Total Monetary Liabilities	493,892,328	493,099,881	179,332,972	166,263,517	47,144,526	40,900,538	32,388,922	27,069,406

	31 December 2020							
	Carrying Value	***Nominal Principal Outflows***	***Demand***	***Up to 1 Month***	***1 to 3 Months***	***3 to 12 Months***	***1 to 5 Years***	***Over 5 Years***
Deposits	357,752,373	357,052,886	156,109,951	147,232,415	36,090,646	13,682,681	3,769,080	168,113
Obligations under repurchase agreements and money market fundings	3,163,978	3,153,798	199	696,442	997,404	186,182	1,273,571	-
Loans and advances from banks and other institutions	27,566,919	27,455,287	-	3,257,807	1,263,289	13,170,877	7,696,387	2,066,927
Debt securities issued	22,817,081	22,522,920	-	1,544,772	3,279,199	5,025,717	10,308,949	2,364,283
Subordinated liabilities	6,598,969	6,537,880	-	-	-	-	-	6,537,880
Financial liabilities at fair value through profit or loss	16,137,939	17,147,155	-	-	-	-	6,077,155	11,070,000
Total Monetary Liabilities	434,037,259	433,869,926	156,110,150	152,731,436	41,630,538	32,065,457	29,125,142	22,207,203

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

(d) Credit risk

The Bank and its subsidiaries are subject to credit risk through the trading, lending, hedging and investing activities and the guarantees issued for their customers as well as in cases where they act as intermediaries on behalf of customers or other third parties.

In accordance with IFRS 7 "Financial Instruments: Disclosures", the Group's maximum credit risk exposure (see definition below) by headings in the statement of financial position as of 30 June 2021 and 31 December 2020 are provided below. It does not consider the availability of collateral or other credit enhancements to guarantee compliance with payment obligations. The maximum credit exposures broken down by financial instruments excluding equity instruments are as follows:

	Notes	30 June 2021	Stage 1	Stage 2	Stage 3
Financial assets at fair value through profit or loss		*1,967,294*			
Debt and other instruments	*4*	1,967,294			
Loans and advances	*4*	-			
Non-trading financial assets mandatorily at fair value through profit or loss		*4,521,016*			
Loans and advances	*4*	4,521,016			
Debt and other instruments	*4*	-			
Derivative financial assets	*5*	*4,919,559*			
Financial assets at fair value through other comprehensive income		*40,728,858*	*40,728,858*	-	-
Debt and other instruments	*8*	40,728,858	40,728,858	-	-
Financial assets at amortised cost		*508,789,317*	*428,065,990*	*64,563,341*	*16,159,986*
Balances with central banks excluding reserve deposits	*3*	38,713,670	38,713,670	-	-
Loans and advances to banks	*6*	38,834,665	38,834,665	-	-
Loans and advances to customers	*7*	398,099,226	317,375,899	64,563,341	16,159,986
Debt and other instruments	*8*	33,141,756	33,141,756	-	-
Total financial assets risk		**560,926,044**			
Total loan commitments and financial guarantees	*25*	*187,485,320*			
Total maximum credit exposure		**748,411,364**			

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

	Notes	***31 December 2020***	***Stage 1***	***Stage 2***	***Stage 3***
Financial assets at fair value through profit or loss		*3,109,047*			
Debt and other instruments	*4*	3,109,047			
Loans and advances	*4*	-			
Non-trading financial assets mandatorily at fair value through profit or loss		*4,503,410*			
Loans and advances	*4*	4,503,410			
Debt and other instruments	*4*	-			
Derivative financial assets	*5*	*4,614,552*			
Financial assets at fair value through other comprehensive income		*36,472,769*	*36,472,769*	-	-
Debt and other instruments	*8*	36,472,769	36,472,769	-	-
Financial assets at amortised cost		*449,835,878*	*374,439,142*	*59,278,424*	*16,118,312*
Balances with central banks excluding reserve deposits	*3*	23,179,439	23,179,439	-	-
Loans and advances to banks	*6*	38,641,286	38,641,286	-	-
Loans and advances to customers	*7*	354,776,242	279,379,506	59,278,424	16,118,312
Debt and other instruments	*8*	33,238,911	33,238,911	-	-
Total financial assets risk		**498,535,656**			
Total loan commitments and financial guarantees	*25*	*157,544,253*			
Total maximum credit exposure		**656,079,909**			

The maximum credit exposure presented in the table above is determined by type of financial asset as explained below:

- In the case of financial assets recognised in the statement of financial position, exposure to credit risk is considered equal to its carrying amount (not including impairment losses) with the sole exception of derivatives. For derivatives, credit risk exposure is measured as the fair value of the corresponding instrument.

- The maximum credit risk exposure on financial guarantees granted is the maximum amount that the Group would be liable for if these guarantees were called in.

There is no change in cure and reverse transfer logic, assessment of the significant increase in credit risk, internal rating and model inputs or low credit risk assumptions compared to year-end IFRS financial statements.

In line with the guidance of IASB dated 27 March 2020, IFRS 9 requires the application of judgements and both requires and allows entities to adjust their approach to determining ECLs in different circumstances.

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

With the aim of mitigating the impact of COVID-19, various international bodies, local regulators have made pronouncements aimed at allowing flexibility in the implementation of the accounting and prudential frameworks. Financial and regulatory measures, such as tax payment deferrals, wage support and extension of the payments of the consumer and car loans, have been taken by the Turkish government and other local regulators to minimize the economic impact of COVID-19.

The measures by the local regulator

With its decision dated 17 June 2021, Banking Regulation and BRSA decided that the following measures would be in force until 30 September 2021:

i. The 30-day past due criteria used for loans to be classified under group 2 loans pursuant to the BRSA Regulation on Classification of Loans and Provisions, has been changed to 90 days,
ii. The 90-day past due criteria used for loans to be classified as non-performing loans has been changed to 180 days.

The Bank's approach

The Bank previously adopted an approach that past due more than 30 and 90 days were a qualitative indicator that automatically required an exposure to be transferred to Stage 2 and Stage 3. For the current period the Bank has not applied the existing methodology mechanically and tried to avoid the application of strong procyclical assumptions for IFRS 9.

As a result, the Bank started to implement payment holiday schemes in line with the guidance from local banking regulator and other banks' supervisors. These payment holiday schemes are not automatically considered as forbearance and/or a Stage 2 trigger and the same rationale is applied for the categorization of non-performing loans for payment breaks over 90 days considering the temporarily liquidity shortage of customers because of COVID-19.

Considering the above, the Bank classified amounting TL 1,562,222 (31 December 2020: TL 1,300,763) of loans which have past due more than 90 days, as Stage 2 and TL 216,638 (31 December 2020: TL 176,155) of loans which have past due days between 30-90 days as Stage 1.

The Bank develops estimates based on the best available information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions, the Bank considers both effects of COVID-19 and the significant government support measures being undertaken.

As of 30 June 2021 and 31 December 2020, the breakdowns of individually and collectively assessed expected credit losses for loans, factoring and financial lease receivables and non-cash loans are as follows:

	30 June 2021					
	Stage 1		*Stage 2*		*Stage 3*	
	Individual	*Collective*	*Individual*	*Collective*	*Individual*	*Collective*
Cash loans	12	1,953,587	8,358,160	2,214,746	5,158,416	4,881,683
Factoring receivables	-	10,567	-	128	25,992	57,008
Financial lease receivables	599	58,831	118,869	68,590	364,891	107,571
Non-cash loans	-	416,485	674,571	179,402	706,103	195,629
	611	2,439,470	9,151,600	2,462,866	6,255,402	5,241,891

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

	31 December 2020					
	Stage 1		*Stage 2*		*Stage 3*	
	Individual	*Collective*	*Individual*	*Collective*	*Individual*	*Collective*
Cash loans	52	2,098,432	5,956,916	2,441,821	4,798,516	4,868,550
Factoring receivables	-	10,517	7,569	73	69,066	50,496
Financial lease receivables	446	53,287	116,272	41,817	366,716	61,740
Non-cash loans	9,910	494,082	607,411	227,337	596,537	216,612
	10,408	2,656,318	6,688,168	2,711,048	5,830,835	5,197,398

As of 30 June 2021 and 31 December 2020, details of loans under follow-up (Stage 2) including restructured contracts are as follows:

	Loans and Other Receivables under Follow-Up (Stage 2)		
		Restructured	
30 June 2021	**Non-restructured**	**Revised Contract Terms**	**Other Changes**
Cash Loans			
Loans	**32,246,532**	**16,618,584**	**14,545,250**
Commercial, Corporate and SME Loans	14,113,470	13,243,221	14,469,039
Consumer Loans	13,734,679	2,950,447	76,211
Credit Cards	4,398,383	424,916	-
Other Receivables	**547,731**	**582,295**	**22,949**
Total	**32,794,263**	**17,200,879**	**14,568,199**

	Loans and Other Receivables under Follow-Up (Stage 2)		
		Restructured	
31 December 2020	**Non-restructured**	**Revised Contract Terms**	**Other Changes**
Cash Loans			
Loans	**38,490,249**	**14,616,905**	**5,101,354**
Commercial, Corporate and SME Loans	18,824,632	11,308,416	5,041,905
Consumer Loans	15,948,115	2,886,099	59,449
Credit Cards	3,717,502	422,390	-
Other Receivables	**804,313**	**243,682**	**21,921**
Total	**39,294,562**	**14,860,587**	**5,123,275**

Below table indicates the delinquency periods of loans under follow-up (Stage 2) as of 30 June 2021 and 31 December 2020:

30 June 2021	**Corporate / Commercial Loans**	**Consumer Loans**	**Credit Cards**	**Total**
31-60 days	411,699	696,181	129,361	1,237,241
61-90 days	261,290	321,888	76,827	660,005
Other	42,305,716	15,743,268	4,617,111	62,666,095
Total	**42,978,705**	**16,761,337**	**4,823,299**	**64,563,341**

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

31 December2020	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
31-60 days	273,322	670,489	110,504	1,054,315
61-90 days	280,450	263,561	48,629	592,640
Other	35,691,097	17,959,613	3,980,759	57,631,469
Total	**36,244,869**	**18,893,663**	**4,139,892**	**59,278,424**

The collaterals held against loans under follow-up (Stage 2) including accruals, are presented below, as per the collateral type, up to the outstanding total amount of exposures:

30 June 2021	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	19,122,152	3,920,659	-	23,042,811
Pledge assets	7,051,156	352,430	-	7,403,586
Promissory notes	52,930	6,854	-	59,784
Cash collateral	843,478	88,777	-	932,255
Other collaterals	11,787,334	11,554,488	-	23,341,822
Unsecured	4,121,655	838,129	4,823,299	9,783,083
Total	**42,978,705**	**16,761,337**	**4,823,299**	**64,563,341**

31 December 2020	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	16,706,864	4,420,193	-	21,127,057
Pledge assets	3,780,513	283,672	-	4,064,185
Promissory notes	85,723	8,413	-	94,136
Cash collateral	801,533	85,105	-	886,638
Other collaterals	10,924,606	13,326,871	-	24,251,477
Unsecured	3,945,630	769,409	4,139,892	8,854,931
Total	**36,244,869**	**18,893,663**	**4,139,892**	**59,278,424**

The collaterals held against non-performing (Stage 3) loans and receivables including accruals, are presented below, as per the collateral type, up to the outstanding total amount of exposures:

30 June 2021	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	7,832,808	200,555	-	8,033,363
Pledge assets	1,778,231	34,496	-	1,812,727
Promissory notes	142,108	2,691	-	144,799
Cash collateral	8,591	174	-	8,765
Other collaterals	1,608,721	1,481,978	-	3,090,699
Unsecured	2,067,341	284,255	718,037	3,069,633
Total	**13,437,800**	**2,004,149**	**718,037**	**16,159,986**

(Currency: Thousands of Turkish Lira (TL))

Financial risk management disclosures (continued)

31 December 2020	**Corporate / Commercial Loans**	**Consumer Loans**	**Credit Cards**	**Total**
Mortgages	7,970,929	227,765	-	8,198,694
Pledge assets	1,731,647	37,793	-	1,769,440
Promissory notes	150,337	2,975	-	153,312
Cash collateral	15,438	373	-	15,811
Other collaterals	1,594,683	1,505,915	-	3,100,598
Unsecured	1,835,825	250,151	794,481	2,880,457
Total	**13,298,859**	**2,024,972**	**794,481**	**16,118,312**

(e) Capital management – regulatory capital

BRSA, being the main regulatory and supervisory body in Turkey, sets and monitors minimum capital requirements at consolidated and Bank-only level. Individual banking operations are directly supervised by their local regulators and subject to requirements set by these authorities.

In order to build up adequate buffers above these minimum requirements, BRSA requires the Bank to hold 2.50% Capital Conservation Buffer (31 December 2020: 2.50%), 1.50% Domestic Systemically Important Bank Buffer (31 December 2020: 1.50%) and 0.13% Bank-Specific Countercyclical Buffer (31 December 2020: 0.13%) as CET1 capital.

Banks that do not meet these buffer requirements subject to restrictions on discretionary payments as described in the Regulation on Capital Conservation and Countercyclical Capital Buffers. No restriction as of reporting date applies to Bank that has excess capital above all these requirements.

The Bank's and its subsidiaries' consolidated regulatory capital is composed mainly of the following items:

-Common Equity Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, other comprehensive income, foreign currency translation reserve and non-controlling interests after deductions for goodwill and certain cost items

-Additional Tier 1 capital, which the Bank has no qualifying liability needs to be classified in this category

-Tier 2 capital, which includes qualifying subordinated liabilities and Stage 1 and 2 provisions capped with 1.25% of Credit RWA.

The Bank's and its subsidiaries' regulatory capital positions on consolidated basis are as follows:

	30 June 2021	***31 December 2020***
Tier 1 capital	66,678,490	61,854,002
Tier 2 capital	12,440,060	11,161,116
Deductions from capital	(2,509)	(1,884)
Total regulatory capital	79,116,041	73,013,234
Value at credit, market and operational risks	476,265,114	432,914,519
Capital ratios (%)		
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	16.61	16.87
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	14.00	14.29

Financial risk management disclosures (continued)

Within the context of the measures that are announced by BRSA on 17 June 2021, in capital adequacy ratio calculation until 30 September 2021 may be calculated with arithmetic average of the Central Bank of Turkey’s spot purchase exchange rates for 252 working days before credit risk calculation date and as of the announcement date negative revaluation differences of the securities classified under “Financial Assets Measured at Fair Value through Other Comprehensive Income” may not be included in capital calculation.

As of 30 June 2021, the amount subject to credit risk in calculating the regulatory capital adequacy ratio was calculated by taking into account the simple arithmetic average of the Central Bank's foreign exchange buying rates for the last 252 business days before the calculation date. If the specified measure is not taken into account, the capital adequacy ratio decreases to 15.94% as of 30 June 2021.

(f) Hedging

Due to the Bank and its subsidiaries’ overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its subsidiaries from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its subsidiaries enter into transactions to ensure that it is economically hedged in accordance with risk management policies. In the accompanying consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

From time to time, the Bank enters into various interest rate swap transactions in order to hedge its certain cash flow or fair value exposures on floating/fixed rate assets and liabilities, through converting its floating/fixed rate income/payments into fixed/floating rate income/payments.

The Bank also enters into interest rate and cross currency swap agreements in order to hedge the change in fair value of fixed-rate financial instruments due to fluctuations in market interest rates. In this respect, the Bank applied fair value hedge accounting for its fixed-rate loans with a total principal of TL 200,000, US$ 3,029,940 and EUR 39,198,452, for its fixed-rate coupons with a total face value of US$ 387,500,000 and fixed-rate coupons with a total face value of EUR 23,800,000 by designating interest rate swaps and cross currency swaps with the same face values and terms. Accordingly, the accumulated fair value gain for the hedged loans and bonds is TL 14,781 (30 June 2020: TL 48,878) and TL 323,035 (30 June 2020: TL 388,127) respectively. The part of the related amount that belongs to the current period is accounted for under net trading income/(expense) in the consolidated statement of profit or loss and other comprehensive income.

The Bank applies cash flow hedge accounting in order to hedge its expected investment expenditures which are considered to have high probability of realization in the future from the exchange rate risk that will occur due to the fluctuations in market foreign exchange rates. Cash flow hedge accounting is applied between the estimated investment expenditures amounting to US$ 56,302,701 in total (31 December 2020: US$ 67,639,959) and foreign currency denominated assets and exchange differences arising from translation of foreign currency denominated assets into Turkish Lira are accounted under “Other Reserves to be Recycled to Profit or Loss”. As of 30 June 2021, a gain of TL 50,138 (30 June 2020: nil) arising from cash flow accounting was recognized under shareholders’ equity. There is no ineffective portion arising from cash flow hedge accounting.

Financial risk management disclosures (continued)

The Bank applies cash flow hedge accounting in order to hedge its foreign currency Eurobond coupon returns which are considered to have high probability of realization in the future from the exchange rate risk that will occur due to the fluctuations in market foreign exchange rates. Cash flow hedge accounting is applied between the estimated foreign currency Eurobond coupon returns amounting to US$ 34,097,952 in total (31 December 2020: US$ 67,639,959) and foreign currency denominated liabilities. Foreign exchange differences arising from translation of foreign currency denominated liabilities into Turkish Lira are accounted under "Other Reserves to be Recycled to Profit or Loss". As of 30 June 2021, a loss of TL 30,364 (30 June 2020: nil) arising from cash flow accounting is accounted under shareholders' equity. There is no ineffective portion arising from cash flow hedge accounting.

The Bank applies cash flow hedge accounting in order to hedge the foreign exchange rate risk stemming from its payment commitments made within the context of a special mile program due to the fluctuations in market foreign exchange rates. Cash flow hedge accounting is applied between the payment commitments amounting to US$ 11,333,460 in total (31 December 2020: US$ 11,333,460) and foreign currency denominated assets. Foreign exchange differences arising from translation of foreign currency denominated assets into Turkish Lira are accounted under "Other Reserves to be Recycled to Profit or Loss". As of 30 June 2021, a gain of TL 10,886 (30 June 2020: nil) arising from cash flow accounting is accounted under shareholders' equity. There is no ineffective portion arising from cash flow hedge accounting.

The Bank also enters into interest rate and cross currency swap agreements in order to hedge the change in cash flows of floating rate financial instruments due to fluctuations in market interest rates. In this respect, the Bank applied cash flow hedge accounting for its borrowings amounting to US$ 7,982,703 and EUR 15,789,486 and securitization borrowings amounting to EUR 26,510,517 by designating cross currency swaps with the same face values and terms and securitizations amounting to US$ 322,642,276 and EUR 15,000,000 and deposits amounting to TL 1,380,000, US$ 930,000,000 and forward EUR 480,000,000 by designating interest rate swaps with the same face values. Accordingly, in the current period, gain of TL 15,949 and loss of TL 84,654 (30 June 2020: gain of TL 20,450 and loss of TL 330,121) resulting from cross currency swaps, interest rate swaps agreements were recognised under shareholders' equity, respectively.

One of the Bank's consolidated subsidiaries associated its contractual operational lease receivables (contractual future cash flows) denominated in EUR with its EUR denominated borrowings and other foreign currency borrowings converted to EUR currency through swap transactions and applied cash flow hedge accounting until 1 October 2017. The foreign currency exposures in operational lease receivables were hedged and accordingly the effective portion of foreign currency gains/losses of non-derivative hedging instruments designated for hedges of future cash flows were recognised directly in equity and any ineffective portion is recognised immediately in income until 1 October 2017.

Effective from 1 October 2017, the subsidiary ceased the cash flow hedge regarding foreign currency exposure of its EUR denominated operational lease contracts and considered a fair value hedge relationship between such EUR denominated operational lease receivables and corresponding foreign currency borrowings. Accordingly, the subsequent cumulative change in the fair value of EUR denominated operational lease receivables (the firm commitment) attributable to the hedged risk is recognised as an asset with a corresponding gain recognised in profit or loss. As of 30 June 2021, while a negative amount of TL 1,285 (net of deferred taxes) was recognised under shareholders' equity as the hedge reserve (30 June 2020: TL 112,308), the unrecognised firm commitment fair value change was recognised as asset amounting to TL 2,859 (30 June 2020: TL 46,418) as a consequence of the new fair value hedge designation explained

Financial risk management disclosures (continued)

above. Besides, the subsidiary continued to apply cash flow hedge for its forecasted second-hand vehicle sales same as previous year.

In the consolidated financial statements, the Bank applies cash flow hedge accounting by designating interest rate swap agreements for floating rate borrowings used by one of the Bank's consolidated subsidiaries, in order to hedge the cash flow risk arising from fluctuations in market interest rates of these borrowings on a consolidated level, starting from 30 September 2019. In this respect, cash flow hedge accounting is applied for borrowings amounting to EUR 102,659,877 by designating interest rate swaps that include floor options with the same nominal value and interest rate swaps of US$ 7,000,000 with the same nominal value and terms. In this respect, a gain of TL 804 (30 June 2020: a loss of TL 756) accounted under shareholders' equity in the current period for interest rate swap transactions.

One of the Bank's consolidated subsidiaries enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial instruments due to fluctuations in market interest rates. In this respect, the subsidiary applied fair value hedge accounting for fixed rate eurobonds with a total face value of EUR 20,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, the accumulated fair value loss for the hedged loans and bonds is TL 15,303 (30 June 2020: TL 19,463). The part of the related amount that belongs to the current period is accounted for under net trading income/(expense) in the consolidated statement of profit or loss and other comprehensive income.

One of the Bank's consolidated subsidiaries enters into interest rate swap agreements in order to hedge the change in cash flows of floating rate financial instruments due to fluctuations in market interest rates. In this respect, the subsidiary applied cash flow hedge accounting for its borrowings amounting to EUR 35,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a net loss of TL 7,184 (30 June 2020: TL 11,553) resulting from interest rate swap agreements were recognised under shareholders' equity.

One of the Bank's consolidated subsidiaries enters into foreign currency derivative contracts to hedge the foreign currency risk of its expected future cash flows. In this respect, the subsidiary applied cash flow hedge accounting for its loans granted in Turkish Lira by designating swaps with the same face values and similar terms; TL 120,621,833 sell and EUR 10,071,320 buy, HUF 3,220,952,778 sell and EUR 8,868,768 buy, RON 3,333,331 sell and EUR 650,976 buy, US$ 104,315,998 sell and EUR 87,072,943 buy. Accordingly, in the current period, a loss of TL 348 (30 June 2020: TL 2,587) resulting from currency derivative contracts were recognised under shareholder's equity.

One of the Bank's consolidated subsidiaries enters into foreign currency derivative contracts to hedge the foreign currency risk of its expected future cash flows. In this respect, the subsidiary applied cash flow hedge accounting for its financial lease receivables granted in foreign currency by designating swaps with the same face values and similar terms; EUR 15,000,000 sell and TL 139,095,000 buy, US$ 29,000,000 sell and TL 209,090,000 buy. Accordingly, in the current period, a loss of TL 4,158 (30 June 2020: TL 5,930) resulting from interest rate swap agreements and a gain of TL 84 (30 June 2020: TL 6,962) from currency derivative contracts were recognised under shareholder's equity.

Fair value information

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.

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgement is necessary required to interpret market data to determine the estimated fair value. While management uses available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

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

Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Within the scope of IFRS 13 Fair Value Measurement standard; (i) if there is a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities); (ii) when the transaction or quoted price does not represent fair value; and / or (iii) when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured, or (iv) when the price is stale, an adjustment to the transactions or quoted prices is made and this adjustment is reflected to the fair value measurement. In this context, the point is determined within the range that is most representative of fair value under current market conditions.

Fair value of loans and advances to customers is TL 375,393,166 (31 December 2020: TL 336,937,235), whereas the carrying amount is TL 374,719,576 (31 December 2020: TL 333,833,956) in the accompanying interim condensed consolidated statement of financial position as of 30 June 2021.

Fair value of investment securities measured at amortised cost is TL 34,117,880 (31 December 2020: TL 34,518,927), whereas the carrying amount is TL 33,082,678 (31 December 2020: TL 33,071,628) in the accompanying interim condensed consolidated statement of financial position as of 30 June 2021.

(Currency: Thousands of Turkish Lira (TL))

Fair value information (continued)

The table below analyzes financial instruments carried at fair value, by valuation method:

30 June 2021	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value through profit or loss (*)	1,644,150	1,365,008	4,657,753	7,666,911
Derivative financial assets	94	4,782,971	136,494	4,919,559
Debt and other instruments measured at FVOCI	24,244,978	16,483,880	-	40,728,858
Financial Assets at Fair Value	25,889,222	22,631,859	4,794,247	53,315,328
Financial liabilities at fair value through profit or loss	-	-	17,858,580	17,858,580
Derivative financial liabilities	44,021	4,250,104	1,561,681	5,855,806
Financial Liabilities at Fair Value	44,021	4,250,104	19,420,261	23,714,386

31 December 2020	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value through profit or loss (*)	1,691,509	2,016,293	4,554,745	8,262,547
Derivative financial assets	7,581	4,385,082	221,889	4,614,552
Debt and other instruments measured at FVOCI	33,813,363	2,548,331	111,075	36,472,769
Financial Assets at Fair Value	35,512,453	8,949,706	4,887,709	49,349,868
Financial liabilities at fair value through profit or loss	-	-	16,137,939	16,137,939
Derivative financial liabilities	5,351	7,293,537	1,237,105	8,535,993
Financial Liabilities at Fair Value	5,351	7,293,537	17,375,044	24,673,932

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

(*)Financial assets measured at fair value through profit or loss include loan amounting to US$ 756,288,034 (31 December 2020: US$ 756,288,034) provided to a special purpose entity. As detailed in Note 10, according to the decision made at the 2018 annual general assembly of related special purpose entity, it was decided to increase the capital of the special purpose entity by TL 3,982,230, all of which will be covered by shareholder receivables. After the capital increase, US$ 154,885,708 of the related loan, which corresponds to the share of receivables in the Bank, has been paid off.

This loan is classified under financial assets measured at fair value through profit/loss as per IFRS 9. The fair value of this loan is determined by the independent valuation company based on the weighted average of different methodologies (discounted cash flows, similar market multipliers, same sector transaction multipliers, market value and analyst reports). Upon the result of the independent valuation, the Bank management also evaluated the discounted cash flows and reflected its internal evaluation on the relevant valuation result. In this internal valuation, the Bank has determined to use the earnings before interest, taxes and depreciation (EBITDA) profit margin rates which are observed in previous periods and additional risk premium was added in discounted cash flow model. The corresponding loan is considered as Level 3 based on IFRS 13 "Fair Value Measurement" standard.

Valuation techniques considered in the valuation work and any possible changes in the basic assumptions may affect the carrying value of the related asset. For discounted cash flows method, significant unobservable inputs are EBITDA, growth rate and weighted average cost of capital. The estimated fair value of the asset would increase if growth rate and EBITDA are higher and decrease if the weighted average cost of capital is higher. Trading multiples and transaction multiples for the companies operating in the same sector are the other valuation techniques for pricing the assets. Transaction multiples for the companies operating in the same sector are based on similar transactions based on geographical features, industry, size, target market and other factors. Transaction multiples are derived by dividing the enterprise values of the companies to EBITDAs. The estimated fair value of the asset would increase if the multiples were higher and decrease if multiples were lower.

In the case that the growth rate in the assumptions used in the discounted cash flow method in the valuation report is increased by 0.25% / (decreased by 0.25%) and the risk-free return on investment rate is decreased by 0.25% / (increased by 0.25%), assuming that all other variables remain constant, the assets recognized in the financial statements and the profit for the period will increase by approximately 89 million TL (will decrease 89 million TL).

(Currency: Thousands of Turkish Lira (TL))

Fair value information (continued)

Regarding valuation of the related securities issued, it is determined a reference level which indicates the correlation among the transaction spread at inception date with either of the followings: TC CDS, TC eurobonds, and Z-spreads of the Bank and TC and considered the impact of daily changes in relevant parameters with variation in reference level. Therefore, the fair value of both the securities issued and the corresponding Total Return Swap (TRS) transactions are determined as Level 3.

As of 30 June 2021 and 31 December 2020, the movements of Level 3 financial instruments are as follows:

	30 June 2021		31 December 2020	
	Asset	Liability	Asset	Liability
Balance at the beginning of the period	4,887,709	17,375,044	4,571,212	15,094,539
Additions*(*)*	380	-	452,994	-
Disposals	(113,103)	(774,400)	(192,317)	(1,388,505)
Transfers, net	-	-	(2,870)	-
Effects of valuation differences *(**)*	19,261	2,819,617	58,690	3,669,010
Balance at the end of the period	4,794,247	19,420,261	4,887,709	17,375,044

(*) Based on IFRS 9, in order to eliminate the accounting mismatch, the securitized bonds issued are measured at fair value and it is used the valuation of the Turkish Republic's credit default swap (CDS) and Eurobonds together with the Z-spread of the Turkish Republic (TC) and the Bank. The credit default swap (CDS) level is determined based on the remaining maturity.

(**) As of 30 June 2021 and 31 December 2020, effect of movements in exchange rates regarding Level 3 financial liabilities is TL 2,936,524 and TL 3,767,143; respectively.

Owned assets starting from 1 November 2015, as a result of changing in the accounting policy, the Group applied revaluation model for its real estate properties recorded under tangible assets instead of cost model in accordance with IAS 16. Within this framework, the revaluation differences arising from the valuations performed by independent expertise firms for all the real estates is accounted under shareholder's equity. The Bank has reviewed the valuation of its real estate properties which have significant changes in the fair value considering the current market conditions and the related changes are recognised in the interim condensed consolidated financial statements.

Similar to owned assets, the investment properties starting from 1 November 2015, as a result of changing in the accounting policy, the Group applied the fair value model for instead of cost model in accordance with the IAS 40. Within this framework, the revaluation differences arising from the valuations performed by independent expertise firms for all the investment properties is accounted under in the consolidated statement of profit or loss and other comprehensive. As of the reporting period, the Bank has reviewed the valuation of its investment properties which have significant changes in their fair value considering the current market conditions and the related changes are recognised in the interim condensed consolidated financial statements.

Owned assets and investment properties are considered at fair value are classified at Level 3.

Notes to the interim condensed consolidated financial statements:

1 Segment reporting

The Group has eight reportable segments from banking and other financial institutions, as described in the business segments part below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the senior management reviews internal reports regularly. The following summary describes the operations in each of the Group's reportable segments.

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

Business segments

The segments are identified on the basis used by the Group's top management to allocate resources and evaluate performance, in accordance with IFRS 8 "Operating Segments". The Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The main business segments are banking, leasing, insurance and factoring sectors. Banking segment information is detailed further to retail banking and commercial, corporate and SME banking as these are the major banking activities. Other operations heading under the banking segment include mainly treasury and investment banking activities as well as unallocated income and expense items. The analysis is as follows:

30 June 2021	*Retail Banking*	*Commercial, Corporate & SME Banking*	*Other Operations*	*Total Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial*	*Other Non-Financial*	*Combined*	*Eliminations*	*Total*
Operating income	7,094,492	4,349,921	931,812	12,376,225	219,232	487,895	106,674	612,926	529,339	14,332,291	166,958	14,499,249
Operating expenses	(3,644,130)	(1,055,857)	(1,994,221)	(6,694,208)	(60,228)	(69,369)	(31,785)	(162,891)	(93,696)	(7,112,177)	(174,432)	(7,286,609)
Income from operations	**3,450,362**	**3,294,064**	**(1,062,409)**	**5,682,017**	**159,004**	**418,526**	**74,889**	**450,035**	**435,643**	**7,220,114**	**(7,474)**	**7,212,640**
Taxation charge	-	-	(1,100,466)	(1,100,466)	(36,721)	(102,243)	(9,894)	(109,962)	(134,986)	(1,494,272)	4,510	(1,489,762)
Net income for the period	**3,450,362**	**3,294,064**	**(2,162,875)**	**4,581,551**	**122,283**	**316,283**	**64,995**	**340,073**	**300,657**	**5,725,842**	**(2,964)**	**5,722,878**
Segment assets	107,124,759	258,805,354	223,747,090	589,677,203	8,624,132	2,360,117	3,943,471	3,659,605	2,778,664	611,043,192	(1,986,472)	609,056,720
Equity investments	-	-	826,152	826,152	10,000	417	-	7,466	-	844,035	(403,470)	440,565
Total assets	**107,124,759**	**258,805,354**	**224,573,242**	**590,503,355**	**8,634,132**	**2,360,534**	**3,943,471**	**3,667,071**	**2,778,664**	**611,887,227**	**(2,389,942)**	**609,497,285**
Segment liabilities	276,574,872	142,507,545	107,330,093	526,412,510	7,031,154	1,218,562	3,664,886	2,590,350	1,956,381	542,873,843	(1,768,931)	541,104,912
Total equity	-	-	64,090,845	64,090,845	1,602,978	1,141,972	278,585	1,076,721	822,283	69,013,384	(621,011)	68,392,373
Total liabilities and equity	**276,574,872**	**142,507,545**	**171,420,938**	**590,503,355**	**8,634,132**	**2,360,534**	**3,943,471**	**3,667,071**	**2,778,664**	**611,887,227**	**(2,389,942)**	**609,497,285**

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

30 June 2020	*Retail Banking*	*Commercial, Corporate & SME Banking*	*Other Operations*	*Total Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial*	*Other Non-Financial*	*Combined*	*Eliminations*	*Total*
Operating income	5,246,247	1,503,599	3,391,116	10,140,962	157,855	364,333	45,693	442,373	245,496	11,396,712	(201,602)	11,195,110
Operating expenses	(3,279,811)	(1,385,412)	(1,604,910)	(6,270,133)	(43,083)	(81,569)	(23,572)	(132,888)	(73,415)	(6,624,660)	216,324	(6,408,336)
Income from operations	**1,966,436**	**118,187**	**1,786,206**	**3,870,829**	114,772	282,764	22,121	309,485	172,081	4,772,052	14,722	4,786,774
Taxation charge	-	-	(1,103,896)	(1,103,896)	(26,054)	(63,973)	(4,650)	(72,494)	(34,127)	(1,305,194)	2,293	(1,302,901)
Net income for the year	**1,966,436**	**118,187**	**682,310**	**2,766,933**	**88,718**	**218,791**	**17,471**	**236,991**	**137,954**	**3,466,858**	**17,015**	**3,483,873**
31 December 2020												
Segment assets	92,869,978	236,569,037	197,073,311	526,512,326	7,368,454	2,855,305	2,912,563	2,857,363	2,741,762	545,247,773	(3,638,304)	541,609,469
Equity investments	-	-	751,395	751,395	10,000	304	-	6,634	1	768,334	(403,475)	364,859
Total assets	**92,869,978**	**236,569,037**	**197,824,706**	**527,263,721**	**7,378,454**	**2,855,609**	**2,912,563**	**2,863,997**	**2,741,763**	**546,016,107**	**(4,041,779)**	**541,974,328**
Segment liabilities	239,078,721	130,981,704	97,858,821	467,919,246	5,939,475	1,705,615	2,698,973	2,094,198	2,209,889	482,567,396	(3,414,589)	479,152,807
Total equity	-	-	59,344,475	59,344,475	1,438,979	1,149,994	213,590	769,799	531,874	63,448,711	(627,190)	62,821,521
Total liabilities and equity	**239,078,721**	**130,981,704**	**157,203,296**	**527,263,721**	**7,378,454**	**2,855,609**	**2,912,563**	**2,863,997**	**2,741,763**	**546,016,107**	**(4,041,779)**	**541,974,328**

(Currency: Thousands of Turkish Lira (TL))

2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 30 June 2021 and 2020, included in the accompanying interim condensed consolidated statement of cash flows are as follows:

	30 June 2021	***30 June 2020***
Cash at branches	7,631,968	7,859,947
Unrestricted balances with central banks	34,596,342	12,601,462
Placements at money markets	13,155,924	430,783
Loans and advances to banks with original maturity periods of less than three months	15,664,602	14,400,561
	71,048,836	35,292,753

3 Cash and balances with central banks

	30 June 2021	***31 December 2020***
Cash at branches	7,631,968	9,678,213
Reserve deposits at central banks	32,665,819	29,554,464
Balances with central banks excluding reserve deposits	38,713,670	23,179,439
	79,011,457	62,412,116

Reserve deposits at central banks

As per the Communiqué no. 2013/15 “Reserve Deposits” of the Central Bank of the Republic of Turkey (“CBRT”), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. The Reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its subsidiaries. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of liabilities in TL, foreign currencies and gold taken at the rates determined by CBRT. The Central Bank of Turkey pays interest to banks that provide credit growth in accordance with the communique principles dated 9 December 2019 and numbered 2019/19, for Turkish Lira required reserves.

The reserve deposits at the Central Bank of the Netherlands, as required by the Dutch Banking Law, are calculated as 1% on all customer deposits with an original maturity less than 2 years and 1% on bank deposits of non-EU banks with an original maturity less than 2 years.

The banks operating in Romania are obliged to keep minimum reserve requirements in accounts held with Romanian Central Bank (NBR). The reserve requirements are to be held in RON for RON liabilities and in Euro or US$ for foreign currency liabilities.

Currently, in line with stipulations of related legislation in force, the rates for reserve requirements are 8% for RON denominated liabilities with a remaining maturity less than 2 years and 5% for foreign currency denominated liabilities with a remaining maturity less than 2 years excluding Romanian banks’ fundings. The interest rates paid by the NBR to banks for reserve requirements are subject of permanent update, currently the rates are 0.09% for RON reserves 0.00% for EUR reserves and 0.01% for US$ reserves.

(Currency: Thousands of Turkish Lira (TL))

3 Cash and balances with central banks (continued)

The credit quality analysis of cash and balances with central banks as of 30 June 2021 and 31 December 2020 is as follows:

	30 June 2021			***31 December 2020***		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	79,213,124	-	-	62,646,258	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(201,667)	-	-	(234,142)	-	-
Total carrying amount	79,011,457	-	-	62,412,116	-	-

The movements of expected credit losses per asset class for cash and balances with central banks as of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021			***31 December 2020***		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	234,142	-	-	66,420	-	-
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Debt sales and write-offs	-	-	-	-	-	-
Recoveries and reversals	(32,538)	-	-	(100,499)	-	-
Provision for the period	-	-	-	268,131	-	-
Effects of movements in exchange rates	63	-	-	90	-	-
Balances at the end of the period	201,667	-	-	234,142	-	-

(Currency: Thousands of Turkish Lira (TL))

4 Financial assets at fair value through profit or loss

	30 June2021				31December 2020
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments measured at FVPL:					
Government bonds in FC	614,612	619,263	2-4	2024	1,716,440
Government bonds in TL	263,433	406,405	3-23	2030	331,262
Government bonds indexed to CPI	250,905	291,626	1-4	2031	424,974
Eurobonds	251,002	267,287	3-12	2047	437,505
Investment funds		168,974	-	-	78,133
Government bonds-floating ***(a)***	152,663	154,561	14-19	2026	454
Bonds issued by corporations	24,795	25,759	4-25	2023	15,924
Bonds issued by financial institutions	19,168	19,703	5-25	2027	101,519
Discounted government bonds in TL	14,580	13,716	9	2022	2,836
		1,967,294			3,109,047
Loans measured at FVPL ***(b)***		4,521,016			4,503,410
Equity and other non-fixed income instruments:					
Listed shares		1,178,601			650,090
Total financial assets at fair value through profit or loss		7,666,911			8,262,547

(a) *The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*

(b) *It includes the loan provided to a special purpose entity. This loan is accounted under loans measured at FVPL based on IFRS 9.*

Income from debt and other instruments held at fair value is reflected in the consolidated statement of profit or loss and other comprehensive income as interest on securities. Gains and losses arising from trading of financial assets at FVPL are recorded in net trading income/(expense).

As of 30 June 2021, financial assets at FVPL amounting to TL 183,868 are blocked against asset management operations and securitizations (31 December 2020: TL 170,374) (refer to Note 8).

As of 30 June 2021, there are TL 7,341 of securities pledged under repurchase agreements with customers (31 December 2020: TL 7,444).

5 Derivative financial assets

Derivative financial assets mainly consist of foreign currency and interest rate swaps, foreign currency options and forward foreign currency contracts.

	30 June 2021		31 December 2020	
	Trading	*Hedging*(*)	*Trading*	*Hedging*(*)
Swap derivative financial assets	4,160,062	484,903	3,673,292	450,176
Option derivative financial assets	106,010	5,081	80,382	6,977
Forward derivative financial assets	163,046	223	397,739	-
Future derivative financial assets	2	-	5,315	-
Other derivative financial assets	232	-	671	-
	4,429,352	490,207	4,157,399	457,153

(*) *Includes derivative transactions subject to cash flow and fair value hedge accounting amounted to TL 478,594 (31 December 2020: TL 457,153) and TL 11,613 (31 December 2020: nil), respectively.*

(Currency: Thousands of Turkish Lira (TL))

5 Derivative financial assets (continued)

As of 30 June 2021 and 31 December 2020, fair value changes of hedged items and related gains/losses accounted under equity and statement of profit or loss, for cash flow hedges are as follows:

30 June 2021

Hedging item	Hedged item	Type of risk	Fair value change of hedged item: Asset	Fair value change of hedged item: Liability	Gains/losses accounted under equity	Gains/losses accounted under statement of profit or loss	Ineffective portion (net) accounted under statement of profit or loss
Interest Rate Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates	-	(92,151)	9,316	(26,786)	(10,503)
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	93,451	(211,342)	86,611	(35,500)	28,215
Cross Currency Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	376,739	(90,757)	(12,456)	(8,082)	-
Cross Currency Swaps	Fixed-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	3,100	(7,867)	415	(1,500)	-
Currency Forwards	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	223	(560)	347	(293)	-
Interest Rate Options	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	5,081	-	(1,241)	-	-
Spot Position (*)	Mile payments	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	-	-	14,223	-	-
Spot Position (*)	Expected investment expenditures	Cash flow risk resulted from foreign currency exchange rates	-	-	74,792	-	-
Spot Position (**)	Expected Eurobond coupon revenues	Cash flow risk resulted from foreign currency exchange rates	-	-	(55,020)	-	-
Foreign currency borrowings	Operational lease receivables	Cash flow risk resulted from foreign currency exchange rates	-	-	101,364	140,406	-
			478,594	(402,677)	218,351	68,245	17,712

(Currency: Thousands of Turkish Lira (TL))

5 Derivative financial assets (continued)

31 December 2020

Hedging item	Hedged item	Type of risk	Fair value change of hedged item – Asset	Fair value change of hedged item – Liability	Gains/losses accounted under equity	Gains/losses accounted under statement of profit or loss	Ineffective portion (net) accounted under statement of profit or loss
Interest Rate Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates	-	(123,688)	(112,416)	(14,968)	(6,424)
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	26,295	(208,282)	(36,543)	(61,559)	(19,436)
Cross Currency Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	420,866	(46,409)	(41,184)	(19,599)	-
Cross Currency Swaps	Fixed-rate borrowings	Cash flow risk resulted from foreign currency exchange rates	3,015	(26,136)	9,503	(9,766)	-
Currency Forwards	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	-	(846)	136	473	-
Interest Rate Options	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	6,977	-	902	-	-
Spot Position (*)	Mile payments	Cash flow risk resulted from foreign currency exchange rates	-	-	(3,338)	-	-
Spot Position (*)	Expected investment expenditures	Cash flow risk resulted from foreign currency exchange rates	-	-	(24,655)	-	-
Spot Position (**)	Expected Eurobond coupon revenues	Cash flow risk resulted from foreign currency exchange rates	-	-	24,655	-	-
Foreign currency borrowings	Operational lease receivables	Cash flow risk resulted from foreign currency exchange rates	-	-	3,915	86,480	-
			457,153	(405,361)	(179,025)	(18,939)	(25,860)

(*) Includes foreign currency items on asset side of the balance sheet.
(**) Includes foreign currency items on liability side of the balance sheet.

(Currency: Thousands of Turkish Lira (TL))

5 Derivative financial assets (continued)

As of 30 June 2021 and 31 December 2020, fair value changes of hedged items and related gains/losses accounted under equity and statement of profit or loss, for fair value hedges are as follows:

30 June 2021

Hedging item	Hedged item	Type of risk	Fair value change of hedged item	Net fair value change of hedging instrument Asset	Net fair value change of hedging instrument Liability	Statement of profit or loss effect
Interest Rate Swaps	Fixed-rate commercial loans	Interest rate risk	14,781	11,613	(6,802)	34,103
Interest Rate Swaps	Fixed-rate securities	Interest rate risk	303,616	-	(342,492)	12,977
Cross Currency Swaps	Fixed-rate securities	Interest rate and foreign currency exchange rate risk	4,118	-	(75,697)	(7,368)
Other (*)(**)			1,736	-	(1,736)	-
			324,251	11,613	(426,727)	39,712

(*) *Hedged item consists of firm commitments as explained in Hedging section under Financial Risk Management Disclosures.*
(**) *Hedging instrument consists of on-balance sheet items.*

31 December 2020

Hedging item	Hedged item	Type of risk	Fair value change of hedged item	Net fair value change of hedging instrument Asset	Net fair value change of hedging instrument Liability	Statement of profit or loss effect
Interest Rate Swaps	Fixed-rate commercial loans	Interest rate risk	12,559	-	(27,070)	(14,511)
Interest Rate Swaps	Fixed-rate securities	Interest rate risk	348,896	-	(400,750)	(51,854)
Cross Currency Swaps	Fixed-rate securities	Interest rate and foreign currency exchange rate risk	3,228	-	(67,438)	(64,210)
Other (*)(**)			30,080	-	(30,080)	-
			394,763	-	(525,338)	(130,575)

(*) *Hedged item consists of firm commitments as explained in Hedging section under Financial Risk Management Disclosures.*
(**) *Hedging instrument consists of on-balance sheet items.*

In the current period, the amount reclassified from the shareholders' equity to the statement of profit or loss due to the ceased hedging transactions is TL 65,716 (31 December 2020: TL (241,091)) and the amount recognised in equity is TL (23,773) (31 December 2020: TL 131,477).

The notional amounts of derivative financial assets are explained in detail in Note 26.

(Currency: Thousands of Turkish Lira (TL))

6 Loans and advances to banks

	30 June 2021			*31 December 2020*		
	TL	***Foreign Currency***	***Total***	***TL***	***Foreign Currency***	***Total***
Loans and advances-demand						
Domestic banks	8,027	301,953	309,980	7,829	144,497	152,326
Foreign banks	12,061	16,100,750	16,112,811	16,149	22,076,963	22,093,112
	20,088	16,402,703	16,422,791	23,978	22,221,460	22,245,438
Loans and advances-time						
Domestic banks	575,332	4,294,036	4,869,368	524,804	2,852,479	3,377,283
Foreign banks	219,145	4,102,112	4,321,257	241,262	3,034,476	3,275,738
	794,477	8,396,148	9,190,625	766,066	5,886,955	6,653,021
Placements at money markets	10,040,160	3,115,764	13,155,924	8,040,000	1,663,723	9,703,723
Income accrual on loans and advances to banks	33,089	32,236	65,325	8,010	31,094	39,104
Total loans and advances to banks	10,887,814	27,946,851	38,834,665	8,838,054	29,803,232	38,641,286
Less:						
Expected credit losses	(79,087)	(30,426)	(109,513)	(164,231)	(31,247)	(195,478)
	10,808,727	27,916,425	38,725,152	8,673,823	29,771,985	38,445,808

As of 30 June 2021, majority of loans and advances-time are short-term with interest rates ranging between (0.72)%-5% per annum for foreign currency time placements and 12%-19% per annum for TL time placements (31 December 2020: (0.63)%-4% and 12%-19%, respectively).

As of 30 June 2021, loans and advances at domestic and foreign banks include blocked accounts of TL 7,788,111 (31 December 2020: TL 2,885,207) held against securitizations, fundings and insurance business.

The credit quality analysis of loans and advances to banks is as follows as of 30 June 2021 and 31 December 2020:

	30 June 2021			*31 December 2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	38,834,665	-	-	38,641,286	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(109,513)	-	-	(195,478)	-	-
Total carrying amount	38,725,152	-	-	38,445,808	-	-

(Currency: Thousands of Turkish Lira (TL))

6 Loans and advances to banks (continued)

The movements of expected credit losses per asset class for loans and advances to banks as of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021			*31 December 2020*		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balances at 1 January	195,478	-	-	49,504	-	-
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Debt sales and write-offs	-	-	-	-	-	-
Recoveries and reversals	(153,223)	-	-	(168,025)	-	-
Provision for the period	25,677	-	-	320,856	-	-
Effects of movements in exchange rates	41,581	-	-	(6,857)	-	-
Balances at the end of the period	109,513	-	-	195,478	-	-

7 Loans and advances to customers

As of 30 June 2021, interest rates on loans granted to customers range between 1%-31% (31 December 2020: 1%-31%) per annum for the foreign currency loans and 1%-26% (31 December 2020: 1%-21%) per annum for the TL loans.

The credit quality analysis of cash loans and advances to customers excluding factoring and financial lease receivables, including related income accruals, is as follows as of 30 June 2021 and 31 December 2020:

	30 June 2021			*31 December 2020*		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	303,237,011	-	-	267,863,289	-	-
Stage 2: Watch list	-	62,064,334	-	-	56,857,898	-
Stage 3.1: Substandard	-	-	223,130	-	-	233,784
Stage 3.2: Doubtful	-	-	1,193,783	-	-	435,369
Stage 3.3: Loss	-	-	13,061,473	-	-	13,880,228
Total loans	303,237,011	62,064,334	14,478,386	267,863,289	56,857,898	14,549,381
Income accrual on loans	3,546,874	1,346,032	800,629	3,085,532	1,350,610	679,454
Expected credit losses	(1,953,599)	(10,572,906)	(10,040,099)	(2,098,484)	(8,398,737)	(9,667,066)
Total carrying amount	304,830,286	52,837,460	5,238,916	268,850,337	49,809,771	5,561,769

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

The movements of expected credit losses per asset class for cash loans and advances to customers as of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021			*31 December 2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	2,098,484	8,398,737	9,667,066	1,197,959	3,933,519	11,428,531
Transfer to Stage 1	881,105	(877,271)	(3,834)	1,189,541	(1,185,803)	(3,738)
Transfer to Stage 2	(323,158)	343,278	(20,120)	(471,384)	483,062	(11,678)
Transfer to Stage 3	(1,030)	(525,396)	526,426	(3,766)	(548,371)	552,137
Debt sales and write-offs	-	-	(1,139,346)	-	-	(4,401,319)
Recoveries and reversals	(2,574,857)	(2,271,877)	(689,916)	(3,362,949)	(3,232,497)	(1,426,964)
Provision for the period	1,779,388	4,695,458	1,029,833	3,421,420	8,141,728	2,295,705
Effects of movements in exchange rates	93,667	809,977	669,990	127,663	807,099	1,234,392
Balances at the end of the period	1,953,599	10,572,906	10,040,099	2,098,484	8,398,737	9,667,066

As of 30 June 2021 and 31 December 2020, movements of non-performing cash loans (Stage 3) are as follows:

	30 June 2021		*31 December 2020*	
	Principal	**Accrual**	**Principal**	**Accrual**
Balances at 1 January	14,549,381	679,454	17,722,841	576,736
Addition	1,217,057	126,043	2,237,281	116,359
Collection	(1,327,929)	(14,619)	(3,066,143)	(26,965)
Debt sales and write-offs	(1,136,832)	(3,852)	(4,462,251)	(19,067)
Effects of movements in exchange rates	1,176,709	13,603	2,117,653	32,391
Balances at the end of the period	14,478,386	800,629	14,549,381	679,454

The credit quality analysis of factoring receivables, including related income accruals, is as follows as of 30 June 2021 and 31 December 2020:

	30 June 2021			*31 December 2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	3,745,815	-	-	2,741,043	-	-
Stage 2: Watch list	-	8,740	-	-	22,280	-
Stage 3.1: Substandard	-	-	10,122	-	-	3,821
Stage 3.2: Doubtful	-	-	3,577	-	-	4,069
Stage 3.3: Loss	-	-	83,618	-	-	124,349
Total factoring receivables	3,745,815	8,740	97,317	2,741,043	22,280	132,239
Income accrual on factoring receivables	30,250	-	-	31,007	-	-
Expected credit losses	(10,567)	(128)	(83,000)	(10,517)	(7,642)	(119,562)
Total carrying amount	3,765,498	8,612	14,317	2,761,533	14,638	12,677

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

The movements of expected credit losses per asset class for factoring receivables as of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021			31 December 2020		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balances at 1 January	10,517	7,642	119,562	4,824	7,015	313,568
Transfer to Stage 1	(18)	18	-	98	(1)	(97)
Transfer to Stage 2	-	-	-	(24)	24	-
Transfer to Stage 3	-	-	-	(31)	-	31
Debt sales and write-offs	-	-	(46,489)	-	-	(273,507)
Recoveries and reversals	(7,048)	(7,648)	(1,621)	(2,277)	(670)	(4,508)
Provision for the period	7,080	116	9,079	7,931	1,274	20,019
Effects of movements in exchange rates	36	-	2,469	(4)	-	64,056
Balances at the end of the period	10,567	128	83,000	10,517	7,642	119,562

As of 30 June 2021 and 31 December 2020, movements of non-performing factoring receivables (Stage 3) are as follows:

	30 June 2021	31 December 2020
Balances at 1 January	132,239	339,758
Addition	15,696	10,352
Collection	(6,599)	(9,457)
Debt sales and write-offs	(46,489)	(273,507)
Effects of movements in exchange rates	2,470	65,093
Balances at the end of the period	97,317	132,239

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease. The receivables are secured by way of the underlying assets. Loans and advances to customers include the following financial lease receivables:

	30 June 2021	*31 December 2020*
Financial lease receivables, net of unearned income	7,907,939	6,665,314
Add: non-performing financial lease receivables(*)	783,654	757,238
Less: expected credit losses on financial lease receivables	(719,351)	(640,278)
	7,972,242	6,782,274
Income accrual on financial lease receivables	52,245	40,957
Analysis of net financial lease receivables		
Due within 1 year	3,690,323	3,086,210
Due between 1 and 5 years	5,067,976	4,310,601
Due after 5 years	196,351	183,089
Financial lease receivables, gross	8,954,650	7,579,900
Unearned income	(982,408)	(797,626)
Financial lease receivables, net	7,972,242	6,782,274
Analysis of net financial lease receivables		
Due within 1 year	3,195,147	2,690,223
Due between 1 and 5 years	4,589,663	3,917,511
Due after 5 years	187,432	174,540
Financial lease receivables, net	7,972,242	6,782,274

(*) *Includes related income accruals.*

The credit quality analysis of financial lease receivables including related income accruals is as follows as of 30 June 2021 and 31 December 2020:

	30 June 2021			*31 December 2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	6,813,646	-	-	5,655,946	-	-
Stage 2: Watch list	-	1,094,293	-	-	1,009,368	-
Stage 3.1: Substandard	-	-	527,773	-	-	482,004
Stage 3.2: Doubtful	-	-	36,120	-	-	26,777
Stage 3.3: Loss	-	-	216,466	-	-	245,417
Total financial lease receivables	6,813,646	1,094,293	780,359	5,655,946	1,009,368	754,198
Income accrual on financial lease receivables	2,303	49,942	3,295	2,689	38,268	3,040
Expected credit losses	(59,430)	(187,459)	(472,462)	(53,733)	(158,089)	(428,456)
Total carrying amount	6,756,519	956,776	311,192	5,604,902	889,547	328,782

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

The movements of expected credit losses per asset class for financial lease receivables as of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021			*31 December 2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	53,733	158,089	428,456	34,985	93,045	440,835
Transfer to Stage 1	15,153	(14,210)	(943)	25,946	(25,163)	(783)
Transfer to Stage 2	(3,363)	4,931	(1,568)	(7,710)	9,602	(1,892)
Transfer to Stage 3	-	(5,944)	5,944	(8)	(12,676)	12,684
Debt sales and write-offs	-	-	(615)	-	-	(117,814)
Recoveries and reversals	(44,801)	(45,801)	(32,598)	(71,190)	(59,102)	(80,147)
Provision for the period	33,417	70,118	31,322	62,577	125,722	106,866
Effects of movements in exchange rates	5,291	20,276	42,464	9,133	26,661	68,707
Balances at the end of the period	59,430	187,459	472,462	53,733	158,089	428,456

As of 30 June 2021 and 31 December 2020, movements of non-performing financial lease receivables (Stage 3) are as follows:

	30 June 2021		*31 December 2020*	
	Principal	**Accrual**	**Principal**	**Accrual**
Balances at 1 January	754,198	3,040	854,270	16,781
Addition	31,583	-	89,132	651
Collection	(83,982)	(58)	(223,531)	(1,580)
Debt sales and write-offs	(615)	-	(119,703)	(13,404)
Effects of movements in exchange rates	79,175	313	154,030	592
Balances at the end of the period	780,359	3,295	754,198	3,040

As of 30 June 2021, the non-performing loan ratio of the Group decreased from 4.26% (31 December 2020: 5.71%) to 3.98% (31 December 2020: 4.47%) after the loans during the period were written-down in accordance with the amendment on the relevant Provisions Regulation.

(Currency: Thousands of Turkish Lira (TL))

8 Investment securities

	30 June 2021				31December 2020
	Face value	***Carrying value***	***Interest rate range %***	***Latest maturity***	***Carrying value***
Debt and other instruments at FVOCI:					
Government bonds indexed to CPI ***(a)***	7,662,786	15,152,951	1-4	2031	13,251,216
Government bonds in TL	7,874,511	7,062,997	7-20	2030	6,708,545
Eurobonds	5,932,316	6,156,904	1-12	2034	8,091,930
Bonds issued by foreign governments	5,394,266	5,764,706	1-4	2028	4,364,947
Government bonds at floating rates ***(b)***	4,950,049	4,956,337	14-19	2027	1,172,822
Government bonds-discounted	745,537	712,599	9-15	2026	1,278,603
Bonds issued by corporations	380,367	394,846	1-3	2024	253,932
Government bonds in FC	340,096	341,505	2-3	2024	1,136,198
Bonds issued by financial institutions	180,793	186,013	1	2025	214,576
Total debt and other instruments at FVOCI		40,728,858			36,472,769
Debt and other instruments at amortised cost					
Eurobonds	10,248,622	11,270,833	5-12	2030	9,990,940
Government bonds indexed to CPI ***(a)***	7,046,900	9,000,319	1-3	2027	9,070,950
Government bonds at floating rates ***(b)***	3,155,599	3,050,213	12-19	2027	4,676,500
Government bonds in TL	2,497,200	2,404,418	7-16	2027	2,555,465
Government bonds in FC	409,680	409,680	2	2021	362,120
Bonds issued by foreign governments	86,350	86,350	1	2021	95,090
Bonds issued by financial institutions	227,322	70,467	1-17	2023	65,545
Government bonds-discounted	-	-	-	2021	500,943
		26,292,280			27,317,553
Income accrual on amortised cost portfolio		6,849,476			5,921,358
Total debt and other instruments at amortised		33,141,756			33,238,911
Expected credit losses on amortised cost portfolio		(59,078)			(167,283)
Total investment securities		73,811,536			69,544,397

(a) *The Bank values CPI-indexed government bonds in its securities portfolio according to the reference index on the issue date and the index that is calculated according to the expected inflation rate. The inflation rate used during the valuation is being updated during the year when it is considered necessary. The estimated inflation rate which was taken as 13% until 12 April 2021 was updated to 16% after this date. If the valuation of such securities was performed according to the reference index valid as of 30 June 2021, the Bank's unrealized gains/(losses) from fair value changes on debt instruments and equity investments measured at FVOCI under the equity would decrease by TL 229,783 (net), whereas interest income on securities would increase by TL 595,435.*

(b) *The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*

Interest income from debt and other fixed or floating instruments is reflected in interest on securities, whereas, gains and losses arising from changes in the fair values of debt and other instruments measured at FVOCI are accounted as a separate component of equity.

(Currency: Thousands of Turkish Lira (TL))

8 Investment securities (continued)

The credit quality analysis of investment securities measured at FVOCI is as follows as of 30 June 2021 and 31 December 2020:

	30 June 2021			*31 December 2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	40,728,858	-	-	36,472,769	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	-	-	-	-	-	-
Total carrying amount	40,728,858	-	-	36,472,769	-	-

As of 30 June 2021, expected credit losses amounting to TL 51,798 (31 December 2020: TL 134,280) are recognised under other comprehensive income for debt and other instruments measured at FVOCI.

The credit quality analysis of investment securities measured at amortised cost is as follows as of 30 June 2021 and 31 December 2020:

	30 June 2021			*31 December 2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	33,141,756	-	-	33,238,911	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(59,078)	-	-	(167,283)	-	-
Total carrying amount	33,082,678	-	-	33,071,628	-	-

The movements of expected credit losses per asset class for investment securities measured at amortised cost as of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021			*31 December 2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	167,283	-	-	119,889	-	-
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Recoveries and reversals	(120,461)	-	-	(219,538)	-	-
Provision for the period	5,078	-	-	247,825	-	-
Effects of movements in exchange rates	7,178	-	-	19,107	-	-
Balances at the end of the period	59,078	-	-	167,283	-	-

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 3,522,586 (31 December 2020: TL 294,199).

(Currency: Thousands of Turkish Lira (TL))

8 Investment securities (continued)

The following table summarizes securities that were deposited as collateral with respect to various banking, insurance and asset management transactions:

	30 June 2021		31 December 2020	
	Face value	Carrying value	Face value	Carrying value
Collateralized to foreign banks	9,355,480	9,868,230	5,952,281	7,341,955
Deposited at central banks for repurchase transactions	1,857,750	1,943,335	266,508	301,643
Deposited at central banks for interbank transactions	9,274,163	12,049,174	14,530,771	21,553,800
Deposited at Clearing Bank (Takasbank)	1,763,657	2,474,759	1,488,571	2,225,849
Others		208,614		201,227
		26,544,112		31,624,474

9 Equity investments

	30 June 2021		31 December 2020	
	Carrying value	Ownership %	Carrying value	Ownership %
Equity investments measured at FVOCI:				
Visa Inc.	308,465	0.00	246,647	0.00
İstanbul Takas ve Saklama Bankası AŞ	26,096	5.25	26,096	5.25
Others	106,004		92,116	
	440,565		364,859	

10 Assets held for sale

An asset (or a disposal group) classified as asset held for sale is measured at lower of carrying value or fair value less costs to sell. An asset (or a disposal group) is regarded as asset held for sale only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively marketed at a price consistent with its fair value.

As of 30 June 2021 and 31 December 2020, movements in tangible assets held for sale are as follows:

	30 June 2021	31 December 2020
Balance at the beginning of the period	931,753	1,159,058
Additions	104,725	175,246
Disposals	(367,028)	(433,880)
Fair value changes	18,172	23,890
Effects of movement in exchange rates	1,567	7,439
Balance at the end of the period	689,189	931,753

(Currency: Thousands of Turkish Lira (TL))

10 Assets held for sale (continued)

As of 30 June 2021 and 31 December 2020, movements in investments in associates to be disposed are as follows:

	30 June 2021	***31 December 2020***
Balance at the beginning of the period	-	293,200
Additions (*)	-	-
Disposals	-	-
Fair value changes	-	(293,200)
Effects of movement in exchange rates	-	-
Balance at the end of the period	-	-

(*)Within the context of the existing loan agreements, all creditors including the Bank have reached an agreement on restructuring the loans granted to Ojer Telekomünikasyon A.Ş. (OTAŞ) who is the main shareholder of Türk Telekomünikasyon A.Ş. (Türk Telekom) and it is foreseen that Türk Telekom's number of 192,500,000,000 A group shares owned by OTAŞ, representing 55% of its issued share capital corresponding to A group shares have been pledged as a guarantee for the existing facilities would be taken over by a special purpose entity which is incorporated or will be incorporated in the Turkish Republic, and owned by directly or indirectly by all creditors. As per the agreed structure, it is agreed on the corresponding agreements, completed all required corporate and administrative permissions and the transaction is concluded by a transfer of the aforementioned shares to the special purpose entity incorporated in the Turkish Republic, and owned by directly or indirectly by all creditors. In this context, the Bank owned 22.1265% of the founded special purpose entity and the related investment is considered within the scope of IFRS 5 "Assets Held for Sale and Discontinued Operations".

As per the decision made at the 2018 annual general assembly of related special purpose entity, it was decided to increase the capital of the special purpose entity by TL 3,982,230, all of which will be covered by common receivables. The Entity's paid-in capital after the general assembly had been TL 3,982,280. The Bank's shareholding ratios in the Entity's capital did not change as a result of the increase, and the nominal value of the direct shares increased from TL 11 to TL 881,140 and the number of shares increased from 1,106,325 to 88,114,036,863. As explained the details before the capital increase, valuation differences recorded on the financial asset are presented as impairment in assets held for sale after capital increase. In the prior year, all of the assets acquired under IFRS 5 was impaired.

The main purpose of the lending banks is to transfer the shares of Türk Telekom to an expert investor after the necessary conditions are met. For this purpose, on 19 September 2019, an international investment bank was authorized as a sales consultant, and in this context necessary actions related to sales will be taken and negotiations with potential investors started within the framework of an active sales plan.

11 Goodwill

Goodwill arises from the direct acquisitions of Garanti Yatırım Menkul Kıymetler AŞ, Garanti Finansal Kiralama AŞ, Garanti Emeklilik ve Hayat AŞ and Garanti Faktoring AŞ consisting of the excesses of the total acquisition costs over the fair values of the net assets of these consolidated entities at the dates of their acquisition as follows:

	30 June 2021	***31 December 2020***
Garanti Yatırım Menkul Kıymetler AŞ	20,984	20,984
Garanti Faktoring AŞ	6,697	6,697
Garanti Finansal Kiralama AŞ	5,233	5,233
Garanti Emeklilik ve Hayat AŞ	34	34
	32,948	32,948
Impairment of goodwill	-	-
	32,948	32,948

Impairment losses when necessary are provided for decrease in the net asset value of the consolidated entities by assessing their internal and external resources.

(Currency: Thousands of Turkish Lira (TL))

12 Other assets

	30 June 2021	*31 December 2020*
Balances with clearing house	6,127,970	4,847,996
Miscellaneous receivables	4,498,631	1,176,355
Prepaid expenses, insurance claims and similar items	2,454,272	2,109,131
Gold	1,860,443	1,320,586
Receivables from securities lending market	167,495	173,248
Prepaid taxes and taxes/funds to be refunded	142,623	211,757
Receivables from sale of assets	105,137	148,382
Insurance premium receivables	72,745	62,565
Purchased cheques	786	881
Option premium receivables	757	681
Others	446,888	411,313
	15,877,747	10,462,895
Expected credit losses for other assets	(92,027)	(93,520)
	15,785,720	10,369,375

The credit quality analysis of other assets excluding gold, prepaid taxes and option premium receivables is as follows as of 30 June 2021 and 31 December 2020:

	30 June 2021			*31 December 2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	13,763,525	-	-	8,824,669	-	-
Stage 2: Watch list	-	22,010	-	-	23,374	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	6,361	-	-	6,661
Stage 3.3: Loss	-	-	82,028	-	-	75,167
Expected credit losses	(9,953)	(6,069)	(76,005)	(18,218)	(5,892)	(69,410)
Total carrying amount	13,753,572	15,941	12,384	8,806,451	17,482	12,418

The movements of expected credit losses per asset class for other assets excluding gold, prepaid taxes and option premium receivables as of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021			*31 December 2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	18,218	5,892	69,410	56,191	4,155	60,985
Transfer to Stage 1	304	(300)	(4)	300	(268)	(32)
Transfer to Stage 2	(90)	90	-	(337)	408	(71)
Transfer to Stage 3	(1)	(1)	2	(58)	(164)	222
Debt sales and write-offs	-	-	(139)	-	-	(869)
Recoveries and reversals	(12,002)	(3,351)	(2,496)	(148,326)	(3,517)	(12,731)
Provision for the period	3,100	3,228	3,852	109,509	4,595	10,226
Effects of movements in exchange rates	424	511	5,380	939	683	11,680
Balances at the end of the period	9,953	6,069	76,005	18,218	5,892	69,410

(Currency: Thousands of Turkish Lira (TL))

13 Deposits from banks

Deposits from banks comprise the following:

	30 June 2021	*31 December 2020*
Payable on demand	1,595,584	733,952
Term deposits	348,120	619,561
	1,943,704	1,353,513
Expense accrual on deposits from banks	1,767	242
	1,945,471	1,353,755

Deposits from banks include both TL accounts amounting to TL 739,985 (31 December 2020: TL 714,343) and foreign currency accounts amounting to TL 1,203,719 (31 December 2020: TL 639,170) in total. As of 30 June 2021, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 7%-19% and 1%-%2 (31 December 2020: 7%-16% and (0.30)%-1%), respectively.

14 Deposits from customers

Deposits from customers comprise the following:

	30 June 2021			*31 December 2020*
	Demand	***Time***	***Total***	***Total***
Foreign currency	112,062,107	110,101,509	222,163,616	192,927,331
Saving	26,642,853	77,866,203	104,509,056	83,473,888
Commercial	15,110,026	33,452,155	48,562,181	51,291,274
Public and other	2,308,010	8,020,809	10,328,819	6,082,954
Gold and other precious metals	21,614,168	1,036,609	22,650,777	21,923,926
	177,737,164	230,477,285	408,214,449	355,699,373
Expense accrual on deposits from customers	3,048	1,703,482	1,706,530	699,245
	177,740,212	232,180,767	409,920,979	356,398,618

As of 30 June 2021, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 6%-21% and (0.75)%-5% (31 December 2020: 1%-23% and (0.16)%-7%), respectively.

(Currency: Thousands of Turkish Lira (TL))

15 Loans and advances from banks and other institutions

Loans and advances from banks and other institutions comprise the following:

	30 June 2021	***31 December 2020***
Short-term borrowings		
Domestic banks	4,847,148	3,643,156
Foreign banks	7,202,952	6,563,131
	12,050,100	10,206,287
Long-term debts		
Short-term portion	5,829,979	7,485,686
Medium and long-term portion	13,895,056	9,763,314
	19,725,035	17,249,000
Expense accrual on loans and advances from banks and other institutions	178,437	111,632
	31,953,572	27,566,919

As of 30 June 2021, there are no promissory notes with short-term maturities (31 December 2020: nil).

As of 30 June 2021, short-term borrowings included two one-year-syndicated-loan facilities to be utilised for general trade finance purposes including export and import contracts in two tranches of (i) US$ 279,000,000 and EUR 294,000,000 with rates of Libor + 2.15% and Euribor + 1.9% per annum (equivalent of TL 5,420,313), (ii) US$ 267,500,000 and EUR 332,000,000 with rates of Libor + 2.1% and Euribor + 1.85% per annum (equivalent of TL 3,400,344).

As of 31 December 2020, short-term borrowings included two one-year-syndicated-loan facilities to be utilised for general trade finance purposes including export and import contracts in two tranches of (i) US$ 245,500,000 and EUR 317,000,000 with rates of Libor + 1.9% and Euribor +1.65% per annum (equivalent of TL 4,681,591,000), (ii) US$ 267,500,000 and EUR 332,000,000 with rates of Libor + 2.1% and Euribor + 1.85% per annum (equivalent of TL 4,979,746,000).

Long-term debts comprise the following:

			30 June 2021			***31 December 2020***
	Interest rate%	***Interest maturity***	***Amount in original currency***	***Short term portion***	***Medium and long term portion***	***Medium and long term debts***
EIB	1-4	2024	US$ 180 millions	123,512	1,433,129	1,248,165
Proparco	2-3	2028	EUR 95 millions	161,716	808,578	786,180
IFC	1-2	2024	EUR 56 millions	235,176	336,592	401,660
ISBANK AG	2-3	2023	EUR 36 millions	51,196	321,300	279,245
EFSE	2-3	2024	EUR 27 millions	151,159	131,329	182,102
EIB	1-2	2023	EUR 22 millions	-	228,333	201,930
AKBANK AG	3	2022	EUR 21 millions	-	217,655	189,166
EBRD	20	2023	TL 155 millions	-	154,571	193,214
EBRD	1	2025	US$ 6 millions	12,191	36,572	36,466
IFC	4-5	2023	RON 17 millions	14,133	21,199	25,291
Others				5,080,896	10,205,798	6,219,895
				5,829,979	13,895,056	9,763,314

(Currency: Thousands of Turkish Lira (TL))

16 Obligations under repurchase agreements and money market fundings

The Bank and its subsidiaries raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

Obligations under repurchase agreements and money market fundings comprise the following:

	30 June 2021	*31 December 2020*
Money market fundings	767,970	979,748
Obligations under repurchase agreements	4,536,807	2,184,230
Obligations on securities under reverse repurchase agreements	-	-
	5,304,777	3,163,978

Assets sold under repurchase agreements are further detailed as follows:

	Carrying value	*Fair value of underlying assets*	*Carrying amount of corresponding liabilities*	*Range of repurchase dates*	*Repurchase price*
30 June 2021					
Financial assets at fair value through profit or loss	7,341	7,341	6,179	Jul'21	6,179
Investment securities	5,108,759	5,127,008	4,530,628	Jul'21-Feb'25	4,532,124
	5,116,100	5,134,349	4,536,807		4,538,303
31 December 2020					
Financial assets at fair value through profit or loss	7,444	7,444	6,739	-	6,732
Investment securities	2,273,480	2,270,940	2,177,491	Jan’21-Feb’25	2,151,192
	2,280,924	2,278,384	2,184,230		2,157,924

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As of 30 June 2021, the maturities of the obligations varied from one day to 44 months and interest rates varied between (0.50)%-3% per annum for foreign currency obligations and 5%-20% per annum for TL obligations (31 December 2020: (0.50)%-3% and 1%-19%, respectively). In general the carrying values of such assets are more than the corresponding liabilities due to the margins set between the parties, since such funding is raised against assets collateralized.

(Currency: Thousands of Turkish Lira (TL))

17 Debt securities issued

	30 June 2021			31 December 2020
	Latest maturity	Interest rate %	Amount	Amount
Bonds payable of US$ 1,334 millions	2024	2.4-6.4	10,251,349	12,237,714
Bonds payable of TL 5,979 millions	2023	11.8-19.5	4,999,285	6,015,120
Bonds payable of EUR 45 millions	2027	5.2	458,774	405,255
Total bonds payable			15,709,408	18,658,089
DPR future flow transactions of US$ 323 millions	2027	2.4-3.4	2,786,016	2,946,000
DPR future flow transactions of EUR 60 millions	2022	1.1-2.7	617,187	918,831
Total DPR future flow transactions			3,403,203	3,864,831
Expense accrual on bonds payable			225,062	274,432
Expense accrual on DPR future flow transactions			19,462	19,729
			19,357,135	22,817,081

In April 2013, the Bank established a Global Medium Term Notes (GMTN) program in order to issue bonds and other borrowing instruments in any currency with different series and maturities. In this regard, since May 2013 the Bank issues bills in US$, EUR, CHF, RON, CZK, JPY and AUD with latest maturity in April 2027.

The Bank and/or its consolidated subsidiaries repurchased the Bank's own TL securities with a total face value of TL 1,122,925 and foreign currency securities with a total face value of US$ 210,632,186 (31 December 2020: TL 1,581,953 and US$ 215,966,090) and netted off such securities in the accompanying interim condensed consolidated financial statements as of 30 June 2021.

18 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise the following:

	30 June 2021	31 December 2020
Securities issued	17,858,580	16,137,939
	17,858,580	16,137,939

In accordance with IFRS 9, the Bank classified a part of securities issued amounting to US$ 2,233,781,250 (31 December 2020: US$ 2,323,462,798) as financial liabilities at fair value through profit or loss at the initial recognition in order to eliminate the accounting mismatch.

As of 30 June 2021, the accumulated fair value change of the related financial liability amounted to TL 1,614,417 (31 December 2020: TL 1,265,467) and the corresponding loss recognised in the statement of profit or loss and other comprehensive income amounted to TL 348,950 (30 June 2020: TL 1,655,826). The carrying value of the related financial liability amounted to TL 17,858,580 (31 December 2020: TL 16,137,939).

(Currency: Thousands of Turkish Lira (TL))

19 Derivative financial liabilities

Derivative financial liabilities mainly consist of foreign currency and interest rate swaps, foreign currency options and forward foreign currency contracts.

	30 June 2021		*31 December 2020*	
	Trading	*Hedging*(*)	*Trading*	*Hedging*(*)
Swap derivative financial liabilities	4,652,555	827,108	7,396,233	899,773
Forward derivative financial liabilities	237,258	560	160,436	846
Option derivative financial liabilities	97,709	-	77,563	-
Future derivative financial liabilities	40,450	-	28	-
Other derivative financial liabilities	166	-	1,114	-
	5,028,138	827,668	7,635,374	900,619

(*) *Includes derivative transactions subject to cash flow and fair value hedge accounting amounted to TL 402,677 (31 December 2020: TL 405,361) and TL 424,991 (31 December 2020: TL 495,258), respectively.*

The notional amounts of derivative financial liabilities are explained in detail in Note 26.

20 Subordinated liabilities

Subordinated liabilities comprise the following:

	30 June 2021			*31 December 2020*
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Subordinated debt of US$ 750 million	2027	6.125	6,476,250	5,535,000
Subordinated debt of TL 253 million	2029	TL REF+ 130 bps	252,880	252,880
Subordinated debt of TL 750 million	2030	TL REF+ 250 bps	750,000	750,000
Expense accrual on subordinated liabilities			72,684	61,089
			7,551,814	6,598,969

On 23 May 2017, the Bank had obtained a 10-year subordinated loan of US$ 750 million due in May 2027 with its first Basel III compliant Tier 2 issuance from international capital markets, with a coupon rate of 6.125%.

On 9 October 2019, the Bank issued a subordinated loan with quarterly variable coupon payments based on BIST TLREF, a total face value of TL 252,880 and a maturity of 10 years.

On 14 February 2020, the Bank issued a subordinated loan with quarterly variable coupon payments based on BIST TLREF, a total face value of TL 750,000 and a maturity of 10 years.

(Currency: Thousands of Turkish Lira (TL))

21 Taxation

While corporate earnings are subject to corporate tax at the rate of 20% in Turkey; in accordance with the regulation introduced by the Law No. 7316 on the "Procedure for Collection of Public Receivables and the Law Amending Some Laws". The corporate tax has been determined as 25% for the corporate earnings for the taxation periods of 2021 and as 23% for the corporate earnings for the taxation periods of 2022.

As the deferred tax assets or liabilities within the scope of IAS 12 are calculated based on the tax rates (and tax laws) that are effective or close to be effective as of the end of the reporting period (balance sheet date), using the tax rates expected to be applied in the periods when assets are converted into income or liabilities are paid, as of 30 June 2021, the Bank and its consolidated subsidiaries evaluated their assets and liabilities according to their maturities and calculated deferred tax at the rate of 25%, 23% or 20% corresponding to the relevant maturities.

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	30 June *2021*	*%*	*30 June* *2020*	*%*
Taxes on income per statutory tax rate	1,803,160	25.00	1,053,090	22.00
Disallowable expenses	28,563	0.40	16,606	0.35
Income items exempt from tax or subject to different tax rates	(108,074)	(1.50)	31,509	0.66
General reserve	1,400,000	19.41	132,000	2.75
Others	(1,633,887)	(22.66)	69,696	1.46
Taxation charge	1,489,762	20.65	1,302,901	27.22

The taxation charge is comprised of the following:

	For the six-month period ended *30 June* *2021*	*30 June* *2020*
Current taxes	1,516,822	2,258,782
Deferred taxes	(27,060)	(955,881)
Taxation charge	1,489,762	1,302,901

The movement of current tax liability is as follows:

	30 June *2021*	*31 December* *2020*
Balance at the beginning of the period	1,848,100	685,143
Current period taxation charge	1,516,822	4,554,500
Less: Advance taxes paid during the period	(2,063,323)	(3,391,543)
Current tax liability	1,301,599	1,848,100

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the period. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the statement of financial position.

(Currency: Thousands of Turkish Lira (TL))

21 Taxation (continued)

Deferred tax assets and liabilities are as follows:

	30 June 2021	*31 December 2020*
Total deferred tax assets	4,278,966	3,925,165
Off-setted amount	(294,930)	(277,440)
Deferred tax assets per financial statements	3,984,036	3,647,725
Total deferred tax liabilities	634,004	451,653
Off-setted amount	(294,930)	(277,440)
Deferred tax liabilities per financial statements	339,074	174,213
Net deferred tax assets	3,644,962	3,473,512

Movements in deferred tax assets and liabilities are detailed in the table below:

	Opening balance	*Recognised in statement of profit or loss*	*Effects of movement in exchange rates*	*Recognised in equity*	*Closing balance*
30 June 2021					
Expected credit losses	2,828,077	831,289	1,535	17,870	3,678,771
Discount on loans and advances to customers	98,797	35,101	-	-	133,898
Reserve for employee severance indemnity	151,186	54,144	216	-	205,546
Short-term employee benefits	135,227	18,141	536	-	153,904
Tax losses carried forward	11,651	(11,651)	-	-	-
Valuation difference on financial assets and liabilities	539,078	(810,693)	13,810	115,523	(142,282)
Revaluation surplus on real estates	(331,751)	(308)	(4,668)	2,615	(334,112)
Impairment of equity investments, tangible and intangible assets	29,718	(1,199)	-	-	28,519
Accruals on credit card rewards	43,859	19,243	-	-	63,102
Pro-rata basis depreciation expenses	(156,680)	(77,884)	-	-	(234,564)
Others, net	124,350	(29,123)	(3,047)	-	92,180
Net deferred tax assets	3,473,512	27,060	8,382	136,008	3,644,962

	Opening balance	*Recognised in statement of profit or loss*	*Effects of movement in exchange rates*	*Recognised in equity*	*Closing balance*
31 December 2020					
Expected credit losses	1,425,681	1,409,537	1,772	(8,913)	2,828,077
Discount on loans and advances to customers	98,786	11	-	-	98,797
Reserve for employee severance indemnity	108,946	18,121	(49)	24,168	151,186
Short-term employee benefits	148,613	(14,502)	1,116	-	135,227
Tax losses carried forward	99,012	(87,361)	-	-	11,651
Valuation difference on financial assets and liabilities	105,524	333,453	(1,739)	101,840	539,078
Revaluation surplus on real estates	(209,572)	(21,125)	(8,123)	(92,931)	(331,751)
Impairment of equity investments, tangible and intangible assets	13,382	16,336	-	-	29,718
Accruals on credit card rewards	35,792	8,067	-	-	43,859
Pro-rata basis depreciation expenses	(139,196)	(17,484)	-	-	(156,680)
Others, net	134,369	(804)	(9,215)	-	124,350
Net deferred tax assets	1,821,337	1,644,249	(16,238)	24,164	3,473,512

(Currency: Thousands of Turkish Lira (TL))

21 Taxation (continued)

As of 31 December 2020, the maturity of expiration analysis of tax losses subject to deferred tax coming from subsidiaries is as follows:

	31 December 2020
which will expire in 2021	-
which will expire in 2022	-
which will expire in 2023	11,651
	11,651

22 Provisions

The principal components of provisions are as follows:

	30 June 2021	31 December 2020
General reserve (*)	5,600,000	4,650,000
Expected credit losses from non-cash loans	2,172,190	2,151,889
Insurance business related provisions	988,310	830,536
Reserve for employee severance indemnity	837,102	782,794
Short term employee benefits	656,218	700,290
Provisions for litigations	365,734	319,630
Other provisions (**)	598,384	644,380
	11,217,938	10,079,519

(*) *As of 30 June 2021, general reserves amounting to TL 5,600,000 (31 December 2020: TL 4,650,000) are provided by the Bank in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions.*

(**)*As of 30 June 2021, it includes provisions for credit card rewards and promotions amounting to TL 267,167 (31 December 2020: TL 233,515).*

Insurance business related provisions

Insurance business related provisions are detailed in the table below:

	30 June 2021	31 December 2020
Reserve for unearned premiums, net	172,812	121,989
Gross	*229,227*	*164,802*
Reinsurers' share	*(56,415)*	*(42,813)*
Provision for claims, net	81,485	72,649
Gross	*105,153*	*97,914*
Reinsurers' share	*(23,668)*	*(25,265)*
Life mathematical reserves	734,013	635,898
	988,310	830,536

(Currency: Thousands of Turkish Lira (TL))

22 **Provisions** (continued)

Reserve for employee severance indemnity

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

	30 June 2021	*30 December 2020*
Balance, beginning of the period	782,794	571,542
Service cost	34,451	52,399
Interest cost	34,588	68,890
Benefits paid	(28,691)	(56,784)
Settlement/curtailment/termination gain/loss	13,960	24,327
Past service cost arising over last period	-	388
Actuarial gain/loss	-	122,032
Balance, end of the period	837,102	782,794

The computation of the liabilities is based upon the retirement pay ceiling announced by the government. The ceiling amounts applicable for each year of employment are full TL 7.638,96 and full TL 7.117,17 as of 30 June 2021 and 31 December 2020, respectively.

The principal actuarial assumptions for the Bank and its consolidated subsidiaries are as follows:

	30 June 2021 % (*)	***31 December 2020 %*** (*)
Net effective discount rates	3.01	3.01
Discount rates	13.00	13.00
Expected rates of salary increases	11.20	11.20
Inflation rates	9.70	9.70

(*) *In the above table, the effective rates are presented for the Bank and its consolidated subsidiaries subject to the labour law, whereas the rates applied for the calculations differ according to the employee's years-in-service.*

The sensitivity analysis of reserve for employee severance indemnity for the Bank is as follows as of 31 December 2020:

	2020 % change in employee severance indemnity	
Assumption change	***Sensitivity of Past Service Liability %***	***Sensitivity of Normal Cost %***
Discount rate +0.5%	(6.0)	(7.4)
Discount rate -0.5%	6.6	8.3
Inflation rate +0.5%	6.2	(3.8)
Inflation rate -0.5%	(6.0)	4.0

(Currency: Thousands of Turkish Lira (TL))

22 Provisions (continued)

Expected credit losses from non-cash loans

Movement in expected credit losses from non-cash loans as of 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021			*31 December 2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	503,992	834,748	813,149	238,451	351,457	624,572
Transfer to Stage 1	96,791	(96,144)	(647)	150,407	(149,035)	(1,372)
Transfer to Stage 2	(23,705)	23,977	(272)	(44,197)	59,376	(15,179)
Transfer to Stage 3	(76)	(6,736)	6,812	(294)	(18,431)	18,725
Debt sales and write-offs	-	-	-	-	-	-
Recoveries and reversals	(542,823)	(239,867)	(72,813)	(513,980)	(241,228)	(261,762)
Provision for the period	354,884	270,624	62,050	642,453	771,378	351,509
Effects of movements in exchange rates	27,422	67,371	93,453	31,152	61,231	96,656
Balances at the end of the period	416,485	853,973	901,732	503,992	834,748	813,149

23 Other liabilities and accrued expenses

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

	30 June 2021	*31 December 2020*
Blocked accounts against expenditures of card holders	16,145,254	13,433,133
Cheques at clearing house	5,389,447	3,557,191
Miscellaneous payables	2,267,424	1,853,103
Transfer orders	1,154,611	2,223,120
Operational lease payables	919,792	1,021,458
Withholding taxes	519,769	453,394
Expense accruals	380,515	353,216
Advances received	339,685	275,304
Unearned income	248,785	190,806
Payables to suppliers relating to financial lease activities	145,182	100,433
Payables to insurance and reinsurance companies relating to insurance business	98,540	62,082
Blocked accounts	85,607	75,685
Cash guarantees obtained	20,584	19,321
Others	782,972	859,477
	28,498,167	24,477,723

(Currency: Thousands of Turkish Lira (TL))

24 Equity

Share capital

The authorized nominal share capital of the Bank amounted to 4,200,000 TL as of 30 June 2021 (31 December 2020: TL 4,200,000).

Legal reserves

As per the decisions made at the annual general assemblies of the Bank and its subsidiaries, 5% of the prior year's net income is allocated to legal reserves. The reserves include legal reserves amounting to TL 1,749,608 (31 December 2020: TL 1,638,443) in total.

For the Bank and its Turkish subsidiaries, the legal reserves are generated by annual appropriations amounting to 5% of the statutory income until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

The Bank's subsidiaries in Romania also allocate legal reserves in accordance with the requirements of statutory laws and regulations applicable for each entity. According to the relevant legislation, legal reserves include annual allocations of 5% of the statutory income before tax. According to the relevant legislation, the legal reserve cannot exceed 20% of the share capital.

The Bank's subsidiary in the Netherlands is not subject to any legal reserve requirements.

Unrealized gains/(losses) from fair value changes on debt instruments and equity investments measured at FVOCI

	30 June 2021	***31 December 2020***
Balance at the beginning of the period	304,942	113,612
Net unrealized (losses)/gains from changes in fair value	(499,810)	280,521
Related deferred and current income taxes	171,479	(59,890)
Net (losses)/gains recycled to the statement of comprehensive income on disposal	(148,219)	(35,900)
Related deferred and current income taxes	(37,059)	(3,524)
Effect of movements in foreign exchange rates	18,212	10,123
Balance at the end of the period	(190,455)	304,942

Hedge reserve

The hedge reserve comprises the effective portions of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (as explained in Hedging section under Financial Risk Management Disclosures) and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

In the current period, net investment hedge amounting to EUR 432,300,442 (31 December 2020: EUR 419,127,526) is applied in total among investments in Garanti Bank International NV and Garanti Holding BV having capitals denominated in foreign currencies and long term foreign currency

(Currency: Thousands of Turkish Lira (TL))

24 **Equity** (continued)

borrowings. Foreign exchange losses in the amount of TL 3,256,503 (31 December 2020: TL 2,548,634), arising from conversion of both foreign currency investments and long term foreign currency borrowings are accounted under share capital and hedge reserves, respectively under equity as of 30 June 2021. There is no ineffective portion arising from net investment hedge accounting.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the functional currency of the Bank which is TL and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

Non-controlling interests

As of 30 June 2021, net non-controlling interests amount to TL 258,872 (31 December 2020: TL 247,690). Non-controlling interests are detailed as follows:

	30 June 2021	***31 December 2020***
Capital	55,219	55,219
Retained earnings and other reserves	144,299	112,410
Net income for the period	59,354	80,061
	258,872	247,690

25 Commitments and contingencies

In the ordinary course of business, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the accompanying interim condensed consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit. Commitments and contingent liabilities comprise the following:

	30 June 2021	***31 December 2020***
Letters of guarantee	76,163,462	65,332,869
Letters of credit	16,455,179	13,163,222
Acceptance credits	2,531,538	2,173,451
Other guarantees and endorsements	205,083	125,852
	95,355,262	80,795,394

As of 30 June 2021;

- Commitment for unpaid capital of subsidiaries companies amounts to TL 3,145 (31 December 2020: TL 2,780).
- Commitments for unused credit limits and promotions of credit cards, cheques and loans to customers, commitments for loan granting and other revocable and irrevocable commitments amount to TL 92,130,058 (31 December 2020: TL 76,747,751) in total.
- Commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 1,771,883 (31 December 2020: TL 1,805,480) in total.

As of 30 June 2021, securities acquired under security borrowing transactions amounting to TL 2,833 (31 December 2020: TL 7,522).

26 Derivative financial instruments

As of 30 June 2021, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 537,878,643 (31 December 2020: TL 501,776,267), approximately 65% of which are due within a year (31 December 2020: 65%).

The following tables summarize the notional amounts of the forward, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the date of the statement of financial position. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognised in the statement of profit or loss and other comprehensive income, except for contracts of cash flow hedges as stated above.

(Currency: Thousands of Turkish Lira (TL))

26 Derivative financial instruments (continued)

	Notional amount with remaining life of					
30 June 2021	***Up to 1 month***	***1 to 3 month***	***3 to 6 month***	***6 to 12 month***	***Over 1 year***	***Total***
Interest Rate Derivatives						
Interest rate swaps (*)	5,226,580	4,560,826	9,202,726	25,458,050	136,905,628	181,353,810
Purchases	*2,613,290*	*2,280,633*	*4,601,363*	*12,729,025*	*68,452,814*	*90,677,125*
Sales	*2,613,290*	*2,280,193*	*4,601,363*	*12,729,025*	*68,452,814*	*90,676,685*
Interest rate options	3,454,000	-	-	-	4,779,968	8,233,968
Purchases	*1,727,000*	-	-	-	*3,042,138*	*4,769,138*
Sales	*1,727,000*	-	-	-	*1,737,830*	*3,464,830*
Interest rate futures	-	60,445	-	-	-	60,445
Purchases	-	-	-	-	-	-
Sales	-	*60,445*	-	-	-	*60,445*
Other Derivatives						
Securities, shares and index options	43,817	352,643	111,050	-	-	507,510
Purchases	*22,271*	*272,655*	*39,525*	-	-	*334,451*
Sales	*21,546*	*79,988*	*71,525*	-	-	*173,059*
Other forward contracts	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Other future contracts	380,679	1,605,811	-	-	-	1,986,490
Purchases	-	*706,007*	-	-	-	*706,007*
Sales	*380,679*	*899,804*	-	-	-	*1,280,483*
Other swap contracts	16,623,177	277,986	317,718	105,906	38,577,402	55,902,189
Purchases	*16,574,916*	*138,993*	*158,859*	*52,953*	-	*16,925,721*
Sales	*48,261*	*138,993*	*158,859*	*52,953*	*38,577,402*	*38,976,468*
Currency Derivatives						
Spot exchange contracts	30,237,891	-	-	-	-	30,237,891
Purchases	*15,123,339*	-	-	-	-	*15,123,339*
Sales	*15,114,552*	-	-	-	-	*15,114,552*
Forward exchange contracts	6,540,440	6,022,374	4,904,492	2,509,121	429,859	20,406,286
Purchases	*3,269,329*	*2,997,693*	*2,460,153*	*1,277,492*	*213,371*	*10,218,038*
Sales	*3,271,111*	*3,024,681*	*2,444,339*	*1,231,629*	*216,488*	*10,188,248*
Currency/cross currency swaps	112,507,386	81,974,509	14,960,806	7,353,365	7,910,958	224,707,024
Purchases	*48,073,994*	*40,748,484*	*7,384,339*	*3,690,878*	*3,884,448*	*103,782,143*
Sales	*64,433,392*	*41,226,025*	*7,576,467*	*3,662,487*	*4,026,510*	*120,924,881*
Options	3,133,631	5,758,536	1,180,242	907,317	12,366	10,992,092
Purchases	*1,526,829*	*2,727,167*	*579,453*	*446,824*	*5,784*	*5,286,057*
Sales	*1,606,802*	*3,031,369*	*600,789*	*460,493*	*6,582*	*5,706,035*
Foreign currency futures	886,822	2,289,624	134,869	179,623	-	3,490,938
Purchases	*446,439*	*1,133,314*	*64,763*	*93,273*	-	*1,737,789*
Sales	*440,383*	*1,156,310*	*70,106*	*86,350*	-	*1,753,149*
Subtotal Purchases	89,377,407	51,004,946	15,288,455	18,290,445	75,598,555	249,559,808
Subtotal Sales	89,657,016	51,897,808	15,523,448	18,222,937	113,017,626	288,318,835
Total of Transactions	179,034,423	102,902,754	30,811,903	36,513,382	188,616,181	537,878,643

(*) *In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.*

(Currency: Thousands of Turkish Lira (TL))

26 Derivative financial instruments (continued)

	Notional amount with remaining life of					
31 December 2020	*Up to 1 month*	*1 to 3 month*	*3 to 6 month*	*6 to 12 month*	*Over 1 year*	*Total*
Interest Rate Derivatives						
Interest rate swaps (*)	14,114,694	14,207,998	9,442,996	11,273,491	132,501,962	181,541,141
Purchases	*7,057,347*	*7,103,999*	*4,721,498*	*5,636,951*	*66,250,981*	*90,770,776*
Sales	*7,057,347*	*7,103,999*	*4,721,498*	*5,636,540*	*66,250,981*	*90,770,365*
Interest rate options	-	-	-	-	2,631,120	2,631,120
Purchases	-	-	-	-	*1,846,602*	*1,846,602*
Sales	-	-	-	-	*784,518*	*784,518*
Interest rate futures	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Other Derivatives						
Securities, shares and index options	14,928	118,427	45,760	152,406	-	331,521
Purchases	*4,725*	*31,935*	*22,880*	*76,203*	-	*135,743*
Sales	*10,203*	*86,492*	*22,880*	*76,203*	-	*195,778*
Other forward contracts	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Other future contracts	59,919	367,506	-	-	-	427,425
Purchases	*43*	*132,666*	-	-	-	*132,709*
Sales	*59,876*	*234,840*	-	-	-	*294,716*
Other swap contracts	8,294,431	16,244	8,128	-	34,294,311	42,613,114
Purchases	*8,279,515*	*8,122*	*4,064*	-	-	*8,291,701*
Sales	*14,916*	*8,122*	*4,064*	-	*34,294,311*	*34,321,413*
Currency Derivatives						
Spot exchange contracts	27,085,731	-	-	-	-	27,085,731
Purchases	*13,523,368*	-	-	-	-	*13,523,368*
Sales	*13,562,363*	-	-	-	-	*13,562,363*
Forward exchange contracts	7,121,147	6,571,858	4,831,138	1,633,218	266,718	20,424,079
Purchases	*3,586,348*	*3,351,289*	*2,476,796*	*858,609*	*133,771*	*10,406,813*
Sales	*3,534,799*	*3,220,569*	*2,354,342*	*774,609*	*132,947*	*10,017,266*
Currency/cross currency swaps	119,326,064	74,427,731	14,129,228	5,251,758	4,743,116	217,877,897
Purchases	*55,167,074*	*36,010,167*	*6,620,879*	*2,735,722*	*2,559,734*	*103,093,576*
Sales	*64,158,990*	*38,417,564*	*7,508,349*	*2,516,036*	*2,183,382*	*114,784,321*
Options	3,780,286	855,931	453,981	1,235,684	11,602	6,337,484
Purchases	*1,809,357*	*421,555*	*226,862*	*626,045*	*5,784*	*3,089,603*
Sales	*1,970,929*	*434,376*	*227,119*	*609,639*	*5,818*	*3,247,881*
Foreign currency futures	980,971	593,492	932,292	-	-	2,506,755
Purchases	*501,272*	*302,326*	*442,800*	-	-	*1,246,398*
Sales	*479,699*	*291,166*	*489,492*	-	-	*1,260,357*
Subtotal Purchases	89,929,049	47,362,059	14,515,779	9,933,530	70,796,872	232,537,289
Subtotal Sales	90,849,122	49,797,128	15,327,744	9,613,027	103,651,957	269,238,978
Total of Transactions	180,778,171	97,159,187	29,843,523	19,546,557	174,448,829	501,776,267

(*) *In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.*

(Currency: Thousands of Turkish Lira (TL))

27 Net trading income/(expense)

Gains and losses from derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading income/(expense) including the effective portion of fair value hedges, whereas, gains and losses arising from changes in the effective portion of the fair value of cash flow hedges are reflected as a separate component of equity. Net gains/(losses) from trading of financial assets is detailed in the table below:

	Six-month period ended 30 June 2021	***Six-month period ended 30 June 2020***
Fixed/floating securities	609,470	1,683,188
Financial assets designated as FVPL	(1,073,173)	(527,029)
Derivative transactions	4,060,667	(1,805,394)
Net trading income/expense	3,596,964	(649,235)

28 Other operating income

	Six-month period ended 30 June 2021	***Six-month period ended 30 June 2020***
Other operating income:		
Net sales from operational lease business(*)	214,394	129,313
Net sales from other non-financial subsidiaries	54,853	28,337
Dividend income	21,276	18,661
Rent income from real estate (including investment property)	1,039	1,381
Others	129,744	97,045
Total operating income	421,306	274,737

(*) *Depreciation expenses of the operational lease portfolio are netted-off with the net sales of this business.*

29 Other operating expenses

	Six-month period ended 30 June 2021	***Six-month period ended 30 June 2020***
Computer usage expenses	373,493	278,069
Saving deposits insurance fund	307,076	270,334
Advertising expenses	102,184	66,546
Utility expenses	99,077	90,715
Rent expenses	65,561	56,549
Repair and maintenance expenses	54,172	38,809
Research and development expenses	37,759	26,808
Stationary expenses	17,853	24,346
Others	513,172	434,859
	1,570,347	1,287,035

(Currency: Thousands of Turkish Lira (TL))

30 Related party disclosures

For the purpose of this report, the shareholders either controlling or having executive key management personnel in common with the Bank and BBVA and all their subsidiaries, and their ultimate owners, directors and executive officers and the Bank's unconsolidated subsidiaries and associates are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank had the following balances outstanding from and transactions with related parties:

	30 June 2021	***31 December 2020***
Statement of financial position		
Loans and advances to banks	603,890	16,796
Loans and advances to customers	479,597	466,019
Loans measured at FVPL	4,517,601	4,500,540
Miscellaneous receivables	-	646,070
Deposits from banks	50,828	70,153
Deposits from customers	208,846	460,777
Miscellaneous payables	-	39
Commitments and contingencies		
Non-cash loans	1,607,269	1,049,332
Derivatives	21,889,943	23,381,185

	Six-month period ended 30 June 2021	***Six-month period ended 30 June 2020***
Statement of profit or loss and other comprehensive income		
Interest, fees and commissions income	189,258	17,182
Interest, fees and commissions expenses	16,761	3,241
Net trading income/(expense) and foreign exchange gains/(losses), net	1,188,463	(336,849)
Other operating income	19,165	11,795
Other operating expenses	18,120	10,198

In the first six-months of 2021, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 1%-28% and 4%-6% (31 December 2020: 3%-28% and 4%-6%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of nil and 11%-23%, respectively (31 December 2020: 8%-19%).

Various commission rates are applied to transactions involving guarantees and commitments. The pricing in transactions with the related parties is set on an arms-length basis.

As per IFRS 9, expected credit losses amounted to TL 239 (30 June 2020: TL 922) are recognised against balances outstanding during the period with related parties as of and for the six-month period ended 30 June 2021.

Including the payment related to resigners, key management personnel compensation for the six-month period ended 30 June 2021 amounted to TL 71,366 (30 June 2020: TL 62,318) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted to TL 37,576 (30 June 2020: TL 38,164) and of its subsidiaries amounted to TL 33,790 (30 June 2020: TL 24,154).

(Currency: Thousands of Turkish Lira (TL))

31 Profit reserves and profit appropriation

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

Under the Turkish Commercial Code, legal reserves consist of first legal reserve and second legal reserve. First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid-in share capital. Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued and fully paid-in share capital, but holding companies are not subject to such transaction. According to the Turkish Commercial Code, legal reserves can only be used to compensate accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

In the ordinary General Assembly Meeting dated 31 March 2021, a decision is made regarding distribution of the unconsolidated net profit of the Bank amounting to TL 6,238,003 (based on BRSA bank-only financial statements), and considering the distribution made based on the decision is presented below.

2020 PROFIT DISTRIBUTION TABLE	
2020 Net Profit	**6,238,003**
A – I. Legal reserve (Turkish Commercial Code 519/1) at 5%	-
Undistributable funds	(35,205)
B – First dividend at 5% of the paid-in capital	(210,000)
C – Extraordinary reserves at 5% after above deductions	(301,400)
D – Second dividend to the shareholders	(413,800)
E – Extraordinary reserves	(5,236,218)
F – II. Legal reserve (Turkish Commercial Code 519/2)	(41,380)

32 Subsequent events

On 6 July 2021, the Bank made a capital increase of EUR 53.5 million for Garanti Holding BV, one of its wholly owned subsidiaries, and Garanti Holding BV made a capital increase of EUR 53.0 million for its 100% owned subsidiary G Netherlands BV. The additional liquidity provided as a result of the capital increase was used in intra-group borrowing closings.

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