TÜRKİYE VAKIFLAR BANKASI
TÜRK ANONİM ORTAKLIĞI
AND IT'S SUBSIDIARIES

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

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the Shareholders of Türkiye Vakıflar Bankası T.A.O.

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Türkiye Vakıflar Bankası T.A.O. (the "Bank") and its subsidiaries (together referred to as the "Group") as at June 30, 2021, comprising of the condensed consolidated interim statement of financial position as at June 30, 2021 and the related condensed consolidated interim statements of income, statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, consequently it 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 explained in Note 13, the accompanying condensed consolidated financial position as at June 30, 2021 includes a free provision at an amount of TL 1,472,000 thousands, of which TL 1,072,000 thousands was provided in prior years and TL 400,000 thousands was provided in the current period by the Group management for the possible effects of the negative circumstances which may arise from the possible changes in the economy and market conditions which does not meet the recognition criteria of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37"). In relation to aforementioned free provision, the accompanying condensed consolidated financial position as at June 30, 2021 includes deferred tax at an amount of TL 314,400 thousands of which TL 214,400 thousands was recognized in prior years and TL 100,000 thousands was recognized in the current period. Due to the fact that the above-mentioned items do not meet the recognition criteria of the IAS 37, the "Retained Earnings" as of 30 June 2021 and "Profit for the period" for the six-month period then ended 30 June 2021 are understated by TL 1,157,600 thousands and TL 300,000 thousands respectively.

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Qualified Conclusion

Based on our review, except for the effect of the matter referred in the “Basis for Qualified Conclusion” paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

Other Matter

The consolidated financial statements of the Group as at 31 December 2020 and 30 June 2020 which were prepared in accordance with “International Financial Reporting Standards” were audited and reviewed by another audit firm respectively.

Audit firm expressed a qualified opinion and a qualified conclusion in their reports issued on May 20, 2021 and August 31, 2020 respectively since the consolidated financial statements which were included in their audit reports dated May 20, 2021 include a free provision and free provision related deferred tax at an amount of TL 1,072,000 thousands and TL 214,400 thousands, respectively by the Group Management and their limited review reports dated August 10, 2020 included a free provision and free provision related deferred tax at an amount of TL 852,000 thousands and TL 170,400 thousands, respectively.

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

Damla Harman, SMMM
Partner

October 25, 2021
Istanbul, Turkey

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE PERIOD ENDED JUNE 30, 2021

CONTENTS	**PAGE**

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

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

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

	Notes	Current Period June 30, 2021	Prior Period December 31,2020
ASSETS			
Cash and balances with Central Banks	8	71,264,848	96,503,879
Financial assets at fair value through profit or loss (“FVPL”)	6	18,698,393	16,199,275
- Securities		*11,354,320*	*7,458,290*
- Derivative Financial Instruments	6	*7,344,073*	*8,740,985*
Financial assets at fair value through OCI (“FVOCI”)	10	98,614,959	85,007,132
- Debt Securities	5	*97,520,892*	*83,909,766*
- Equity Securities	5-10	*1,094,067*	*1,097,366*
Financial assets at amortised cost (“AC”)		525,627,933	486,469,939
- Loans and advances to banks		*2,855,392*	*2,859,402*
- Loans and advances to customers		*462,115,635*	*424,869,881*
- Debt securities	5	*60,656,906*	*58,740,656*
Investments accounted for using the equity method	5	567,838	538,516
Current tax assets		2,896	3,090
Deferred tax assets		1,500,813	1,454,935
Property, plant and equipment		5,196,730	5,007,371
Intangible assets		390,276	371,942
Assets classified as held for sale	11	1,165,543	1,256,254
Other assets		19,694,595	19,500,813
Total assets		**742,724,824**	**712,313,146**
LIABILITIES AND EQUITY			
Financial liabilities at fair value through profit or loss		2,488,719	6,083,301
- Derivative financial instruments	5	*2,488,719*	*6,083,301*
Financial liabilities at amortised cost		664,081,792	635,894,015
- Deposits from banks		*17,716,686*	*23,033,197*
- Deposits from customers		*417,391,081*	*394,243,244*
- Obligations under repurchase agreements		*98,173,533*	*101,312,205*
- Funds borrowed		*64,583,713*	*51,692,048*
- Debt securities issued	12	*45,057,634*	*46,154,523*
- Subordinated debts		*21,159,145*	*19,458,798*
Current tax liabilities		710,757	955,837
Deferred tax liabilities		63,407	57,628
Liabilities directly associated with assets classified as held for sale		-	-
Other liabilities and provisions		25,951,018	21,759,880
Total liabilities		**693,295,693**	**664,750,661**
Equity attributable to owners of the parent			
Share capital		4,705,768	4,705,768
Share premium		6,300,979	6,300,980
Revaluation surplus		3,016,551	3,087,838
Reserves		3,398,898	2,776,999
Retained earnings		30,777,666	29,755,015
Total equity attributable to owners of the parent		**48,199,862**	**46,626,600**
Non-controlling interests		**1,229,269**	**935,885**
Total equity		**49,429,131**	**47,562,485**
Total liabilities and equity		**742,724,824**	**712,313,146**
Commitments and contingencies	20	**246,736,591**	**216,928,292**

The notes on pages 7 to 34 are an integral part of these interim consolidated financial statements.

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

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

	Notes	Current Period January 1 2021, - June 30, 2021	Prior Period January 1 2020, - June 30, 2020
Interest income:			
Interest on loans measured at AC		23,680,912	17,244,675
Interest on securities		6,989,679	4,042,983
- *Measured at FVPL*		*79,832*	*55,012*
- *Measured at FVOCI*		*3,426,368*	*1,702,839*
- *Measured at AC*		*3,483,479*	*2,285,132*
Interest on deposits at banks		16,235	62,561
Interest on money market placements		3,033	750
Other interest income		524,133	172,210
Total interest income		**31,213,992**	**21,523,179**
Interest expense:			
Interest on deposits		(15,036,310)	(6,095,192)
Interest on money market deposits		(6,266,830)	(1,574,239)
Interest on funds borrowed		(790,086)	(799,995)
Interest expense on securities issued		(2,744,943)	(2,219,868)
Other interest expense		(142,718)	(202,450)
Total interest expense		**(24,980,887)**	**(10,891,744)**
Net interest income		**6,233,105**	**10,631,435**
Fee and commission income		2,317,976	2,008,991
Fee and commission expense		(605,716)	(404,078)
Net fee and commission income		**1,712,260**	**1,604,913**
Operating income:			
Net trading income		(2,282,000)	(302,246)
Net foreign exchange gains		408,905	(457,948)
Other income	17	768,730	1,805,914
Total operating income		**(1,104,365)**	**1,045,720**
Operating expenses:			
Salaries and employee benefit expenses	18	(1,871,661)	(1,749,805)
Provision for loan impairment, net of recoveries		-	(2,857,144)
Depreciation and amortisation		(257,301)	(251,087)
Taxes other than on income		(170,424)	(196,043)
Other expenses	19	(2,479,202)	(2,988,601)
Total operating expenses		**(4,778,588)**	**(8,042,680)**
Share of profit of associates accounted for using the equity method		41,162	27,698
Profit before income tax		**2,103,574**	**5,267,086**
Income tax expense		(235,888)	(1,040,136)
Profit for the period		**1,867,686**	**4,226,950**
Attributable to:			
Owners of the Parent		1,802,060	4,195,747
Non-controlling interest		65,626	31,203
Profit for the period		**1,867,686**	**4,226,950**

The notes on pages 7 to 34 are an integral part of these interim consolidated financial statements.

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

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

	Notes	Current Period January 1 2021, - June 30, 2021	Prior Period January 1 2020, - June 30, 2020
Profit for the period		**1,867,686**	**4,226,950**
Other comprehensive income			
Items that will not be classified to profit or loss:			
Re-measurement of post - employment benefit obligation		(771)	559
Revaluation of property, plant and equipment		-	(4,234)
Other accumulated comprehensive income that will not be reclassified in profit or loss		153	-
Related tax		(31)	735
Items that will be reclassified subsequently to profit or loss:			
Foreign currency translation differences		54,625	73,588
Net change in fair value of financial assets at FVOCI		(279,444)	657,369
Income (Loss) Related with Hedges of Net Investments in Foreign Operations		97,601	(74,407)
Other items		-	-
Income tax related to items that will be reclassified subsequently to profit or loss		55,889	(131,474)
Other comprehensive income for the period, net of income tax		**(71,978)**	**522,136**
Total comprehensive income for the period		**1,795,708**	**4,749,086**
Total comprehensive income attributable to:			
Owners of the Parent		1,730,179	4,773,770
Non-controlling interest		65,529	(24,684)

The notes on pages 7 to 34 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021

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

	Attributable to Owners of the Parent									
			Revaluation Surplus							
Current Period	**Share Capital**	**Share premium**	**Fair value reserves**	**Revaluation Fund**	**Other**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balances at January 1, 2021	**4,705,768**	**6,300,980**	**1,654,649**	**950,771**	**482,418**	**2,776,999**	**29,755,015**	**46,626,600**	**935,885**	**47,562,485**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**1,802,060**	**1,802,060**	**65,626**	**1,867,686**
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-	-	-	-	(674)	**(674)**	(97)	**(771)**
Change in revaluation surplus	-	-	-	-	-	-	-	**-**	-	**-**
Foreign currency translation differences	-	-	-	-	54,625	-	-	**54,625**	-	**54,625**
Net change in fair value of financial assets FVOCI, net of tax	-	-	(125,954)	-	-	-	-	**(125,954)**	-	**(125,954)**
Other items	-	-	-	-	122	-	-	**122**	-	**122**
Total other comprehensive income	**-**	**-**	**(125,954)**	**-**	**54,747**	**-**	**(674)**	**(71,881)**	**(97)**	**(71,978)**
Total comprehensive income for the period	**-**	**-**	**(125,954)**	**-**	**54,747**	**-**	**1,801,386**	**1,730,179**	**65,529**	**1,795,708**
Transfer to reserves	-	-	-	(80)	-	633,623	(633,623)	**(80)**	-	**(80)**
Dividends paid	-	-	-	-	-	-	-	**-**	-	**-**
Capital increase	-	-	-	-	-	-	-	**-**	-	**-**
Other items	-	(1)	-	-	-	(11,724)	(145,112)	**(156,837)**	227,856	**71,019**
Total contributions by and distributions to owners of the parent, recognized directly in equity	**-**	**(1)**	**-**	**(80)**	**-**	**621,899**	**(778,735)**	**(156,917)**	**227,856**	**70,939**
Balances at June 30, 2021	**4,705,768**	**6,300,979**	**1,528,695**	**950,691**	**537,165**	**3,398,898**	**30,777,666**	**48,199,862**	**1,229,269**	**49,429,131**

The notes on pages 7 to 34 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021

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

	Attributable to owners of the parent									
			Revaluation Surplus							
Prior Period	**Share Capital**	**Share premium**	**Fair value reserves**	**Revaluation Fund**	**Other**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balances at January 1, 2020	**3,300,146**	**721,594**	**1,547,161**	**757,641**	**299,323**	**2,557,712**	**23,613,291**	**32,796,868**	**1,113,757**	**33,910,625**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**4,195,747**	**4,195,747**	**31,203**	**4,226,950**
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-		-	-	**24**	**24**	**423**	**447**
Change in revaluation surplus	-	-	-	(1,771)	-	-		(1,771)	(1,616)	(3,387)
Foreign currency translation differences	-	-	-	-	63,974	-	-	63,974	(64,793)	(819)
Net change in fair value of financial assets FVOCI, net of tax	-	-	515,796	-	-	-	-	515,796	10,099	525,895
Other items	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**515,796**	**(1,771)**	**63,974**	**-**	**24**	**578,023**	**(55,887)**	**522,136**
Total comprehensive income for the period	**-**	**-**	**515,796**	**(1,771)**	**63,974**	**-**	**4,195,771**	**4,773,770**	**(24,684)**	**4,749,086**
Transfer to reserves	-	-	-	-	-	242,353	(244,376)	(2,023)	2,023	-
Capital increase	1,405,622	5,579,361	-	-	-	-	-	6,984,983	-	6,984,983
Other items	-	-	(95,366)	-	-	(43,652)	81,591	(57,427)	(210,637)	(268,064)
Total contributions by and distributions to owners of the parent, recognised directly in equity	**1,405,622**	**5,579,361**	**(95,366)**	**-**	**-**	**198,701**	**(162,785)**	**6,925,533**	**(208,614)**	**6,716,919**
Balances at June 30, 2020	**4,705,768**	**6,300,955**	**1,967,591**	**755,870**	**363,297**	**2,756,413**	**27,646,277**	**44,496,171**	**880,459**	**45,376,630**

The notes on pages 7 to 34 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021

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

	Notes	Current Period January 1 2021, - June 30, 2021	Prior Period January 1 2020, - June 30, 2020
Profit for the period		1,867,686	4,226,950
Adjustments for:			
Income tax expense		235,888	1,773,065
Provision for incurred loan losses, net of recoveries		121,663	2,847,140
Depreciation and amortization		257,301	243,745
Provision for short term employee benefits		(190,193)	(17,192)
Provision for retirement pay liability and unused vacations		283,632	251,468
Unearned premium reserve		-	97,692
Change in provision for outstanding claims		-	33,203
Derivative financial instruments		2,197,670	(1,025,028)
Other provision expenses	19	404,904	78,052
Net interest income		(5,115,380)	(14,918,124)
Share of profit of equity-accounted investees		(41,162)	(27,698)
Gain on sale of subsidiaries		-	(804,835)
Other non-cash adjustments		(2,023,693)	176,861
		(2,030,682)	**(7,064,701)**
Loans and advances to banks		215,068	141,620
Reserve deposits		(728,044)	5,687,947
Financial assets at fair value through profit or loss		(3,855,715)	(5,849,576)
Loans and advances to customers		(45,363,017)	(95,744,292)
Other assets		10,716,944	(3,382,024)
Deposits from banks		(5,432,455)	4,731,839
Deposits from customers		22,294,090	80,530,255
Obligation under repurchase agreements		186,924	12,164,381
Other liabilities and provisions		836,793	1,122,136
		(21,129,412)	**(597,714)**
Interest received		31,213,992	21,523,179
Interest paid		(24,980,887)	(10,891,744)
Taxes paid		(709,027)	(802,190)
Cash provided by operating activities		**(17,636,016)**	**2,166,830**
Cash flows from investing activities:			
Dividends received	17	22,788	17,287
Acquisition of property and equipment		(1,202,738)	(300,510)
Proceeds from the sale of property and equipment		1,041,599	117,231
Acquisition of intangible assets		(30,819)	(29,166)
Proceeds from the sale of intangible assets		1,109	-
Acquisition of investment securities		(19,353,454)	(36,752,326)
Proceeds from sale of investment securities		7,654,729	19,418,345
Other cash inflow/(outflow) from investing activities		(34,664)	(935,335)
Cash used in by investing activities		**(11,901,450)**	**(18,464,474)**
Cash flows from financing activities:			
Proceeds from issue of debt securities and subordinated debts		6,622,558	19,664,862
Repayments of debt securities and subordinated debts		(6,407,381)	(11,933,514)
Repayments of funds borrowed		(46,807,512)	(15,947,516)
Proceeds from funds borrowed		59,660,124	18,022,850
Proceeds from issues of shares and other equity securities		-	7,000,000
Share issue cost			(15,016)
Financial lease payments		(182,225)	(196,335)
Cash provided by financing activities		**12,885,564**	**16,595,331**
Effect of foreign exchange rate fluctuations on cash and cash equivalents		(114,997)	974
Net increase in cash and cash equivalents		**(16,766,899)**	**298,661**
Cash and cash equivalents at the beginning of the period	8	55,670,015	31,255,679
Cash and cash equivalents at the end of the period	**8**	**38,903,116**	**31,554,340**

The notes on pages 7 to 34 are an integral part of these interim consolidated financial statements

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

1. GENERAL INFORMATION

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("The Bank" or "The Parent") was established under the authorization of special law numbered 6219, called "The Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı", on 11 January 1954 within the framework of the authority granted to the General Directorate of the Foundations of Turkish Republic (The General Directorate of the Foundations). Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by obtaining securities and real estate as collateral,
- Establishing or participating in all kinds of insurance corporations,
- Trading real estate,
- Providing all banking operations and services,
- Investing in various corporations handed over by the foundations and the General Directorate of the Foundations in accordance with conditions stipulated by agreements if signed,
- To render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by the General Directorate of the Foundations.

The Bank provides corporate, commercial and retail banking services through a network of 935 domestic branches and 4 foreign branches in New York, Bahrain and Iraq, in total 939 branches (December 31, 2020: 933 domestic, 3 foreign, in total 936 branches). As at June 30, 2021, the Bank has 16,673 (December 31, 2020 16,748) employees. Additionally, the Bank has a subsidiary in banking sector in Austria, titled as Vakıfbank International AG. The Bank's head office is located at Saray Mahallesi, Dr.Adnan Büyükdeniz Caddesi, No: 7/A-B, Ümraniye - İstanbul.

The shareholder having control over the shares of The Parent Bank is the Republic of Turkey Ministry of Treasury and Finance.

As at June 30, 2021, the Parent Bank's paid-in capital is TL 3,905,622 (December 31, 2020: TL 3,905,622) divided into 390,562,248,996 shares with each has a nominal value of Kr 1.(December 31, 2020: TL 390,562,248,996)

As at June 30, 2021 the Bank's shareholders' structure is as follows:

Shareholders – June 30, 2021	Number of the shares (100 units)	Nominal amount	Share (%)
Türkiye Varlık Fonu (Group D)	1,405,622,490	1,405,622	35.99
TC Hazine ve Maliye Bakanlığı (Group A)	1,075,058,640	1,075,058	27.52
VakıfBank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	10.31
TC Hazine ve Maliye Bakanlığı (Group B)	387,673,328	387,673	9.93
Other appendant foundations (Group B)	2,591,250	2,591	0.07
Other real persons and legal entities (Group C)	1,527,393	1,528	0.04
Publicly traded (Group D)	630,596,723	630,597	16.14
Paid-in capital	**3,905,622,490**	**3,905,622**	**100.00**
Adjustment to share capital (*)		800,146	
Total		**4,705,768**	

(*) The adjustment to share capital represents the cumulative restatement adjustment amount to nominal share capital on adopting IAS 29, "Financial reporting in hyper-inflationary economies" until January 1, 2006.

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

1. GENERAL INFORMATION (Continued)

As at December 31, 2020 the Bank's shareholders' structure is as follows:

Shareholders - December 31, 2020	Number of the shares (100 units)	Nominal amount	Share (%)
Türkiye Varlık Fonu (Group D)	1,405,622,490	1,405,622	35.99
TC Hazine ve Maliye Bakanlığı (Group A)	1,075,058,640	1,075,058	27.52
VakıfBank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	10.31
TC Hazine ve Maliye Bakanlığı (Group B)	387,673,328	387,673	9.93
Other appendant foundations (Group B)	2,591,250	2,591	0.07
Other real persons and legal entities (Group C)	1,527,393	1,528	0.04
Publicly traded (Group D)	630,596,723	630,597	16.14
Paid-in capital	**3,905,622,490**	**3,905,622**	**100.00**
Adjustment to share capital (*)		800,146	
Total		**4,705,768**	

(*) The adjustment to share capital represents the cumulative restatement adjustment amount to nominal share capital on adopting IAS 29, "Financial reporting in hyper-inflationary economies" until January 1, 2006.

These consolidated financial statements were approved for issue on October 25, 2021.

With the Decree Law No. 696 published in the Official Gazette dated December 24, 2017, the "Türkiye Vakıflar Bankası Turkish Joint-Stock Company Law" No. 6219 was amended.

With the Presidential Decree dated December 3, 2019, published in line with the relevant provisions of Law No. 6219, 58.51% of the total of 43.00% (A) Group and 15.51% (B) Group, managed and represented by the General Directorate of Foundations' per share value of share is determined.

In accordance with the relevant provisions of the Law No. 6219, the provisions of the Capital Market Law, including the obligation to propose shares regarding the transfer transactions regarding the shares specified in the Presidential Decree of December 3, 2019, will not be applied. There will be no changes regarding the 25.22% shares of the (D) Group traded at the stock exchange.

The process regarding the transfer of bank shares has been completed as of December 11, 2019 and 58.51% of the Bank's share has been transferred to the Treasury and has been recorded in the Bank's share book on behalf of the Ministry of Treasury and Finance of the Republic of Turkey.

With the decision of the Parent Bank's Board of Directors dated May 11, 2020, it has been decided to increase the issued capital of TL 2,500,000 provided that it remains within the registered capital ceiling, by completely restricting the pre-emptive rights of the current shareholders and by increasing cash capital increase, which will generate a total sales revenue of TL 7,000,000 in total. Within the framework of the relevant legislation of the Capital Markets Board , the Banking Regulation and Supervision Agency and the Procedure for Borsa İstanbul's Wholesale Purchase and Sales Transactions, all of the shares to be issued due to the capital increase, are set to be transferred to Turkey Wealth Fund, without public offering and by dedicated sales method.

The disclosure published by the Parent Bank on May 15, 2020, it was announced that the sales price of the shares to be issued was determined as TL 4.98 for a share with a nominal value of 1 TL, and that the issued capital will be increased from TL 2,500,000 to TL 3,905,622 as a result of the capital increase.

The disclosure published by the Parent Bank on May 20, 2020, it has been announced that the shares with a nominal value of TL 1,405,622 issued by the Parent Bank are sold with a dedicated sales method for a share with a nominal value of TL 1, with a total sales revenue of TL 7,000,000 over the price of TL 4.98. As of the same date, the shares were sold to Turkey Wealth Fund through the wholesale transaction method in stock market and the capital increase transactions have been completed.

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

1. GENERAL INFORMATION (Continued)

The table below sets out the subsidiaries and associates and shows their shareholding structure as at June 30, 2021 and December 31, 2020.

June 30, 2021	Direct Shareholding Interest (%)	Indirect Shareholding Interest (%)
Subsidiaries:		
Vakıf Menkul Kıymet Yatırım Ortaklığı AŞ (*)	17.37	17.37
Vakıf Enerji ve Madencilik AŞ	65.50	80.48
Taksim Otelcilik AŞ	51.00	51.00
Vakıf Faktoring AŞ	78.39	80.62
Vakıf Finansal Kiralama AŞ	58.71	58.71
Vakıf Yatırım Menkul Değerler AŞ	99.25	99.40
VakıfBank International AG	100.00	100.00
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ (*)	48.95	48.95
World Vakıf UBB Ltd in Liquidation (**)	83.00	83.59
Associates:		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası AŞ	8.38	8.38

December 31, 2020	Direct Shareholding Interest (%)	Indirect Shareholding Interest (%)
Subsidiaries:		
Vakıf Menkul Kıymet Yatırım Ortaklığı AŞ (*)	17.37	17.37
Vakıf Enerji ve Madencilik AŞ	65.50	80.48
Taksim Otelcilik AŞ	51.00	51.00
Vakıf Faktoring AŞ	78.39	80.62
Vakıf Finansal Kiralama AŞ	58.71	58.71
Vakıf Yatırım Menkul Değerler AŞ	99.25	99.40
Vakıfbank International AG	100.00	100.00
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ (*)	45.71	45.71
World Vakıf UBB Ltd in Liquidation (**)	82.00	82.59
Associates:		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası AŞ	8.38	8.38

(*) For those consolidated subsidiaries where the Bank does not own, directly or indirectly through subsidiaries, more than 50% of the subsidiary's voting power, proportion of ordinary shares held by the Group entitles the Bank to power over relevant activities - acquired through arrangements between shareholders or articles of association of the related subsidiary - and to variable returns from its involvement with the subsidiary while the bank has the ability to affect those returns through its power over the subsidiary.

(**) World Vakıf UBB Ltd, was established in the Turkish Republic of Northern Cyprus in 1993 for offshore banking operations. Its head office is in Nicosia. The name of the Bank, which was World Vakıf Offshore Banking Ltd, has been changed to World Vakıf UBB. Ltd. on 4 February 2009. Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorization of World Vakıf UBB Ltd is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to 24 May 2010 dated decision of the Nicosia Local Court. The liquidation process of World Vakıf UBB Ltd, has been carried out by NCTR Collecting and Liquidation Office. The application of the subsidiary for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed. Thus, the name of the subsidiary has been changed as “World Vakıf UBB Ltd. in Liquidation”. Therefore, the financial statements of the subsidiary have not been consolidated as at June 30, 2021 and December 31, 2020.

1. GENERAL INFORMATION (Continued)

For the purposes of these interim consolidated financial statements, the Bank and its consolidated subsidiaries described below are referred to as the "Group".

In March 24, 2020, Türkiye Vakıflar Bankası T.A.O. Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (ESV) shares, which are presented in the paid-in capital of Vakıfbank International AG, are purchased by the Parent Bank.

Vakıf Menkul Kıymet Yatırım Ortaklığı AŞ was established in 1991 in Istanbul. The main activity of the subsidiary is to invest in a portfolio (including marketable debt securities and equity securities) without having managerial power in the partnerships whose securities have been acquired; and also gold and other precious metals trading in national and international stock exchange markets or active markets other than stock exchange markets, in accordance with the principles and regulations promulgated by Capital Markets Board. Its head office is in Istanbul.

Vakıf Enerji ve Madencilik A.Ş. was established in 2001 to produce electrical and thermal energy, and to sell this energy in accordance with the related laws and regulations. Its head office is in Ankara.

Taksim Otelcilik AŞ was established under the Turkish Commercial Code in 1966. The main activity of the subsidiary is to operate in the hotel business or rent out the management of owned hotels. Its head office is in Istanbul.

Vakıf Faktoring AŞ was established in 1998 to perform factoring transactions and any kind of financing transactions. Factoring, the main operation of the Company, is a financing method that includes the trade receivables of production, distribution and service companies to be sold to intermediary institutions. Its head office is in Istanbul.

Vakıf Finansal Kiralama AŞ was established in 1988 to enter into finance lease operations and related transactions and contracts. Its head office is in Istanbul.

Vakıf Yatırım Menkul Değerler AŞ was established in 1996 to provide service to investors through making capital markets transactions, the issuance of capital market tools, purchase and sales of marketable securities, operating as a member of stock exchange, investment consultancy and portfolio management. Its head office is in Istanbul.

VakıfBank International AG was established in 1999 to operate in the banking sector in foreign countries, in line with the Bank's globalization policy. Its head office is in Vienna, Austria.

Vakıf Gayrimenkul Yatırım Ortaklığı AŞ was established as the first real estate investment partnership in the finance sector under the adjudication of the Capital Markets Law in 1996. The subsidiary's main operation is in line with the scope in the Capital Markets Board's regulations relating to real estate investment trusts including real estate, capital market tools based on real estate, real estate projects and investing on capital market tools. Its head office is in İstanbul.

The Bank has also the following associates:

Kıbrıs Vakıflar Bankası Ltd. Şti. was established in 1982 in the Turkish Republic of Northern Cyprus, mainly to encourage the usage of credit cards issued by the Bank, to increase foreign exchange inflow, and carry on retail and commercial banking operations. Its head office is in Nicosia.

Türkiye Sınai Kalkınma Bankası AŞ was established as an investment bank in 1950 to support investments in all economic sectors. Its head office is in Istanbul.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation

These interim consolidated condensed financial statements for the six-month period ended June 30, 2021 have been prepared in accordance with IAS 34, "Interim financial reporting". The interim consolidated condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2020, which have been prepared in accordance with International Financial Reporting Standards. The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The consolidated financial statements have been prepared in accordance with IFRS and presented in Turkish Lira ("TL").

Covid-19 virus, which first appeared in China and spread rapidly worldwide in a short time, started to appear in our country in March, 2020. Declared as an epidemic by the World Health Organization, Covid-19 had economic and social impacts worldwide. In order to slow down the epidemic, many measures have been taken, including in our country, to restrict travels around the world, to take quarantine measures, to increase distance work, and various arrangements are made to reduce the economic effects of the epidemic. The Group has explained the effects of Covid-19, which it reflects in the financial statements dated June 30, 2021, in the following sections.

In preparation of the consolidated financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the prior year consolidated financial statements except for the adoption of new standards and interpretations starting from January 1, 2021, where applicable, noted below:

2.2. New and Revised International Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at June 30, 2021:

The accounting policies adopted in preparation of the consolidated financial statements as at June 30, 2021 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2021.

- **Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16;** Benchmark Rate Reform - Stage 2, which introduces amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, effective from January 2021, was published in December 2020 and early application of the changes is permitted. With the amendments made, certain exceptions are provided in the basis used in determining the contractual cash flows and in the hedge accounting provisions. The changes came into effect from 1 January 2021. Loans given from items indexed to benchmark interest rates in the Parent Bank's financial statements and securities assets; Securities issued, derivative transactions and loans obtained through repo constitute liabilities. These changes do not have a significant impact on the Parent Bank's financial position or performance. The process for the Benchmark Interest Rate Reform is expected to be completed by December 31, 2021, and the Parent Bank's efforts to adapt to the changes continue. As of 30 June 2021, the Parent Bank has no hedging transactions based on the benchmark interest rate.

- **Amendments to IFRS 16 - Covid-19-Related Rent Concessions and Covid-19-Related Rent Concessions beyond 30 June 2021;** In May 2020, the IASB amended IFRS 16 to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic (2020 amendment). The 2020 amendment does not apply to lessors. In March 2021, the Board amended IFRS 16 to extend the availability of the practical expedient by one year (2021 amendment). The practical expedient in the 2021 amendment applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment applies to annual reporting periods beginning on or after 1 April 2021. These changes do not have a impact on the group's financial position or performance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. New and Revised International Financial Reporting Standards (Continued)

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

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

- **Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;** In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Group will wait until the final amendment to assess the impacts of the changes.

- **Amendments to IFRS 3 – Reference to the Conceptual Framework;** In May 2020, the IASB issued amendments to IFRS 3 Business combinations. The amendments are intended to replace to a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing requirements of IFRS 3. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments issued to IFRS 3 which are effective for periods beginning on or after 1 January 2022 and must be applied retrospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS standards (March 2018).

- **Amendments to IAS 16 – Proceeds before intended use;** In May 2020, the IASB issued amendments to IAS 16 Property, plant and equipment. The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and costs of producing those items, in profit or loss. The amendments issued to IAS 16 which are effective for periods beginning on or after 1 January 2022. Amendments must be applied prospectively only to items of PP&E made available for use on or after beginning of the earliest period presented when the entity first applies the amendment.

  There is no transition relief for the first time adopters.

- **Amendments to IAS 37 – Onerous contracts – Costs of Fulfilling a Contract;** In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent assets. . The amendments issued to IAS 37 which are effective for periods beginning on or after 1 January 2022, to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making and also apply a "directly related cost approach". Amendments must be applied retrospectively to contracts for which an entity has not fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. New and Revised International Financial Reporting Standards (Continued)

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

- **IFRS 17 - The new Standard for insurance contracts;** The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023; early application is permitted.

- **Amendments to IAS 1- Classification of Liabilities as Current and Non-Current Liabilities;** 23 January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2023, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted.

- **Amendments to IAS 8 - Definition of Accounting Estimates;** In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments issued to IAS 8 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the Board. The Group expects no significant impact on its balance sheet and equity.

- **Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies;** In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments issued to IAS 1 are effective for annual periods beginning on or after 1 January 2023. In the absence of a definition of the term 'significant' in IFRS, the Board decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in IFRS and is widely understood by the users of financial statements, according to the Board. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
2.2. New and Revised International Financial Reporting Standards (Continued)

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

- **Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction;** In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments issued to IAS 12 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Annual Improvements – 2018–2020 Cycle

In May 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020 Cycle, amending the followings:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter: The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported by the parent. The amendment is also applied to an associate or joint venture.
- IFRS 9 Financial Instruments – Fees in the “10 per cent test” for derecognition of financial liabilities: The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either borrower or lender on the other’s behalf.
- IAS 41 Agriculture – Taxation in fair value measurements: The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring fair value of assets within the scope of IAS 41.

Improvements are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted for all.

2.3. Accounting Policies

Information on Financial Assets

The Parent Bank categorizes its financial assets as “Fair Value Through Profit/Loss”, “Fair Value Through Other Comprehensive Income” or “Measured at Amortized Cost”. Such financial assets are recognized or derecognized according to IFRS 9 Financial Instruments Part 3 Issued for classification and measurement of the financial instruments published in the Official Gazette No. 29953 dated 19 January 2017 by the Public Oversight Accounting and Auditing Standards Authority. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value Through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

The Parent Bank recognizes a financial asset into financial statements when it becomes a party to the contractual terms of a financial instrument. During the first recognition of a financial asset into the financial statements, business model determined by The Parent Bank management and the nature of contractual cash flows of the financial asset are taken into consideration

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

Classification and Measurement of Financial Instruments

According to IFRS 9, the classification and measurement of financial assets is determined according to the business model in which the financial asset is managed and whether it depends on the contractual cash flows that include interest payments only on the principal and principal balances.

Assessments on whether contractual cash flows include only principal balances and interest payments on the principal

Within the scope of this evaluation; principal is defined as the fair value of the financial asset when it is first recognized in the financial statements. For the time value of money, interest takes into account the costs (eg liquidity risk and management costs) for the credit risk and other underlying credit risks and profit margin associated with the principal amount over a period of time.

The Parent Bank takes into consideration the contractual terms of the financial asset in the evaluation of the contractual cash flows that only include principal and interest payments on the principal. This includes assessing whether the financial asset includes a contractual condition that could change the timing or amount of contractual cash flows.

While performing the assessment, The Parent Bank fulfills the on-balance sheet classification and measurement criteria by applying the procedures defined in IFRS 9 Financial Instruments including events that may change the amount and timing of cash flows, leverage structure of the financial product, early payment options, contingent interest rate changes and similar conditions.

At the time of initial recognition, each financial asset is classified as measured at fair value through profit or loss, at amortized cost, or at fair value through profit or loss.

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit/loss" are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

Financial Assets at Fair Value through Other Comprehensive Income

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

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not designated in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the “Accumulated other comprehensive income or expense to be reclassified through profit or loss” under shareholders’ equity.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment. During initial recognition an entity can choose in an irrecovable was to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

Financial Assets Measured at Amortized Cost

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

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

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

Loans

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method". As of January 1, 2018 loans of The Parent Bank are retained under the “Measured at Amortized Cost” accounts due to holding loans in scope of a business model for the collection of contractual cash flows and contractual terms of loans that leads to cash flows representing solely payments of principal and interest at certain date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

Fair value

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group's accounting policy on fair value measurements is discussed in (i) - *Measurement*.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: Valuation techniques based on observable inputs, either directly-i.e. as prices-or indirectly- i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other variables used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

Information on Expected Credit Loss ("ECL")

As of January 1, 2018, the Parent Bank recognize provisions for impairment in accordance with IFRS 9 requirements according to the "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside" published in the Official Gazette dated June 22, 2016 numbered 29750. In this framework, as of December 31, 2017, method of provisions for impairment as set out in accordance with the related legislation of BRSA is changed by applying the expected credit loss model under IFRS 9. Expected credit loss model is applied to financial assets measured at amortized cost or financial assets at fair value through other comprehensive income (e.g. placements, loans and leasing receivables), loan commitments and financial guarantee contracts.

The expected credit loss estimates are required to be unbiased, probability-weighted, considering the time value of money and including supportable information about past events, current conditions, and forecasts of future economic conditions.

It is possible to perform the provision calculations in accordance with IFRS 9, although may vary exceptionally, with three main parameters for each loan. Exposure at Default (EAD), Loss Given Default (LGD), Probability of Default (PD).

Exposure at Default: Represents the amount of risk on the default date of the debtor in case of default.

According to IFRS 9 in calculating the default amount, the estimation of how customer risk rating changes over time is important. Exposure of Default values are calculated different for cash-loans and non-cash loans.

Monetary risks are fundamentally divided into two; related and unrelated to amortization plan. EAD is calculated, either by taking into account loan installments being paid in the future over balance change for cash loans with payment plan, or by keeping credit balance constant for cash loans without payment plan. For Non-cash Loans and Limit Commitments EAD is calculated by regarding to credit conversion rate and behavioral maturity periods.

Loss Given Default: The ratio that provides the uncollectable amount of the receivable in the process after the default. The LGD ratio is the division of the uncollectable amount of a defaulted loan into the defaulted loan amount. This ratio enables to predetermine the risks in the case of default for the active credit portfolio and allows for provision under IFRS 9.

Probability of Default: Represents the probability of default of the debtor in a defined time lag in the future.

In addition to these parameters, macroeconomic forecasts are included in the calculation of expected loss provision by estimating within two sets of scenarios, which are base and negative case scenarios. Future macroeconomic expectations taken into account in accordance with IFRS 9 are in line with the economic forecasts of the Parent Bank's current Budget and ICAAP processes.

Different macroeconomic models have been created for the retail portfolio and commercial portfolio, and macroeconomic forecasts affect the expected loss provision calculations in two separate scenarios, base and bad. Scenario weights used in calculation of the expected loan loss allowance were reconsidered and the bad scenario weight was increased in order to reflect the effects of Covid-19.The future macroeconomic expectations taken into account into IFRS 9 are in line with the Bank's current budget and ISEDES forecasts.

In the calculation of expected credit loss in accordance with IFRS 9, certain part of commercial and corporate loans are subject to individual assessment on a customer basis in accordance with internal evaluations. The models and methodologies used for IFRS 9 are evaluated at least once a year by the teams responsible for the model and methodology for their accuracy and suitability. The models and other issues that were created within the scope of IFRS 9 and which need to be updated in 2020 were revised and reflected in financial statements of June 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

Macroeconomic forecasts and risk delinquency data used in risk parameter models are re-evaluated every quarter to reflect changes in economic conjuncture and are updated if needed. During the reporting period, arrangements were made in macroeconomic forecasts to reflect the negative effects of Covid-19.

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

Stage 1:
For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.

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

Stage 3:
Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

Significant Increase in the Credit Risk

The Standard requires the assessment of whether there is a significant increase in the credit risk of financial assets by the date of initial recognition based on the information available without excessive effort and cost as of the reporting date. The factors that show a significant increase in credit risk under IFRS 9 are as follows:

- Past Due Date; significant increase in the credit risk since the granting date in the case of loans overdue more than 30 days
- The classification of the financial asset under stage 2 in the case of financial receivable reconstruction
- Internal classification system that is established according to the information gathered by the Parent Bank
- Comparison between the default risk of the debtor and the default risk of receivable as of the granting date based on the change in the rating/score info as of reporting date.

In usual circumstances, the Group acknowledges the approach that past due more than 30 days as a quantitative indicator that requires an exposure to be transferred to Stage 2. However, when taking the staging decision in the current period, the Group has not directly applied the existing methodology but also has applied qualitave indicators such as whether the due date is realised as a consequence of COVID-19 or not.

The Group has accounted for the effect of applying the new provisions at the date of January 1, 2018 by recording a reversal in the opening records of previous years' profit and loss accounts. The primary impact is due to changes in the allowance for credit losses in accordance with the new impairment provisions and the tax effects of the corresponding provisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

Default Definition

The Parent Bank takes into account the requirements of IFRS 9 and the relevant BRSA in order to determine the default situation in accordance with the definition of default and its indicators included in the Communiqué on the Calculation of Provisions Regulation and the Amount Based on the Internal Risk Based Approach of the Credit Risk.

In terms of the default definition, the bank has set the following criterias;

- Over 90 days delayed collection of principal and / or interest amount,
- The customer has been bankrupt or has been found to apply for bankruptcy,
- The customer's creditworthiness is impaired,
- It is decided that the principal and / or interest payments of the borrower will be delayed by more than 90 days since the collaterals and / or borrower's own funds are insufficient to cover the payment of the receivables at maturity,
- It is decided that the principal and / or interest payments of the customer will be delayed by more than 90 days due to macroeconomic, sector specific or customer specific reasons.

In usual circumstances, the Group acknowledges the approach that past due more than 90 days as a quantitative indicator that requires an exposure to be transferred to Stage 3. However, when taking the staging decision in the current period, the Group has not directly applied the existing methodology but also has applied qualitave indicators such as whether the due date is realised as a consequence of COVID-19 or not.

Information on Fees and Commissions

Banking services income is recorded as income when it is collected. Other fee and commission income is transferred to profit/loss accounts according to time period principle on the basis of accrual using the principle of the effective interest method. Fee and commission expenses are recorded as expense at the time they are paid.

Fees and commissions other than those that are an integral part of the effective interest rate of financial instruments measured at amortized cost are accounted in accordance with the IFRS 15 “Revenue from Contracts with Customers” standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies (Continued)

Explanations on IFRS 16 Standard

The Parent Bank has applied the simplified transition approach and elected not to restate comparative figures. The Parent Bank has not reassessed whether a contract is a lease or not a lease at the date of initial application for leases previously classified as operating leases in accordance with IAS 17 by preferring simplified transition approach. For the leases previously classified as operational leases in accordance with IAS 17, the lease liability calculated on the present value of the remaining lease payments, discounted using the alternative borrowing interest rate of the lessee at the initial application date is reflected to the financial statements. A right of use is also reflected in the financial statements at an amount equal to the lease obligation, which is reflected in the statement of financial position immediately prior to the initial application date, adjusted for the amount of all prepayment or accrued lease payments.

Group's lease payables are included in other liabilities and provisions in the financial statements.

2.4. Other Matters

Classifications

“Income from reversal of the provisions for loans from prior periods” amounting to TL and “Provision for loan impairment” amounting to TL 4,507,243, which were previously presented as a gross under “Other Income” and; “Provision for loan impairment, net of recoveries”, respectively are begun presenting as a net basis in aforementioned line items of statement of income. In addition “Collections from Previously Written of Loans” amounting to TL and Previously Written off Loan Expenses amounting to TL 24,222 which were previously presented as a gross basis under “Other income” and; “Other expenses”, respectively are also begun presenting as a net basis. The comparative prior period of the income statement dated 30 June 2021 are also shown in line with the current period.

3. USE OF ESTIMATES AND JUDGEMENTS AND SEASONALITY OF OPERATIONS

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

In preparing these interim consolidated condensed financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2020.

As of June 30, 2021, the Group has reflected the possible effects of the Covid -19 pandemic to the macro economic forecasts which are used in the calculation of expected loan loss provisions. Scenario weights used in calculation of the expected loan loss provisions were reconsidered and the bad scenario weight was increased in order to reflect the effects of Covid-19.

There is no significant seasonality effect on the operations of the Group.

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

4. MARKET RISK

Exposure to currency risk

10 percent devaluation of the TL against the following currencies as at and for the six month period ended June 30, 2021 and 2020 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below:

	June 30, 2021		June 30, 2020	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
US Dollar	142,443	142,443	(1,387,118)	(1,387,118)
EUR	170,493	369,078	135,063	254,005
Other currencies	(1,331)	(1,331)	3,882	3,882
Total, net	**311,605**	**510,190**	**(1,248,173)**	**(1,129,231)**

10 percent revaluation of the TL against the following currencies as at and for years ended.
June 30, 2021 and 2020 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below:

	June 30, 2021		June 30, 2020	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
US Dollar	(142,443)	(142,443)	1,387,118	1,387,118
EUR	(170,493)	(369,078)	(135,063)	(254,005)
Other currencies	1,331	1,331	(3,882)	(3,882)
Total, net	**(311,605)**	**(510,190)**	**1,248,173**	**1,129,231**

This analysis assumes that all other variables, in particular interest rates, remain constant.

5. FAIR VALUE OF THE FINANCIAL ASSETS AND LIABILITIES

The classification of fair value measurements of financial assets and liabilities at June 30, 2021 is as follows:

June 30, 2021	Level 1	Level 2	Level 3(*)	Total
Asset carried at fair value				
Financial assets - FVPL	**347,450**	**18,181,460**	**169,483**	**18,698,393**
Debt securities	110,830	10,837,387	-	10,948,217
Equity securities	201,396	-	169,483	370,879
Derivative financial assets held for trading purposes	-	7,344,073	-	7,344,073
Other Financial Assets	35,224	-	-	35,224
Investment securities - FVOCI	96,948,330	572,562	950,277	98,471,169
Debt securities	95,042,277	-	-	95,042,277
Equity securities	-	-	950,277	950,277
Other Financial Assets	1,906,053	572,562	-	2,478,615
Investments accounted for using the equity method	**550,250**	**-**	**17,588**	**567,838**
Total financial assets	**97,846,030**	**18,754,022**	**1,137,348**	**117,737,400**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(2,488,719)	-	(2,488,719)
Total financial liabilities	**-**	**(2,488,719)**	**-**	**(2,488,719)**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

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

5. FAIR VALUE OF THE FINANCIAL ASSETS AND LIABILITIES (Continued)

The classification of fair value measurements of financial assets and liabilities at December 31, 2020 is as follows:

December 31, 2020	Level 1	Level 2	Level 3(*)	Total
Asset carried at fair value				
Financial assets - FVPL	**288,397**	**15,740,985**	**169,893**	**16,199,275**
Debt securities	110,576	7,000,000	-	7,110,576
Equity securities	162,165	-	169,482	331,647
Derivative financial assets held for trading purposes	-	8,740,985	-	8,740,985
Other Financial Assets	15,656		411	16,067
Investment securities - FVOCI	83,320,472	589,294	950,277	84,860,043
Debt securities	81,506,602	-	-	81,506,602
Equity securities	-	-	950,277	950,277
Other Financial Assets	1,813,870	589,294	-	2,403,164
Investments accounted for using the equity method	**521,929**	**-**	**16,587**	**538,516**
Total financial assets	**84,130,798**	**16,330,279**	**1,136,757**	**101,597,834**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(6,083,301)	-	(6,083,301)
Total financial liabilities	**-**	**(6,083,301)**	**-**	**(6,083,301)**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as follows:

	June 30, 2021	December 31, 2020
Balance at the beginning of the period - 1 January	1,136,757	902,558
Total gains or losses for the period	591	234,199
Balance at the end of the period	**1,137,348**	**1,136,757**

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at June 30, 2021 and December 31, 2020, financial assets at fair value through profit or loss are as follows:

	June 30, 2021		December 31, 2020	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt instruments held at fair value:				
Government bonds in TL	107,545	110,830	108,045	110,576
Lease certificate	-	-	-	-
Gold-backed bonds issued by the Turkish Government	10,731,066	10,837,387	6,942,486	7,000,000
Corporate bonds in TL	1,000	1,002	-	-
Bonds issued by banks	14,930	14,632	3,545	3,522
Total	**10,854,541**	**10,963,851**	**7,054,076**	**7,114,098**
Equity and other non-fixed income instruments:				
Investment funds	-	19,590	-	12,720
Equity shares	-	370,879	-	331,472
Derivative financial instruments held for trading purposes	-	7,344,073	-	*8,740,985*
Total	**-**	**7,734,542**	**-**	**9,085,177**
Total financial assets at FVPL	**10,854,541**	**18,698,393**	**7,054,076**	**16,199,275**

Gains and losses arising on derivative financial instruments held for trading purposes and income from sale of debt instruments held at fair value are reflected in net trading income. As at and for the period ended June 30, 2021, net loss from trading of financial assets (including investment securities) amounting to TL 2,282,000 (June 30, 2020: Net profit amounting to TL 302,246) is included in "trading income".

7. SEGMENT REPORTING

Geographical information

The Group's activities are conducted predominantly in Turkey which is also the main operating company. The Group conducts majority of its business activities with local customers in Turkey.

Operating segments

The Group has six reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Retail banking: Includes loans, deposits and other transactions and balances with retail customers.

Corporate and commercial banking: Includes loans, deposits and other transactions and balances with corporate customers.

Investment banking: Includes the Group's trading and corporate finance activities.
This segment undertakes the Group's funding and centralized risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

Leasing: Includes the Group's finance lease business.

Factoring: Includes the Group's factoring business.

Other: Includes combined information about operating segments that do not meet the quantitative thresholds and includes the Group's insurance business.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes.

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

7. SEGMENT REPORTING (Continued)

Information about operating segments

June 30, 2021	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Leasing	Factoring	Other	Combined	Eliminations	Total
Interest income on loan and receivables	6,435,392	13,748,063	3,241,689	-	23,425,144	-	360,203	52,026	23,837,373	(156,461)	23,680,912
Interest expense on deposit	(6,006,535)	(8,594,285)	(526,209)	-	(15,127,029)	-	-	-	(15,127,029)	90,719	(15,036,310)
Operating profit/(loss)	**892,061**	**6,261,574**	**3,503,983**	**(4,162,360)**	**6,495,258**	**80,350**	**98,248**	**406,566**	**7,080,422**	**(198,260)**	**6,882,162**
Profit before income tax	135,283	4,307,288	2,591,317	(5,317,974)	1,715,914	54,809	87,586	219,877	2,078,186	25,388	2,103,574
Income tax expense									(235,888)	-	(235,888)
Profit for the period									**1,842,298**	**25,388**	**1,867,686**

June 30, 2021	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Leasing	Factoring	Other	Combined	Eliminations	Total
Segment assets	114,523,252	268,438,463	332,993,651	22,532,885	738,488,251	4,318,653	4,131,237	5,010,358	751,948,499	(9,791,513)	742,156,986
Investments accounted for using the equity method	-	-	567,838	-	567,838	-	-	-	567,838	-	567,838
Total assets	**114,523,252**	**268,438,463**	**333,561,489**	**22,532,885**	**739,056,089**	**4,318,653**	**4,131,237**	**5,010,358**	**752,516,337**	**(9,791,513)**	**742,724,824**
Segment liabilities	188,389,623	230,905,512	243,721,543	25,403,265	688,419,943	3,976,539	3,620,523	2,584,736	698,601,741	(5,306,048)	693,295,693
Equity including non-controlling interest	-	-	-	50,068,308	50,068,308	342,114	510,714	2,425,622	53,346,758	(3,917,627)	49,429,131
Total liabilities and equity	**188,389,623**	**230,905,512**	**243,721,543**	**75,471,573**	**738,488,251**	**4,318,653**	**4,131,237**	**5,010,358**	**751,948,499**	**(9,223,675)**	**742,724,824**
Depreciation and Amortization				(257,301)	(257,301)				(257,301)		(257,301)

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

7. SEGMENT REPORTING (Continued)

June 30, 2020	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Leasing	Factoring	Other	Combined	Eliminations	Total
Interest income on loan and receivables	4,448,686	10,202,844	2,485,722	-	17,137,252	-	163,752	10,906	17,311,910	(67,235)	17,244,675
Interest expense on deposit	(2,760,538)	(3,122,951)	(253,468)	-	(6,136,957)	-	-	-	(6,136,957)	41,765	(6,095,192)
Operating profit/(loss)	**1,056,693**	**3,306,991**	**4,722,544**	**(9,804)**	**9,076,424**	**32,713**	**62,356**	**318,282**	**9,489,775**	**962,847**	10,452,622
Profit before income tax	268,507	1,073,105	3,863,049	(988,885)	4,215,776	18,450	53,676	111,840	4,399,742	867,344	5,267,086
Income tax expense									(1,016,533)	(23,603)	(1,040,136)
Profit for the period									**3,383,209**	**843,741**	**4,226,950**
December 31, 2020											
Segment assets	109,522,550	249,657,814	317,740,849	30,772,479	707,693,692	3,621,665	5,760,337	4,717,803	721,793,497	(10,018,867)	711,774,630
Investments accounted for using the equity method	-	-	538,516	-	538,516	-	-	-	538,516	-	538,516
Total assets	**109,522,550**	**249,657,814**	**318,279,365**	**30,772,479**	**708,232,208**	**3,621,665**	**5,760,337**	**4,717,803**	**722,332,013**	**(10,018,867)**	**712,313,146**
Segment liabilities	159,193,919	236,260,695	242,476,047	21,391,585	659,322,246	3,325,370	5,317,235	2,893,249	670,858,100	(6,107,439)	664,750,661
Equity including non-controlling interest	-	-	-	48,371,446	48,371,446	296,295	443,102	1,824,554	50,935,397	(3,372,912)	47,562,485
Total liabilities and equity	**159,193,919**	**236,260,695**	**242,476,047**	**69,763,031**	**707,693,692**	**3,621,665**	**5,760,337**	**4,717,803**	**721,793,497**	**(9,480,351)**	**712,313,146**
Depreciation and Amortization				(251,087)	(251,087)				(251,087)		(251,087)

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

8. CASH AND BALANCES WITH CENTRAL BANKS

As at June 30, 2021 and December 31, 2020, cash and cash equivalents presented in the interim consolidated statement of financial position and cash flows are as follows:

	June 30, 2021	December 31, 2020
Cash on hand	3,224,716	3,115,986
Due from Central Bank	30,766,443	26,517,182
Balances with the CBRT excluding reserve deposits	29,335,453	61,517,690
Money market placements and receivables from repurchase agreements	11,033	206,589
Advances to banks with original maturity less than three months	5,074,465	3,089,504
Other	2,852,738	2,056,928
Total cash and cash equivalents in the consolidated statement of financial position	**71,264,848**	**96,503,879**
Accruals on cash and cash equivalents	(226,163)	(912)
Blocked bank deposits	(1,377,111)	(14,318,636)
Due from Central Bank	(30,766,443)	(26,517,182)
Expected credit loss	7,985	2,866
Total cash and cash equivalents in the consolidated statement of cash flows	**38,903,116**	**55,670,015**

(*)As of June 30, 2021, TL 10,788,244 is blocked bank deposits (December 31, 2020: TL 14,318,636) consist of held against the "Diversified Payment Rights" securitizations.

As per Communiqué on Required Reserve of CBRT, required reserve may be kept in TL, USD, EUR and standard gold. CBRT pays interest for required reserve kept in TL.

In accordance with "Announcement on Reserve Deposits" of CBRT numbered 2013/15, all banks operating in Turkey shall provide a reserve rate ranging from 3% to 8% (December 31, 2020: ranging from 1% to 6%). For foreign currency liabilities, all banks shall provide a reserve rate ranging from 5% to 22% in US Dollar or Euro (December 31, 2020: ranging from 5% to 22%). According to the principles of communiqué No. 2019/19 dated 9 December 2019, the CBRT pays interest to banks that provide credit growth for Turkish Lira required reserves.

9. LOANS AND ADVANCES TO CUSTOMERS

As at June 30, 2021 and December 31, 2020, outstanding loans and advances to customers comprise the followings:

June 30, 2021	Commercial	Consumer	Credit Cards	Factoring	Leasing	Total
Stage 1 loans to customers	306,488,058	97,689,965	16,570,662	-	-	420,748,685
Stage 2 loans to customers	35,900,767	1,687,496	361,368	4,063,491	3,375,890	45,389,012
Stage 3 loans to customers	14,752,941	2,218,216	887,069	63,587	210,371	18,132,184
Total gross loans to customers	**357,141,766**	**101,595,677**	**17,819,099**	**4,127,078**	**3,586,261**	**484,269,881**
Less: Stage 1 ECL	2,035,183	280,801	262,964	-	-	2,578,948
Less: Stage 2 ECL	4,997,331	274,171	22,802	25,573	115,884	5,435,761
Less: Stage 3 ECL	11,591,577	1,556,358	768,885	59,844	162,873	14,139,537
Total expected credit loss	**18,624,091**	**2,111,330**	**1,054,651**	**85,417**	**278,757**	**22,154,246**
Total loans and advances to customers	**338,517,675**	**99,484,347**	**16,764,448**	**4,041,661**	**3,307,504**	**462,115,635**

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

9. LOANS AND ADVANCES TO CUSTOMERS (Continued)

December 31, 2020	Commercial	Consumer	Credit Cards	Factoring	Leasing	Total
Stage 1 loans to customers	276,933,203	94,967,658	14,393,403	-	-	386,294,264
Stage 2 loans to customers	32,549,755	1,251,391	243,970	5,689,415	3,055,519	42,790,050
Stage 3 loans to customers	15,029,808	1,758,795	863,752	62,325	215,491	17,930,171
Total gross loans to customers	**324,512,766**	**97,977,844**	**15,501,125**	**5,751,740**	**3,271,010**	**447,014,485**
Less: Stage 1 ECL	2,334,328	513,241	330,780	-	-	3,178,349
Less: Stage 2 ECL	4,835,446	248,036	28,919	32,304	103,650	5,248,355
Less: Stage 3 ECL	11,313,280	1,436,572	754,630	60,540	152,878	13,717,900
Total expected credit loss	**18,483,054**	**2,197,849**	**1,114,329**	**92,844**	**256,528**	**22,144,604**
Total loans and advances to customers	**306,029,712**	**95,779,995**	**14,386,796**	**5,658,896**	**3,014,482**	**424,869,881**

The credit quality analysis of outstanding loans and advances to customers as of June 30, 2021 and December 31, 2020 are as follows;

	June 30, 2021		
	Stage 1	**Stage 2**	**Stage 3**
Balances at January 1, 2021	3,178,349	5,248,355	13,717,900
Transfer to Stage 1	86,763	(86,431)	(332)
Transfer to Stage 2	(84,518)	421,145	(336,627)
Transfer to Stage 3	(15,994)	(97,782)	113,776
Recoveries and reversals(*)	(966,906)	(898,266)	(110,822)
Provision for the period	380,363	848,740	755,642
Balances at the end of the period	**2,578,057**	**5,435,761**	**14,139,537**

(*) In the current period, in accordance with the amendment to the Provisions Regulation published by the BRSA in the Official Gazette dated November 27, 2019 and numbered 30961, the Bank corresponds to TL 8,987 of non-performing loans, which are followed in stage 3, which have no collateral, have no reasonable expectations for recovery, and for which 100% provision has been made. The amount of loans and the provisions set aside for them have been deducted from the records. In the current period, the NPL conversion rate is 3.66% before the write-off, and the effect of 8,987 TL on the NPL ratio is insignificant.

	December 31, 2020		
	Stage 1	**Stage 2**	**Stage 3**
Balances at January 1, 2020	1,624,365	1,964,228	12,478,787
Transfer to Stage 1	126,682	(126,122)	(560)
Transfer to Stage 2	(48,999)	1,124,446	(1,075,447)
Transfer to Stage 3	(7,126)	(343,580)	350,706
Recoveries and reversals(*)	(453,985)	(552,124)	(768,947)
Provision for the period	1,937,412	3,181,507	3,624,150
Balances at the end of the period	**3,178,349**	**5,248,355**	**13,717,900**

(*) As of 31 December 2020, the Bank has written-off loans and provisions for these loans, which were classified in the "Group V Loans" (Loans Classified as Loss) amounting to TL 890,789 unsecured, do not have reasonable expectations for recovery and with 100% provision, in accordance with the Amendments Regulation published in the Official Gazette dated 27 November 2019 and numbered 30961 by BRSA. Following the written-off loans, the Bank's non-performing loan ratio decreased from 4.16% to 3.97%.

An estimate of the fair value of collateral held against non-performing loans and receivables is as follows:

	June 30, 2021	December 31, 2020
Cash Collateral	-	-
Mortgages	7,477,768	8,593,313
Vehicles	524,165	527,809
Other(*)	10,130,251	8,809,049
Total(**)	**18,132,184**	**17,930,171**

(*) Sureties obtained for impaired loans are not presented in this table

(**) As a Bank policy, it is aimed to utilize cash collateral or liquidate promissory notes for an impaired loan which was previously collateralized by cash collateral or promissory notes to cover the credit risk. Hence, the cash collateral and promissory notes amounts are shown as very small and not presented in the table.

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

10. INVESTMENT SECURITIES

Financial asset at fair value through OCI:

	June 30, 2021		December 31, 2020	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Debt and other instruments FVOCI:				
Government bonds in TL	40,386,439	44,097,960	27,996,982	31,011,998
Eurobonds issued by the Turkish Government	6,961,784	7,308,975	48,175,490	49,412,449
Government bonds in foreign currencies	40,991,643	42,078,445	1,554,729	1,671,449
Lease Certificates	1,366,349	1,556,895	-	-
Bonds issued by banks	671,617	688,280	719,929	696,871
Corporate bonds	1,178,223	1,217,774	1,088,127	1,117,000
Asset-backed securities	515,583	572,563	-	-
Equity shares	-	1,094,067	-	1,097,365
Total FVOCI financial assets	**92,071,638**	**98,614,959**	**79,535,257**	**85,007,132**

11. ASSETS CLASSIFIED AS HELD FOR SALE

As of June 30, 2021, the cost of property and equipment held for sale purpose and related to discontinued operations are TL 1,172,749 (December 31, 2020: TL 1,263,718) and the provision for impairment is TL 7,209 (December 31, 2020: TL 7,467). The amount of other assets held for sales and discontinued operations is TL 3 (December 31, 2020: TL 3)

12. DEBT SECURITIES ISSUED

The details of debt securities issued are as follows:

	June 30, 2021		December 31, 2020	
	TL	**FC**	**TL**	**FC**
Nominal	11,576,446	32,696,478	11,175,240	34,507,623
Cost	11,412,352	32,569,449	11,017,983	34,353,772
Net Book Value	11,782,224	33,275,410	11,262,156	34,892,367

June 30, 2021	**Currency**	**Maturity**	**Interest Rate**	**Original Amount**	**TL Amount**
Bank Bonds	TL	July 2021-February 2027	12,00 % - 20,44 %	11,782,224	11,782,224
Bank Bonds	USD	September 2021-January 2026	1,20 % - 8,13 %	3,809,319	33,064,885
Bank Bonds	GBP	September 2021- October 2021	1,45 % - 1,65 %	17,544	210,525

December 31, 2020	**Currency**	**Maturity**	**Interest Rate**	**Original Amount**	**TL Amount**
Bank Bonds	TL	January 2021-February 2027	9,10 % - 20,44%	11,262,156	11,262,156
Bank Bonds	USD	March 2021-January 2026	1,9% - 8,13%	3,783,779	28,189,153
Bank Bonds	EUR	May 2021	2,58%	507,499	4,642,488
Bank Bonds	GBP	January 2021-April 2021	1,55 % - 2,50 %	202,995	2,060,726

On 5 February 2020, a new bond issuance amounting to USD 750 million with 5-year maturity, 5.25 percent coupon rate and 5.375 percent final return rate was realized. In the transaction, the largest bond issue in the history of the bank, US $ 4.3 billion has been collected worldwide.

As of December 8, 2020 with 5 year maturity date, the yield and the coupon rate has been set at 6.625% and 6.5% respectively amounting to USD 750 Million which is the first Sustainable Eurobond issuance among deposit banks in Turkey.

13. PROVISIONS

As of June 30, 2021 the Parent Bank has recorded TL 34,714 (December 31, 2020: TL 43,756) as provisions for non-cash loans that are not indemnified or converted into cash.

The amount of free provisions in the accompanying consolidated financial statements as at June 30, 2021 is TL 1,472,000 (December 31, 2020: TL 1,072,000).

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

14. OBLIGATIONS UNDER FINANCE LEASES

The amounts recognized under IFRS 16 as of June 30, 2021 and December 31, 2020 are presented below.

	June 30, 2021		
	Service Buildings	**Vehicles**	**Total**
Lease payables	1,390,907	34,709	**1,425,616**
Deferred rental expenses	509,897	4,821	**514,718**
Lease payables (Net)	**881,010**	**29,888**	**910,898**
Right of use assets	797,808	27,573	**825,381**

	December 31, 2020		
	Service Buildings	**Vehicles**	**Total**
Lease payables	1,362,596	24,393	**1,386,989**
Deferred rental expenses	384,516	3,158	**387,674**
Lease payables (Net)	**978,080**	**21,235**	**999,315**
Right of use assets	899,191	19,675	**918,866**

Short term lease contracts with a duration of 12 months or less and lease contracts for ATMs that are determined to be of low value by the Parent Bank have been evaluated within the scope of the exemption recognized by the standard, and payments for these contracts are recorded as expense in the period they occur. In this context, TL 40,588 of lease payments were made in the related period (June 30, 2020: TL 37,680).

15. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

There is no dilution of shares as at June 30, 2021 and 2020.

The following reflects the basic earnings per share computations:

	June 30, 2021	**June 30, 2020**
Net profit attributable for the period	1,867,686	4,226,950
Net profit attributable to owners of the Bank	1,802,060	4,195,747
Number of 100 ordinary shares for basic earnings per shares(*)	3,905,622,490	3,905,622,490
Basic earnings per 100 share	0.4614	1.4946
Diluted earnings per 100 share	0.4614	1.4946

(*) For the period between January 1, 2020 – May 22, 2020 "2,500,000,000" and for the period between May 22, 2020 – June 30, 2020 "3,905,622,490" has been considered for the earning per 100 share calculation.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

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

16. RELATED PARTY TRANSACTIONS

For the purpose of these interim consolidated financial statements, shareholders, subsidiaries, associates, other group companies and key management personnel of the Group or of its parent and their close family members are referred to as related parties.

The Group conducted some business transactions with related parties on normal commercial terms and conditions. The following balances exist and transactions have been entered into with related parties:

	June 30, 2021			December 31, 2020		
Related party	**Cash loans**	**Non-cash loans**	**Deposits**	**Cash loans**	**Non-cash loans**	**Deposits**
Direct/Indirect shareholders	-	32,796	3,171,443	-	32,511	2,237,815
Associates	44,244	346,089	569,349	57,561	447,116	1,581,484
Key management personnel	5,567	-	13,156	5,762	-	8,063
Total	**49,811**	**378,885**	**3,753,948**	**63,323**	**479,627**	**3,827,362**

	June 30, 2021				June 30, 2020			
Related party	**Commission Income**	**Interest income**	**Interest expense**	**Other operating expense**	**Commission Income**	**Interest income**	**Interest expense**	**Other operating expense**
Direct/Indirect shareholders	-	-	161,293	-	-	-	15,500	-
Associates	179	3,467	58,075	473	129	112	5,841	423
Total	**179**	**3,467**	**219,368**	**473**	**129**	**112**	**21,341**	**423**

Key Management Remuneration

For the period ended June 30, 2021, the key management personnel received remuneration and fees amounted to TL 26,968 (June 30, 2020: TL 26,526).

17. OTHER INCOME

As at and for the period ended June 30, 2021 and 2020, other income comprised the followings:

	June 30, 2021	**June 30, 2020**
Reversal of miscellaneous provision	93,625	-
Individual pension business income	-	306,518
Gain on sale of fixed assets	253,203	186,474
Earned premiums	-	171,619
Written premiums	-	*203,486*
Change in reserve for unearned premiums	-	*(31,867)*
Dividend income from equity shares	22,788	17,287
Rent income	5,883	79,107
Excess fee charged to customers for communication expenses	11,257	8,580
Other(*)	381,974	1,036,329
Total	**768,730**	**1,805,914**

(*) Other items amounting to TL 381,974 (June 30, 2020: TL 1,036,329) is comprised of TL None (June 30, 2020: TL 804,835) Güneş Sigorta A.Ş. and Vakıf Emeklilik ve Hayat A.Ş.'s sales profit and other various income.

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

18. SALARIES AND EMPLOYEE BENEFITS

As at and for the period ended June 30, 2021 and 2020, salaries and employee benefits comprised the following:

	June 30, 2021	June 30, 2020
Employer's share of social security premiums	(368,849)	(338,348)
Wages and salaries	(787,169)	(700,867)
Other fringe benefits	(715,643)	(710,590)
Total	**(1,871,661)**	**(1,749,805)**

19. OTHER EXPENSES

As at and for the period ended June 30, 2021 and 2020, other expenses comprised the following:

	June 30, 2021	June 30, 2020
Banking services promotion expenses	(620,671)	(558,090)
Other provision expenses(*)	(404,904)	(78,052)
Provision for Severance Pay and Employee Benefits	(283,632)	(251,468)
Saving Deposit Insurance Fund premiums	(147,521)	(147,631)
Advertising expenses	(89,725)	(65,289)
Communication expenses	(80,087)	(69,217)
BRSA participation fee	(69,315)	(41,713)
Cleaning service expenses	(50,198)	(51,763)
Leasing expenses related to IFRS 16 exceptions	(40,588)	(37,680)
Computer usage expenses	(30,146)	(29,868)
Maintenance expenses	(54,512)	(31,296)
Energy expenses	(35,213)	(36,922)
Credit card promotion expenses	(34,459)	(31,970)
Office supplies	(20,480)	(18,160)
Transportation expenses	(9,660)	(10,166)
Consultancy expenses	(9,080)	(10,763)
Hosting expenses	(7,411)	(6,699)
Loss on sale of assets	(687)	(23,423)
Other various administrative expenses(**)	(490,913)	(1,488,431)
Total	**(2,479,202)**	**(2,988,601)**

(*) Other provision expenses amounting to TL (404,904) (June 30, 2020: TL (78,052)) includes of TL (400,000) (June 30, 2020: TL None) free provision.

(**) Other various administrative expenses amounting to TL (490,913) (June 30, 2020: TL (1,488,431)) is comprised of "Saving Deposits Insurance Fund" expenses amounting to TL (245,205) (June 30, 2020: TL (217,683)), incurred insurance claims expenses amounting to TL None (June 30, 2020 TL (222,175)) and other various administrative expenses.

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

20. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the consolidated financial statements including:

	June 30, 2021	December 31, 2020
Letters of guarantee	88,515,884	75,425,407
Letters of credit	29,321,154	20,921,424
Acceptance credits	7,004,973	5,115,792
Other guarantees	1,470,952	983,686
Total non-cash loans (financial guarantee contracts)	**126,312,963**	**102,446,309**
Credit card limit commitments	25,830,100	21,320,698
Loan granting commitments	28,162,102	26,088,692
Commitments for cheque payments	6,350,623	5,723,932
Commitments for credit card and banking operations promotions	616,550	597,623
Other commitments	59,464,253	60,751,038
Total commitments	**120,423,628**	**114,481,983**
Total commitments and contingencies	**246,736,591**	**216,928,292**

Contingent assets and liabilities

There are various legal cases against the Group for which TL 68,799 (December 31, 2020: TL 44,200) has been provided, excluding routine insurance claims.

Due to the nature of insurance business and considering the general attitude of the legal system in favor of the policyholders, the Group provides in full for the claims opened, except for these claims including damages for mental anguish and risks which are not covered by the insurance policies. Since most of such material claims are ceded to reinsurance firms by facultative agreements, such claims, net of ceded amounts have no material effect on the Group’s financial position.

Pending tax audits

The tax and other government authorities (Social Security Institution) have the right to inspect the Group’s tax returns and accounting records for the past five fiscal years. The Group has not recorded a provision for any additional taxes for the fiscal years that remained unaudited, as the amount cannot be estimated with any degree of certainty. The Group’s management believes that no material assessment will arise from any future inspection for unaudited fiscal years.

Derivative financial instruments held for trading purposes

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying items, such as financial instrument prices, reference rates, commodity prices or indices. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments used mainly include currency forwards, interest rate swaps, currency swaps and currency options.

The table below shows the contractual amounts of derivative instruments analyzed by the term to maturity. The contractual amount is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The contractual amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

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

20. COMMITMENTS AND CONTINGENCIES (Continued)

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates. The maturity analyses of the gross nominal value of derivatives are presented below:

	June 30, 2021	December 31, 2020
	Notional Amounts	**Notional Amounts**
Trading Derivatives		
Foreign Currency Related Derivative Transactions	**117,027,642**	**120,966,766**
Currency Forwards	9,785,687	3,073,644
Currency Swaps	99,789,138	116,344,721
Currency Futures	-	382,085
Currency Options	7,452,817	1,166,316
Interest Rate Derivative Transactions	**84,991,930**	**79,926,312**
Interest Rate Forwards	-	-
Interest Rate Swaps	84,991,930	79,926,312
Interest Rate Options	-	-
Interest Rate Futures	-	-
Other Trading Derivatives	**46,423,678**	**29,788,647**
Total Derivative Transactions	**248,443,250**	**230,681,725**

21. SUBSEQUENT EVENTS

Between July 2, 2021 and October 8, 2021, the Parent Bank has issued financial bonds in various maturities.

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